

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

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

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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, 2011 and 2010, 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.

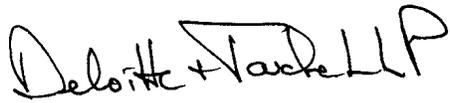
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 accompanying financial statements present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2011 and 2010, 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 April 5, 2012, 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 the 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.

The Management's Discussion and Analysis on pages 1 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GWA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 40 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These accompanying schedules are the responsibility of GWA's management. The accompanying schedules on pages 41 through 46 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The accompanying schedule on page 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

April 5, 2012

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

Management's Discussion and Analysis
September 30, 2011 and 2010

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, 2011. We encourage readers to consider the information presented here and in our basic financial statements, which begin on Page 14.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to 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's 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 19 of this report.

Other Information

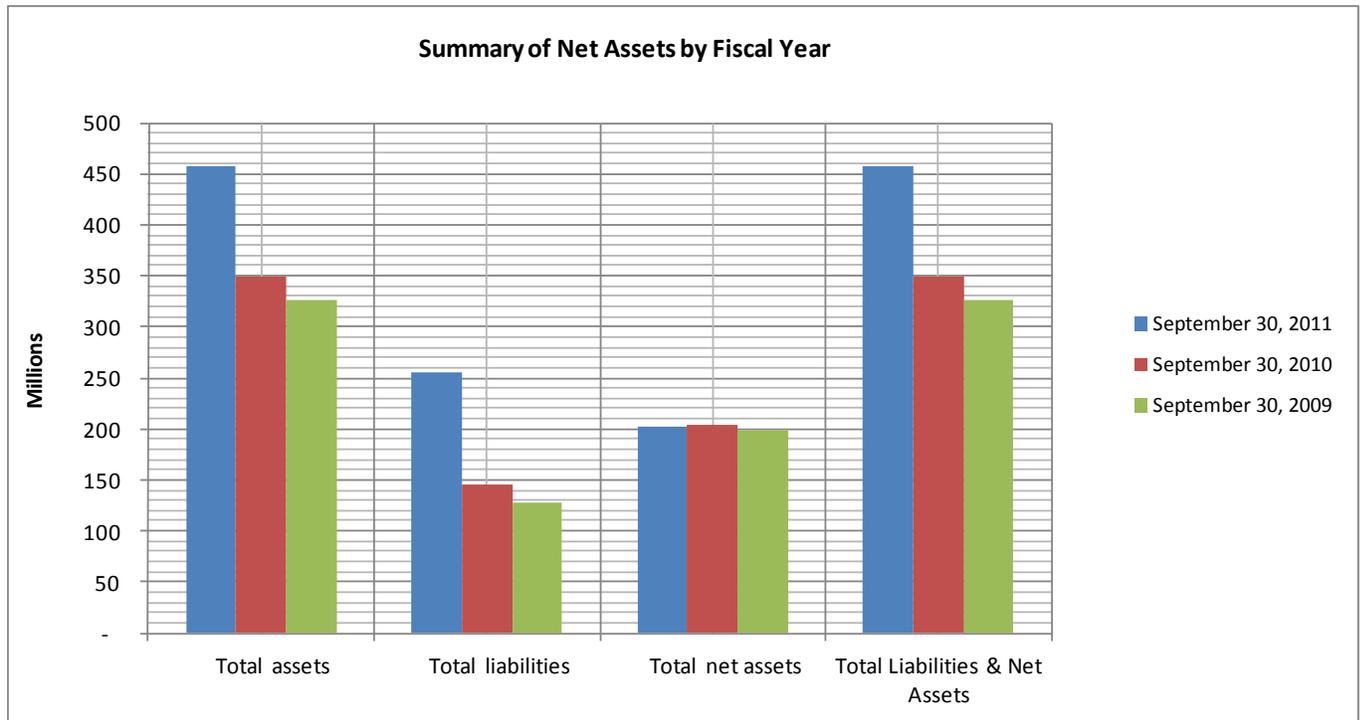
In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary and statistical information can be found beginning on page 40 of this report.

Table 1
Summary Statement of Net Assets

	September 30, 2011	September 30, 2010	September 30, 2009	2011 to 2010 Comparison	
				Increase/ (Decrease)	% Change
Current assets	\$ 33,073,629	\$ 35,166,168	\$ 19,415,679	\$ (2,092,539)	-5.95%
Property, plant and equipment, net	284,212,877	281,605,229	279,320,424	2,607,648	0.93%
Other non-current assets	139,679,692	32,954,273	27,660,979	106,725,419	323.86%
Total assets	456,966,198	349,725,670	326,397,082	107,240,528	30.66%
Current liabilities	19,405,499	19,023,902	23,002,040	381,597	2.01%
Long-term liabilities	236,213,430	126,424,281	105,207,238	109,789,149	86.84%
Total liabilities	255,618,929	145,448,183	128,209,278	110,170,746	75.75%
Net assets:					
Invested in capital assets, net of related debt	189,524,913	190,678,898	190,793,854	(1,153,985)	-0.61%
Restricted	8,049,966	5,866,142	5,377,124	2,183,824	37.23%
Unrestricted	3,772,390	7,732,447	2,016,826	(3,960,057)	-51.21%
Total net assets	201,347,269	204,277,487	198,187,804	(2,930,218)	-1.43%
Total Liabilities & Net Assets	\$ 456,966,198	\$ 349,725,670	\$ 326,397,082	\$ 107,240,528	

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

Management's Discussion and Analysis
September 30, 2011 and 2010



Financial Condition

The increase in total assets and total liabilities is primarily due to financing from the Series 2010 System Revenue Bonds (see Table 1).

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, decreased by \$1.2 million.

Total operating revenues of \$67.3 million increased by \$2.1 million or 3% for the current year and operating expenses of \$63.6 million increased by \$3.3 million or 5.5% resulting in net operating income of \$3.7 million (see Table 2).

The major changes in net income from the prior year were from the following:

- Water revenues (total) increased by \$1.6 million over the prior fiscal year. There were revenue dollar increases of \$0.8 million in commercial accounts. Hotel, residential, and government customer classes increased \$0.5 million. Agricultural, golf course, and irrigation customer classes decreased by \$182 thousand. 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 \$0.6 million over the prior fiscal year. An 8% rate increase in non-basic sewer charges was approved for the current year. There was an increase of 2% or 478 in the number of annual monthly average of wastewater customers. 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.

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

Management's Discussion and Analysis
September 30, 2011 and 2010

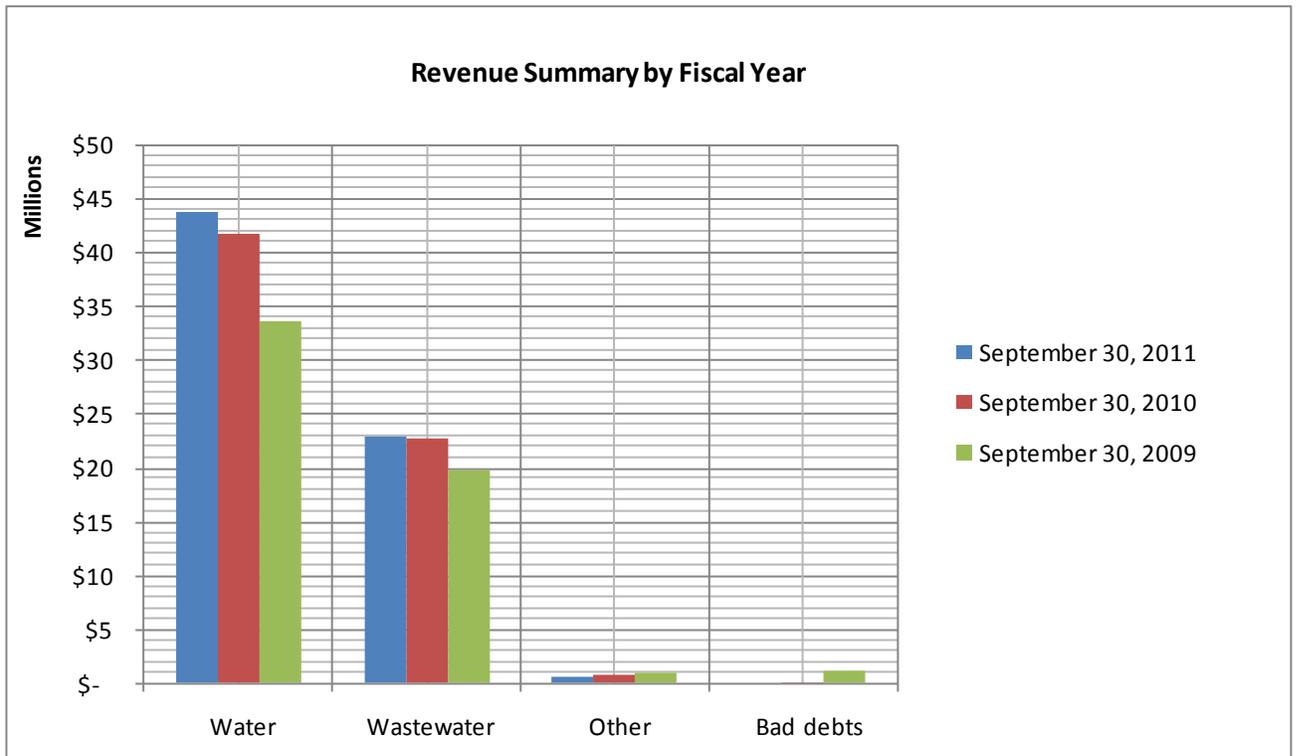
- Operating expenses increased by \$3.3 million or 5.47% over the prior fiscal year. The major contributing factors were increases in insurance premiums (\$1.4 million), energy costs (\$0.8 million), salaries, wages, and benefits (\$0.4 million), and post employment benefits (\$0.3 million). The increases in operating expenses were offset by decreases in water purchases (\$0.4 million).
- Non-operating expenses increased by \$6.7 million (net) or 144% over the prior fiscal year. This included a \$6.8 million increase to interest expense due to new long-term debt and a \$1.3 million decrease in allowance for funds used during construction. There was no contribution to the Government of Guam in FY2011 and an increase in the other (net) non-operating revenues (\$0.5 million) that attributed to the \$6.7 million net increase in non-operating expenses.
- Of the total water and wastewater revenue of \$43.7 million and \$23.0 million, respectively, system development charges (SDC) represented \$0.84 million and \$0.78 million, respectively. Total SDC for the current fiscal year amounted \$1.62 million.

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

	September 30, 2011	September 30, 2010	September 30, 2009	2011 to 2010 Comparison	
				Increase/ (Decrease)	% Change
Revenues:					
Water	\$ 43,747,618	42,089,058	33,580,185	1,658,560	3.94%
Wastewater	\$ 22,960,591	22,287,585	19,665,976	673,006	3.02%
Other	\$ 606,994	817,683	971,502	(210,689)	-25.77%
Bad debt recoveries	\$ -	4,138	1,034,609	(4,138)	-100.00%
Total operating revenue	67,315,203	65,198,464	55,252,272	2,116,739	3.25%
Expenses:					
Power purchases	\$ 15,191,769	14,344,013	14,971,119	847,756	5.91%
Water purchases	\$ 6,283,246	6,669,120	5,167,856	(385,874)	-5.79%
Sludge (waste) disposal fees	\$ 305,469	294,175	-	11,294	3.84%
Salaries, wages and benefits	\$ 18,499,114	18,085,703	15,870,652	413,411	2.29%
Depreciation	\$ 11,854,307	11,568,858	10,952,902	285,449	2.47%
Administrative and general	\$ 5,885,100	4,078,237	5,267,571	1,806,863	44.31%
Contractual	\$ 3,355,465	3,381,182	3,969,699	(25,717)	-0.76%
Retiree healthcare costs and other benefits	\$ 2,244,032	1,897,530	1,428,843	346,502	18.26%
Total operating expenses	63,618,502	60,318,818	57,628,642	3,299,684	5.47%
Net operating income (loss)	3,696,701	4,879,646	(2,376,370)	(1,182,945)	-24.24%
Non-operating revenue (expenses)	1,950,924	1,838,483	3,260,545	112,441	6.12%
Less: Interest Expense	(13,366,111)	(6,516,956)	(6,018,059)	(6,849,155)	105.10%
Total non-operating revenues (expenses), net	(11,415,187)	(4,678,473)	(2,757,514)	(6,736,714)	143.99%
Income (loss) before capital contributions	(7,718,486)	201,173	(5,133,884)	(7,919,659)	-3937%
Capital contributions	4,788,268	5,888,510	6,805,460	(1,100,242)	-18.68%
Change in net assets	(2,930,218)	6,089,683	1,671,576	(9,019,901)	-148.12%
Net assets - beginning year	204,277,487	198,187,804	196,516,228	6,089,683	3.07%
Net assets - end of year	201,347,269	204,277,487	198,187,804	(2,930,218)	-1.43%

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

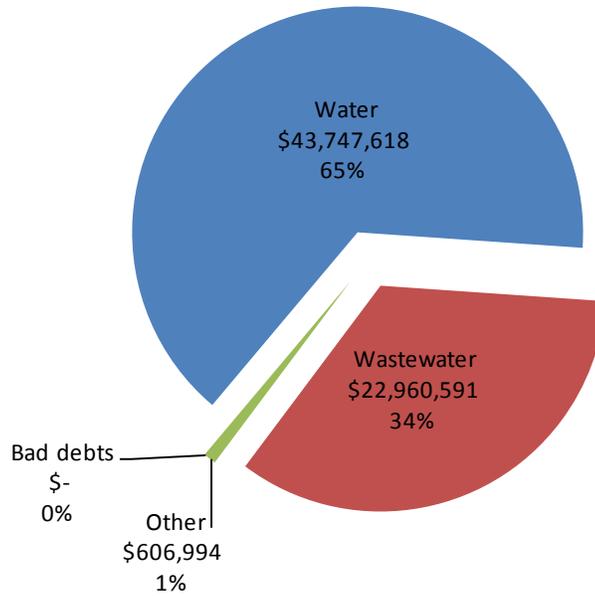
Management's Discussion and Analysis
September 30, 2011 and 2010



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

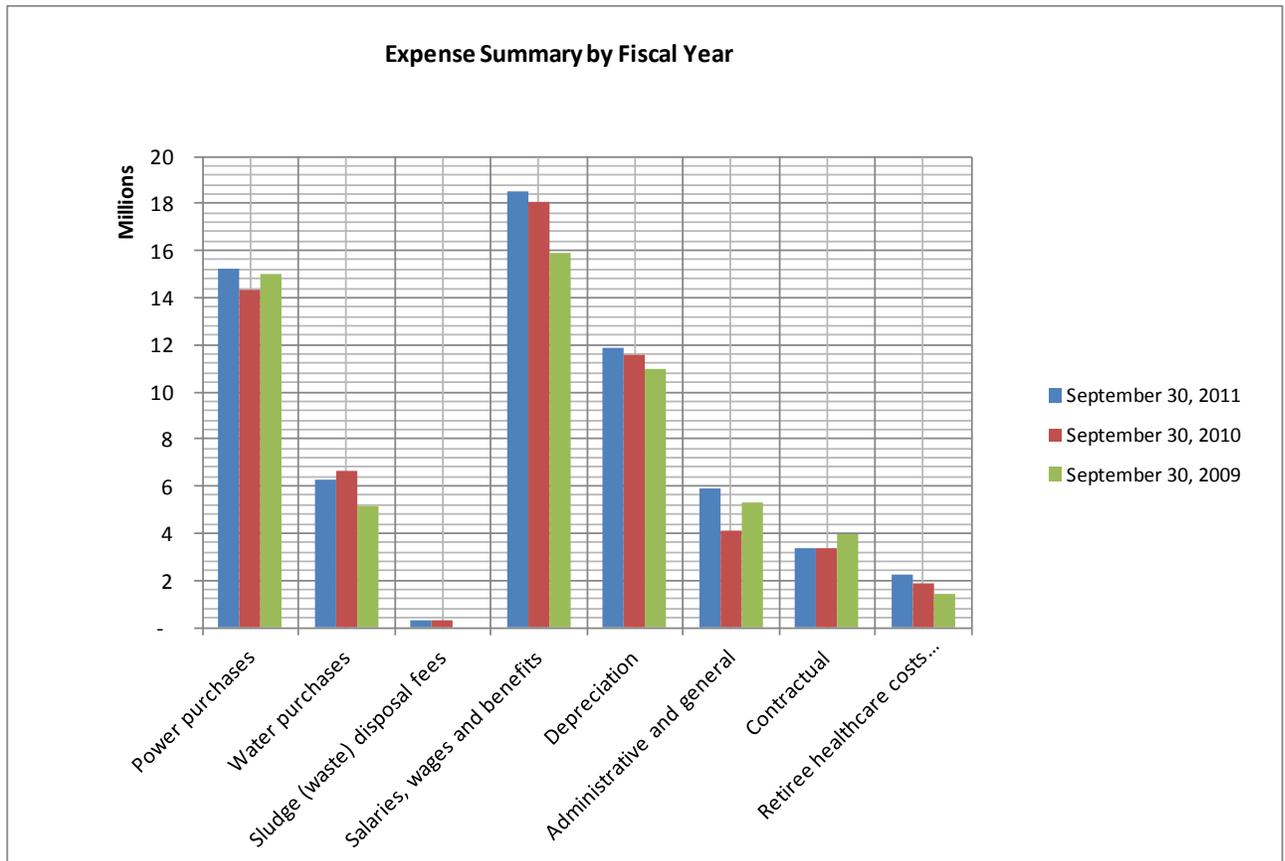
Management's Discussion and Analysis
September 30, 2011 and 2010

Revenue Summary -- Fiscal Year 2011



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

Management's Discussion and Analysis
September 30, 2011 and 2010



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

Management's Discussion and Analysis
 September 30, 2011 and 2010

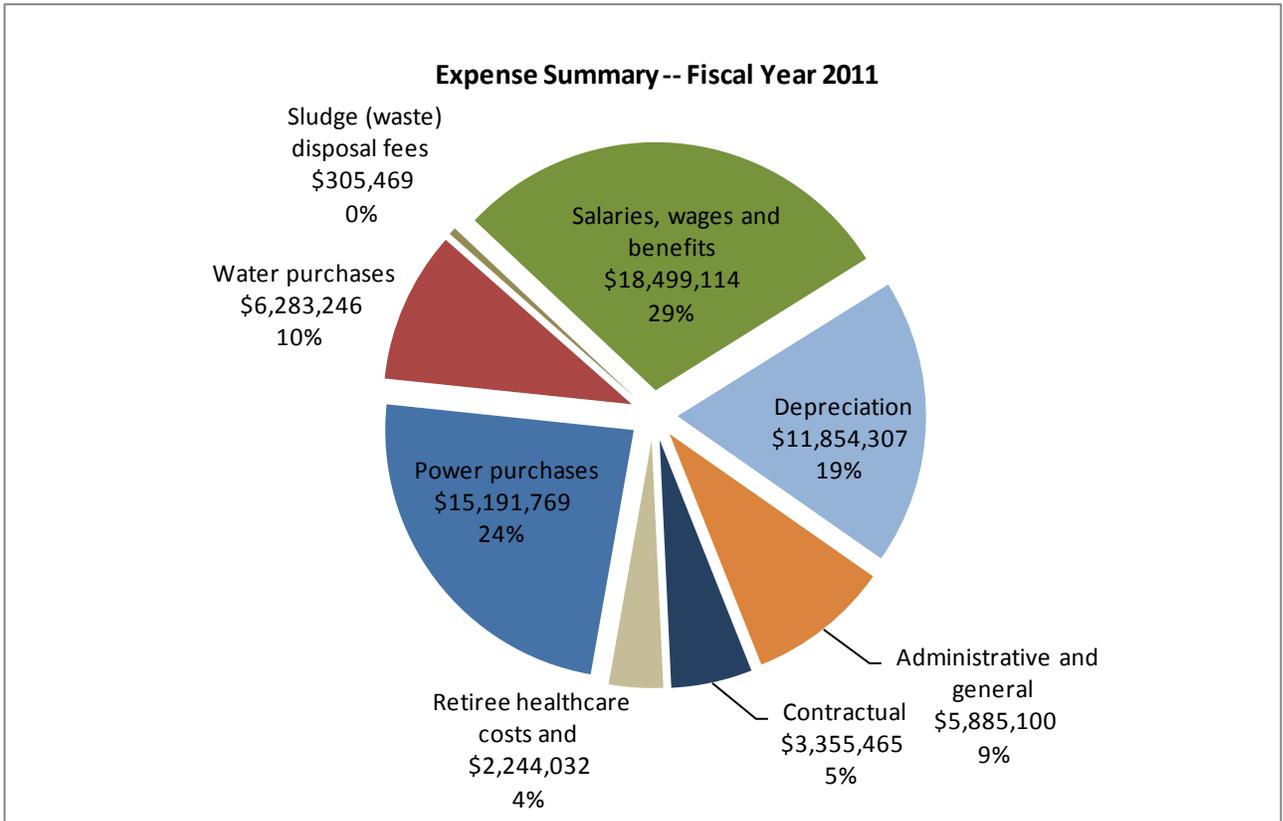
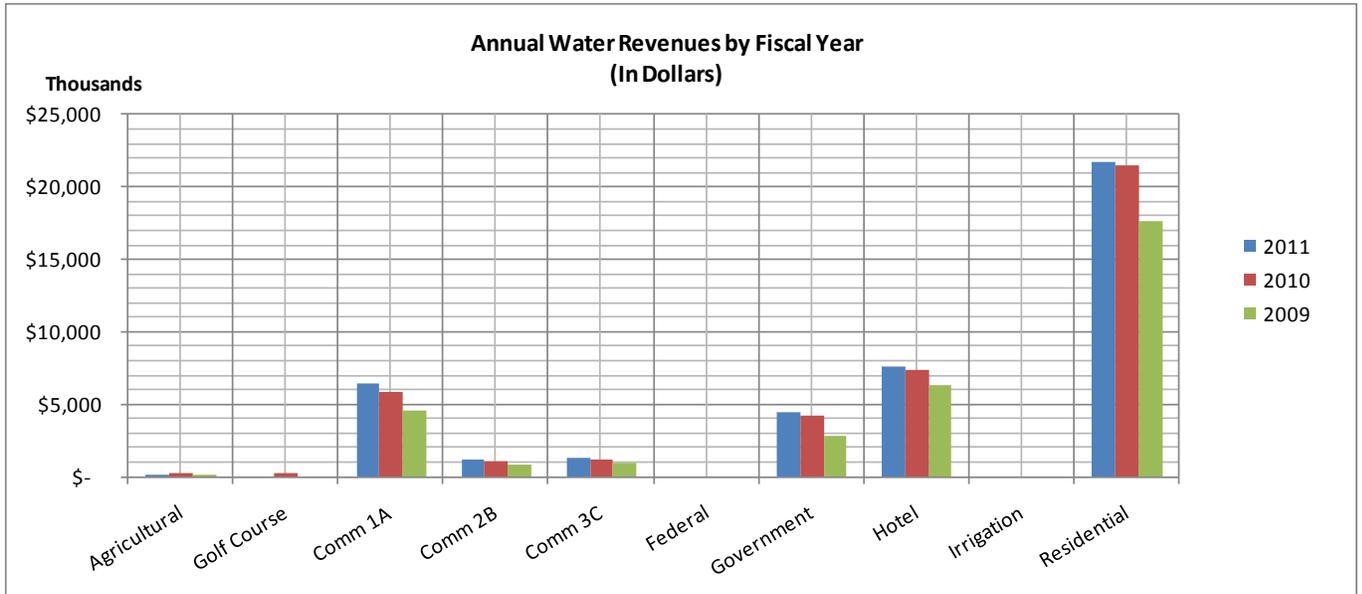


Table 3
Annual Water Revenues (Excluding System Development Charges)
(In Dollars)

Class Type	September 30, 2011	September 30, 2010	September 30, 2009	% Change	2011 to 2010
					Comparison Increase (Decrease)
Agricultural	\$ 178,081	\$ 227,349	\$ 158,289	-22%	\$ (49,268)
Golf Course	73,247	194,241	72,395	-62%	(120,994)
Comm 1 ^A	6,428,626	5,857,765	4,600,410	10%	570,861
Comm 2 ^B	1,136,049	1,006,082	875,558	13%	129,967
Comm 3 ^C	1,269,874	1,133,857	995,560	12%	136,017
Federal	26,184	13,320	14,404	97%	12,864
Government	4,437,617	4,266,392	2,865,976	4%	171,225
Hotel	7,590,889	7,394,200	6,324,234	3%	196,689
Irrigation	38,991	50,843	48,390	-23%	(11,851)
Residential	21,722,871	21,539,986	17,624,969	1%	182,885
TOTAL	\$ 42,902,429	\$ 41,684,035	\$ 33,580,185	3%	\$ 1,218,394

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

Management's Discussion and Analysis
September 30, 2011 and 2010

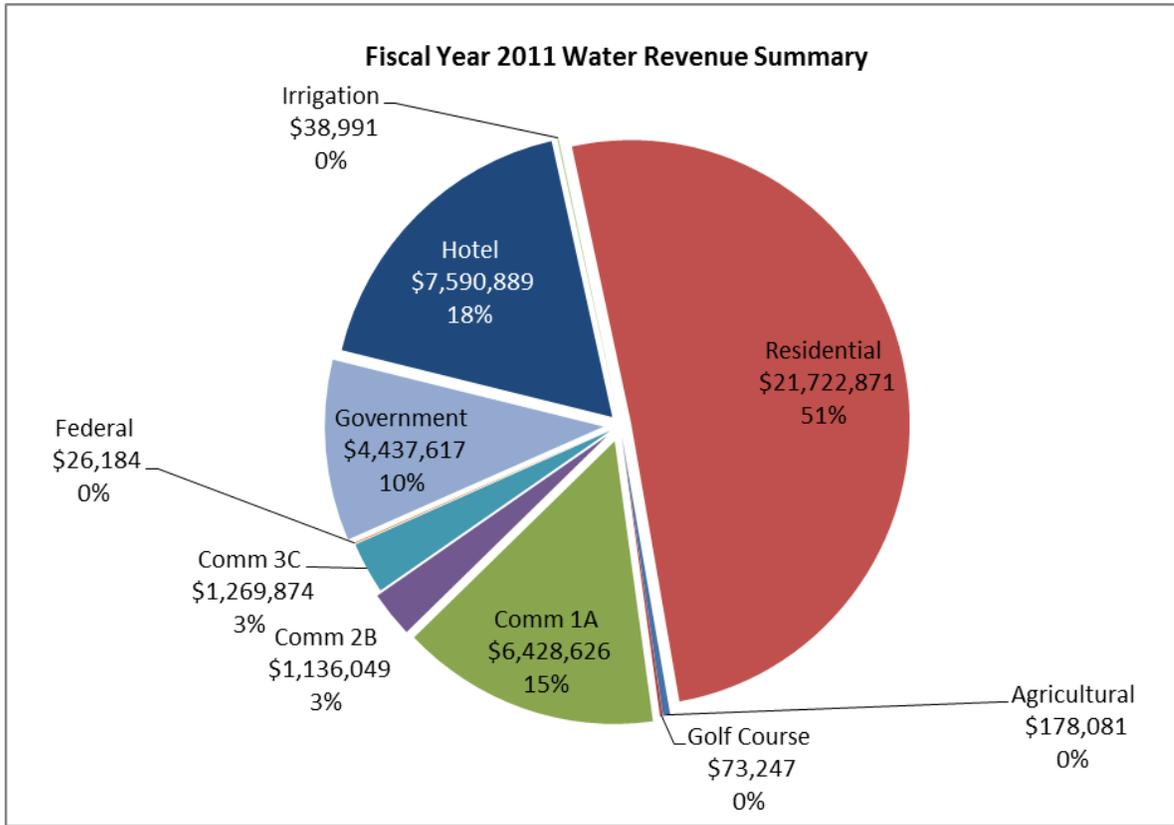


Notes:

- ^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.

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

Management's Discussion and Analysis
September 30, 2011 and 2010

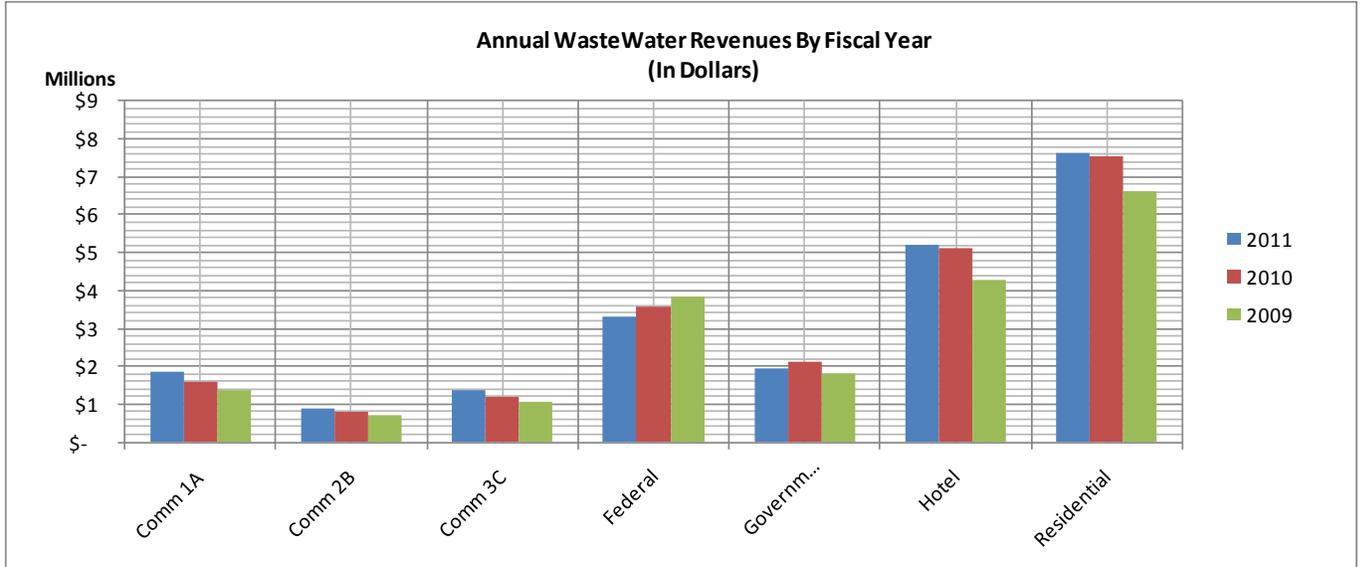


**Table 4
Annual WasteWater Revenues (Excluding System Development Charges)
(In Dollars)**

Class Type	September 30,			% Change	2011 to 2010
	2011	2010	2009		Comparison
					Increase (Decrease)
Comm 1 ^A	\$ 1,872,934	\$ 1,577,487	\$ 1,347,697	19%	\$ 295,447
Comm 2 ^B	875,021	777,998	724,806	12%	97,023
Comm 3 ^C	1,350,252	1,198,821	1,069,855	13%	151,431
Federal	3,319,549	3,553,164	3,832,358	-7%	(233,615)
Government	1,923,714	2,096,860	1,791,360	-8%	(173,146)
Hotel	5,209,326	5,135,234	4,278,646	1%	74,092
Residential	7,628,105	7,558,916	6,621,254	1%	69,189
TOTAL	\$ 22,178,901	\$ 21,898,480	\$19,665,976	1%	\$ 280,421

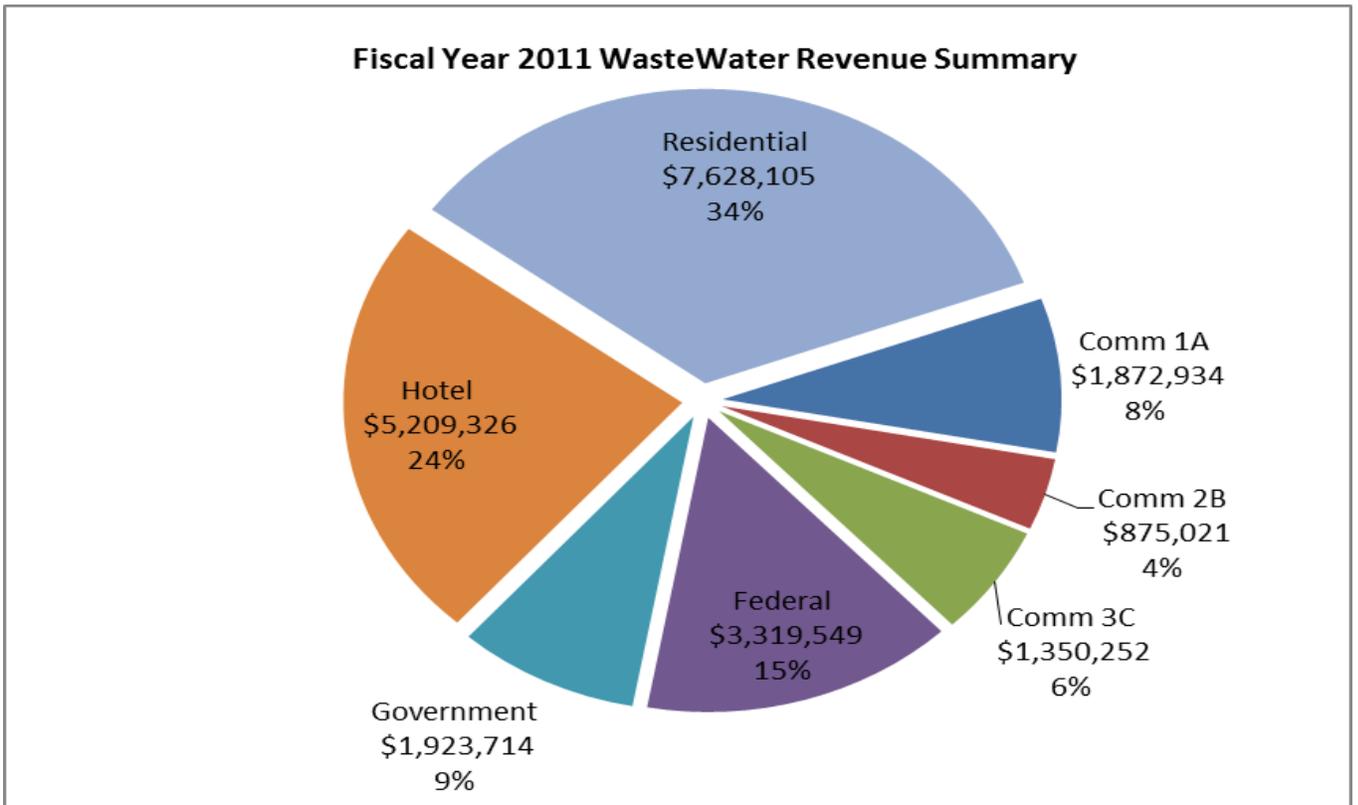
**GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis
September 30, 2011 and 2010



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

Management's Discussion and Analysis
September 30, 2011 and 2010

Capital Assets

GWA had \$284 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2011. 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 2011, capital assets increased by \$2.6 million (net) or 1% over the prior fiscal year. The increase is consistent with GWA's implementation of a five-year (FY 10 to FY 14) capital improvement program.

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

This year's major capital additions included:

Water

Distribution Line Replacement	\$ 5,776,945
Automated Meter Reading/Meter Replacement Program	4,718,134
Electrical Protection	469,333

Wastewater

Replaced Old Agat Sewer	6,968,215
Umatac- Merizo Repairs and Upgrades	531,975

Table 5
Capital Assets, Net of Accumulated Depreciation

	<u>September 30</u> <u>2011</u>	<u>September 30</u> <u>2010</u>	<u>September 30</u> <u>2009</u>	<u>2011 to 2010 Comparison</u>	
				<u>Increase/ (Decrease)</u>	<u>% Change</u>
Plant, buildings and equipment, net	254,427,988	246,575,122	225,225,754	7,852,866	3.18%
Construction in progress	29,784,889	35,030,107	54,094,670	(5,245,218)	-14.97%
Total	<u>284,212,877</u>	<u>281,605,229</u>	<u>279,320,424</u>	<u>2,607,648</u>	<u>0.93%</u>

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

Debt

As of September 30, 2011, GWA had total long-term debt outstanding of \$234.2 million, net of unamortized costs, which is an increase of \$109.5 million or 87.78% over the prior year (see Table 6 below). The significant reason for the increase in long-term debt is the issuance of the Water and Wastewater System Revenue Bond Series 2010 of \$118,825,000 on November 9, 2010.

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

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

Management's Discussion and Analysis
September 30, 2011 and 2010

Table 6
Long Term Debt, Less Current Maturities

	<u>September 30</u> <u>2011</u>	<u>September 30</u> <u>2010</u>	<u>September 30</u> <u>2009</u>	<u>2011 to 2010 Comparison</u>	
				<u>Increase/ (Decrease)</u>	<u>% Change</u>
2005 Bond Series	\$ 93,768,643	\$ 96,158,794	\$ 98,412,694	\$ (2,390,151)	-2.49%
2010 Bond Series	116,473,393	-		116,473,393	100.00%
Bank Notes	23,915,460	26,759,633	-	(2,844,173)	-10.63%
Guam Power Authority	-	-	1,143,949	-	0.00%
United States Navy	75,676	1,817,057	4,162,028	(1,741,381)	-95.84%
Total	<u>\$ 234,233,172</u>	<u>\$ 124,735,484</u>	<u>\$ 103,718,671</u>	<u>\$ 109,497,688</u>	<u>87.78%</u>

Looking Forward

Outlook, Challenges, and Opportunities

Rising costs, an aging infrastructure and stringent regulatory requirements are the major challenges facing GWA today and into the future. It is estimated that the recent 2011 Amended Federal Court Order requires an estimated investment of between \$200M to \$300M over the next 5 to 10 years for the replacement, rehabilitation and repair of GWA's water and wastewater infrastructure.

The Court Order places GWA's capital program on an aggressive construction pace that will include, among other projects, the upgrade of the two largest wastewater treatment plants, the rehabilitation and/or replacement of a minimum of 29 storage tanks, the replacement and rehabilitation of water transmission lines, performance upgrades for all 3 of GWA's smaller southern wastewater treatment plants, and system planning analysis to improve solids handling, disinfection, source control and source delivery.

To assist with project delivery, GWA has engaged the services of a Program Management Office (PMO). Our PMO is Brown and Caldwell, a reputable international engineering and management firm. The PMO will assist GWA in managing projects, determining project scope, schedule, budget, procurement and establish critical paths. They will also provide project oversight and implementation and project quality control and assurance. Working with GWA, the PMO will provide technical resources and support to complement GWA's efforts to fast track the development and implementation of planned capital improvements.

Also in progress along with all the construction activities underway is the development and implementation of a GWA Asset Management Program. This initiative is the foundation for promoting long term asset resource sustainability and constitutes a preventive maintenance standard operating procedure to reduce reactive maintenance costs, increase system reliability, equipment life and optimize life cycle cost. The project commenced approximately a year ago and is fully funded by a U.S. EPA grant with an anticipated completion date of 2013.

To address the perennial water losses and pipeline leaks that has plagued GWA throughout its history, GWA adopted a Water Audit Program and Water Loss Control Plan. The plans were prepared in accordance with American Water Works Association water loss and audit standards and it lays out the groundwork for detecting and repairing water leaks. The plan will improve GWA's management of leaks and water losses and its ability to respond to water leaks and to mitigate losses. A leak detection contractor has been engaged to pursue leak detection, pipeline location, mapping and leak control analysis. To accelerate the effort and to mitigate further losses, GWA had engaged a separate contractor to address line repairs and replacements that emerge from the leak detection effort.

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

Management's Discussion and Analysis
September 30, 2011 and 2010

FY 2013 will be the final year of GWA's 5 Year Financial Rate Plan. The Plan, which was approved by the Guam Public Utilities Commission in 2009, calls for an 8% increase on all non-lifeline charges for water and wastewater services effective October 1, 2012. It's anticipated the increase will raise an additional \$9M of revenues and boost FY2013 projected annual revenues to approximately \$82M.

In 2012, GWA management will set about the development of the next five (5) year financial plan for FY 2014-2018. The Plan will identify overall revenue requirements, funding sources and capital needs through 2018. The capital requirements to comply with the mandate of the Federal Court Order will have a significant rate impact on the Plan. Stable rate adjustments will be the goal of management to "smooth out" rates over the course of the planning period. GWA is confident the PUC and CCU will continue to fund the requirements of the amended Federal Court order in order to provide the resources and capital necessary to preserve the physical and financial integrity of the System. GWA originally negotiated a Court Order in 2003. Since then, the CCU and PUC have demonstrated their commitment in the past by approving rate increases in the aggregate of approximately 100%.

Management's Discussion and Analysis for the year ended September 30, 2010, is set forth in GWA's report on the audit of financial statements, which is dated March 10, 2011. That Discussion and Analysis explains in more detail major factors impacting the 2010 financial statements. A copy of that report can be obtained by contacting the CFO office at the contact details below.

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 by email at: gpcruz@guamwaterworks.org or telephone at (671) 647-7838.

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

Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 1,934,542	\$ 7,865,765
Restricted	19,212,946	15,363,277
Receivables, net	9,636,730	9,388,513
Materials and supplies inventory, net of an allowance for obsolescence of \$64,677 and \$339,745 at September 30, 2011 and 2010, respectively	2,037,713	2,548,613
Prepaid expenses	251,698	-
Total current assets	<u>33,073,629</u>	<u>35,166,168</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	251,010,331	239,378,142
Wastewater system	223,236,826	215,559,217
Non-utility property	15,740,095	15,342,720
	<u>489,987,252</u>	<u>470,280,079</u>
Less accumulated depreciation	(235,623,552)	(223,769,245)
	254,363,700	246,510,834
Land	64,288	64,288
Construction work in progress	29,784,889	35,030,107
Property, plant and equipment, net	<u>284,212,877</u>	<u>281,605,229</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	117,233,610	20,455,035
Investments	17,201,280	9,634,332
Unamortized debt issuance costs	5,244,802	2,864,906
Total other noncurrent assets	<u>139,679,692</u>	<u>32,954,273</u>
	<u>\$ 456,966,198</u>	<u>\$ 349,725,670</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, 2011 and 2010

<u>LIABILITIES AND NET ASSETS</u>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current maturities of long-term debt	\$ 6,192,198	\$ 8,365,834
Accounts payable:		
United States Navy	549,977	690,021
Guam Power Authority	1,701,278	1,033,794
Trade	3,239,305	1,723,140
Accrued interest	3,015,548	1,412,136
Accrued payroll and employee benefits	385,664	315,572
Current portion of employee annual leave	446,877	459,289
Deferred revenue	-	624,389
Payable to contractors	1,420,395	1,746,833
Customer deposits	1,949,158	1,940,464
Other liabilities	505,099	712,430
Total current liabilities	<u>19,405,499</u>	<u>19,023,902</u>
Long-term debt, less current maturities:		
Revenue bonds payable	210,242,036	96,158,794
Notes payable	23,915,460	26,759,633
United States Navy	75,676	1,817,057
Employee annual leave, less current portion	879,905	758,074
DCRS sick leave liability	931,407	762,047
Advances for construction	168,946	168,676
Total liabilities	<u>255,618,929</u>	<u>145,448,183</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	189,524,913	190,678,898
Restricted	8,049,966	5,866,142
Unrestricted	3,772,390	7,732,447
Total net assets	<u>201,347,269</u>	<u>204,277,487</u>
	<u>\$ 456,966,198</u>	<u>\$ 349,725,670</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, 2011 and 2010

	2011	2010
Operating revenues:		
Water:		
Private	\$ 33,404,838	\$ 32,506,726
Government	3,621,629	3,452,893
Legislative surcharge	1,566,698	1,527,241
PUC surcharge	4,309,264	4,197,175
System development charge	845,189	405,023
	43,747,618	42,089,058
Wastewater:		
Private	16,935,638	16,248,457
Government	4,860,318	5,239,240
Legislative surcharge	102,099	109,521
PUC surcharge	280,846	301,262
System development charge	781,690	389,105
	22,960,591	22,287,585
Other	606,994	817,683
Bad debt recoveries	-	4,138
Total operating revenues	67,315,203	65,198,464
Operating and maintenance expenses:		
Power purchases	15,191,769	14,344,013
Water purchases	6,283,246	6,669,120
Waste disposal fees	305,469	294,175
	21,780,484	21,307,308
Salaries, wages and benefits	18,499,114	18,085,703
Depreciation	11,854,307	11,568,858
Administrative and general	5,885,100	4,078,237
Contractual	3,355,465	3,381,182
Retiree health care costs and other benefits	2,244,032	1,897,530
	63,618,502	60,318,818
Total operating and maintenance expenses	63,618,502	60,318,818
Operating income	3,696,701	4,879,646
Nonoperating revenues (expenses):		
Allowance for funds used during construction	1,434,692	2,716,698
Interest income	32,441	11,689
Contribution to the Government of Guam	-	(898,700)
Interest expense:		
Revenue bonds 2010	(5,575,142)	-
Revenue bonds 2005	(5,520,106)	(5,648,544)
Others	(2,270,863)	(868,412)
Others, net	483,791	8,796
	(11,415,187)	(4,678,473)
Total nonoperating revenues (expenses), net	(11,415,187)	(4,678,473)
Income (loss) before capital contributions	(7,718,486)	201,173
Capital contributions:		
Grants from U.S. Government	3,826,958	5,472,020
Other contributions	961,310	416,490
	4,788,268	5,888,510
Total capital contributions	4,788,268	5,888,510
Change in net assets	(2,930,218)	6,089,683
Net assets at beginning of year	204,277,487	198,187,804
Net assets at end of year	\$ 201,347,269	\$ 204,277,487

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, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 66,514,698	\$ 66,552,651
Cash payments to suppliers for goods and services	(28,925,573)	(33,107,761)
Cash payments to employees for services	(18,150,243)	(17,866,606)
Cash payments on settlement agreements	(4,235,728)	(4,291,070)
Cash payments for retiree healthcare costs	(2,244,032)	(2,696,811)
	12,959,122	8,590,403
Cash flows from noncapital financing activities:		
Principal repayment of bank loan	(871,048)	(205,066)
Interest paid on bank loan	(338,485)	(126,935)
Other interest paid on settlement agreements	(89,537)	(193,123)
Proceeds from bank loan	-	5,000,000
Contribution to the Government of Guam	-	(898,700)
	(1,299,070)	3,576,176
Cash flows from capital and related financing activities:		
Federal grants received	4,387,940	4,846,323
Other capital contributions received	961,310	287,989
Acquisition of property, plant and equipment	(13,353,701)	(11,444,091)
Proceeds from bond issuance	116,404,591	-
Payments of bond issuance costs	(2,571,843)	-
Principal paid on revenue bond maturities	(2,160,000)	(2,055,000)
Interest paid on revenue bonds	(9,491,836)	(5,696,357)
Proceeds from bank loan	-	25,000,000
Principal repayment of bank loan	(1,762,414)	(409,430)
Interest paid on bank loan	(1,842,841)	(548,353)
Advances for construction	270	-
Other payments	-	(247,025)
	90,571,476	9,734,056
Cash flows from investing activities:		
Net transfers (from) to restricted funds	(108,195,192)	(14,965,178)
Interest income received	32,441	12,062
	(108,162,751)	(14,953,116)
Net change in unrestricted cash and cash equivalents	(5,931,223)	6,947,519
Unrestricted cash and cash equivalents at beginning of year	7,865,765	918,246
Unrestricted cash and cash equivalents at end of year	\$ 1,934,542	\$ 7,865,765
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 1,434,692	\$ 3,431,954
Capitalized interest	(1,434,692)	(2,716,698)
Noncash capital contributions	-	(715,256)
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, 2011 and 2010

	2011		2010
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,696,701	\$	4,879,646
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	11,854,307		11,568,858
Recovery of allowance for inventory obsolescence	(275,068)		-
(Increase) decrease in assets:			
Accounts receivable	(809,199)		1,506,782
Materials and supplies inventory	785,968		(463,167)
Prepaid expenses	(251,698)		-
Increase (decrease) in liabilities:			
Accounts payable	(2,192,123)		(8,397,024)
Accrued payroll and employee benefits	70,092		(32,104)
Employee annual leave	109,419		110,167
Accrued supplemental/COLA annuities	-		(799,281)
Customer deposits	8,694		(152,595)
Other liabilities	(207,331)		228,087
DCRS sick leave liability	169,360		141,034
Net cash provided by operating activities	\$ 12,959,122	\$	8,590,403

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2011 and 2010

(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.

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.

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

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

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 the noncurrent restricted cash is for long-term capital improvements and bond related activities.

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.

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

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences, Continued

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, 2011 and 2010 are \$1,923,107 and \$2,164,408, 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, 2011 and 2010 were fully allowed for.

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, 2011 and 2010, interest of \$1,434,692 and \$2,716,698, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2011 and 2010, labor costs of \$1,456,653 and \$0, respectively, were capitalized.

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

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

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 \$3,258,220 and \$1,886,371 at September 30, 2011 and 2010, 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 fiscal year 2011, GWA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued 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 measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 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
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 that state and local governments are increasingly entering into. 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 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 Financial Accounting Standards Board (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 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. 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 provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

Reclassifications

Certain balances in the 2010 financial statements have been reclassified to correspond with the 2011 presentation.

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

Notes to Financial Statements
September 30, 2011 and 2010

(3) Property, Plant and Equipment

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	\$ -	\$ 250,010,331
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>

Capital asset activities for the year ended September 30, 2010 are as follows:

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2009</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2010</u>
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 232,612,569	\$ 8,365,641	\$ (1,600,068)	\$ 239,378,142
Utility Plant in Service - Wastewater	25-50	191,154,024	24,405,193	-	215,559,217
General Fixed Assets	05-10	<u>17,536,695</u>	<u>147,480</u>	<u>(2,341,455)</u>	<u>15,342,720</u>
		441,303,288	32,918,314	(3,941,523)	470,280,079
Accumulated Depreciation		<u>(216,141,822)</u>	<u>(11,568,858)</u>	<u>3,941,435</u>	<u>(223,769,245)</u>
		225,161,466	21,349,456	(88)	246,510,834
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>54,094,670</u>	<u>13,925,937</u>	<u>(32,990,500)</u>	<u>35,030,107</u>
		\$ <u>279,320,424</u>	\$ <u>35,275,393</u>	\$ <u>(32,990,588)</u>	\$ <u>281,605,229</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(4) Receivables

Receivables at September 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Customers:		
Private	\$ 15,343,256	\$ 14,281,635
Government	<u>8,785,797</u>	<u>9,134,273</u>
	24,129,053	23,415,908
Federal grants receivable	363,178	924,160
Guam Power Authority	75,669	57,511
Other	<u>541,832</u>	<u>463,936</u>
	<u>25,109,732</u>	<u>24,861,515</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>9,636,730</u>	\$ <u>9,388,513</u>

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

(5) Long-Term Debt

Long-term debt at September 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
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	\$ 4,159,524
Payable to the Guam Power Authority in settlement of previously unpaid balances, interest at 4.33% per annum, payable in monthly principal and interest installments of \$212,899 through 2010.	-	1,237,496
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 payable in varying annual installments commencing with a payment of \$1,865,000 in July 2008, increasing to \$6,810,000 in July 2035.	93,135,000	95,295,000

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

Notes to Financial Statements
September 30, 2011 and 2010

(5) Long-Term Debt, Continued

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.	22,828,155	24,590,570
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.	3,923,887	4,794,934
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 payable 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>-</u>
Total long-term debt	239,873,334	130,077,524
Less current maturities	<u>(6,192,198)</u>	<u>(8,365,834)</u>
	233,681,136	121,711,690
Bond discount – 2010 series bonds	(2,351,607)	-
Bond premium – 2005 series bonds	<u>2,903,643</u>	<u>3,023,794</u>
	<u>\$ 234,233,172</u>	<u>\$ 124,735,484</u>

As of September 30, 2011, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 6,192,198	\$ 13,934,041	\$ 20,126,239
2013	5,519,702	13,586,482	19,106,184
2014	5,810,108	13,221,323	19,031,431
2015	21,231,326	12,531,276	33,762,602
2016	3,875,000	11,397,070	15,272,070
2017 through 2021	22,650,000	53,714,294	76,364,294
2022 through 2026	29,795,000	46,565,769	76,360,769
2027 through 2031	39,350,000	37,008,394	76,358,394
2032 through 2036	52,070,000	24,289,194	76,359,194
2037 through 2040	<u>53,380,000</u>	<u>7,711,875</u>	<u>61,091,875</u>
	<u>\$ 239,873,334</u>	<u>\$ 233,959,718</u>	<u>\$ 473,833,052</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(5) Long-Term Debt, Continued

2005 Series Revenue Bonds, Continued

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 \$7,705,794 and \$7,703,544 for the years ended September 30, 2011 and 2010, 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, 2011.

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.

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.

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

Notes to Financial Statements
September 30, 2011 and 2010

(5) Long-Term Debt, Continued

2010 Series Revenue Bonds

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 \$3,946,042 for the year ended September 30, 2011.

Changes in Long-Term Liabilities:

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2011 and 2010:

	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	-	(120,150)	2,903,644	-
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	168,676	270	-	168,946	-
	<u>\$ 135,249,404</u>	<u>\$ 117,357,472</u>	<u>\$ (9,754,370)</u>	<u>\$ 242,852,506</u>	<u>\$ 6,639,075</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(5) Long-Term Debt, Continued

Changes in Long-Term Liabilities:, Continued

	Outstanding October 1, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2010</u>	<u>Current</u>
Long-term debt:					
2005 series A bonds	\$ 97,350,000	\$ -	\$ (2,055,000)	\$ 95,295,000	\$ 2,160,000
Notes payable	-	30,000,000	(614,496)	29,385,504	2,625,871
U.S. Navy	5,689,122	-	(1,529,598)	4,159,524	2,342,467
Guam Power Authority	3,998,968	-	(2,761,472)	1,237,496	1,237,496
Deferred amount:					
Unamortized premium on bonds issued	3,143,944	-	(120,150)	3,023,794	-
Other:					
Employee annual leave	1,107,196	847,722	(737,555)	1,217,363	459,289
DCRS sick leave liability	621,013	141,034	-	762,047	-
Advances for construction	<u>168,303</u>	<u>373</u>	<u>-</u>	<u>168,676</u>	<u>-</u>
	<u>\$ 112,078,546</u>	<u>\$ 30,989,129</u>	<u>\$ (7,818,271)</u>	<u>\$ 135,249,404</u>	<u>\$ 8,825,123</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
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2011 and 2010

(6) Employees' Retirement Plan, Continued

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2009, 2008, and 2007, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2011, 2010 and 2009, respectively, have been determined as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal costs (% of DB Plan payroll)	17.00%	18.34%	17.36%
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>7.50%</u>	<u>8.84%</u>	<u>7.86%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.73%	3.70%
Unfunded liability cost (% of total payroll)	<u>21.75%</u>	<u>22.69%</u>	<u>19.68%</u>
Government contribution as a % of total payroll	<u>24.78%</u>	<u>26.42%</u>	<u>23.38%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.46%</u>	<u>26.04%</u>	<u>25.20%</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, 2011, 2010 and 2009 were \$1,331,651, \$1,321,122 and \$1,273,880, 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, 2011 and 2010, 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, 2011, 2010 and 2009 were \$2,223,307, \$1,850,779 and \$1,566,034, respectively.

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

Notes to Financial Statements
September 30, 2011 and 2010

(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 \$931,407 and \$762,047 at September 30, 2011 and 2010, 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, 2011, 2010 and 2009, GWA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Supplemental benefits	\$ 288,988	\$ 447,195	\$ 315,136
Contribution to GovGuam	304,700	294,800	-
Medical and dental	<u>1,650,344</u>	<u>1,155,535</u>	<u>1,113,707</u>
	<u>\$ 2,244,032</u>	<u>\$ 1,897,530</u>	<u>\$ 1,428,843</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, 2011 and 2010, 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, 2011 and 2010 are \$6,283,246 and \$6,669,120, respectively.

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

Notes to Financial Statements
September 30, 2011 and 2010

(9) Commitments and Contingencies

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 \$7,426,934 at September 30, 2011 of which \$3,258,220 will be funded by federal contracts from the US 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 in January 1, 2013.

At September 30, 2011, the minimum annual management fees payable for the above PMC contracts are as follows:

Year ending September 30,	Amount
2012	\$ 1,107,417
2013	<u>278,752</u>
	\$ <u>1,386,169</u>

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

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, 2011. 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.

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

Notes to Financial Statements
September 30, 2011 and 2010

(9) Commitments and Contingencies, Continued

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, 2011, the financial impact of the order has not been determined.

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, 2011, 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, 2011 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.

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

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010, investments and cash held by trustees and by GWA in these special funds and accounts are as follows:

	2011				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	\$ -	\$ -	\$ 4,169,491	\$ -	\$ 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>
	2010				
	Held By Trustee		Held By GWA		
	Bond Indenture Funds	Bond Indenture Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Current restricted cash:					
Revenue Fund	\$ -	-	\$ 4,819,686	-	\$ 4,819,686
Capital Improvement Fund	-	-	14,434	-	14,434
Operations and Maintenance Fund	-	-	3,100,791	-	3,100,791
Noncurrent restricted cash:					
Operations, Maintenance Renewal and Replacement Revenue Fund	-	-	11,315,739	-	11,315,739
Construction Fund	-	-	9,139,296	-	9,139,296
Investments:					
Bond Reserve Fund	7,707,871	-	-	-	7,707,871
Debt Service Fund	<u>1,926,461</u>	-	-	-	<u>1,926,461</u>
	<u>\$ 9,634,332</u>	-	<u>\$ 28,389,946</u>	-	<u>\$ 38,024,278</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(10) Cash and Cash Equivalents and Investments, Continued

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

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year-end. The three categories are described below:

Category 1 Insured or registered, or collateralized with securities held by GWA or its agent in GWA's name;

Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GWA's name; or

Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GWA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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.

As of September 30, 2011 and 2010, the carrying amount of GWA's total cash and cash equivalents was \$138,381,098 and \$43,684,077, respectively, and the corresponding bank balances were \$138,985,778 and \$44,573,266, respectively. Of the bank balance amount, \$11,863,989 and \$16,349,062, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$127,121,789 and \$28,224,204, 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, 2011 and 2010, bank deposits in the amount of \$6,397,194 and \$805,065, 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, 2011 and 2010, \$5,466,795 and \$15,543,997, respectively, of cash and cash equivalents are subject to custodial credit risk.

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

Notes to Financial Statements
September 30, 2011 and 2010

(10) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

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>2011</u>	<u>2010</u>
Current restricted:		
Capital projects	\$ 163,243	\$ 172,602
Operation and maintenance	6,016	6,001
Navy surcharge	400,559	184,906
Meter reserve	91,043	38,515
Sewer Hook-up Revolving Fund	72,060	71,880
Revenue Fund	4,169,491	4,819,686
Capital Improvement Fund	58,376	14,434
Operations and Maintenance Fund	4,730,869	3,100,791
Debt Service Fund	1,204,476	1,203,307
Moratorium project	5,000,000	5,000,000
Island Water and Sewer Infrastructure Development Fund	<u>3,316,813</u>	<u>751,155</u>
	<u>19,212,946</u>	<u>15,363,277</u>
Noncurrent restricted:		
2005 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	12,439,723	11,315,739
Construction Fund	3,974,265	9,139,296
2010 Bond Indenture Funds:		
Construction Fund	86,156,144	-
Capitalized Interest Fund	<u>14,663,478</u>	<u>-</u>
	<u>117,233,610</u>	<u>20,455,035</u>
Total restricted cash and cash equivalents	\$ <u>136,446,556</u>	\$ <u>35,818,312</u>

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by GWA or its agent in GWA's name;

- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in GWA's name; or

- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GWA's name.

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

Notes to Financial Statements
September 30, 2011 and 2010

(10) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2011 and 2010, GWA's investment in debt securities had the following maturities:

<u>2011</u>			
<u>Investment Maturities (in years)</u>			
<u>Investment Type</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>

<u>2010</u>			
<u>Investment Maturities (in years)</u>			
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>9,634,332</u>	\$ <u>9,634,332</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, 2011 and 2010 is as follows:

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

<u>2010</u>			
<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>9,634,332</u>	\$ <u>9,634,332</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, 2011 and 2010.

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

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010, 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, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Grants from U.S. Government:		
Received from the U.S. Environmental Protection Agency	\$ 3,409,744	\$ 4,897,548
Passed through from the Government of Guam	<u>417,214</u>	<u>574,472</u>
	\$ <u>3,826,958</u>	\$ <u>5,472,020</u>
Other contributions:		
Received from private entities	\$ 961,310	\$ -
Received through refinancing of Government of Guam's Water Bond	<u>-</u>	<u>416,490</u>
	\$ <u>961,310</u>	\$ <u>416,490</u>

(13) Contribution to the Government of Guam (GovGuam)

During the year ended September 30, 2010, GWA recognized certain on-behalf payments \$1,193,500 as a transfer to GovGuam. Of the amount, \$898,700 was pursuant to Public Law 30-101, which mandated the reimbursement of COLA payments made by GovGuam in fiscal years 2007, 2008 and 2009 to eligible retirees. COLA payments relating to fiscal year 2011 and 2010 of \$304,700 pursuant to Public Law 30-196 and \$294,800 pursuant to Public Law 30-55, respectively, were included under operating expenses.

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

Notes to Financial Statements
September 30, 2011 and 2010

(14) Supplemental/COLA Annuities

As required by Public Law 27-106, as amended by Public Law 26-49, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2011 and 2010, GWA levied surcharges of \$1,668,797 and \$1,636,762, 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.

(15) 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. During the years ended September 30, 2011 and 2010, revenues from the 9.60% surcharge were \$4,590,110 and \$4,498,437, respectively.

In addition, proceeds from a legislative surcharge of 3.49% are earmarked to pay benefits for GWA's supplemental annuity for retirees. During the years ended September 30, 2011 and 2010, revenues from the legislative surcharge were \$1,668,797 and \$1,636,762, respectively.

(16) 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, 2011 and 2010, SDC revenues amounted to \$1,626,879 and \$794,128, respectively.

(17) 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, 2011 and 2010 were \$15,191,769 and \$14,344,013, respectively, and GWA was also charged \$358,137 and \$488,918, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,701,278 and \$1,033,794 as of September 30, 2011 and 2010, respectively. In addition, GWA has long-term debt of \$0 and \$1,237,496 due to GPA at September 30, 2011 and 2010, respectively.

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

Schedule 1
Schedule of Equalization of Net (Income) Loss
Years Ended September 30, 1992 through 2011

	2011	2010	2009	2008	2007	2006	2005	2003 2004	(As Restated)	2002
Net (income) loss	\$ 2,930,218	\$ (6,089,683)	(1,671,576)	\$ 422,752	\$ 1,933,050	\$ 8,097,395	\$ (1,530,194)	\$ 1,809,232	\$ 7,402,223	\$ 14,712,887
Less transfers from GovGuam	-	416,490	-	-	-	300,000	1,110,561	578,754	748,109	2,859,524
Less other operating revenues recognized in 1999 attributable to prior years	-	-	-	-	-	-	-	-	-	-
Equalization of net (income) loss	<u>\$ 2,930,218</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>	<u>\$ 17,572,411</u>

	2001	2000	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)	1994 (1)	1993 (1)	1992 (1)
Net (income) loss	\$ 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	\$ 4,394,359
Less transfers from GovGuam	2,800,388	-	-	-	-	18,538,800	22,743,010	16,136,274	24,959,972	27,447,270
Less other operating revenues recognized in 1999 attributable to prior years	-	-	4,282,966	-	-	-	-	-	-	-
Equalization of net (income) loss	<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>	<u>\$ 31,841,629</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, 2011 and 2010

	2011	2010
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 12,803,350	\$ 13,281,521
Pension costs and other benefits	4,773,148	4,056,809
Overtime pay	922,616	747,373
Total salaries, wages and benefits	\$ 18,499,114	\$ 18,085,703
Employees at end of year	324	327
Administrative and general:		
Materials and supplies	\$ 1,250,886	\$ 1,708,535
Chemicals	963,443	971,428
Transportation	648,742	466,867
Public Utility Commission	329,012	151,787
Training	162,010	153,947
Communications	229,391	167,799
Liability claims	253,548	-
Advertising	60,820	140,639
Insurance	1,493,282	35,812
Miscellaneous	493,966	281,423
Total administrative and general	\$ 5,885,100	\$ 4,078,237
Contractual:		
Labor, materials and others	\$ 1,124,460	\$ 1,492,623
Equipment rental	537,071	365,435
Accounting	331,325	250,441
Legal	135,289	84,840
Testing	150,066	183,248
PMC management	1,077,254	1,004,595
Total contractual	\$ 3,355,465	\$ 3,381,182
Other expense:		
Interest expense	\$ 13,366,111	\$ 6,516,956
Retiree healthcare costs and other benefits	2,244,032	1,897,530
	\$ 15,610,143	\$ 8,414,486

See accompanying independent auditors' report.

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

Schedule 3
Schedule of Cash Flows Indicating Financing Method
Year Ended September 30, 2011

Cash flows provided by operating activities	\$ 12,959,122
Cash flows used for acquisition of utility plant, net of contributed capital received	<u>(8,004,451)</u>
Cash flows if utility plant were built, net of contributed capital received	<u><u>\$ 4,954,671</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, 2011

Project Title	Type	Beginning Balance 2011	Additions and Transfers	Closed out during FY2011	Ending Balance 2011
Automated Meter Reading	Water	\$ 1,683,737	\$ 2,105,635	\$ (3,783,847)	\$ 5,525
Baza Gardens Treatment Plant Central Wastewater	Wastewater	395,857	23,125	-	418,982
Moratorium Project	Wastewater	295,303	9,948	-	305,251
Distribution Line Replacement	Water	7,777,600	485,994	(5,776,945)	2,486,649
Electrical Protection	Water	448,589	20,744	(469,333)	-
Island-Wide Real Property Survey and Mapping	Water	401,397	66,084	-	467,481
Island-Wide Well Site Rehabilitation and New Well Site Development	Water	-	435,635	-	435,635
Leak Detection	Water	-	282,914	-	282,914
Mechanical/Electrical Equipment	Water	-	360,004	-	360,004
Meter Replacement Program	Water	-	945,162	(934,287)	10,875
Northern District Wastewater Treatment Interim Primary					
Treatment Improvements Project	Wastewater	-	468,757	-	468,757
Ordot/Chalan Pago 2B	Wastewater	820,897	-	-	820,897
Replaced Old Agat Sewer	Wastewater	4,805,066	2,163,149	(6,968,215)	-
Sinajana Transmission Line	Water	7,162,913	1,897,754	-	9,060,667
Uguam Treatment Plant Rehabilitation	Water	9,460,450	737,242	-	10,197,692
Umatac-Merizo Repairs and Upgrades	Wastewater	371,432	184,892	(531,975)	24,349
Video Surveillance and Alarm System	Water	202,555	49,139	(251,694)	-
Wastewater System Upgrades	Wastewater	408,685	1,984,994	-	2,393,679
Water Reservoir Condition Assessment Project	Water	222,176	483,629	-	705,805
All Others	Water/Wastewater	573,450	1,757,154	(990,877)	1,339,727
		<u>\$ 35,030,107</u>	<u>\$ 14,461,955</u>	<u>\$ (19,707,173)</u>	<u>\$ 29,784,889</u>

See accompanying independent auditors' report.

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

Schedule 5
Schedule of Employee and Other Data
Year Ended September 30, 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	<u>324</u>	<u>\$ 18,499,114</u>	<u>\$ 3,355,465</u>	<u>\$ 1,250,886</u>	<u>\$ 23,105,465</u>

See accompanying independent auditors' report.

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

Schedule 6
System Development Charge Fund
Schedule of Net Assets, Revenue, Expenses and Changes in Net Assets
September 30, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Restricted cash	\$ 3,316,813	\$ 751,155
Receivables	72,509	45,874
	\$ 3,389,322	\$ 797,029

LIABILITIES AND NET ASSETS

Current liabilities:		
Due to GWA	\$ 965,262	\$ 3,661
Net assets:		
Restricted	2,424,060	793,368
	\$ 3,389,322	\$ 797,029

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Revenues:		
System development charge	\$ 1,626,879	\$ 794,128
Other revenues	9,330	745
	1,636,209	794,873
Expenses:		
Miscellaneous	5,517	1,505
Change in net assets	1,630,692	793,368
Net assets at beginning of year	793,368	-
Net assets at end of year	\$ 2,424,060	\$ 793,368

See accompanying independent auditors' report.

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

Schedule 7
Schedule of Operating Revenues
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Water	\$ 37,026,467	\$ 35,959,619
Wastewater	21,795,956	21,487,697
Surcharges:		
PUC	4,590,110	4,498,437
Legislative	1,668,797	1,636,762
System development charge	1,626,879	794,128
Other	606,994	817,683
Bad debts recoveries	<u>-</u>	<u>4,138</u>
Total operating revenues	<u>\$ 67,315,203</u>	<u>\$ 65,198,464</u>

See accompanying independent auditors' report.