

**GUAM WATERWORKS AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GWA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

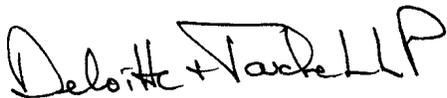
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, on our consideration of Guam Waterworks Authority's 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of certain operating and maintenance expenses, cash flows indicating financing method, construction work in progress, system development charge fund and operating revenues on pages 44 through 48 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of equalization of net (income) loss, certain operating and maintenance expenses, cash flows indicating financing method, construction work in progress, system development charge fund and operating revenues are fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The schedule of equalization of net (income) loss on page 43 and schedule of employees and other data on page 49 are presented for the purpose of additional analyses and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Deloitte + Tuckers LLP". The signature is written in a cursive, stylized font.

May 30, 2013

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2012 and 2011

As management of the Guam Waterworks Authority (GWA), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 17.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the GWA's basic financial statements. GWA's basic financial statements are for a single proprietary fund and include the financial statements, notes to those financial statements and other supplementary and statistical information.

Proprietary Fund Financial Statements

GWA's operations are accounted for as a single proprietary fund using the full accrual basis of accounting. In this regard, GWA operations are accounted for in a manner similar to a private enterprise. Within this one proprietary fund, GWA segregates revenues and expenses for various purposes such as operations, debt service and capital improvements, but that segregation does not create separate proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 22 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary and statistical information can be found beginning on page 43 of this report.

Financial Highlights

- Total assets of GWA exceeded total liabilities at the close of fiscal year 2012 by \$201.9 million (net assets).
- Change in net assets increased by \$3.4 million or a 117% change as compared to fiscal year 2011.
- Total net assets of GWA increased by \$0.5 million or .25% as compared to fiscal year 2011.
- Operating revenues increased by \$2.2 million as compared to fiscal year 2011.
- Capital assets net of accumulated depreciation at September 30, 2012 increased by \$20.6 million as compared to September 30, 2011.
- The cash collection ratio at year-end September 30, 2012 was 96.0%.
- Operating and maintenance expenses increased by \$0.6 million as compared to fiscal year 2011.
- GWA experienced operating income of \$5.3 million for the fiscal year ended September 30, 2012 as compared to prior year's operating income of \$3.7 million, a 43% change increase.

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Financial Condition

The Authority's total net assets increased by \$0.5 million during the current fiscal year (see Table 1 below) due to increases in current assets and plant, property and equipment.

The net increase in current assets of about \$2.7 million is due primarily to increases in trade and other receivables.

The net increase in property, plant and equipment of \$20.6 million is due to the construction of water transmission lines, upgrade of a water spring and wastewater pump lift-station, and, acquisition of new fleet vehicles.

The Authority's investment in capital assets net of related debt represents 94% of total net assets. The amount invested in capital assets, net of debt, remained constant as in prior year.

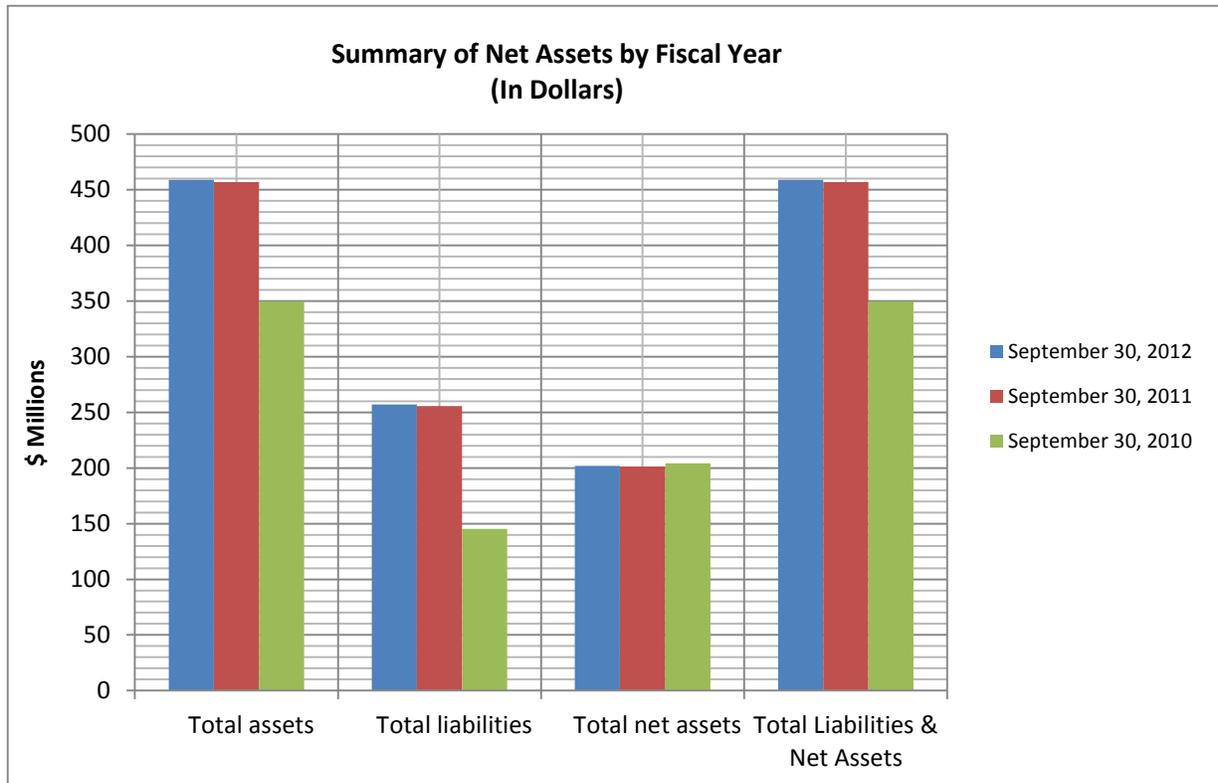
Table 1
Summary Statement of Net Assets

	September 30, 2012	September 30, 2011	September 30, 2010	2012 to 2011 Comparison	
				Increase/ (Decrease)	% Change
Current Assets	\$ 35,814,457	\$ 33,073,629	\$ 35,166,168	\$ 2,740,828	8.29%
Property, plant and equipment, net	304,802,292	284,212,877	281,605,229	20,589,415	7.24%
Other non-current assets	118,306,010	139,679,692	32,954,273	(21,373,682)	-15.30%
Total assets	<u>\$ 458,922,759</u>	<u>\$ 456,966,198</u>	<u>\$ 349,725,670</u>	<u>\$ 1,956,561</u>	<u>0.43%</u>
Current liabilities	\$ 26,315,344	\$ 19,405,499	\$ 19,023,902	\$ 6,909,845	35.61%
Long-term liabilities	230,748,403	236,213,430	126,424,281	(5,465,027)	-2.31%
Total liabilities	<u>257,063,747</u>	<u>255,618,929</u>	<u>145,448,183</u>	<u>1,444,818</u>	<u>0.57%</u>
Net Assets:					
Invested in capital assets, net of related debt	189,567,949	189,524,913	190,678,898	43,036	0.02%
Restricted	9,472,664	8,049,966	5,866,142	1,422,698	17.67%
Unrestricted	2,818,399	3,772,390	7,732,447	(953,991)	-25.29%
Total net assets	<u>201,859,012</u>	<u>201,347,269</u>	<u>204,277,487</u>	<u>511,743</u>	<u>0.25%</u>
Total Liabilities & Net Assets	<u>\$ 458,922,759</u>	<u>\$ 456,966,198</u>	<u>\$ 349,725,670</u>	<u>\$ 1,956,561</u>	

Management's Discussion and Analysis for the year ended September 30, 2011, is set forth in GWA's report on the audit of financial statements, which is dated April 5, 2012. That Discussion and Analysis explains in more detail major factors impacting the 2011 financial statements. A copy of that report can be obtained by contacting the CFO office at the contact details below.

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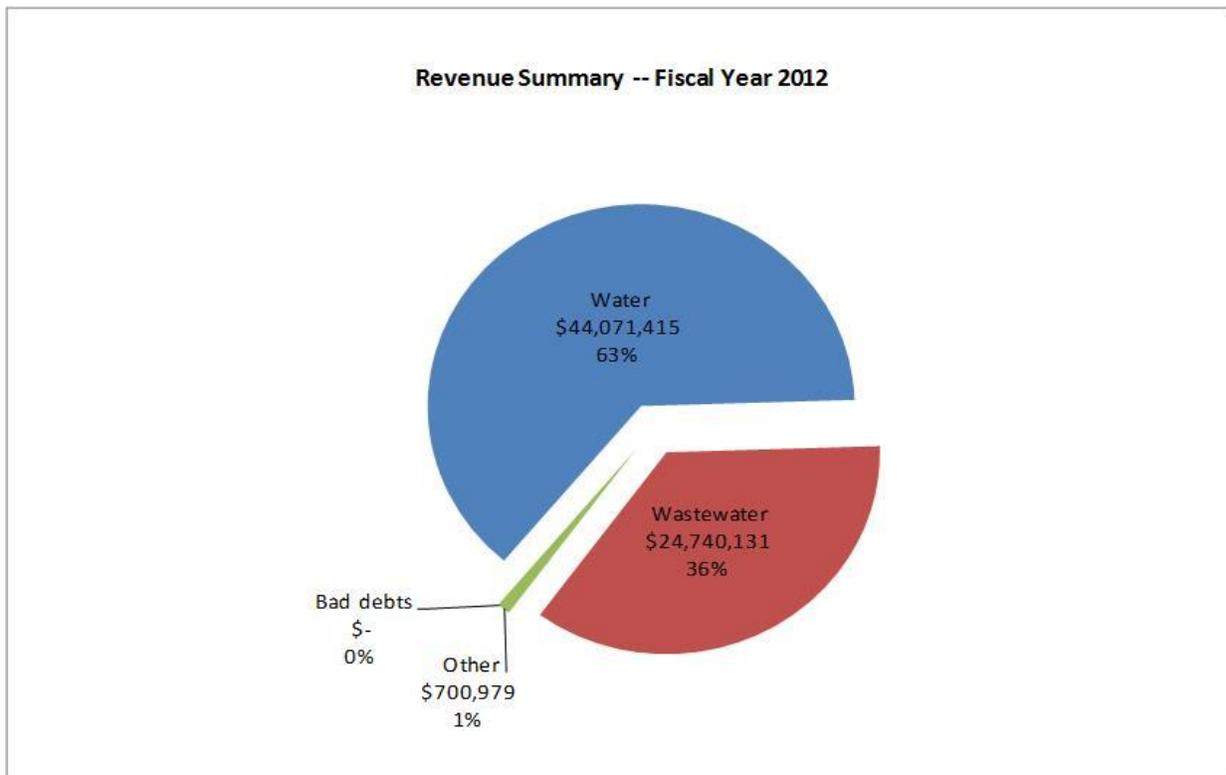
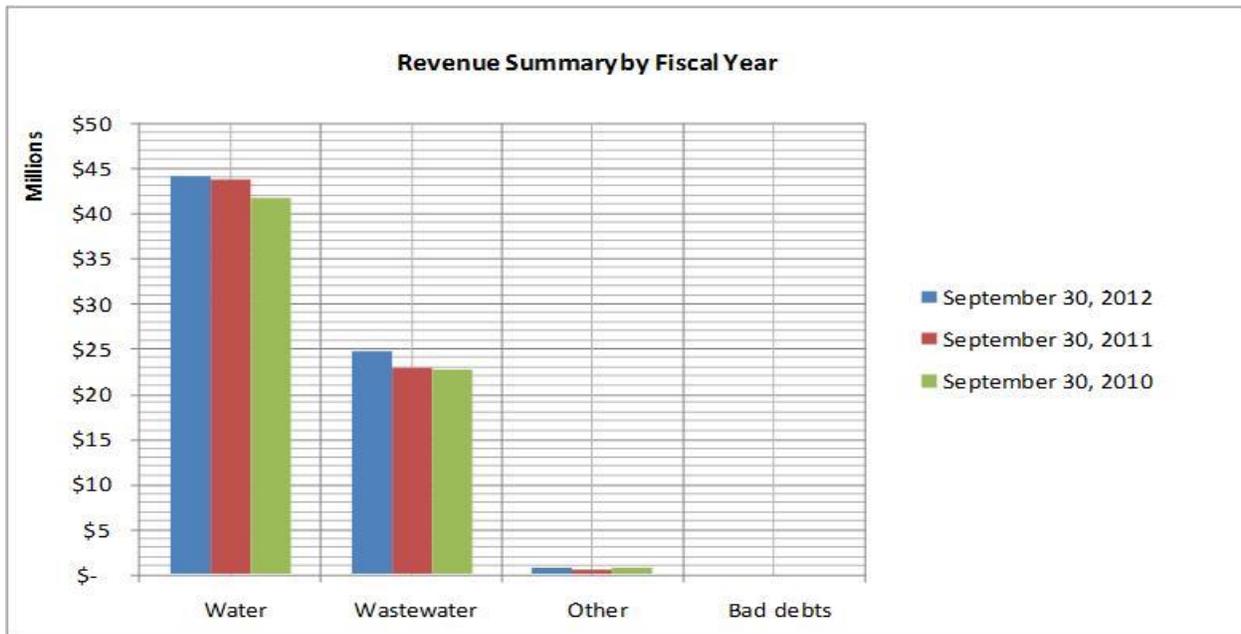
The total operating revenue of \$69.5 million increased by \$2.2 million or 3.3% for the current year and operating expenses of \$64.2 million increased by \$0.6 million or 0.9% resulting in net operating income of \$5.3 million or 43% increase when compared to the prior year (see Table 2).

Table 2
Results of Operations/Statement of Revenues, Expenses and Changes in Net Assets

	September 30, 2012	September 30, 2011	September 30, 2010	2012 to 2011 Comparison	
				Increase/ (Decrease)	% Change
Revenues:					
Water	\$ 44,071,415	\$ 43,747,618	\$ 41,678,275	\$ 323,797	0.74%
Wastewater	24,740,131	22,960,591	22,698,368	1,779,540	7.75%
Other	700,979	606,994	817,683	93,985	15.48%
Bad debts	-	-	4,138	-	
Total operating revenue	69,512,525	67,315,203	65,198,464	2,197,322	3.26%
Expenses:					
Power purchases	17,015,686	15,191,769	14,344,013	1,823,917	12.01%
Water purchases	5,263,128	6,283,246	6,669,120	(1,020,119)	-16.24%
Sludge (waste) disposal fees	275,938	305,469	294,175	(29,531)	-9.67%
Salaries, wages and benefits	18,891,270	18,499,114	18,085,703	392,157	2.12%
Depreciation	12,050,430	11,854,307	11,568,858	196,122	1.65%
Administrative and general	5,416,166	5,885,100	4,078,237	(468,934)	-7.97%
Contractual	3,068,764	3,355,465	3,381,182	(286,701)	-8.54%
Retiree healthcare costs and other benefits	2,262,583	2,244,032	1,897,530	18,552	0.83%
Total operating expenses	64,243,965	63,618,502	60,318,818	625,464	0.98%
Net operating income (loss)	5,268,560	3,696,701	4,879,646	1,571,859	42.52%
Non-operating revenue (expenses)	2,449,253	1,950,924	1,838,483	498,329	25.54%
Less: Interest Expense	(13,885,808)	(13,366,111)	(6,516,956)	(519,697)	-3.89%
Total non-operating revenues (expenses), net	(11,436,555)	(11,415,187)	(4,678,473)	(21,368)	-0.19%
Income (loss) before capital contributions	(6,167,995)	(7,718,486)	201,173	1,550,490	20%
Capital contributions	6,679,738	4,788,268	5,888,510	1,891,470	39.50%
Change in net assets	511,743	(2,930,218)	6,089,683	3,441,961	117.46%
Net assets - beginning year	201,347,269	204,277,487	198,187,804	(2,930,218)	-1.43%
Net assets - end of year	\$ 201,859,012	\$ 201,347,269	\$ 204,277,487	\$ 511,743	0.25%

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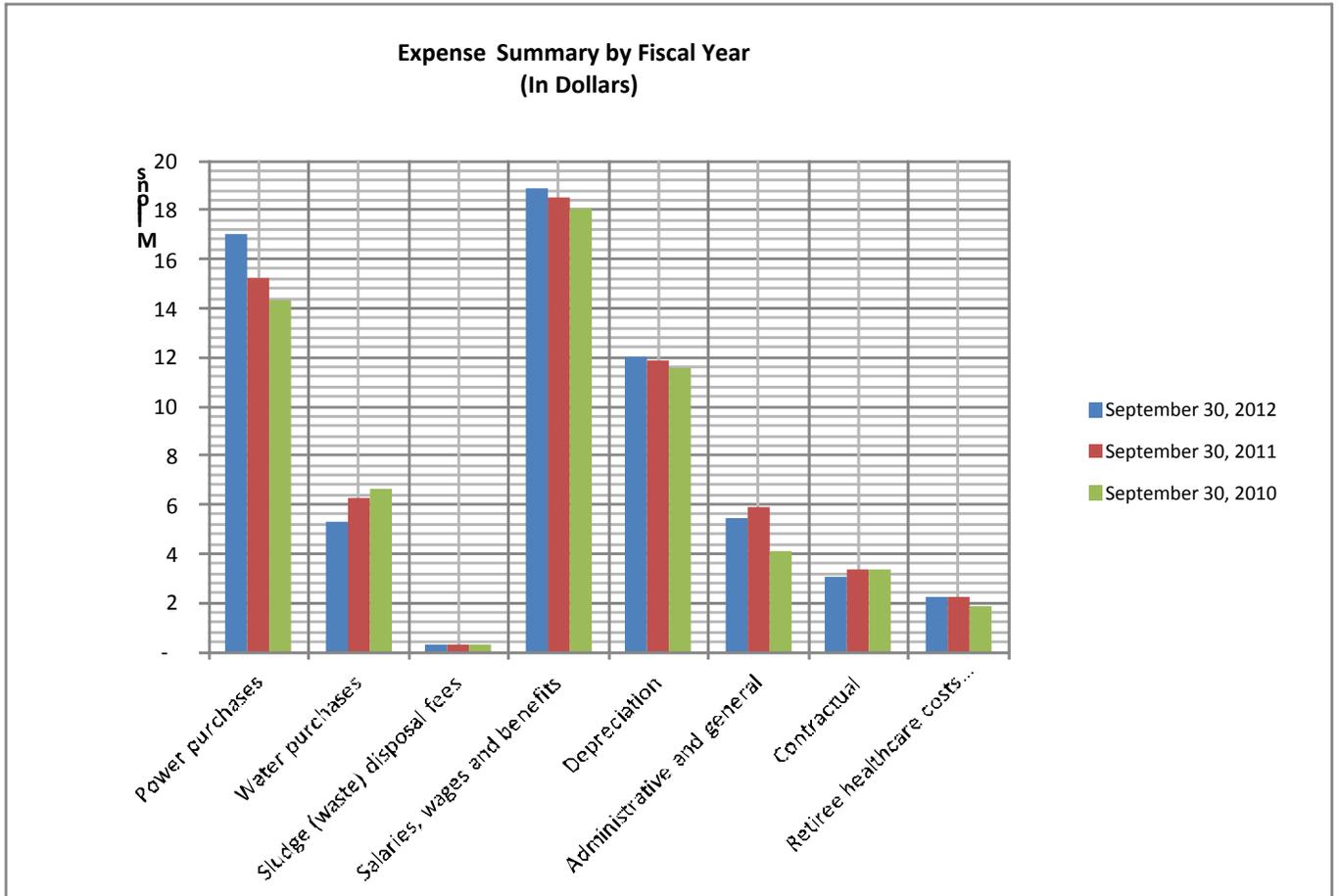
Management's Discussion and Analysis
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The major changes in net income from the prior year were from the following:

- Water revenues (total) increased by \$0.3 million over the prior fiscal year due in part to a 12.79% increase in water rates which affected the basic and non-life components. There was, however, a decrease in total consumption of 3% or 196 million gallons and a 1% increase (or 377) in the number of annual monthly average of water customers. There were revenue dollar increases in agricultural, government and hotel customer classes, and decreases in federal, golf course, residential and commercial customer classes. The basic (fixed) water charge is assessed monthly to all customer classes without regard to consumption. Please see Table 3.
- Wastewater revenues (total) increased by \$1.8 million or 8% over the prior fiscal year. A 12.79% rate increase in non-basic sewer charges was approved for the current year. There was an increase of 1% (or 261) in the number of annual monthly average of wastewater customers and a decrease in wastewater consumption of 3% or 116 million gallons as compared to prior year. There were revenue dollar increases in all customer classes, with commercial III, federal, government and hotel having double-digit percent changes. The basic (fixed) sewer charges are assessed monthly to residential customers without regard to consumption; however, all other customer classes are charged 80% of volumetric water consumption. Please see Table 4.
- Operating expenses increased by \$0.6 million or 1% over the prior fiscal year. The major contributing factors were increases in power purchases, salaries and wages, depreciation and retiree healthcare costs and other benefits. The increases in operating expenses were offset by decreases in water purchases, sludge disposal fees, contractual and, administrative and general.
- Non-operating expenses increased by \$21 thousand (net) or .19% over the prior fiscal year mainly due to increases in interest expense on long-term debt, federal expenditures, and the allowance for funds used during construction. Capital contributions were grants from the U.S. Government.
- Of the total water and wastewater revenue of \$44.1 million and \$24.7 million, system development charges (SDC) represented \$0.607 million and \$0.535 million, respectively. Thus the total SDC for the current fiscal year total is \$1.14 million. Please see Schedule 5 on page 47.

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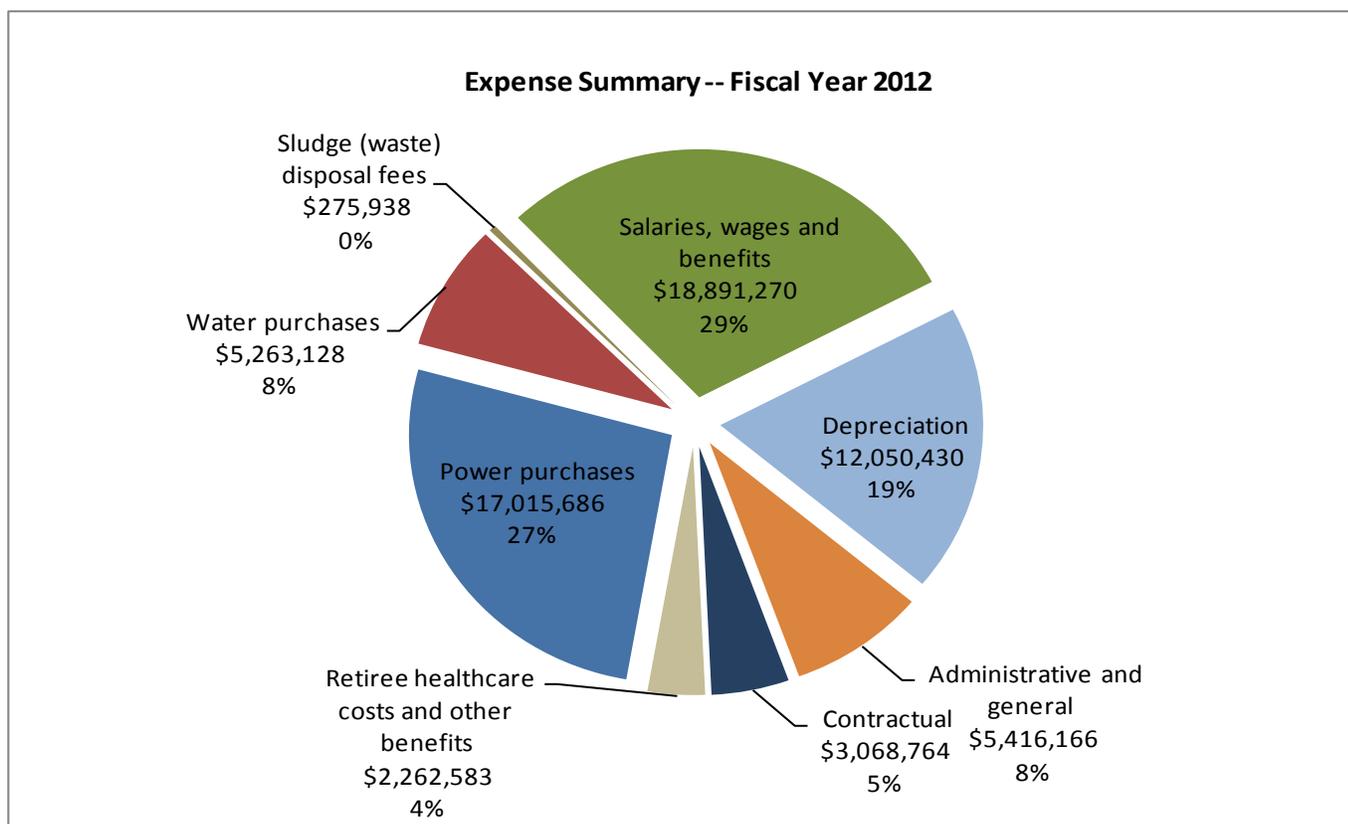
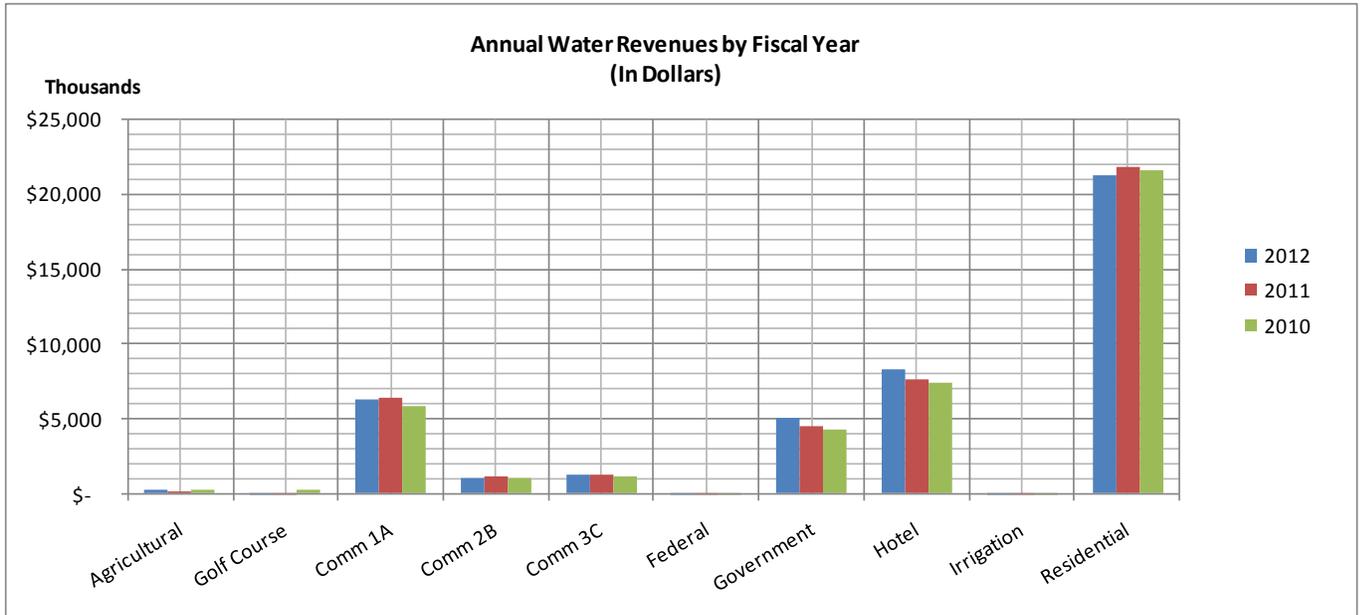


Table 3
Annual Water Revenues (Includes Surcharges and Excludes System Development Charges)
(In Dollars)

Class Type				% Change	2012 to 2011 Comparison Increase (Decrease)
	September 30, 2012	September 30, 2011	September 30, 2010		
Agricultural	\$ 255,061	\$ 178,081	\$ 227,349	43%	\$ 76,980
Golf Course	62,791	73,247	194,241	-14%	(10,456)
Comm 1 ^A	6,301,102	6,428,626	5,857,765	-2%	(127,524)
Comm 2 ^B	1,005,031	1,136,049	1,006,082	-12%	(131,018)
Comm 3 ^C	1,233,225	1,269,874	1,133,857	-3%	(36,649)
Federal	9,472	26,184	13,320	-64%	(16,712)
Government	5,025,237	4,437,617	4,266,392	13%	587,620
Hotel	8,300,464	7,590,889	7,394,200	9%	709,575
Irrigation	37,982	38,991	50,843	-3%	(1,009)
Residential	21,234,055	21,722,871	21,539,987	-2%	(488,816)
TOTAL	\$ 43,464,420	\$ 42,902,429	\$ 41,684,036	1%	\$ 561,981

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Notes:

^A Bars w/o dining facilities, car wash, dept & retail stores, hospital & convalescent, laundromat, professional offices, repair shops & service stations, school & colleges, soft water service, markets w/o garbage disposal.

^B Motels, commercial and industrial laundry.

^C Auto steam cleaning, bakery & wholesale, markets w/garbage disposal, mortuaries, restaurants and bars w/in-dining facilities.

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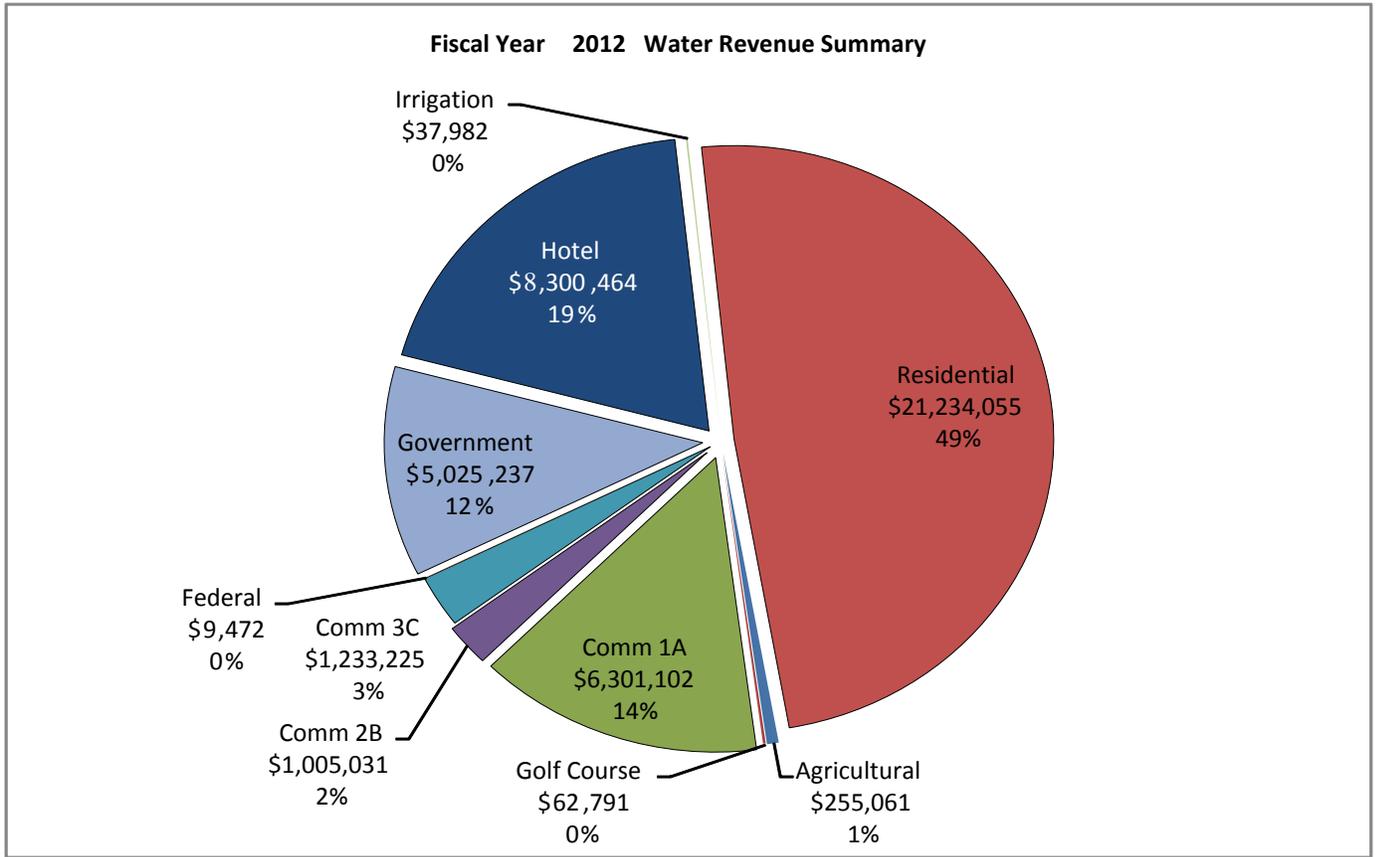
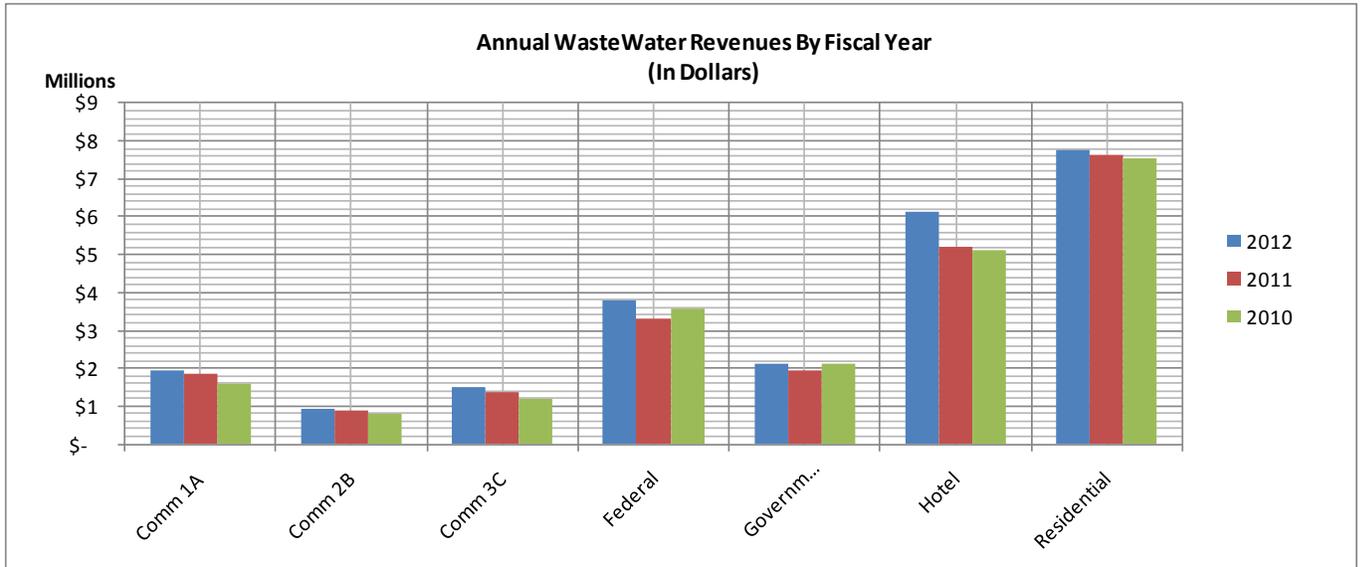


Table 4
Annual WasteWater Revenues (Includes Surcharges and Excludes System Development Charges)
(In Dollars)

Class Type				% Change	2012 to 2011	
	September 30, 2012	September 30, 2011	September 30, 2010		Increase	(Decrease)
Comm 1 ^A	\$ 1,937,198	\$ 1,872,934	\$ 1,577,487	3%	\$ 64,264	
Comm 2 ^B	936,600	875,021	777,998	7%	61,579	
Comm 3 ^C	1,485,478	1,350,252	1,198,821	10%	135,226	
Federal	3,798,233	3,319,549	3,553,164	14%	478,684	
Government	2,133,228	1,923,714	2,096,860	11%	209,514	
Hotel	6,136,602	5,209,326	5,135,234	18%	927,276	
Residential	7,777,762	7,628,105	7,558,916	2%	149,657	
TOTAL	\$24,205,101	\$ 22,178,901	\$ 21,898,481	9%	\$ 2,026,200	

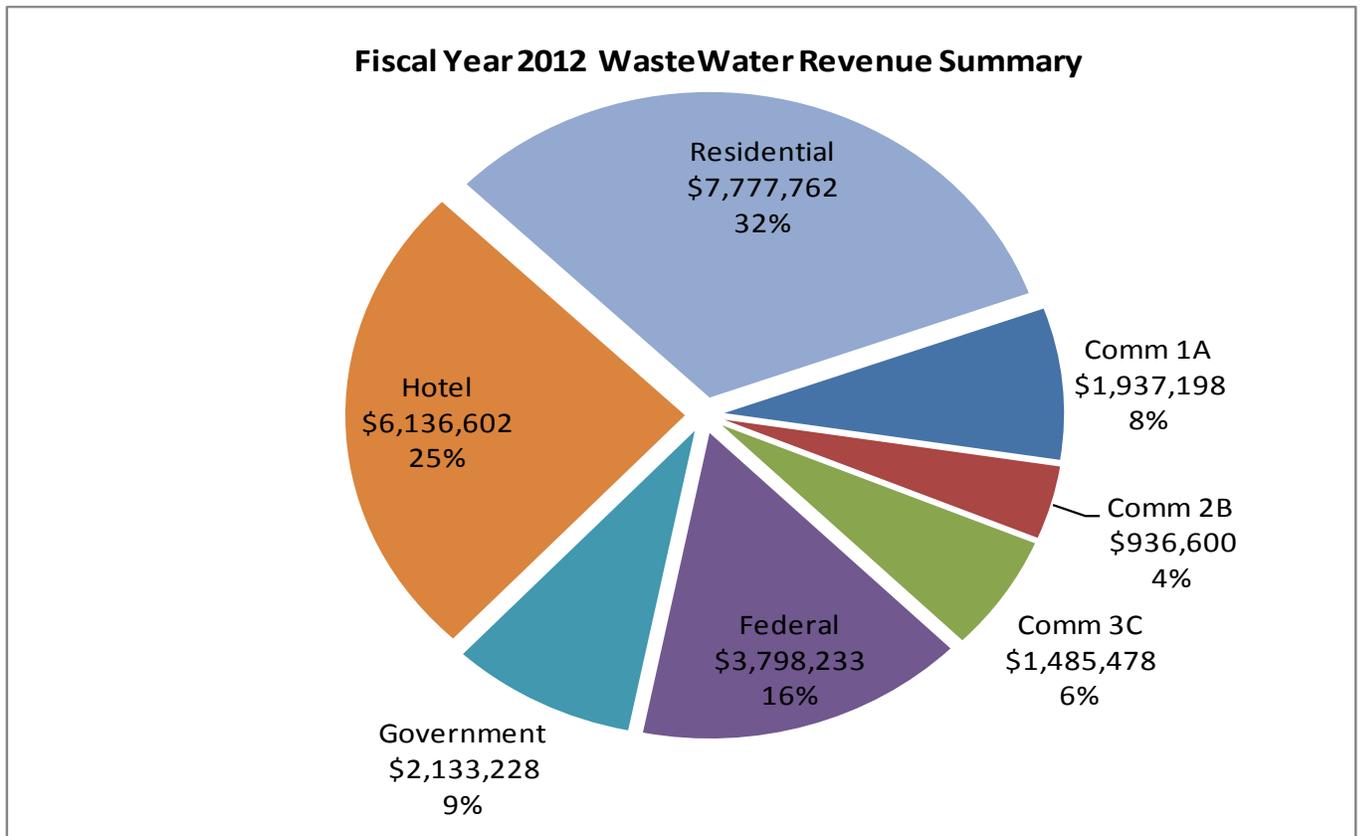
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Notes:

- ^A Bars w/o dining facilities, car wash, dept & retail stores, hospital & convalescent, laundromat, professional offices, repair shops & service stations, school & colleges, soft water service, markets w/o garbage disposal.
- ^B Motels, commercial and industrial laundry.
- ^C Auto steam cleaning, bakery & wholesale, markets w/garbage disposal, mortuaries, restaurants and bars w/in-dining facilities.



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Capital Assets

The Authority had \$304.8 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2012. The investment in capital assets includes buildings, improvements, water treatment plants, filter plants, water transmission and distribution mains, water storage facilities, pump stations, wastewater treatment facilities, machinery and equipment (see Table 5 below).

In the current fiscal year, capital assets increased by \$20.6 million (net) or 7% over the prior fiscal year. The increase is consistent with the Authority's implementation of a five-year (FY 12 to FY 16) capital improvement program.

The Authority's revenue, long-term debt, and grant-in-aid are used to finance capital investments.

This year's major capital additions included:

Water

Ugum Treatment Plant Rehabilitation	\$ 12,591,404
Sinajana Transmission Line	\$ 9,124,060
Meter Replacement Program	\$ 4,974,455
Leak Detection Program	\$ 1,532,020
Leak Repair Program	\$ 828,331
Mechanical/Electrical Equipment	\$ 560,315

Wastewater

System Upgrades and major repairs	\$ 3,707,394
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Table 5
Capital Assets, Net of Accumulated Depreciation

	<u>2012 to 2011 Comparison</u>				
	<u>September 30</u> <u>2012</u>	<u>September 30</u> <u>2011</u>	<u>September 30</u> <u>2010</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Plant, buildings and equipment, net	\$ 277,591,876	\$ 254,427,988	\$ 246,575,122	\$ 23,163,888	9.10%
Construction in progress	27,210,416	29,784,889	35,030,107	(2,574,473)	-8.64%
Total	<u>\$ 304,802,292</u>	<u>\$ 284,212,877</u>	<u>\$ 281,605,229</u>	<u>\$ 20,589,415</u>	<u>7.24%</u>

For additional information concerning capital assets, please refer to note 3 to the financial statements.

Debt

As of September 30, 2012, the Authority had total long-term debt outstanding of \$228.7 million, net of unamortized costs, which is a decrease of \$5.6 million or 2.4% over the prior year (see Table 6 below). The reason for the decrease in long-term debt is because of principal balance reduction in our 2005 Bond Series and Bank Notes.

The Authority is required by bond covenants to maintain principal, interest, and reserve funds for the bond issue outstanding. In addition, the Authority is required to set rates and charges to yield revenues equal to at least 125% of the current annual debt service requirements of the outstanding 2005 and 2010 revenue bond series.

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Table 6
Long Term Debt, Less Current Maturities

	September 30, 2012	September 30, 2011	September 30, 2010	<u>2012 to 2011 Comparison</u>	
				Increase/ (Decrease)	% Change
2005 Bond Series	\$ 91,268,492	\$ 93,768,643	\$ 96,158,794	\$ (2,500,151)	-2.67%
2010 Bond Series	116,554,074	116,473,393	-	80,681	100.00%
Bank Notes	20,851,436	23,915,460	26,759,633	(3,064,024)	-12.81%
United States Navy	-	75,676	1,817,057	(75,676)	-100.00%
Total	<u>\$ 228,674,002</u>	<u>\$ 234,233,172</u>	<u>\$ 124,735,484</u>	<u>\$ (5,559,170)</u>	<u>-2.37%</u>

For additional information concerning debt, please refer to note 5 to the financial statements.

Looking Forward

Outlook, Challenges, and Opportunities

Rehabilitations, upgrades, replacements and construction of new system infrastructure will continue to be the story for GWA over the next decade. Despite improved financial performance, GWA faces significant capital needs from a Federal Court order handed down in 2011 requiring an estimated \$350 million of infrastructure investments to bring GWA into compliance with Safe Drinking Water Act (SDWA) and Clean Water Act (CWA) standards. 2020 construction deadlines set by the Order placed unprecedented financial challenges over the next 5 to 10 years together with the everyday challenges of managing a Utility and balancing competing demands for limited resources under inflationary pressures.

In June 2013, GWA will be filing its second (2nd) Five Year Financial Rate Plan with the Public Utilities Commission. Similar to the first (1st) Plan in 2009, compliance with regulatory mandates and the 2011 Court Order constitutes the principal drivers of the Plan. Annual rate increases will be requested aggregating to 67% during the Rate Plan period. The increases are primarily associated with debt service for three (3) separate capital related financing slated to take place in CY2013, CY2015 & CY2017 in order to address project costs and meet construction deadlines associated with the Order.

The meter replacement program will continue to be one of the major focuses and commitment in the near term. Over 19,000 of GWA's 41,000 meters have been replaced since August 2012 and demand is trending upward which GWA believes is attributable to improved metering accuracy of consumption from the new meters. Another 9,000 meters are expected to be replaced with the new meters by the end of the year and thereafter the program is expected to decelerate and replacement based on normal wear and tear due to age.

GWA's leak detection and line repair program continues to make advances. Since inception in 2011, an aggregate of 489 leaks have been detected and repaired which is equivalent to 6 million gallons per day of losses prevented. The contractors are engaged in working closely with the Engineering and Water Operations departments to identify crucial areas with chronic leak problems. The program also includes service lateral upgrades and replacement of existing old and leaking GWA waterlines island wide that are beyond repair with new pipe ranging in size from 4-inch to 8-inch diameter to improve water services island wide.

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While there has been much discussion over the past years on the Department of Defense (DOD) relocation of troops from Japan, there is very little documentation available and uncertainties from DOD that outline the potential capital expenditures and timing and extent of the buildup. The DOD build-up is expected to ultimately increase the island's permanent population and will necessitate significant additional capital investment that currently is not included in GWA's CIP Plan. GWA and the DOD have been working together to identify system needs and funding resources to service this population influx, the latter could prove rather difficult in light of the nation's current budget sequestration.

In November 2011, GWA's request for an extension of its CWA 301(h) waiver was denied by the U.S. Environmental Protection Agency (USEPA) and GWA is faced the requirement to implement secondary treatment at its two largest plants, the Hagatna and Northern wastewater treatment plants. Discussions with USEPA are already underway on establishing the requirements for secondary treatment; however, implementation of a timeline to implement secondary treatment has not begun. GWA will be seeking from USEPA the same extended timelines granted to other communities to migrate to secondary treatment. The Plan does not address this issue although it could significantly impact GWA's finances.

Request for Information

This financial report is to provide interested parties with a general overview of GWA's finances. If you have any questions about this report or need additional information, you may submit a request in writing to: Chief Financial Officer, Guam Waterworks Authority, 578 N. Marine Corp Drive, Tamuning, GU 96913, or telephone (671) 647-7838.

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Statements of Net Assets
September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 2,421,955	\$ 1,934,542
Restricted	19,434,692	19,212,946
Receivables, net	12,121,147	9,636,730
Materials and supplies inventory, net of an allowance for obsolescence of \$64,677 at September 30, 2012 and 2011	1,727,461	2,037,713
Prepaid expenses	109,202	251,698
Total current assets	<u>35,814,457</u>	<u>33,073,629</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	279,765,742	251,010,331
Wastewater system	227,270,443	223,236,826
Non-utility property	17,049,671	15,740,095
	<u>524,085,856</u>	<u>489,987,252</u>
Less accumulated depreciation	<u>(246,558,268)</u>	<u>(235,623,552)</u>
	277,527,588	254,363,700
Land	64,288	64,288
Construction work in progress	27,210,416	29,784,889
Property, plant and equipment, net	<u>304,802,292</u>	<u>284,212,877</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	96,060,028	117,233,610
Investments	17,200,405	17,201,280
Unamortized debt issuance costs	5,045,577	5,244,802
Total other noncurrent assets	<u>118,306,010</u>	<u>139,679,692</u>
	<u>\$ 458,922,759</u>	<u>\$ 456,966,198</u>

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Net Assets, Continued
September 30, 2012 and 2011

<u>LIABILITIES AND NET ASSETS</u>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Current maturities of long-term debt	\$ 5,454,328	\$ 6,192,198
Accounts payable:		
United States Navy	404,726	549,977
Guam Power Authority	1,444,824	1,701,278
Trade	2,498,193	3,239,305
Accrued interest	2,960,173	3,015,548
Accrued payroll and employee benefits	439,086	385,664
Current portion of employee annual leave	469,631	446,877
Payable to contractors	9,698,587	1,420,395
Customer deposits	2,063,758	1,949,158
Other liabilities	882,038	505,099
Total current liabilities	<u>26,315,344</u>	<u>19,405,499</u>
Long-term debt, less current maturities:		
Revenue bonds payable	207,822,566	210,242,036
Notes payable	20,851,436	23,915,460
United States Navy	-	75,676
Employee annual leave, less current portion	855,513	879,905
DCRS sick leave liability	1,049,726	931,407
Advances for construction	169,162	168,946
Total liabilities	<u>257,063,747</u>	<u>255,618,929</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	189,567,949	189,524,913
Restricted	9,472,664	8,049,966
Unrestricted	2,818,399	3,772,390
Total net assets	<u>201,859,012</u>	<u>201,347,269</u>
	<u>\$ 458,922,759</u>	<u>\$ 456,966,198</u>

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Water:		
Private	\$ 35,309,082	\$ 33,404,838
Government	4,497,672	3,621,629
Legislative surcharge	2,901,946	1,566,698
PUC surcharge	755,720	4,309,264
System development charge	606,995	845,189
	44,071,415	43,747,618
Wastewater:		
Private	18,273,640	16,935,638
Government	5,661,535	4,860,318
Legislative surcharge	213,131	102,099
PUC surcharge	56,795	280,846
System development charge	535,030	781,690
	24,740,131	22,960,591
Other	700,979	606,994
Total operating revenues	69,512,525	67,315,203
Operating and maintenance expenses:		
Power purchases	17,015,686	15,191,769
Water purchases	5,263,128	6,283,246
Waste disposal fees	275,938	305,469
	22,554,752	21,780,484
Salaries, wages and benefits	18,891,270	18,499,114
Depreciation	12,050,430	11,854,307
Administrative and general	5,416,166	5,885,100
Contractual	3,068,764	3,355,465
Retiree health care costs and other benefits	2,262,583	2,244,032
	64,243,965	63,618,502
Total operating and maintenance expenses	64,243,965	63,618,502
Operating income	5,268,560	3,696,701
Nonoperating revenues (expenses):		
Allowance for funds used during construction	4,946,472	1,434,692
Interest income	34,122	32,441
Interest expense:		
Revenue bonds 2010	(6,516,400)	(5,575,142)
Revenue bonds 2005	(5,382,419)	(5,520,106)
Others	(1,986,989)	(2,270,863)
Federal expenditures	(2,233,586)	-
Others, net	(297,755)	483,791
	(11,436,555)	(11,415,187)
Total nonoperating revenues (expenses), net	(11,436,555)	(11,415,187)
Loss before capital contributions	(6,167,995)	(7,718,486)
Capital contributions:		
Grants from U.S. Government	6,679,738	3,826,958
Other contributions	-	961,310
	6,679,738	4,788,268
Total capital contributions	6,679,738	4,788,268
Change in net assets	511,743	(2,930,218)
Net assets at beginning of year	201,347,269	204,277,487
Net assets at end of year	\$ 201,859,012	\$ 201,347,269

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 68,153,410	\$ 66,514,698
Cash payments to suppliers for goods and services	(31,352,812)	(28,925,573)
Cash payments to employees for services	(18,721,167)	(18,150,243)
Cash payments on settlement agreements	(1,161,292)	(4,235,728)
Cash payments for retiree healthcare costs	(2,262,583)	(2,244,032)
Net cash provided by operating activities	14,655,556	12,959,122
Cash flows from noncapital financing activities:		
Principal repayment of bank loan	(935,871)	(871,048)
Interest paid on bank loan	(269,275)	(338,485)
Other interest paid on settlement agreements	(16,428)	(89,537)
Net cash used for noncapital financing activities	(1,221,574)	(1,299,070)
Cash flows from capital and related financing activities:		
Federal grants received	3,435,450	4,387,940
Other capital contributions received	-	961,310
Acquisition of property, plant and equipment	(19,415,181)	(13,353,701)
Proceeds from bond issuance	-	116,404,591
Payments of bond issuance costs	-	(2,571,843)
Principal paid on revenue bond maturities	(2,270,000)	(2,160,000)
Interest paid on revenue bonds	(11,954,194)	(9,491,836)
Principal repayment of bank loan	(1,890,407)	(1,762,414)
Interest paid on bank loan	(1,701,286)	(1,842,841)
Advances for construction	216	270
Other payments	(138,000)	-
Net cash (used for) provided by capital and related financing activities	(33,933,402)	90,571,476
Cash flows from investing activities:		
Net transfers (from) to restricted funds	20,952,711	(108,195,192)
Interest income received	34,122	32,441
Net cash provided by (used in) investing activities	20,986,833	(108,162,751)
Net change in unrestricted cash and cash equivalents	487,413	(5,931,223)
Unrestricted cash and cash equivalents at beginning of year	1,934,542	7,865,765
Unrestricted cash and cash equivalents at end of year	\$ 2,421,955	\$ 1,934,542
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 4,946,472	\$ 1,434,692
Capitalized interest	(4,946,472)	(1,434,692)
Noncash increase in materials and supplies inventory	-	275,068
Recovery of allowance for inventory obsolescence	-	(275,068)
Noncash decrease in deferred revenue	-	624,389
Noncash other income	-	(624,389)
	\$ -	\$ -

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Cash Flows, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,268,560	\$ 3,696,701
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,050,430	11,854,307
Recovery of allowance for inventory obsolescence	-	(275,068)
(Increase) decrease in assets:		
Accounts receivable	(1,473,715)	(809,199)
Materials and supplies inventory	310,252	785,968
Prepaid expenses	142,496	(251,698)
Increase (decrease) in liabilities:		
Accounts payable	(2,304,109)	(2,192,123)
Accrued payroll and employee benefits	53,422	70,092
Employee annual leave	(1,638)	109,419
Customer deposits	114,600	8,694
Other liabilities	376,939	(207,331)
DCRS sick leave liability	118,319	169,360
Net cash provided by operating activities	\$ 14,655,556	\$ 12,959,122

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(1) Reporting Entity

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 five-member elected Consolidated Commission on Utilities (CCU). PUC determines such matters as rates and charges for services.

(2) Summary of Significant Accounting 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 governmental units, specifically proprietary funds. Governmental 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. GWA 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 statement of net assets, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Net Assets

Net assets represent the residual interest in GWA’s assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of debt, include capital assets, restricted and unrestricted, net of accumulated depreciation. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All of GWA’s restricted net assets are expendable. All other net assets are unrestricted.

At September 30, 2012 and 2011, net assets are restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
Revenue Fund	\$ 4,743,257	\$ 4,169,491
Island Water and Sewer Infrastructure Development Fund	3,502,680	3,316,813
Meter reserve	1,132,445	91,043
Sewer Hook-up Revolving Fund	72,341	72,060
Navy surcharge	<u>21,941</u>	<u>400,559</u>
	\$ <u>9,472,664</u>	\$ <u>8,049,966</u>

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

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.

Risk Management

GWA is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. There is commercial insurance coverage obtained to provide for claims arising from most of these matters. No material losses have been sustained as a result of GWA's risk management practices during the past three years.

Allowance for Doubtful Receivables

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Materials and Supplies Inventory

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the series 2005 and 2010 bonds. These costs are being amortized throughout the life of the bonds using the straight-line method, which approximates the effective interest method.

Property, Plant and Equipment

Plant in service of \$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 respective assets. Current policy is to capitalize items over \$5,000.

Noncurrent Restricted Cash

The purpose of noncurrent restricted cash is for long-term capital improvements and bond related activities.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

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.

During the year ended September 30, 2003, Public Law 27-05 was implemented, reducing the amount of leave employees can earn in a fiscal year (either 104 or 156 hours) and the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours, but not to exceed 100 hours as of February 28, 2003 shall be credited to the employees sick leave. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

Revenue Recognition

Customer water meters are read on a cyclical basis throughout a monthly period based on the route schedules of GWA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$25.08 per month for residential accounts and 80% of current water consumption for commercial and government accounts. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2012 and 2011 are \$2,414,870 and \$1,923,107, respectively.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, 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. Beginning in fiscal year 2008, GWA ceased recognizing revenues on water provided to fire hydrants. Fire hydrant receivables of \$6,546,311 as of September 30, 2012 and 2011 are fully provided for in the allowance for doubtful receivables.

Cash and Cash Equivalents

For purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash deposits in banks, time certificates of deposit, and short-term investments in U.S. Treasury obligations with initial maturities of three months or less.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale and are primarily determined based on quoted market value.

Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2012 and 2011, interest of \$4,946,472 and \$1,434,692, respectively, was capitalized.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2012 and 2011, labor costs of \$1,090,682 and \$1,456,653, respectively, were capitalized.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of GWA. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and expenses.

Grants 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 approximated \$1,214,576 and \$3,258,220 at September 30, 2012 and 2011, respectively.

Income Taxes

As an instrumentality of GovGuam, GWA and all property acquired by or for GWA, and all revenues and income therefrom are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

New Accounting Standards

During the year ended September 30, 2012, GWA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of GWA.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GWA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GWA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GWA.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2012 and 2011

(3) Property, Plant and Equipment

Capital asset activities for the year ended September 30, 2012 are as follows:

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2011</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2012</u>
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 251,010,331	\$ 29,667,810	\$ (912,399)	\$ 279,765,742
Utility Plant in Service - Wastewater	25-50	223,236,826	4,033,617	-	227,270,443
General Fixed Assets	05-10	<u>15,740,095</u>	<u>1,512,891</u>	<u>(203,315)</u>	<u>17,049,671</u>
		489,987,252	35,214,318	(1,115,714)	524,085,856
Accumulated Depreciation		<u>(235,623,552)</u>	<u>(12,050,430)</u>	<u>1,115,714</u>	<u>(246,558,268)</u>
		254,363,700	23,163,888	-	277,527,588
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>29,784,889</u>	<u>32,639,845</u>	<u>(35,214,318)</u>	<u>27,210,416</u>
		<u>\$ 284,212,877</u>	<u>\$ 55,803,733</u>	<u>\$ (35,214,318)</u>	<u>\$ 304,802,292</u>

Capital asset activities for the year ended September 30, 2011 are as follows:

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2010</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2011</u>
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 239,378,142	\$ 11,632,189	\$ -	\$ 251,010,331
Utility Plant in Service - Wastewater	25-50	215,559,217	7,677,609	-	223,236,826
General Fixed Assets	05-10	<u>15,342,720</u>	<u>397,375</u>	<u>-</u>	<u>15,740,095</u>
		470,280,079	19,707,173	-	489,987,252
Accumulated Depreciation		<u>(223,769,245)</u>	<u>(11,854,307)</u>	<u>-</u>	<u>(235,623,552)</u>
		246,510,834	7,852,866	-	254,363,700
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>35,030,107</u>	<u>14,461,955</u>	<u>(19,707,173)</u>	<u>29,784,889</u>
		<u>\$ 281,605,229</u>	<u>\$ 22,314,821</u>	<u>\$ (19,707,173)</u>	<u>\$ 284,212,877</u>

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(4) Receivables

Receivables at September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Customers:		
Private	\$ 15,637,020	\$ 15,343,256
Government	<u>8,999,260</u>	<u>8,785,797</u>
	24,636,280	24,129,053
Federal grants receivable	1,373,880	363,178
Guam Power Authority	1,151,696	75,669
Other	<u>432,293</u>	<u>541,832</u>
	<u>27,594,149</u>	<u>25,109,732</u>
Less allowance for doubtful receivables:		
Private	(8,088,099)	(8,088,099)
Government	<u>(7,384,903)</u>	<u>(7,384,903)</u>
	<u>(15,473,002)</u>	<u>(15,473,002)</u>
	<u>\$ 12,121,147</u>	<u>\$ 9,636,730</u>

Substantially all customer receivables are from individuals, businesses and government agencies located on Guam.

(5) Long-Term Debt

Long-term debt at September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
<u>Revenue Bonds:</u>		
2005 Series revenue bonds, initial face value of \$101,175,000, interest at varying rates from 5.000% to 5.875% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,865,000 in July 2008, increasing to \$6,810,000 in July 2035.	\$ 90,865,000	\$ 93,135,000
2010 Series revenue bonds, initial face value of \$118,825,000, interest at varying rates from 4.000% to 5.625% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,055,000 in July 2015, increasing to \$14,460,000 in July 2040.	<u>118,825,000</u>	<u>118,825,000</u>
Total revenue bonds payable	209,690,000	211,960,000
Less current maturities	<u>(2,380,000)</u>	<u>(2,270,000)</u>
	207,310,000	209,690,000
Bond discount – 2010 series bonds	(2,270,926)	(2,351,607)
Bond premium – 2005 series bonds	<u>2,783,492</u>	<u>2,903,643</u>
	<u>\$ 207,822,566</u>	<u>\$ 210,242,036</u>

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2012 and 2011

(5) Long-Term Debt, Continued

As of September 30, 2012, 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>
2013	\$ 2,380,000	\$ 11,840,694	\$ 14,220,694
2014	2,500,000	11,721,694	14,221,694
2015	3,690,000	11,584,194	15,274,194
2016	3,875,000	11,397,070	15,272,070
2017	4,065,000	11,207,794	15,272,794
2018 through 2022	23,900,000	52,461,969	76,361,969
2023 through 2027	31,500,000	44,863,844	76,363,844
2028 through 2032	41,610,000	34,749,038	76,359,038
2033 through 2037	55,060,000	21,297,630	76,357,630
2038 through 2040	<u>41,110,000</u>	<u>4,709,249</u>	<u>45,819,249</u>
	\$ <u>209,690,000</u>	\$ <u>215,833,176</u>	\$ <u>425,523,176</u>
		<u>2012</u>	<u>2011</u>

Notes Payable:

Note payable to the U.S. Navy in settlement of previously unpaid balances, interest at 1.25% per annum, due in monthly installments of principal and interest of \$75,755 through October 2012, collateralized by real property.

\$ - \$ 1,161,292

Note payable to a bank in the original amount of \$25,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$300,027 through June 15, 2015.

20,937,748 22,828,155

Note payable to a bank in the original amount of \$5,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$100,785 through June 2015.

2,988,016 3,923,887

Total notes payable

23,925,764 27,913,334

Less amount maturities

(3,074,328) (3,922,198)

\$ 20,851,436 \$ 23,991,136

As of September 30, 2012, 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>
2013	\$ 3,074,328	\$ 1,735,409	\$ 4,809,737
2014	3,310,153	1,499,584	4,809,737
2015	<u>17,541,283</u>	<u>947,221</u>	<u>18,488,504</u>
	\$ <u>23,925,764</u>	\$ <u>4,182,214</u>	\$ <u>28,107,978</u>

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(A Component Unit of the Government of Guam)

Notes to Financial Statements
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(5) Long-Term Debt, Continued

2005 Series Revenue Bonds

GWA fully paid a debt to Municipal Services Group, Inc. (MSG) with proceeds from the 2005 bond issuance. MSG indicated that it may make a claim against GWA in connection with the investment earnings on the Acquisition Fund for the Certificates of Participation 2005 Services relative to financing the purchase and installation of GWA's water meters. No provision has been recorded in the accompanying financial statements for a liability, if any, because an estimate of the amount or range of potential loss cannot be determined at this time.

Proceeds of the 2005 series bonds are to be used for the purpose of funding capital improvements of water and wastewater systems, refinancing certain outstanding obligations and loans, financing new water meters, paying capitalized interest and paying related issuance costs.

All gross revenues, except PUC surcharge revenues, of GWA have been pledged to repay the 2005 series bond principal and interest. The debt service for the 2005 series bond was \$7,707,794 and \$7,705,794 for the years ended September 30, 2012 and 2011, respectively, or approximately 11.4% and 11.8%, respectively, of pledged gross revenues for those years.

Total bond proceeds from the 2005 series bonds were \$104,779,522, including a bond premium of \$3,604,522 while GWA incurred closing costs totaling \$3,128,108. The premium, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 2005 bond. The closing costs, net of amortization, are reflected as other assets in the accompanying statements of net assets. The current year amortization of the deferred revenue and the deferred asset is reflected as other income in the accompanying statements of revenues, expenses and changes in net assets.

Management is of the opinion that compliance with applicable debt covenants occurred during the year ended September 30, 2012.

Bank Loans

On June 15, 2010, GWA entered into a \$30 million loan agreement with a bank for the purpose of: (a) funding a portion of the cost of a moratorium project, (b) funding the Operation, Maintenance, Renewal and Replacement Reserve Fund and Operations and Maintenance Fund as defined in the bond indenture agreements for the 2005 series revenue bonds and (c) payments of accounts payable and other purposes. The loan is guaranteed by the Government of Guam and entitled to the full faith and credit of the Government of Guam. Pursuant to the loan agreement, GWA pledged all revenues but subject first, to a consent decree, and second, to the prior pledge and lien and other provisions of the bond indenture agreements for the 2005 series revenue bonds.

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Notes to Financial Statements
September 30, 2012 and 2011

(5) Long-Term Debt, Continued

2010 Series Revenue Bonds

On November 1, 2010, GWA entered into a supplemental indenture agreement for the issuance of \$118,825,000 Water and Wastewater System Revenue Bonds, Series 2010, to finance various water and wastewater capital improvement projects. The 2010 bonds are limited obligations of GWA payable solely from and secured by a pledge of revenues as defined in the indenture. The bonds are subject to mandatory, optional and special redemption prior to maturity.

Total bond proceeds were \$116,404,591, net of a bond discount of \$2,420,409 and GWA incurred closing costs of \$2,805,108. The discount and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 2010 bond. The closing costs, net of amortization, are reflected as other assets in the accompanying statements of net assets. The current year amortization of the bond discount and the deferred asset is reflected as other income in the accompanying statements of revenues, expenses and changes in net assets.

Proceeds of the 2010 series bonds are to be used for the purpose of funding capital improvements of water and wastewater systems, meeting certain requirements of the U.S. Environmental Protection Agency, to paying capitalized interest, to fund a deposit to the Bond Reserve Fund, and paying related issuance costs.

All gross revenues, except SDC revenues, of GWA have been pledged to repay the 2010 series bond principal and interest. The debt service for the 2010 series bond was \$6,516,400 and \$3,946,042 for the years ended September 30, 2012 and 2011, respectively, or approximately 10% and 6%, respectively, of pledged gross revenue for those years.

Changes in Long-Term Liabilities:

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2012 and 2011:

	Outstanding October 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2012</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ -	\$ 118,825,000	\$ -
2005 series A bonds	93,135,000	-	(2,270,000)	90,865,000	2,380,000
Notes payable	26,752,042	-	(2,826,278)	23,925,764	3,074,328
U.S. Navy	1,161,292	-	(1,161,292)	-	-
Deferred amount:					
Unamortized premium on 2005 bonds issued	2,903,643	-	(120,151)	2,783,492	-
Unamortized discount on 2010 bonds issued	(2,351,607)	-	80,681	(2,270,926)	-
Other:					
Employee annual leave	1,326,782	725,796	(727,434)	1,325,144	469,631
DCRS sick leave liability	931,407	118,319	-	1,049,726	-
Advances for construction	168,946	216	-	169,162	-
	<u>\$ 242,852,505</u>	<u>\$ 844,331</u>	<u>\$ (7,024,474)</u>	<u>\$ 236,672,362</u>	<u>\$ 5,923,959</u>

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
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(5) Long-Term Debt, Continued

Changes in Long-Term Liabilities:, Continued

	Outstanding October 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2011</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ -	\$ 118,825,000	\$ -	\$ 118,825,000	\$ -
2005 series A bonds	95,295,000	-	(2,160,000)	93,135,000	2,270,000
Notes payable	29,385,504	-	(2,633,462)	26,752,042	2,836,582
U.S. Navy	4,159,524	-	(2,998,232)	1,161,292	1,085,616
Guam Power Authority	1,237,496	-	(1,237,496)	-	-
Deferred amount:					
Unamortized premium on 2005 bonds issued	3,023,794	-	(120,151)	2,903,643	-
Unamortized discount on 2010 bonds issued	-	(2,420,409)	68,802	(2,351,607)	-
Other:					
Employee annual leave	1,217,363	783,251	(673,832)	1,326,782	446,877
DCRS sick leave liability	762,047	169,360	-	931,407	-
Advances for construction	<u>168,676</u>	<u>270</u>	<u>-</u>	<u>168,946</u>	<u>-</u>
	<u>\$ 135,249,404</u>	<u>\$ 117,357,472</u>	<u>\$ (9,754,371)</u>	<u>\$ 242,852,505</u>	<u>\$ 6,639,075</u>

(6) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

GWA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GWA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
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(6) Employees' Retirement Plan, Continued

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GWA's contributions to the DB Plan for the years ending September 30, 2012, 2011 and 2010 were \$1,251,402, \$1,331,651 and \$1,321,122, respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Plan

Contributions into the Defined Contribution Retirement System (DCRS) plan 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 investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions into the DCRS plan for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GWA's contributions to the DCRS Plan for the years ended September 30, 2012, 2011 and 2010 were \$2,345,226, \$2,223,307 and \$1,850,779, respectively.

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(6) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GWA has accrued an estimated liability of \$1,049,726 and \$931,407 at September 30, 2012 and 2011, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated

For the years ended September 30, 2012, 2011 and 2010, GWA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Supplemental benefits	\$ 461,313	\$ 288,988	\$ 447,195
Contribution to GovGuam (COLA payments)	304,700	304,700	294,800
Medical and dental	<u>1,496,570</u>	<u>1,650,344</u>	<u>1,155,535</u>
	<u>\$ 2,262,583</u>	<u>\$ 2,244,032</u>	<u>\$ 1,897,530</u>

(7) Real Estate Property Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate property under GWA's administration. As of September 30, 2012 and 2011, the property has not been recognized in the financial statements pending completion of formal transfer proceedings.

(8) 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, 2012 and 2011 are \$5,263,128 and \$6,283,246, respectively.

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Notes to Financial Statements
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(9) Commitments and Contingencies

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GWA did not calculate or pay any bonuses pursuant to the law from 1991 through 2012. As of September 30, 2012, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2012. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Claims

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.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$12,117,249 at September 30, 2012 of which \$1,214,576 will be funded by federal contracts from the U.S. Government.

Project Management Contracts

On December 5, 2006, GWA entered into Performance Management Contracts (PMC) for the operation and maintenance of its Wastewater Treatment Plants, Collection System, and Lift Stations. PMC contracts are for a period of 3 years and have been extended to mature on December 28, 2013.

The future minimum annual management fees payable for the above PMC contracts are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2013	\$1,138,423
2014	<u>286,557</u>
	\$ <u>1,424,980</u>

The above fees are subject to certain incentives and penalties, as agreed by both parties.

Operating Lease

In January 2012, GWA entered into a lease agreement for its office space for a period of three years, with a monthly rental of \$13,655. The future minimum lease payments for this lease are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2013	\$ 163,860
2014	163,860
2015	<u>47,792</u>
	\$ <u>375,512</u>

Rent expense under this agreement totaled \$116,068 during the year ended September 30, 2012.

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Notes to Financial Statements
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(9) Commitments and Contingencies, Continued

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.

Single Audit Questioned Costs

GWA undergoes annual compliance audits to satisfy federal grantor requirements. Cumulative questioned costs of \$357,727 exist from these audits as of September 30, 2012. The questioned costs will be resolved by the applicable grantor and due to GWA's inability to predict the ultimate outcome of this matter, no provision for any liability, if any, that may result from this matter has been made in the accompanying financial statements.

Stipulated Order

In 2002, the United States Government filed a complaint against GWA and the Government of Guam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA'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 GWA and the U.S. Department of Justice, Environmental and Natural Resources Division, mutually agreed in the form of Stipulated Order to resolve the violation issues.

On June 5, 2003, a Stipulated Order for Preliminary Relief was filed before the District Court of Guam. The Stipulation requires implementation of short-term projects and initial planning measures by GWA. GWA is required to submit a final financial plan in the Master Plan that generates sufficient revenue to cover the cost of all compliance activities and deliverables required by the Stipulated Order for Preliminary Relief, as well as any other anticipated expenses, including any measures necessary to ensure compliance with the CWA and the SDWA and costs related to the infrastructure improvements identified in the Master Plan.

In 2006, the Stipulated Order was amended which required GWA to perform approximately \$220 million worth of capital improvement projects and perform other actions to bring GWA's system into compliance. However, GWA was unable to meet all deadlines set out in the amended Stipulated Order. The District Court ordered the parties to stipulate as to scope of remaining projects and project completion dates; however, the parties were unable to reach an agreement on all items. As a result, on November 10, 2011, the District Court issued an order setting new deadlines for the unfinished projects and establishing new projects that were not part of the amended Stipulated Order. As of September 30, 2012, the financial impact of the order has not been determined.

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(9) Commitments and Contingencies, Continued

Guam Public Utilities Commission Order

On June 2, 2011, the Guam Public Utilities Commission (PUC) issued an order requiring GWA to pay the amount of \$18,333,333 to the Government of Guam. GWA filed an appeal of the order in the Superior Court of Guam. The order was stayed by the Superior Court in September 2011. As of September 30, 2012, a final decision and order on the merits of the appeal or the PUC's order has not been issued. GWA has not recorded a liability as of September 30, 2012 pending final resolution of the matter. Management believes that the repayment of the related liability would be dependent upon future rate increases.

Primary Treatment Permits

On November 29, 2011, the United States Environmental Protection Agency (USEPA) informed GWA that its primary treatment permits for the Hagatna and Northern District Wastewater Treatment Plants had been denied and that GWA would be required to upgrade the plants to secondary treatment. The upgrades have been estimated to cost approximately \$300 million. GWA intends to negotiate with the USEPA on the timelines for upgrading the plants, which may be deferring the upgrades for approximately 20 to 30 years.

(10) Cash and Cash Equivalents and Investments

The bond indenture agreements for the 2005 and 2010 series revenue bonds require the establishment of special funds to be held and administered by trustees and by GWA. In addition, proceeds from borrowings to fund capital improvements are maintained by GWA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used to fund capital improvements.

At September 30, 2012 and 2011, investments and cash held by trustees and by GWA in these special funds and accounts are as follows:

	2012				Total
	Held By Trustee		Held By GWA		
	2005 Bond Indenture Funds	2010 Bond Indenture Funds	2005 Bond Indenture Funds	2010 Bond Indenture Funds	
Current restricted cash:					
Revenue Fund	\$ -	\$ -	\$ 4,743,258	\$ -	\$ 4,743,258
Capital Improvement Fund	-	-	469,950	-	469,950
Operations and Maintenance Fund	-	-	4,731,078	-	4,731,078
Noncurrent restricted cash:					
Operations, Maintenance Renewal and Replacement Revenue Fund	-	-	12,439,716	-	12,439,716
Capitalized Interest Fund	-	-	-	8,148,241	8,148,241
Construction Fund	-	-	3,250,207	72,221,864	75,472,071
Investments:					
Bond Reserve Fund	7,707,871	-	-	-	7,707,871
Debt Service Fund	1,926,074	7,566,460	-	-	9,492,534
	<u>\$ 9,633,945</u>	<u>\$ 7,566,460</u>	<u>\$ 25,634,208</u>	<u>\$ 80,370,106</u>	<u>\$ 123,204,719</u>

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Notes to Financial Statements
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(10) Cash and Cash Equivalents and Investments, Continued

	2011				<u>Total</u>
	Held By Trustee		Held By GWA		
	2005 Bond Indenture Funds	2010 Bond Indenture Funds	2005 Bond Indenture Funds	2010 Bond Indenture Funds	
Current restricted cash:					
Revenue Fund	\$ -	\$ -	\$ 4,169,491	\$ -	\$ 4,169,491
Capital Improvement Fund	-	-	58,376	-	58,376
Operations and Maintenance Fund	-	-	4,730,869	-	4,730,869
Noncurrent restricted cash:					
Operations, Maintenance Renewal and Replacement Revenue Fund	-	-	12,439,723	-	12,439,723
Capitalized Interest Fund	-	-	-	14,663,478	14,663,478
Construction Fund	-	-	3,974,265	86,156,144	90,130,409
Investments:					
Bond Reserve Fund	7,707,871	-	-	-	7,707,871
Debt Service Fund	<u>1,926,949</u>	<u>7,566,460</u>	-	-	<u>9,493,409</u>
	<u>\$ 9,634,820</u>	<u>\$ 7,566,460</u>	<u>\$ 25,372,724</u>	<u>\$ 100,819,622</u>	<u>\$ 143,393,626</u>

The deposits and investment policies of GWA are governed by 15 GCA 21, *Investments and Deposits* in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in or certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAAM or better by S&P.

A. Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, GWA'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. GWA does not have a deposit policy for custodial credit risk.

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(10) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

As of September 30, 2012 and 2011, the carrying amount of GWA's total cash and cash equivalents was \$117,916,675 and \$138,381,098, respectively, and the corresponding bank balances were \$118,599,444 and \$138,985,778, respectively. Of the bank balance amount, \$11,858,779 and \$11,863,989, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$106,740,665 and \$127,121,789, respectively, represents short-term investments held and administered by GWA's trustees in GWA's name in accordance with various trust agreements and bond indentures. As of September 30, 2012 and 2011, bank deposits in the amount of \$4,400,744 and \$6,397,194, respectively, were FDIC insured. GWA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2012 and 2011, \$7,458,035 and \$5,466,795, respectively, of cash and cash equivalents are subject to custodial credit risk.

Restricted cash and cash equivalents consists of cash received for specific capital projects and for bond indenture related accounts. The composition of current and noncurrent restricted cash and cash equivalents is as follows:

	<u>2012</u>	<u>2011</u>
Current restricted:		
Capital projects	\$ 163,663	\$ 163,243
Operation and maintenance	6,031	6,016
Navy surcharge	21,941	400,559
Meter reserve	1,132,445	91,043
Sewer Hook-up Revolving Fund	72,341	72,060
Revenue Fund	4,743,258	4,169,491
Capital Improvement Fund	469,950	58,376
Operations and Maintenance Fund	4,731,078	4,730,869
Debt Service Fund	1,204,480	1,204,476
Moratorium project	3,386,825	5,000,000
Island Water and Sewer Infrastructure Development Fund	<u>3,502,680</u>	<u>3,316,813</u>
	<u>19,434,692</u>	<u>19,212,946</u>
Noncurrent restricted:		
2005 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	12,439,716	12,439,723
Construction Fund	3,250,207	3,974,265
2010 Bond Indenture Funds:		
Construction Fund	72,221,864	86,156,144
Capitalized Interest Fund	<u>8,148,241</u>	<u>14,663,478</u>
	<u>96,060,028</u>	<u>117,233,610</u>
Total restricted cash and cash equivalents	<u>\$ 115,494,720</u>	<u>\$ 136,446,556</u>

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2012 and 2011

(10) Cash and Cash Equivalents and Investments, Continued

B. Investments

As of September 30, 2012 and 2011, GWA's investment in debt securities had the following maturities:

<u>Investment Type</u>	<u>2012</u>		
	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>17,200,405</u>	\$ <u>17,200,405</u>	\$ <u>-</u>

<u>Investment Type</u>	<u>2011</u>		
	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>17,201,280</u>	\$ <u>17,201,280</u>	\$ <u>-</u>

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

GWA's exposure to credit risk at September 30, 2012 and 2011 is as follows:

<u>Moody's Rating</u>	<u>2012</u>		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>17,200,405</u>	\$ <u>17,200,405</u>	\$ <u>-</u>

<u>Moody's Rating</u>	<u>2011</u>		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>17,201,280</u>	\$ <u>17,201,280</u>	\$ <u>-</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GWA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GWA's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in GWA's name by GWA's custodial financial institutions at September 30, 2012 and 2011.

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Notes to Financial Statements
September 30, 2012 and 2011

(10) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

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 GWA. As of September 30, 2012 and 2011, GWA has no investment representing five percent (5%) or more of total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GWA 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.

(11) 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 recognized on the books of the Government of Guam and is not reflected as a liability of GWA.

(12) Contributions Received

Contributions received by GWA during the years ended September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Grants from U.S. Government:		
Received from the U.S. Environmental Protection Agency	\$ 5,085,473	\$ 3,409,744
Passed through from the Government of Guam	<u>1,594,265</u>	<u>417,214</u>
	\$ <u>6,679,738</u>	\$ <u>3,826,958</u>
Other contributions:		
Received from private entities	\$ _____	\$ <u>961,310</u>

(13) Supplemental/COLA Annuities

As required by Public Law 26-49, as amended by Public Law 27-106, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2012 and 2011, GWA levied surcharges of \$3,115,077 and \$1,668,797, respectively, in accordance with this legislation. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

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September 30, 2012 and 2011

(14) PUC Surcharge

The Public Utilities Commission ordered an 11.5% regulatory surcharge effective for meters read after October 1, 2001, to enable GWA to retire its obligations to both Guam Power Authority (GPA) and the Guam Telephone Authority (GTA). The order stipulated that monthly payments be made to both GPA and GTA. Payments to GPA should be no less than \$75,000 per month, after the required \$50,000 payment to GTA, payment of the PUC's annual administrative assessments and payment of PUC invoices in excess of 60 days.

On May 9, 2002, the Guam Legislature passed Public Law 26-81, which established a one-year moratorium on the 11.5% surcharge, wherein GWA was prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order for GWA to pay its debt to GPA, the law appropriated \$2.75 million to GWA from a bond re-financing. In May 2003, the one year moratorium expired and proceeds from the renewed surcharge of 9.60% have gone toward GWA's obligation to GPA and, effective October 2003, also to the obligation to the U.S. Navy. Effective October 1, 2011, the surcharge was reduced to 2%. In July 2012, the surcharge was discontinued since the obligation to GPA was paid in full. During the years ended September 30, 2012 and 2011, revenues from the surcharge were \$812,515 and \$4,590,110, respectively.

In addition, proceeds from a legislative surcharge of 5.6% and 3.49% for fiscal years 2012 and 2011, respectively, are earmarked to pay benefits for GWA's supplemental annuity for retirees. During the years ended September 30, 2012 and 2011, revenues from the legislative surcharge were \$3,115,077 and \$1,668,797, respectively.

(15) System Development Charge

On January 29, 2010, the Public Utilities Commission approved the implementation of a water and sewer system development charge (SDC) which authorized GWA to charge water and wastewater SDC to applicable customers on and after March 2, 2010. SDC revenues generated and collected are to be expended for costs associated with the construction, expansion, upgrade, and repair of water and wastewater facilities for users who are for the first time connecting property into the Guam water or wastewater system or for builders if the density of the existing connection is increased. SDC revenues may also be used to pay the principal sum and interest and other finance costs on bonds, notes or other obligations issued by or on behalf of GWA to finance such capital improvements or facilities expansion or renovations. During the years ended September 30, 2012 and 2011, SDC revenues amounted to \$1,142,025 and \$1,626,879, respectively.

(16) Related Party Transactions

GWA receives electrical and administrative services from Guam Power Authority (GPA), a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2012 and 2011 were \$17,015,686 and \$15,191,769, respectively, and GWA was also charged \$419,703 and \$358,137, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,444,824 and \$1,701,278 as of September 30, 2012 and 2011, respectively.

Beginning in January 2012, GWA billed GPA a total of \$1,337,828 for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2012 is \$930,063 which is included in receivables in the accompanying statements of net assets.

GUAM WATERWORKS AUTHORITY
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Schedule 1
Schedule of Equalization of Net (Income) Loss
Years Ended September 30, 1992 through 2012

	2012	2011	2010	2009	2008	2007	2006	2005	2003 2004	(As Restated)
Net (income) loss	\$ (511,743)	\$ 2,936,218	\$ (6,089,683)	(1,671,576)	\$ 422,752	\$ 1,933,050	\$ 8,097,395	\$ (1,530,194)	\$ 1,809,232	\$ 7,402,223
Less transfers from GovGuam	-	-	416,490	-	-	-	300,000	1,110,561	578,754	748,109
Less other operating revenues recognized in 1999 attributable to prior years	-	-	-	-	-	-	-	-	-	-
Equalization of net (income) loss	<u>\$ (511,743)</u>	<u>\$ 2,936,218</u>	<u>\$ (5,673,193)</u>	<u>(1,671,576)</u>	<u>\$ 422,752</u>	<u>\$ 1,933,050</u>	<u>\$ 8,397,395</u>	<u>\$ (419,633)</u>	<u>\$ 2,387,986</u>	<u>\$ 8,150,332</u>
	2002	2001	2000	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)	1994 (1)	1993 (1)
Net (income) loss	\$ 14,712,887	\$ 639,033	\$ 9,930,509	\$ 9,756,403	\$ 20,589,668	\$ 12,002,404	\$ 2,486,481	\$ 7,293,467	\$ 10,920,041	\$ 3,069,762
Less transfers from GovGuam	2,859,524	2,800,388	-	-	-	-	18,538,800	22,743,010	16,136,274	24,959,972
Less other operating revenues recognized in 1999 attributable to prior years	-	-	-	4,282,966	-	-	-	-	-	-
Equalization of net (income) loss	<u>\$ 17,572,411</u>	<u>\$ 3,439,421</u>	<u>\$ 9,930,509</u>	<u>\$ 14,039,369</u>	<u>\$ 20,589,668</u>	<u>\$ 12,002,404</u>	<u>\$ 21,025,281</u>	<u>\$ 30,036,477</u>	<u>\$ 27,056,315</u>	<u>\$ 28,029,734</u>

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

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedule 2
Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 13,410,801	\$ 12,803,350
Pension costs and other benefits	4,686,325	4,773,148
Overtime pay	794,144	922,616
Total salaries, wages and benefits	<u>\$ 18,891,270</u>	<u>\$ 18,499,114</u>
Administrative and general:		
Insurance	\$ 1,334,264	\$ 1,493,282
Materials and supplies	1,068,690	1,250,886
Chemicals	977,788	963,443
Transportation	697,780	648,742
Public Utility Commission	269,409	329,012
Liability claims	228,285	253,548
Communications	179,297	229,391
Training	67,884	162,010
Advertising	42,634	60,820
Miscellaneous	550,135	493,966
Total administrative and general	<u>\$ 5,416,166</u>	<u>\$ 5,885,100</u>
Contractual:		
PMC management	\$ 1,107,418	\$ 1,077,254
Labor, materials and others	925,606	1,124,460
Equipment rental	378,807	537,071
Accounting	354,598	331,325
Testing	165,819	150,066
Property rental	116,068	-
Legal	20,448	135,289
Total contractual	<u>\$ 3,068,764</u>	<u>\$ 3,355,465</u>
Other expense:		
Interest expense	\$ 13,885,808	\$ 13,366,111
Retiree healthcare costs and other benefits	2,262,583	2,244,032
	<u>\$ 16,148,391</u>	<u>\$ 15,610,143</u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 3
Schedule of Cash Flows Indicating Financing Method
Year Ended September 30, 2012

Cash flows provided by operating activities	\$ 14,655,556
Cash flows used for acquisition of utility plant, net of contributed capital received	<u>(15,979,731)</u>
Cash flows if utility plant were built, net of contributed capital received	<u><u>\$ (1,324,175)</u></u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedule 4
Schedule of Construction Work in Progress
Year Ended September 30, 2012

Project Title	Type	Beginning Balance 2012	Additions and Transfers	Closed out during FY2012	Ending Balance 2012
2MG Water & Tank	Water	\$ 49,997	\$ 633,408	\$ -	\$ 683,405
Baza Gardens Treatment Plant	Wastewater	418,982	34,892	-	453,874
Central Wastewater Moratorium Project	Wastewater	332,376	3,252,986	-	3,585,362
Distribution Line Replacement	Water	2,486,649	-	-	2,486,649
General Plant Improvements	Miscellaneous	98,735	2,401,672	(1,582,841)	917,566
Ground Water Chlorination	Water	21,618	1,126,003	-	1,147,621
Hagatna Wastewater Treatment Plant	Wastewater	-	520,746	-	520,746
Island-Wide Real Property Survey and Mapping	Water	467,481	1,702	-	469,183
Island-Wide Well Site Rehabilitation and New Well Site Development	Water	442,820	834,297	-	1,277,117
Leak Detection Program	Water	282,914	1,250,990	(1,532,020)	1,884
Leak Repair Program	Water	-	828,331	(828,331)	-
Mechanical/Electrical Equipment	Water	348,228	557,261	(560,315)	345,174
Meter Replacement Program	Water	21,671	4,977,187	(4,974,455)	24,403
Northern District Wastewater Treatment Interim Primary Treatment Improvements Project	Wastewater	457,982	9,763,059	(205,136)	10,015,905
Ordot/Chalan Pago 2B	Wastewater	622,341	-	-	622,341
Program Management for CIP Projects	Water/Wastewater	-	614,630	-	614,630
Sinajana Transmission Line	Water	8,927,224	276,102	(9,124,060)	79,266
Ugum Treatment Plant Rehabilitation	Water	10,197,691	2,430,250	(12,591,404)	36,537
Wastewater System Upgrades	Wastewater	2,418,029	1,578,031	(3,707,394)	288,666
Water Reservoir Condition Assessment Project	Water	705,805	436,993	-	1,142,798
All Others	Water/Wastewater	1,484,346	1,121,305	(108,362)	2,497,289
		<u>\$ 29,784,889</u>	<u>\$ 32,639,845</u>	<u>\$ (35,214,318)</u>	<u>\$ 27,210,416</u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 5
System Development Charge Fund
Schedule of Net Assets, Revenue, Expenses and Changes in Net Assets
September 30, 2012 and 2011

ASSETS

	2012	2011
Current assets:		
Restricted cash	\$ 3,502,680	\$ 3,316,813
Receivables	70,384	72,509
	\$ 3,573,064	\$ 3,389,322

LIABILITIES AND NET ASSETS

Current liabilities:		
Due to GWA	\$ 1,790	\$ 965,262
Net assets:		
Restricted	3,571,274	2,424,060
	\$ 3,573,064	\$ 3,389,322

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Revenues:		
System development charge	\$ 1,142,025	\$ 1,626,879
Other revenues	12,308	9,330
	1,154,333	1,636,209
Expenses:		
Miscellaneous	7,119	5,517
Change in net assets	1,147,214	1,630,692
Net assets at beginning of year	2,424,060	793,368
Net assets at end of year	\$ 3,571,274	\$ 2,424,060

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 6
Schedule of Operating Revenues
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Water	\$ 39,806,754	\$ 37,026,467
Wastewater	23,935,175	21,795,956
Surcharges:		
PUC	812,515	4,590,110
Legislative	3,115,077	1,668,797
System development charge	1,142,025	1,626,879
Other	<u>700,979</u>	<u>606,994</u>
Total operating revenues	<u>\$ 69,512,525</u>	<u>\$ 67,315,203</u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 7

Schedule of Employee and Other Data
Years Ended September 30, 2012 and 2011

2012					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ 199,659	\$ 21,930	-	\$ 221,589
Administration	40	2,896,646	700,255	57,100	3,654,001
Accounting	21	1,399,067	301,160	258,885	1,959,112
Engineering	28	1,863,418	61,324	8,696	1,933,438
Collection and Distribution	70	4,469,587	1,631,212	180,110	6,280,909
Utility Services	52	2,192,494	78,214	98,306	2,369,014
Production and Treatment	101	5,870,399	274,669	465,593	6,610,661
Total	312	\$ 18,891,270	\$ 3,068,764	\$ 1,068,690	\$ 23,028,724

2011					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ 198,035	\$ 24,253	-	\$ 222,288
Administration	40	2,698,560	938,834	164,646	3,802,040
Accounting	22	1,360,212	151,892	254,504	1,766,608
Engineering	27	1,553,521	6,540	10,637	1,570,698
Collection and Distribution	75	4,520,391	1,723,330	232,764	6,476,485
Utility Services	54	2,052,471	83,161	209,910	2,345,542
Production and Treatment	106	6,115,924	427,455	378,425	6,921,804
Total	324	\$ 18,499,114	\$ 3,355,465	\$ 1,250,886	\$ 23,105,465

See accompanying independent auditors' report.