

**GUAM WATERWORKS AUTHORITY**

---

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

---

**YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

## INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of the Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2008 and 2007, 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.

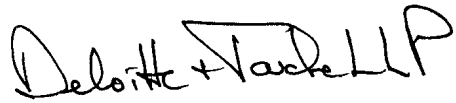
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 the Guam Waterworks Authority as of September 30, 2008 and 2007, 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.

The Management's Discussion and Analysis on pages 1-6 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 schedules on pages 30-34 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 31-34 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 30 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2009, on our consideration of the 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.

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

April 23, 2009

# **GUAM WATERWORKS AUTHORITY**

## **Management's Discussion and Analysis September 30, 2008 and 2007**

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, 2008. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 2.

### **Overview of the Financial Statements**

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

### **Proprietary Fund Financial Statements**

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

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 12 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Certain selected supplementary and statistical information can be found beginning on page 30 of this report.

### **Financial Highlights**

- Total assets of GWA exceeded total liabilities at the close of the fiscal year by \$189.4 million (net assets).
- The reduction in net assets was \$.66 million less than (or a 34% change) the net change in fiscal year 2007.
- Total net assets of GWA decreased by \$1.3 million during fiscal year 2008.
- Operating revenues increased by \$5.5 million as compared to fiscal year 2007.
- Net capital assets at September 30, 2008 increased by \$13.3 million as compared to the net balance at September 30, 2007.
- Operating and maintenance expenses increased by \$6.7 million as compared to fiscal year 2007.
- GWA experienced an operating loss of \$3.2 million for the fiscal year ended September 30, 2008 as compared to prior year's operating loss of \$2.0 million, a 61% change.

# GUAM WATERWORKS AUTHORITY

## Management's Discussion and Analysis September 30, 2008 and 2007

### Financial Condition

The Authority's total net assets decreased by \$1.3 million during the fiscal year (see Table 1 below) due to interest expense, inventory write-down, and operating and maintenance expenses.

The decrease in long-term liabilities of \$4.5 million (see Table 1 below) is due to payment of debt service and surcharges.

The Authority's investment in capital assets net, of related debt, represents 109% of total net assets. The amount invested in capital assets, net of debt, decreased by \$4.5 million. The decrease was the result of capital acquisitions, net of depreciation and disposals, and 2005 revenue bonds used in fiscal 2008 to acquire capital assets.

**Table 1**  
**Summary Statement of Net Assets**

	September 30, 2008	September 30, 2007	September 30, 2006	<u>2008 to 2007 Comparison</u>	
				<u>Increase/ (Decrease)</u>	<u>% Change</u>
Current assets	\$ 15,892,616	\$ 17,483,822	\$ 15,466,932	\$ (1,591,206)	(9.10)%
Property, plant and equipment, net	267,744,474	254,399,284	239,602,789	13,345,190	5.25%
Other non-current assets	<u>43,331,071</u>	<u>61,688,758</u>	<u>80,782,409</u>	<u>(18,357,687)</u>	<u>(29.76)%</u>
Total assets	<u>326,968,161</u>	<u>333,571,864</u>	<u>335,852,130</u>	<u>(6,603,703)</u>	<u>(1.98)%</u>
Current liabilities	20,314,496	21,165,672	17,019,403	(851,176)	(4.02)%
Long-term liabilities	<u>117,213,825</u>	<u>121,693,600</u>	<u>126,187,085</u>	<u>(4,479,775)</u>	<u>(3.68)%</u>
Total liabilities	<u>137,528,321</u>	<u>142,859,272</u>	<u>143,206,488</u>	<u>(5,330,951)</u>	<u>(3.73)%</u>
Net assets:					
Invested in capital assets, net of related debt	205,990,597	210,517,277	216,460,775	(4,526,680)	(2.15)%
Restricted	576,243	975,798	3,034,766	(399,555)	(40.95)%
Unrestricted	<u>(17,127,000)</u>	<u>(20,780,483)</u>	<u>(26,849,899)</u>	<u>3,653,483</u>	<u>17.58%</u>
Total net assets	<u>189,439,840</u>	<u>190,712,592</u>	<u>192,645,642</u>	<u>(1,272,752)</u>	<u>(0.67)%</u>
Total liabilities and net assets	\$ <u>326,968,161</u>	\$ <u>333,571,864</u>	\$ <u>335,852,130</u>	\$ <u>(6,603,703)</u>	<u>(1.98)%</u>

Total operating revenues of \$50.8 million increased by \$5.5 million for the current year and operating expenses of \$53.9 million increased by \$6.0 million, resulting in increase in net operating loss of \$446K when compared to the prior year (see Table 2).

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

- Water and wastewater revenues increased by \$5.1 million over the prior fiscal year (see Table 3 below) due to increases in consumption (3.72%) and the number of residential customers (2.8%). The basic water and sewer charges are assessed monthly on residential customers without regard to consumption.
- Operating expenses increased by \$6.0 million. The increase in operating expenses resulted from an increase in electricity of \$2.7 million, water of \$1.6 million, personnel costs of \$2.0 million, and decrease in other expense of \$.3 million.

# GUAM WATERWORKS AUTHORITY

## Management's Discussion and Analysis September 30, 2008 and 2007

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

	September 30, <u>2008</u>	September 30, <u>2007</u>	September 30, <u>2006</u>	<u>2008 to 2007 Comparison</u>	
				<u>Increase/ (Decrease)</u>	<u>% Change</u>
Revenues:					
Water	\$ 33,634,835	\$ 30,170,727	\$ 28,502,723	\$ 3,464,108	11.48%
Wastewater	17,015,790	15,336,312	14,631,593	1,679,478	10.95%
Other operating revenue	990,752	653,098	474,872	337,654	51.70%
Bad debt	<u>(803,609)</u>	<u>(832,515)</u>	<u>(3,188,253)</u>	<u>28,906</u>	<u>3.47%</u>
Total operating revenue	<u>50,837,768</u>	<u>45,327,622</u>	<u>40,420,935</u>	<u>5,510,146</u>	<u>12.16%</u>
Expenses:					
Power purchases	14,631,816	11,914,539	10,521,173	2,717,277	22.81%
Water purchases	4,413,377	2,820,954	5,017,247	1,592,423	56.45%
Salaries, wages and benefits	16,136,063	14,174,003	14,045,039	1,962,060	13.84%
Depreciation	10,677,756	9,748,542	9,375,635	929,214	9.53%
Administrative and general	4,184,736	5,162,451	4,697,858	(977,715)	(18.94)%
Contractual	<u>3,874,734</u>	<u>4,141,397</u>	<u>3,956,433</u>	<u>(266,663)</u>	<u>(6.44)%</u>
Total operating expenses	<u>53,918,482</u>	<u>47,961,886</u>	<u>47,613,385</u>	<u>5,956,596</u>	<u>12.42%</u>
Net operating loss	(3,080,714)	(2,634,264)	(7,192,450)	(446,450)	16.95%
Non-operating revenue	4,662,746	5,310,433	3,532,692	(647,687)	(12.20)%
Less: interest expense	<u>(6,213,246)</u>	<u>(6,266,080)</u>	<u>(5,577,844)</u>	<u>52,834</u>	<u>0.84%</u>
Total non-operating expense	<u>(1,550,500)</u>	<u>(955,647)</u>	<u>(2,054,152)</u>	<u>(594,853)</u>	<u>62.24%</u>
Loss before capital contributions	(4,631,214)	(3,589,911)	(9,246,602)	(1,041,303)	(29.01)%
Capital contributions	<u>3,358,462</u>	<u>1,656,861</u>	<u>1,149,207</u>	<u>1,701,601</u>	<u>102.70%</u>
Change in net assets	(1,272,752)	(1,933,050)	(8,097,395)	660,298	34.16%
Net assets - beginning year	<u>190,712,592</u>	<u>192,645,642</u>	<u>200,743,037</u>	<u>(1,933,050)</u>	<u>(1.00)%</u>
Net assets - end of year	\$ <u>189,439,840</u>	\$ <u>190,712,592</u>	\$ <u>192,645,642</u>	\$ <u>(1,272,752)</u>	<u>(0.67)%</u>

**Table 3**  
**Annual Water Sales**

<u>Class Type</u>	<u>Consumption (in gallons)</u>			<u>2008 to 2007 Comparison</u>	
	<u>FY08</u>	<u>FY07</u>	<u>FY06</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Agricultural	88,298,615	145,494,530	135,037,036	(57,195,915)	(39.31)%
Golf Course	40,847,415	5,402,988	13,154,159	35,444,427	656.02%
Comm 1	887,714,701	803,352,321	847,822,236	84,362,380	10.50%
Comm 2	141,416,157	137,703,436	135,919,138	3,712,721	2.70%
Comm 3	137,264,829	152,347,968	180,014,095	(15,083,139)	(9.90)%
Federal	1,566,960	1,812,835	940,391	(245,875)	(13.56)%
Government	628,634,237	512,157,762	563,437,506	116,476,475	22.74%
Hotel	1,109,885,610	1,044,423,148	1,013,682,600	65,462,462	6.27%
Irrigation	31,351,242	44,185,455	64,669,996	(12,834,213)	(29.05)%
Residential	<u>4,164,947,646</u>	<u>4,125,638,707</u>	<u>3,987,420,390</u>	<u>39,308,939</u>	<u>0.95%</u>
TOTAL	<u>7,231,927,412</u>	<u>6,972,519,150</u>	<u>6,942,097,547</u>	<u>259,408,262</u>	<u>3.72%</u>

# GUAM WATERWORKS AUTHORITY

## Management's Discussion and Analysis September 30, 2008 and 2007

**Table 3**  
**Annual Wastewater Sales**

<u>Class Type</u>	<u>Consumption (in gallons)</u>			<u>2008 to 2007 Comparison</u>	
	<u>FY08</u>	<u>FY07</u>	<u>FY06</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Comm 1	567,057,156	485,604,500	473,213,677	81,452,656	16.77%
Comm 2	115,084,369	107,709,962	105,033,508	7,374,407	6.85%
Comm 3	108,820,482	119,756,129	116,492,489	(10,935,647)	(9.13)%
Federal	1,227,168	448,487,502	570,960,072	(447,260,334)	(99.73)%
Government	336,707,520	345,772,026	343,915,042	(9,064,506)	(2.62)%
Hotel	604,089,902	666,743,562	656,465,126	(62,653,660)	(9.40)%
Residential	<u>2,383,464,084</u>	<u>2,301,717,080</u>	<u>2,282,100,885</u>	<u>81,747,004</u>	<u>3.55%</u>
TOTAL	<u>4,116,450,681</u>	<u>4,475,790,761</u>	<u>4,548,180,799</u>	<u>(359,340,080)</u>	<u>(8.03)%</u>

### Capital Assets, Net of Accumulated Depreciation

The Authority had \$268 million (net of accumulated depreciation) invested in water utility capital assets as of September 30, 2008. The investment in capital assets includes building, improvements, water treatment plants, filter plants, water transmission and distribution mains, water storage facilities, reservoirs, pump stations, machinery, equipment and land. This amount represents an increase of \$13.3 million over the prior fiscal year. See note 2 to the accompanying financial statements for additional information concerning capital assets.

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	September 30, <u>2008</u>	September 30, <u>2007</u>	September 30, <u>2006</u>	<u>2008 to 2007 Comparison</u>	
				<u>Increase/ (Decrease)</u>	<u>% Change</u>
Plant, buildings and equipment, net	\$ 228,257,361	\$ 231,668,972	\$ 212,887,711	\$ (3,411,611)	(1.47)%
Construction in progress	<u>39,487,113</u>	<u>22,730,312</u>	<u>26,715,078</u>	<u>16,756,801</u>	<u>73.72%</u>
Total	\$ <u>267,744,474</u>	\$ <u>254,399,284</u>	\$ <u>239,602,789</u>	\$ <u>13,345,190</u>	<u>5.25%</u>

**Table 5**  
**Long Term Debt, Less Current Maturities**

	September 30, <u>2008</u>	September 30, <u>2007</u>	September 30, <u>2006</u>	<u>2008 to 2007 Comparison</u>	
				<u>Increase/ (Decrease)</u>	<u>% Change</u>
Long-term debt	\$ 100,100,345	\$ 102,204,246	\$ 104,679,397	\$ (2,103,901)	(2.06)%
Guam Power Authority	2,834,193	5,230,111	7,587,764	(2,395,918)	(45.81)%
United States Navy	<u>5,649,098</u>	<u>6,641,023</u>	<u>7,102,685</u>	<u>(991,925)</u>	<u>(14.94)%</u>
Total	\$ <u>108,583,636</u>	\$ <u>114,075,380</u>	\$ <u>119,369,846</u>	\$ <u>5,491,744</u>	<u>(4.81)%</u>

As of September 30, 2008 the Authority had total long-term debt outstanding of \$108.6 million, net of unamortized costs, which is a decrease of \$5.5 million over the prior year. See note 4 to the accompanying financial statements for additional information on long-term debt.

# **GUAM WATERWORKS AUTHORITY**

## **Management's Discussion and Analysis September 30, 2008 and 2007**

The Authority is required by bond covenants to maintain principal, interest, and reserve funds for the bond issue outstanding. In addition, the Authority is required to set rates and charges to yield revenues equal to at least 125% of the current annual debt service requirements of the outstanding 2005 revenue bonds. The payments applied to the Guam Power Authority and United States Navy is derived from assessed surcharges from current customers.

### **Looking Forward**

#### Outlook, Challenges, and Opportunities

In today's economic recession, people will be cutting back on buying things at the mall, taking expensive trips or going out for dinner, but they probably won't cut back much on their use of water or aren't likely to run the tap any less while they're brushing their teeth. People who buy bottled water because of safety issue may now decide not to buy as much bottled water and instead put a filter on their tap. GWA is going to get hit hard by the economic downturn in many of the same way other companies will be hit, however, we strongly believe the water industry is counter-recessionary.

GWA's marginal performance in FY2008 was largely attributable to the beating it experienced from increases in its power and water costs. Roughly 1/3 of GWA's operating costs are energy and water purchases related and in those two categories alone, GWA experienced increases of 23% and 59%, respectively, from the prior year. While at the onset GWA and the CCU never anticipated the higher energy and water costs, its impact on GWA's operating result and debt service coverage was enough for the Public Utilities Commission (PUC) to adjudge a 6.6% interim rate increase in February 2009.

GWA continues to move forward and in March 2009 petitioned the PUC to approve its five (5) year financial plan. The Plan requests a combined rate increase of over thirty-three percent (33%) over a period of five (5) years that includes among others, future borrowing of approximately \$300 million for system related upgrades and efficiencies, investing in a SCADA system, power monitoring systems, automation system upgrades and employing new technology in the conduct of fieldwork. In addition, GWA recently negotiated a leak detection contract with which potentially can translate into millions in water loss cost savings and it is not inconceivable GWA will be turning to more public-private partnerships to gain additional and much-needed operating efficiencies.

The recently passed federal stimulus bill will translate into estimated grants to GWA of \$5 million. The projects are currently being finalized with EPA and will be earmarked towards CWA and SDWA related projects.

GWA has developed its own estimates on the potential costs to address the impending growth associated with the buildup from the DOD relocation from Japan. Engineering estimates have come in at around \$200 million to build 16 new wells, along with water storage, transmission and distribution lines along with associated water storage and wastewater collection line. The majority of this increase will also take place in the northern half of Guam and GWA is working very closely with DOD in addressing the funding required to accommodate the build-up.

Looking beyond 2009, GWA will be facing tough, but not insurmountable, challenges. Unfortunately we are not immune to the economic pressures and every day are challenged with managing our limited resources in light of rising prices. Costs will inevitably continue to rise and operational efficiencies will undoubtedly dictate the future impact of rising costs on GWA's financial resources.



# **GUAM WATERWORKS AUTHORITY**

## **Management's Discussion and Analysis September 30, 2008 and 2007**

The key to efficiently managing our financial resources is to employ creative water and wastewater management methods to meet growing demands and ensuring that water quality meets regulatory requirements.

### **Request for Information**

This financial report is to provide interested parties with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may submit a request in writing to: Chief Financial Officer, Guam Waterworks Authority, 578 N. Marine Corp Drive, Tamuning, GU 96913, or telephone (671) 647-2583.

Management's Discussion and Analysis for the years ended September 30, 2007 and 2006, is set forth in GWA's report on the audit of the financial statements, which is dated April 29, 2008, and that Discussion and Analysis explains the major factors impacting the 2007 and 2006 financial statements and can be viewed at the Office of the Public Auditor's website at [www.guamopa.com](http://www.guamopa.com).

**GUAM WATERWORKS AUTHORITY**

Statements of Net Assets  
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash:		
Unrestricted	\$ 5,064,363	\$ 6,286,905
Restricted	576,243	975,798
Accounts receivable, net	7,835,564	8,013,418
Materials and supplies inventory, net of allowance for obsolescence of \$339,745 at September 30, 2008 and 2007	2,416,446	2,207,701
Total current assets	15,892,616	17,483,822
Property, plant and equipment:		
Land	64,288	-
Utility plant in service:		
Water system	226,342,207	232,312,800
Wastewater system	190,645,544	178,658,425
Non-utility property	16,697,191	15,511,860
Construction work in progress	39,487,113	22,730,312
	473,236,343	449,213,397
Less accumulated depreciation	(205,491,869)	(194,814,113)
Property, plant and equipment, net	267,744,474	254,399,284
Other noncurrent assets:		
Restricted cash	30,896,722	49,132,976
Investments	9,600,888	9,618,008
Other assets	2,833,461	2,937,774
Total other non current assets	43,331,071	61,688,758
	\$ 326,968,161	\$ 333,571,864

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Net Assets, Continued  
September 30, 2008 and 2007

<u>LIABILITIES AND NET ASSETS</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Current maturities of long-term debt	\$ 5,838,845	\$ 5,092,182
Accounts payable:		
United States Navy	457,867	238,020
Guam Power Authority	2,215,931	3,256,848
Trade	3,675,502	3,515,500
Accrued payroll and employee benefits	571,701	593,965
Current portion of employee annual leave	409,193	333,437
Accrued supplemental/COLA annuities	804,358	1,696,208
Deferred revenue	1,214,976	1,214,976
Payable to contractors	2,921,496	2,758,597
Customer deposits	1,802,715	1,973,100
Other liabilities	401,912	492,839
Total current liabilities	<u>20,314,496</u>	<u>21,165,672</u>
Long-term debt, less current maturities:		
Long-term debt	100,100,345	102,204,246
Guam Power Authority	2,834,193	5,230,111
United States Navy	5,649,098	6,641,023
Employee annual leave, less current portion	743,047	689,382
Retirement fund deferred contributions	7,076,388	6,226,388
DCRS sick leave liability	642,987	535,641
Advances for construction	167,767	166,809
Total liabilities	<u>137,528,321</u>	<u>142,859,272</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	205,990,597	210,517,277
Restricted	576,243	975,798
Unrestricted	<u>(17,127,000)</u>	<u>(20,780,483)</u>
Total net assets	<u>189,439,840</u>	<u>190,712,592</u>
	<u>\$ 326,968,161</u>	<u>\$ 333,571,864</u>

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Water:		
Private	\$ 30,631,429	\$ 27,391,045
Government	3,003,406	2,779,682
	33,634,835	30,170,727
Wastewater:		
Private	13,543,187	12,548,076
Government	3,472,603	2,788,236
	17,015,790	15,336,312
Other	990,752	653,098
Bad debts, net of recoveries	(803,609)	(832,515)
Total operating revenues	50,837,768	45,327,622
Operating and maintenance expenses:		
Power purchases	14,631,816	11,914,539
Water purchases	4,413,377	2,820,954
	19,045,193	14,735,493
Salaries, wages and benefits	16,136,063	14,174,003
Depreciation	10,677,756	9,748,542
Administrative and general	4,184,736	5,162,451
Contractual	3,874,734	4,141,397
Total operating and maintenance expenses	53,918,482	47,961,886
Operating loss	(3,080,714)	(2,634,264)
Nonoperating revenues (expenses):		
Allowance for funds used during construction	2,120,806	2,136,807
Interest income	1,763,570	3,225,083
Interest expense	(6,213,246)	(6,266,080)
COLA/supplemental annuities, net	(112,405)	646,442
Other expense	-	(68,262)
Other income	890,775	-
Loss on asset disposal	-	(15,476)
Loss on inventory write-down	-	(614,161)
Total nonoperating revenues (expenses), net	(1,550,500)	(955,647)
Loss before capital contributions	(4,631,214)	(3,589,911)
Capital contributions:		
Grants from U.S. Government	2,398,111	1,656,861
Other contributions	960,351	-
Total capital contributions	3,358,462	1,656,861
Change in net assets	(1,272,752)	(1,933,050)
Net assets at beginning of year	190,712,592	192,645,642
Net assets at end of year	\$ 189,439,840	\$ 190,712,592

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2008 and 2007

	2008	2007
<u>Increase (decrease) in cash</u>		
Cash flows from operating activities:		
Cash received from customers	\$ 53,232,914	\$ 46,722,651
Cash payments to suppliers for goods and services	(28,065,401)	(24,492,806)
Cash payments to employees for services	(15,071,561)	(13,335,714)
Cash payments to retirees	(2,509,205)	(823,250)
Net cash provided by operating activities	7,586,747	8,070,881
Cash flows from noncapital financing activities:		
Principal repayment of long-term debt	(2,759,930)	(2,713,840)
Interest paid on long-term debt	(373,453)	(426,287)
Net cash used in noncapital financing activities	(3,133,383)	(3,140,127)
Cash flows from capital and related financing activities:		
Contributed capital received	3,358,462	1,656,861
Acquisition of utility plant	(21,739,246)	(21,128,630)
Proceeds from disposal of utility plant	-	108,417
Principal repayment of capital debt	(1,865,000)	-
Interest paid on capital debt	(5,847,581)	(5,923,906)
Net cash used in capital and related financing activities	(26,093,365)	(25,287,258)
Cash flows from investing activities:		
Transfers from restricted funds	18,652,930	21,048,319
Interest income received	1,764,529	3,226,457
Net cash provided by investing activities	20,417,459	24,274,776
Net change in unrestricted cash	(1,222,542)	3,918,272
Unrestricted cash at beginning of year	6,286,905	2,368,633
Unrestricted cash at end of year	\$ 5,064,363	\$ 6,286,905
Supplemental information on noncash activities:		
Construction work-in progress	\$ 103,756	\$ 1,403,493
Payable to contractors	(103,756)	(1,403,493)
	\$ -	\$ -

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Cash Flows, Continued  
Years Ended September 30, 2008 and 2007

	2008	2007
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,080,714)	\$ (2,634,264)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	10,677,756	9,748,542
Bad debts	803,609	832,515
Unfunded pension costs	850,000	749,533
(Payments) receipts for COLA/supplemental annuities	(112,405)	646,442
(Increase) decrease in assets:		
Accounts receivable	256,971	(1,139,959)
Materials and supplies inventory	(208,745)	(527,333)
Other assets	-	63,030
Increase (decrease) in liabilities:		
Accounts payable	(661,068)	(265,776)
Accrued payroll and employee benefits	(22,264)	53,708
Employee annual leave	129,421	(45,488)
Accrued supplemental/COLA annuities	(891,850)	65,413
Deferred revenue	-	(74,074)
Customer deposits	(170,385)	167,368
Other liabilities	(90,925)	350,688
DCRS sick leave liability	107,346	80,536
Net cash provided by operating activities	\$ 7,586,747	\$ 8,070,881

See accompanying notes to financial statements.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (1) Organization Summary of Significant Accounting Policies

### Organization

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

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

### Basis of Accounting

GWA is accounted for on a “flow of economic resources management focus,” using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

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

### Trade Accounts Receivable

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 Inventories

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

### Other Assets

Other assets consist of the bond issuance costs associated with the bond payable. Bond issuance costs are amortized throughout the life of the bond using the straight-line method.

### Property, Plant and Equipment

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

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.



# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

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

### Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$22 per month for residential accounts and 80% of current water consumption for commercial and government accounts. At end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2008 and 2007 are \$1,569,692 and \$1,552,242, respectively.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, however, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. GWA is currently pursuing the matter of billing such service with the PUC. Fire hydrant revenue was \$259,020 for the years ended September 30, 2008 and 2007. Fire hydrant receivables were \$6,546,311 and \$6,287,291 as of September 30, 2008 and 2007, respectively.

### Cash

For purposes of the statements of net assets and the statements of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less. Cash does not include current and noncurrent restricted cash.

### Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2008 and 2007, interest of \$2,120,806 and \$2,136,807 was capitalized.

### Operating and Non-Operating Revenue and Expenses

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

### 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 amounted to approximately \$3,293,488 and \$4,358,231 at September 30, 2008 and 2007, respectively.

### Reclassifications

Certain balances in the 2007 financial statements have been reclassified to correspond with the 2008 presentation.

## GUAM WATERWORKS AUTHORITY

### Notes to Financial Statements September 30, 2008 and 2007

#### (2) Property, Plant and Equipment

	Beginning Balance October 1, <u>2007</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2008</u>
<u>Depreciable:</u>				
Utility Plant in Service – Water	\$ 232,312,800	\$ 5,149,066	\$ (11,119,659)	\$ 226,342,207
Utility Plant in Service - Wastewater	178,658,425	876,214	11,110,905	190,645,544
General Fixed Assets	<u>15,511,860</u>	<u>1,202,423</u>	<u>(17,092)</u>	<u>16,697,191</u>
	426,483,085	7,227,703	(25,846)	433,684,942
Accumulated Depreciation	<u>(194,814,113)</u>	<u>(10,677,756)</u>	<u>-</u>	<u>(205,491,869)</u>
	231,668,972	(3,450,053)	(25,846)	228,193,073
<u>Non-depreciable:</u>				
Land	-	64,288	-	64,288
Construction Work in Progress	<u>22,730,312</u>	<u>24,048,792</u>	<u>(7,291,991)</u>	<u>39,487,113</u>
	<u>\$ 254,399,284</u>	<u>\$ 20,663,027</u>	<u>\$ (7,317,837)</u>	<u>\$ 267,744,474</u>
	Beginning Balance October 1, <u>2006</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2007</u>
<u>Depreciable:</u>				
Utility Plant in Service – Water	\$ 206,765,134	\$ 27,635,306	\$ (2,087,640)	\$ 232,312,800
Utility Plant in Service - Wastewater	178,016,326	642,099	-	178,658,425
General Fixed Assets	<u>15,135,570</u>	<u>376,290</u>	<u>-</u>	<u>15,511,860</u>
	399,917,030	28,653,695	(2,087,640)	426,483,085
Accumulated Depreciation	<u>(187,029,319)</u>	<u>(9,748,542)</u>	<u>1,963,748</u>	<u>(194,814,113)</u>
	212,887,711	18,905,153	(123,892)	231,668,972
<u>Non-depreciable:</u>				
Construction Work in Progress	<u>26,715,078</u>	<u>24,932,713</u>	<u>(28,917,479)</u>	<u>22,730,312</u>
	<u>\$ 239,602,789</u>	<u>\$ 43,837,866</u>	<u>\$ (29,041,371)</u>	<u>\$ 254,399,284</u>

#### (3) Accounts Receivable

Accounts receivable at September 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
<u>Customers:</u>		
Private	\$ 13,916,361	\$ 13,859,980
Government	<u>9,669,551</u>	<u>9,432,438</u>
	23,585,912	23,292,418
Federal grants receivable	832,863	556,136
GPA	<u>212,918</u>	<u>45,190</u>
	<u>24,631,693</u>	<u>23,893,744</u>

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (3) Accounts Receivable, Continued

	<u>2008</u>	<u>2007</u>
Less allowance for doubtful receivables:		
Private	(9,082,492)	(8,585,446)
Government	<u>(7,713,637)</u>	<u>(7,294,880)</u>
	<u>(16,796,129)</u>	<u>(15,880,326)</u>
	\$ <u>7,835,564</u>	\$ <u>8,013,418</u>
Allowance breakdown:		
Beginning balance	\$ (15,880,326)	\$ (15,020,742)
Less:		
Bad debt expense	<u>(915,803)</u>	<u>(859,584)</u>
Ending balance	\$ <u>(16,796,129)</u>	\$ <u>(15,880,326)</u>

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

### (4) Long-Term Debt

Long-term debt at September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Note payable to the U.S. Navy, interest at 1.25%, due in monthly installments of principal and interest of \$45,833 through March 2009, \$132,545 through March 2011, and \$264,853 through June 2012, collateralized by real property (see note 14).	\$ 6,639,101	\$ 7,103,582
Payable to the Guam Power Authority in settlement of previously unpaid balances, interest at 4.33%, payable in monthly principal and interest installments of \$212,899 through 2010.	5,209,285	7,504,734
Bonds:		
2005 Series, initial face value of \$101,175,000, interest at varying rates from 5.000% to 5.875% 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.	<u>99,310,000</u>	<u>101,175,000</u>
Total long-term debt	111,158,386	115,783,316
Less current maturities	<u>(5,838,845)</u>	<u>(5,092,182)</u>
	105,319,541	110,691,134
Bond premium	<u>3,264,095</u>	<u>3,384,246</u>
	\$ <u>108,583,636</u>	\$ <u>114,075,380</u>

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (4) Long-Term Debt, Continued

As of September 30, 2008, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2009	\$ 5,838,845	\$ 5,982,005	\$ 11,820,850
2010	6,442,790	5,722,860	12,165,650
2011	4,529,966	5,560,715	10,090,681
2012	4,076,785	5,417,200	9,493,985
2013	2,410,000	5,294,544	7,704,544
2014 through 2018	12,437,500	24,469,245	36,906,745
2019 through 2023	15,498,750	20,275,775	35,774,525
2024 through 2028	20,712,500	15,320,727	36,033,227
2029 through 2033	27,578,750	8,462,644	36,041,394
2034 through 2035	<u>11,632,500</u>	<u>983,475</u>	<u>12,615,975</u>
	<u>\$ 111,158,386</u>	<u>\$ 97,489,190</u>	<u>\$ 208,647,576</u>

GWA fully paid a debt to Municipal Services Group, Inc. (MSG) with proceeds from the above 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 of GWA have been pledged to repay the 2005 series bond principal and interest.

Total bond proceeds 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 expense 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, 2008.

## GUAM WATERWORKS AUTHORITY

### Notes to Financial Statements September 30, 2008 and 2007

#### (4) Long-Term Debt, Continued

The following summarizes movements in GWA's non-current liabilities for the years ended September 30, 2008 and 2007:

	Outstanding September 30, <u>2007</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2008</u>	<u>Current</u>
Long-term debt	\$ 101,175,000	\$ -	\$ 1,865,000	\$ 99,310,000	\$ 2,473,750
Premium on bonds	3,384,246	-	120,151	3,264,095	-
Guam Power Authority	7,504,734	-	2,295,449	5,209,285	2,375,092
U.S. Navy	7,103,582	-	464,481	6,639,101	990,003
Employee annual leave	1,022,819	763,955	634,534	1,152,240	409,193
Retirement fund deferred contributions	6,226,388	850,000	-	7,076,388	-
DCRS sick leave liability	535,641	107,346	-	642,987	-
Other liabilities	<u>166,809</u>	<u>958</u>	<u>-</u>	<u>167,767</u>	<u>-</u>
	<u>\$ 127,119,219</u>	<u>\$ 1,722,259</u>	<u>\$ 5,379,615</u>	<u>\$ 123,461,863</u>	<u>\$ 6,248,038</u>

	Outstanding September 30, <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2007</u>	<u>Current</u>
Long-term debt	\$ 101,175,000	\$ -	\$ -	\$ 101,175,000	\$ 2,355,000
Premium on bonds	3,504,397	-	120,151	3,384,246	-
Guam Power Authority	9,762,654	-	2,257,920	7,504,734	2,274,623
U.S. Navy	7,559,502	-	455,920	7,103,582	462,559
Employee annual leave	1,068,307	-	45,488	1,022,819	333,437
Retirement fund deferred contributions	5,476,855	749,533	-	6,226,388	-
DCRS sick leave liability	455,105	80,536	-	535,641	-
Other liabilities	<u>165,435</u>	<u>1,374</u>	<u>-</u>	<u>166,809</u>	<u>-</u>
	<u>\$ 129,167,255</u>	<u>\$ 831,443</u>	<u>\$ 2,879,479</u>	<u>\$ 127,119,219</u>	<u>\$ 5,425,619</u>

#### (5) Employees' Retirement Plan

##### Defined Benefit Plan

##### Plan Description:

The GovGuam Defined Benefit (DB) Plan is a single-employer defined benefit contributory pension plan administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of qualifying payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries 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. All new employees whose employment commences on or after October 1, 1995, are required to participate in the new Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service. 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](http://www.ggrf.com).

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (5) Employees' Retirement Plan, Continued

#### Defined Benefit Plan, Continued

##### Funding Policy:

As a result of actuarial valuations performed as of September 30, 2006, 2005, and 2004, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.94%	18.21%	17.83%
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>8.44%</u>	<u>8.71%</u>	<u>8.33%</u>
Employer portion of normal costs (% of total payroll)	3.99%	4.26%	4.64%
Unfunded liability cost (% of total payroll)	<u>20.75%</u>	<u>20.66%</u>	<u>21.36%</u>
Government contribution as a % of total payroll	<u>24.74%</u>	<u>24.92%</u>	<u>26.00%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GWA's required and actual contributions for the years ended September 30, 2008, 2007 and 2006 (including DCRS plan contributions) were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Required contributions	\$ <u>3,154,907</u>	\$ <u>2,869,925</u>	\$ <u>3,127,253</u>
Actual contributions	\$ <u>2,304,907</u>	\$ <u>2,120,392</u>	\$ <u>1,844,118</u>

##### Annual Pension Cost and Net Pension Obligation:

GWA's annual pension cost and net pension obligation to the DB Plan for the year ended September 30, 2008, and 2007 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 3,220,822	\$ 2,927,905	\$ 3,171,650
Interest on Net Pension Obligation	435,847	383,380	293,560
Adjustment to Annual Required Contribution	<u>(501,762)</u>	<u>(441,360)</u>	<u>(337,957)</u>
Annual pension cost	3,154,907	2,869,925	3,127,253
Contributions made	<u>(2,304,907)</u>	<u>(2,120,392)</u>	<u>(1,844,118)</u>
Increase in Net Pension Obligation	850,000	749,533	1,283,135
Net Pension Obligation beginning of year	<u>6,226,388</u>	<u>5,476,855</u>	<u>4,193,720</u>
Net Pension Obligation end of year	\$ <u>7,076,388</u>	\$ <u>6,226,388</u>	\$ <u>5,476,855</u>

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (5) Employees' Retirement Plan, Continued

### Defined Benefit Plan, Continued

The Annual Required Contribution for the years ended September 30, 2008, 2007 and 2006 was determined as part of the September 30, 2006, 2005 and 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The assumptions did not include cost-of-living adjustments, which have been funded by the GWA when granted through annual legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of total payroll through May 1, 2031. The remaining amortization period at September 30, 2008 was 22.58 years.

The actuarial valuations performed as of September 30, 2006, 2005, and 2004, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GWA as a separate sponsor, the accrued unfunded liability for September 30, 2008 and 2007, may be materially different than that recorded in the accompanying financial statements.

### Defined Contribution Retirement System (DCRS)

Contributions into the 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, 2008 and 2007, 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.

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 \$642,987 and \$535,641 at September 30, 2008 and 2007, 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.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

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

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate properties under GWA's administration. As of September 30, 2008 and 2007, the properties have not been recognized in the financial statements pending completion of formal transfer proceedings.

## (7) 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, 2008 and 2007 are \$4,408,514 and \$2,810,612, respectively.

## (8) 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.

### Self Insurance

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

### Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$11,997,949 at September 30, 2008.

### 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.

At September 30, 2008, the minimum management fees for the PMC above are as follows:

Year ending September 30,	Amount
2009	\$ 1,019,370
2010	256,590

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



## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (8) Commitments and Contingencies, Continued

#### Medicare

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

#### Single Audit Questioned Costs

GWA undergoes annual compliance audits to satisfy federal grantor requirements. Cumulative questioned costs of \$445,931 exist from these audits as of September 30, 2008. The questioned costs will be resolved by the applicable grantor and due to GWA's inability to predict the ultimate outcome of this matter, no provision for any liability, if any, that may result from this matter has been made in the accompanying financial statements.

#### Stipulated Order

In 2002, the United States Government filed a complaint against the Guam Waterworks Authority 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. Government of Justice, Environmental and Natural Resources Division mutually agreed in the form of Stipulated Order to resolve the violation issues.

On June 5, 2003, 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.

### (9) Cash and Cash Equivalents and Investments

The bond indenture agreements for the 2005 series revenue bonds (note 4) 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.

**GUAM WATERWORKS AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

(9) Cash and Cash Equivalents and Investments, Continued

At September 30, 2008 and 2007, investments and cash held by trustees and by GWA in these funds and accounts are as follows:

	2008		<u>Total</u>
	Held By Trustee	Held By GWA	
	Bond Indenture Funds	Bond Indenture Funds	
Unrestricted:			
Revenue funds	\$ -	\$ 3,449,375	\$ 3,449,375
Operations and maintenance funds	-	659,420	659,420
Restricted:			
Operations, maintenance renewal and replacement funds	-	1,568,740	1,568,740
Rate stabilization fund	-	-	-
Cost of issuance fund	-	-	-
Construction fund	-	29,327,982	29,327,982
Investment:			
Reserve fund	7,645,814	-	7,645,814
Debt service fund	<u>1,955,074</u>	<u>-</u>	<u>1,955,074</u>
	<u>\$ 9,600,888</u>	<u>\$ 35,005,517</u>	<u>\$ 44,606,405</u>
	2007		
	Held By Trustee	Held By GWA	
	Bond Indenture Funds	Bond Indenture Funds	<u>Total</u>
Unrestricted:			
Revenue funds	\$ -	\$ 3,627,054	\$ 3,627,054
Operations and maintenance funds	-	24,196	24,196
Restricted:			
Operations, maintenance renewal and replacement funds	-	1,320,290	1,320,290
Rate stabilization fund	-	888,441	888,441
Cost of issuance fund	-	37,413	37,413
Construction fund	-	46,886,832	46,886,832
Investment:			
Reserve fund	7,685,596	-	7,685,596
Debt service fund	<u>1,932,412</u>	<u>-</u>	<u>1,932,412</u>
	<u>\$ 9,618,008</u>	<u>\$ 52,784,226</u>	<u>\$ 62,402,234</u>

At September 30, 2008 and 2007, investments in debt securities are carried at cost or amortized cost which approximates market value including accrued interest for debt securities.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (9) Cash and Cash Equivalents and Investments, Continued

The deposits and investment policies of GWA are governed by 14 GCA 12, *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 Federated Government obligations Fund SS or the Transamerica Accidental Life Insurance Company 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

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 securities held by GWA or its agent in GWA's name;

Category 2 Uninsured and unregistered, 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.

Bank balances of demand and time deposit accounts held in the name of GWA totaled \$36,421,716 and \$56,224,739 as of September 30, 2008 and 2007, respectively, of which \$113,507 and \$242,547 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. Accordingly, these amounts are exposed to custodial credit risk. Restricted cash on hand consists of cash received for specific capital projects and for bond indenture related accounts.

Current restricted cash amounted to \$576,243 and \$975,798 as of September 30, 2008 and 2007, respectively. The noncurrent restricted cash amounted to \$30,896,722 and \$49,132,976 as of September 30, 2008 and 2007, respectively.

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (9) Cash and Cash Equivalents and Investments, Continued

#### A. Cash, Continued

The composition of current and noncurrent restricted cash is as follows:

	<u>2008</u>	<u>2007</u>
Current restricted:		
Capital projects	\$ 171,096	\$ 169,557
Operation and maintenance	5,971	394,534
PUC surcharge	56,620	56,401
Navy surcharge	133,551	355,306
Meter reserve	133,979	-
Sewer hook up revolving fund	<u>75,026</u>	<u>-</u>
	<u>576,243</u>	<u>975,798</u>
Noncurrent restricted:		
Operations, maintenance, renewal and replacement	1,568,740	1,320,290
Rate stabilization	-	888,441
Cost of issuance	-	37,413
Construction fund	<u>29,327,982</u>	<u>46,886,832</u>
	<u>30,896,722</u>	<u>49,132,976</u>
Total restricted cash	\$ <u>31,472,965</u>	\$ <u>50,108,774</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.

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.

**GUAM WATERWORKS AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

(9) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

As of September 30, 2008 and 2007, the GWA's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>2008</u>		
	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>9,600,888</u>	\$ <u>9,600,888</u>	\$ <u>-</u>

<u>Investment Type</u>	<u>2007</u>		
	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury obligations	\$ <u>9,618,008</u>	\$ <u>7,087,058</u>	\$ <u>2,530,950</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, 2008 and 2007 as follow:

<u>Moody's Rating</u>	<u>2008</u>		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>9,600,888</u>	\$ <u>9,600,888</u>	\$ <u>-</u>
Total credit risk debt securities	\$ <u>9,600,888</u>	\$ <u>9,600,888</u>	\$ <u>-</u>

<u>Moody's Rating</u>	<u>2007</u>		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>9,618,008</u>	\$ <u>9,618,008</u>	\$ <u>-</u>
Total credit risk debt securities	\$ <u>9,618,008</u>	\$ <u>9,618,008</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, 2008 and 2007.

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, 2008 and 2007, GWA's investment in agency obligations of US Treasury agency obligations constituted 26% and 53%, respectively, of its total investments.

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (9) Cash and Cash Equivalents and Investments, Continued

#### B. Investments, Continued

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.

### (10) 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.

### (11) New Accounting Principles

During fiscal year 2008, GWA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Government of Guam has determined that implementation of GASB Statement No. 45 does not have a material effect on its financial statements or on the financial statements of its component units.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (11) New Accounting Principles, Continued

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

### (12) Contributions Received

Contributions received by GWA during the years ended September 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Grants from U.S. Government:		
Received from the U.S. Environmental Protection Agency	\$ <u>2,398,111</u>	\$ <u>1,656,861</u>
Other contributions:		
Proceeds received through refinancing of Government of Guam's Water Bond	\$ <u>960,351</u>	\$ <u>-</u>

### (13) 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. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits. Supplemental benefits include the following for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Legislative surcharge revenue (see note 14)	\$ <u>1,504,950</u>	\$ <u>1,535,105</u>
Less:		
Supplemental benefits	455,693	464,620
Medical and dental	<u>1,161,662</u>	<u>424,043</u>
	<u>1,617,355</u>	<u>888,663</u>
	\$ <u>(112,405)</u>	\$ <u>646,442</u>

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (14) PUC Surcharge

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

On May 9, 2002, the Guam Legislature passed Public Law 26-81. The Law established a one-year moratorium of 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 8.03% have gone toward GWA's obligation to GPA and effective October 2003, also to the obligation to the U.S. Navy. In addition, proceeds from a legislative surcharge of 3.49% are earmarked to pay benefits for GWA's supplemental annuity for retirees. At September 30, 2008 and 2007, the total revenue for the legislative surcharge is \$1,504,950 and \$1,535,105, respectively.

## (15) 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, 2008 and 2007 were \$14,631,816 and \$11,914,539, respectively, and GWA was also charged \$272,673 and \$529,442, respectively, for administrative services provided by GPA. In addition, GWA has long-term debt of \$5,209,285 and \$7,504,734 due to GPA at September 30, 2008 and 2007, respectively (see note 4).



**GUAM WATERWORKS AUTHORITY**

Schedule 1  
 Schedule of Equalization of Net (Income) Loss  
 Years Ended September 30, 1991 through 2008

	2008	2007	2006	2005	2004	2003 (As Restated)	2002	2001	2000	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)	1994 (1)	1993 (1)	1992 (1)	1991 (1)
Net (income) loss	\$ 1,272,752	\$ 1,933,050	\$ 8,097,395	\$ (1,530,194)	\$ 1,809,232	\$ 7,402,223	\$ 14,712,887	\$ 639,033	\$ 9,930,509	\$ 9,756,403	\$ 20,589,668	\$ 12,002,404	\$ 2,486,481	\$ 7,293,467	\$ 10,920,041	\$ 3,069,762	\$ 4,394,359	\$ 1,744,519
Less transfers from GovGuam	-	-	300,000	1,110,561	578,754	748,109	2,859,524	2,800,388	-	-	-	-	18,538,800	22,743,010	16,136,274	24,959,972	27,447,270	22,064,351
Less other operating revenues recognized in 1999 attributable to prior years	-	-	-	-	-	-	-	-	-	4,282,966	-	-	-	-	-	-	-	-
Effect of unfunded pension liability	(850,000)	(749,533)	(1,283,136)	183,164	(1,900,563)	(1,263,158)	77,489	(52,940)	(155,899)	927,990	437,109	(3,516,573)	3,926,422	5,053	(278,750)	(784,801)	(1,478,412)	(1,389,512)
Equalization of net (income) loss	\$ 422,752	\$ 1,183,517	\$ 7,114,259	\$ (236,469)	\$ 487,423	\$ 6,887,174	\$ 17,649,900	\$ 3,386,481	\$ 9,774,610	\$ 14,967,359	\$ 21,026,777	\$ 8,485,831	\$ 24,951,703	\$ 30,041,530	\$ 26,777,565	\$ 27,244,933	\$ 30,363,217	\$ 22,419,358

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

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 2

Schedule of Certain Operating and Maintenance Expenses  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 11,071,238	\$ 9,411,521
Pension costs	3,879,989	3,583,688
Overtime pay	818,579	867,270
Sick leave	<u>366,257</u>	<u>311,524</u>
Total salaries, wages and benefits	<u>\$ 16,136,063</u>	<u>\$ 14,174,003</u>
Employees at end of year	308	251
Administrative and general:		
Materials and supplies	\$ 1,318,972	\$ 2,288,907
Chemicals	978,600	1,000,799
Transportation	625,261	539,045
Public Utility Commission	228,612	199,186
Training	215,784	279,265
Violation fees	48,000	40,000
Communications	160,371	170,864
Liability claims	115,865	266,577
Advertising	270,161	171,550
Miscellaneous	<u>223,110</u>	<u>206,258</u>
Total administrative and general	<u>\$ 4,184,736</u>	<u>\$ 5,162,451</u>
Contractual:		
Labor, materials and others	\$ 1,538,930	\$ 1,733,461
Equipment rental	616,670	743,860
Accounting	448,092	809,615
Testing	273,495	126,054
PMC management	<u>997,547</u>	<u>728,407</u>
Total contractual	<u>\$ 3,874,734</u>	<u>\$ 4,141,397</u>
Other expense:		
Loss on inventory write-down	\$ -	\$ 614,161
Loss on asset disposal	-	15,476
Interest expense	6,213,246	6,266,080
COLA/supplemental annuities	1,617,355	888,663
Other	<u>-</u>	<u>68,262</u>
	<u>\$ 7,830,601</u>	<u>\$ 7,852,642</u>

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 3  
Schedule of Cash Flows Indicating Financing Method  
Year Ended September 30, 2008

Cash flows provided by operating activities	\$ 7,586,747
Cash flows used for acquisition of utility plant, net of contributed capital received	<u>(18,380,784)</u>
Cash flows if GPA were fully paid and if utility plant were built, net of contributed capital received	\$ <u><u>(10,794,037)</u></u>

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 4

Schedule of Construction Work in Progress  
Year Ended September 30, 2008

Project Title	Type	Ending Balance 2007	Additions and Transfers	Closed out during FY2008	Ending Balance 2008
Agat/Santa Rita Sewer System	Wastewater	\$ 978,938	\$ 950,187	\$ -	\$ 1,929,125
Ordot/Chalan Pago 2B	Wastewater	622,342	-	-	622,342
Automated Meter Reading	Water	7,588,027	2,420,747	(5,077,441)	4,931,333
Distribution Line Replacement	Water	4,046,064	995,942	-	5,042,006
Hagatna and Northern District	Wastewater	5,585,642	9,916,494	-	15,502,136
Electrical Protection	Water	-	1,143,557	-	1,143,557
Sinajana Transmission Line	Water	-	2,246,084	-	2,246,084
Mangilao Tank Repair	Water	-	702,278	-	702,278
Ugum Tank Replacement	Water	-	3,012,799	-	3,012,799
Ground Water Chlorination	Water	-	1,713,475	-	1,713,475
All Others	Water/Wastewater	3,909,299	947,229	(2,214,550)	2,641,978
		<u>\$ 22,730,312</u>	<u>\$ 24,048,792</u>	<u>\$ (7,291,991)</u>	<u>\$ 39,487,113</u>

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 5  
 Schedule of Employee and Other Data  
 Year Ended September 30, 2008

Department	PL 28-150 Sec 45:a Full-Time Employees	PL 28-150 Sec 45:b Category Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ -	\$ 17,945	\$ -	\$ 17,945
Administration	87	6,665,132	827,832	255,587	7,748,551
Accounting	21	1,028,964	196,168	214,980	1,440,112
Engineering	22	1,236,269	16,370	18,142	1,270,781
Collection and Distribution	121	5,570,375	2,581,189	341,873	8,493,437
Production and Treatment	<u>57</u>	<u>3,252,678</u>	<u>235,230</u>	<u>488,390</u>	<u>3,976,298</u>
<b>Total</b>	<u><u>308</u></u>	<u><u>\$ 17,753,418*</u></u>	<u><u>\$ 3,874,734</u></u>	<u><u>\$ 1,318,972</u></u>	<u><u>\$ 22,947,124</u></u>

\* This amount includes Supplemental/COLA annuities of \$1,617,355.

See accompanying independent auditors' report.