

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

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

YEAR ENDED SEPTEMBER 30, 2015

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Year Ended September 30, 2015
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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the Funds), which comprise the balance sheet as of September 30, 2015, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, as of September 30, 2015, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

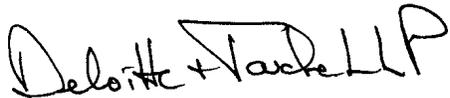
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The comparative financial statement information on pages 23 through 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative financial statement information is the responsibility of the Funds' management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial statement information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of consent decree contracts on page 27 and the comparative schedule of employees and other data on page 28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

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

May 24, 2016

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Management's Discussion and Analysis
September 30, 2015 and 2014

Our discussion and analysis of the Government of Guam's ("GovGuam") Solid Waste Operations Fund financial performance and those funds related to the GovGuam Limited Obligation (Section 30) Bonds, 2009 Series A, provides an overview of financial activities for the fiscal years ended September 30, 2015 and 2014. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2015, total fund balance decreased by \$20,165,807 (or 32%) from an ending fund balance of \$62,388,664 in 2014 to \$42,222,857 in 2015.
- During the years ended September 30, 2015 and 2014, total combined expenditures for governmental fund operations were \$54,385,231 and \$60,259,435, respectively, including expenditures associated with solid waste operations of \$12,262,554 and \$13,023,987, respectively; capital-related expenditures of \$24,465,860 and \$27,396,528, respectively; debt service requirements of \$15,669,956 and \$15,672,331, respectively; and payments to GovGuam's General Fund of \$0 and \$2,248,549, respectively. These expenditures were funded, in part, by tipping fee revenue collections (inclusive of host community premium surcharge fees) during the years ended September 30, 2015 and 2014 of \$18,251,015 and \$17,348,685, respectively; transfers in from GovGuam's General Fund of \$15,669,956 and \$15,672,331, respectively; and with the remainder funded by bond proceeds.
- Total combined expenditures decreased by \$5,874,204 (or 9.7%) from 2014 to 2015 due primarily to a decrease in capital-related expenditures in 2015 associated with Consent decree projects of \$2,934,681 and a reduction in transfer payments to GovGuam's General Fund of \$2,248,549. Total combined revenues increased by \$843,915 (or 2.5%) from \$33,375,509 in 2014 to \$34,219,424 in 2015 due primarily to increases in tipping fee revenue collections.
- During the years ended September 30, 2015 and 2014, the Solid Waste Operations Fund generated operating surpluses before transfers out to GovGuam's General Fund of \$4,868,830 and \$3,295,335, respectively.

2. Overview of the Financial Statements

The financial statements include all of the activities of the Solid Waste Operations Fund and of those funds related to the GovGuam Limited Obligation (Section 30) Bonds, 2009 Series A. The financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balance. The assets, liabilities and fund balances of these funds are reported in self-balancing funds.

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

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Management's Discussion and Analysis
September 30, 2015 and 2014

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

In addition to the basic financial statements and accompanying notes, this report also presents certain other financial information to further assist the reader in understanding the financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on assets, liabilities and fund balance at year-end. A condensed summary of the balance sheets is shown below as of September 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 16,011,974	\$ 12,136,155
Tipping fees receivable	3,469,600	3,648,910
Restricted assets:		
Cash and cash equivalents	30,196,578	30,923,118
Investments	<u>17,719,680</u>	<u>41,324,470</u>
Total Assets	\$ <u>67,397,832</u>	\$ <u>88,032,553</u>
Liabilities:		
Accounts payable and other	\$ 7,858,948	\$ 8,848,736
Due to General Fund	<u>17,316,027</u>	<u>16,795,153</u>
Total Liabilities	<u>25,174,975</u>	<u>25,643,889</u>
Fund Balances:		
Restricted	25,745,636	49,960,606
Committed	<u>16,477,221</u>	<u>12,428,058</u>
Total Fund Balances	<u>42,222,857</u>	<u>62,388,664</u>
Total Liabilities and Fund Balances	\$ <u>67,397,832</u>	\$ <u>88,032,553</u>

Total assets decreased by \$20,634,721 (or 23.4%) from \$88,032,553 in 2014 to \$67,397,832 in 2015. This decrease was primarily the result of a decrease in restricted assets of \$24,331,230 for capital-related expenditures.

Total liabilities decreased marginally by \$468,914 (or 1.8%) from \$25,643,889 in 2014 to \$25,174,975 in 2015. This decrease was primarily the result of a decrease in accounts payable of \$989,788, which includes amounts payable to contractors for expenditures associated with Consent decree projects, offset by an increase in the amount due to GovGuam's General Fund of \$520,874.

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Total fund balances decreased by \$20,165,807 (or 32%) during 2015 from \$62,388,664 to \$42,222,857. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation (Section 30) Bonds, 2009 Series A, wherein these funds are restricted for (i) capital projects associated with Consent decree projects, and (ii) future debt service.

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balance show the effect of revenues and expenditures on fund balance for the year. The statements of revenues, expenses and changes in fund balances for the years ended September 30, 2015 and 2014 are summarized as follows.

	<u>2015</u>	<u>2014</u>
Revenues:		
Tipping fees	\$ 18,251,015	\$ 17,348,685
Use of money and property	298,453	340,993
Transfer in from General Fund	<u>15,669,956</u>	<u>15,685,831</u>
Total Revenues	<u>34,219,424</u>	<u>33,375,509</u>
Expenditures:		
Current:		
General government	1,680,989	1,596,370
Environmental protection	12,262,554	13,023,987
Host Community Premium Benefits	305,872	321,670
Transfers out to General Fund	-	2,248,549
Capital projects	24,465,860	27,396,528
Debt service	<u>15,669,956</u>	<u>15,672,331</u>
Total Expenditures	<u>54,385,231</u>	<u>60,259,435</u>
Net Change in Fund Balances	\$ <u>(20,165,807)</u>	\$ <u>(26,883,926)</u>

Total revenues collected from tipping fees increased by \$902,330 (or 5.2%) from \$17,348,685 in 2014 to \$18,251,015 in 2015. The increase was primarily due to the recognition of delinquent tipping fees collected in 2015.

Total expenditures decreased by \$5,874,204 (or 9.7%) from \$60,259,435 in 2014 to \$54,385,231 in 2015. The decrease was primarily due to a decrease in capital-related expenditures associated with Consent decree projects and a decrease in transfers out to GovGuam's General Fund.

**GOVERNMENT OF GUAM
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Management's Discussion and Analysis
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4. Capital Assets

The Layon landfill opened on September 1, 2011 and is included as a capital asset in GovGuam's government-wide financial statements. The new landfill will support eleven cells with a capacity in excess of 15.8 million cubic yards and is expected to service the island of Guam for 50 years. Cells one and two were completed in the initial construction. These cells have a combined capacity in excess of 1.4 million cubic yards and, as of September 30, 2015, were 40.2% consumed. As these and the future cells are consumed, additional cells will need to be completed.

The estimated consumption based on total landfill capacity of 15,808,794 cubic yards as at September 30, 2015 amounts to 565,629 cubic yards or 3.58% of total landfill capacity compared to 434,004 cubic yards or 2.75% of total landfill capacity as at September 30, 2014. Total waste disposed at the Layon landfill during 2015 showed an increase of 3% compared with 2014. A summary of the change in waste (tons) disposed by customer group is as follows:

<u>Customer</u>	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Residential	20,028	18,632	7.5%
Commercial	54,748	53,357	2.6%
Military	8,034	7,612	5.5%
Government	8,070	8,868	-9.0%
Mayors	1,733	1,478	17.3%
Transfer Stations	4,954	4,798	3.2%
Other	<u>132</u>	<u>116</u>	13.8%
	<u>97,699</u>	<u>94,861</u>	3.0%

5. Long-Term Debt

In June 2009, GovGuam issued Limited Obligation (Section 30) Series A Bonds in the amount of \$202.4 million, net of bond discount of \$5.6 million. This bond issue produced construction funds of \$159.7 million. Proceeds have been used for the purpose of constructing the Layon landfill, the environmental closure of the Ordot Dump and other Consent Decree projects. The resultant long-term debt is included as a liability in GovGuam's government-wide financial statements. See note 6 to the accompanying financial statements for additional information relating to this long-term debt.

In accordance with the 2004 Consent Decree, a settlement agreement between the U.S. Environmental Protection Agency (EPA) and GovGuam, GovGuam was required to close the Ordot Dump and open a new landfill. Due to delays in meeting stipulated deadlines under the Consent Decree, the U.S. District Court of Guam placed the Solid Waste Division of GovGuam's Department of Public Works in Receivership. The Receiver has been tasked by the U.S. District Court with bringing GovGuam into compliance with the Consent Decree, including construction and operation of a new municipal solid waste landfill and the environmental closure of the Ordot Dump in compliance with the engineering standards and regulations required by the U.S. EPA.

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On August 31, 2011, the Ordot Dump was finally closed to the public. The Receiver, working through its contractors and consultants, has designed and is nearing completion of the construction to ensure that the Ordot Dump is closed in a manner that protects both human and environmental health. It is expected that the final cost of construction will be approximately \$42.1 million. The current estimate of the Receiver for the post-closure care of the Ordot Dump is approximately \$15.7 million, subject to any final adjustments needed for U.S. EPA required adjustments to the post-closure plan. This amount is based on what it would cost to perform all closure and post closure care in 2015. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

6. Outlook, Challenges and Opportunities

Guam's solid waste system is today operating in full compliance with all applicable environmental laws and regulations. Completion of the construction of the environmental closure of the Ordot Dump, rehabilitation of Dero Road, the roadway leading to the Ordot Dump, upgrades to and the permitting of the residential transfer stations, and resolution of the funding plan for post-closure care of the Ordot Dump are all that remain to achieve full compliance with the Consent Decree. These are expected to be completed by the end of calendar year 2017, after which, in compliance with a schedule to be determined by the District Court of Guam, the GSWA Board of Directors, will assume full control of the system.

To prepare for a successful transition to control by GovGuam, the board has begun holding regular meetings, conferring with the Receiver and planning for the time when the District Court will permit it to begin the process of hiring the management staff it will need to operate after the receivership ends. A critical step in the transition process is to transfer contract and temporary employees of the Receiver to GovGuam positions. These employees have been instrumental to the success GSWA has achieved under the Receiver and must be properly transitioned in order for GSWA to continue to effectively operate. Transitioning contracts for the operation of the Household Hazardous Waste Program, the Hauler-only Transfer Station and the Layon Landfill must also occur.

GovGuam must also decide how it will charge for GSWA services after the Receivership ends. The current rates were established by the Receiver with the approval of the District Court. When the Receivership ends the Government of Guam must act to set the rates it considers necessary for GSWA, since the Receiver's authority to set rates will no longer exist. Toward that end the Receiver, in 2012, developed three rate options which were presented to the Guam Public Utilities Commission, the Governor and Legislature. These options are outlined in the following table

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

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

** Assumes approval of a second landfill.

**GOVERNMENT OF GUAM
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Management's Discussion and Analysis
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Based on the Receiver's determination, the Current Rate option is adequate to provide for the operation of the Solid Waste Operations Fund through 2015. The current rate is adequate well beyond 2015 if GovGuam does not seek to obtain reimbursement from GSWA for the debt service paid from Federal Section 30 funds. If, however, GovGuam determines to reimburse itself for its use of Section 30 Funds for debt service, it will need to adopt the full government reimbursement rate. To date, no action has been taken to adopt a new rate for GSWA.

The Two Landfill option is required if GovGuam allows a second landfill on Guam. In the event that GovGuam approves a permit for a second landfill, rates that will allow GovGuam to be reimbursed for the use of Section 30 revenue to pay debt service may not be sustained if the second landfill permit holder undercuts the Solid Waste Operations Fund's current rates. Under this scenario, GovGuam would forgo \$11,737,208 in annual reimbursement for the use of Section 30 revenue to pay debt service.

7. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the finances of the Solid Waste Operations Fund and related funds and to demonstrate accountability for money received and expended. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Kathrine B. Kakigi, Financial Manager, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1211, Facsimile: (671) 472-8483; Website address: www.admin.gov.gu/doa/.

**GOVERNMENT OF GUAM
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Balance Sheet
September 30, 2015

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 16,011,974	\$ -	\$ -	\$ 16,011,974
Restricted assets:				
Cash and cash equivalents	3,334,141	11,113,855	15,748,582	30,196,578
Investments	-	22,097	17,697,583	17,719,680
Receivables:				
Tipping fees	3,469,600	-	-	3,469,600
Total assets	\$ 22,815,715	\$ 11,135,952	\$ 33,446,165	\$ 67,397,832
<u>LIABILITIES</u>				
Accounts payable	\$ 163,957	\$ -	\$ -	\$ 163,957
Contracts payable	679,317	3,191,750	-	3,871,067
Payable to receiver	225,478	324,373	-	549,851
Retention payable	27,408	2,712,418	-	2,739,826
Host Community Premium Benefits payable	98,755	-	-	98,755
Accrued payroll and other	42,942	-	-	42,942
Unearned revenue	392,550	-	-	392,550
Due to General Fund	1,373,946	79,224	15,862,857	17,316,027
	3,004,353	6,307,765	15,862,857	25,174,975
Commitments and contingencies				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	3,334,141	4,828,187	-	8,162,328
Debt service	-	-	17,583,308	17,583,308
Committed for:				
Solid waste operations	16,477,221	-	-	16,477,221
Total fund balances	19,811,362	4,828,187	17,583,308	42,222,857
Total liabilities and fund balances	\$ 22,815,715	\$ 11,135,952	\$ 33,446,165	\$ 67,397,832

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2015

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Tipping fees	\$ 17,918,559	\$ -	\$ -	\$ 17,918,559
Host Community Premium Surcharge fees	332,456	-	-	332,456
Use of money and property	41,636	37,064	233,861	312,561
Net change in fair value of investments	-	11,909	(26,017)	(14,108)
Transfers in from General Fund	-	-	15,669,956	15,669,956
	<u>18,292,651</u>	<u>48,973</u>	<u>15,877,800</u>	<u>34,219,424</u>
Total revenues				
Expenditures:				
Current:				
General government	855,395	825,594	-	1,680,989
Environmental protection	12,262,554	-	-	12,262,554
Capital projects	-	24,465,860	-	24,465,860
Debt service:				
Principal	-	-	5,070,000	5,070,000
Interest	-	-	10,599,956	10,599,956
Host Community Premium Benefits	305,872	-	-	305,872
	<u>13,423,821</u>	<u>25,291,454</u>	<u>15,669,956</u>	<u>54,385,231</u>
Total expenditures				
Net change in fund balances	4,868,830	(25,242,481)	207,844	(20,165,807)
Fund balances at the beginning of the year	<u>14,942,532</u>	<u>30,070,668</u>	<u>17,375,464</u>	<u>62,388,664</u>
Fund balances at the end of the year	<u>\$ 19,811,362</u>	<u>\$ 4,828,187</u>	<u>\$ 17,583,308</u>	<u>\$ 42,222,857</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
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Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Fund Accounting

The accompanying financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The assets, liabilities and fund balances of the Solid Waste Operations Fund and those funds related to the Limited Obligation (Section 30) Bonds, 2009 Series A, are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

C. Measurement Focus and Basis of Accounting

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

**GOVERNMENT OF GUAM
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Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Tipping and associated fees imposed are as follows:

Commercial

Commercial haulers are billed per tonnage of trash. The rate per tonnage effective during fiscal year 2014 is \$171.60.

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rate effective during fiscal year 2015 per one 96-gallon cart is \$30.

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

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

Host Community Premium Surcharge

On July 16, 2010, the Guam Legislature passed Public Law 30-165, amended by Public Law 32-021 on April 11, 2013, which determined that a "Host Community Premium" be awarded for the villages of Inarajan and Ordot in the annual amount of \$150,000 each. Pursuant to Public Law 30-165, as amended by Public law 32-021, and an Order by the Guam Public Utilities Commission on July 30, 2012, as amended on July 30, 2013, GSWA was authorized to assess Host Community Premium Surcharge (HCPS) fees of \$3.57 per ton for commercial, including government customers, and \$0.38 per month for residential customers beginning October 1, 2012. The HCPS fees were to compensate the villages of Inarajan and Ordot where solid waste management facilities, such as sanitary landfills, are located. During the year ended September 30, 2015, HCPS revenues were \$332,456.

D. Budgetary Process

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents

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

F. 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 in a forced or liquidation sale and are primarily determined based on quoted market values.

G. Receivables and Allowance for Uncollectible Accounts

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

H. Interfund Receivables/Payables

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

I. Restricted Assets

The bond indenture relating to the Limited Obligation (Section 30) Bonds, 2009 Series A, requires amounts to be restricted for capital projects and set aside for debt service principal and interest. These amounts have been classified as restricted assets.

J. Unearned Revenues

Unearned revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

L. Encumbrances

Encumbrance accounting is utilized to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2015, significant encumbrances are summarized as follows:

Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
\$ 3,259,298	\$ 2,530,077	\$ -	\$ 5,789,375

M. Management Estimates

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

N. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, for the year ended September 30, 2014 from which summarized information was derived.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(2) Deposits

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

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

As of September 30, 2015, the carrying amount of cash and cash equivalents was \$46,208,552 and the corresponding bank balances were \$46,208,607, of which \$30,416,922 was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining balances of \$15,791,685 represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2015. As of September 30, 2015, bank deposits in the amount of \$625,674 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents consist of funds restricted for capital projects and for bond indenture related accounts. Details are as follows:

Restricted cash and cash equivalents:	
Debt service	\$ 15,748,582
Capital projects	11,113,855
Operations, maintenance, renewal and replacement reserve fund	<u>3,334,141</u>
	\$ <u>30,196,578</u>

(3) Investments

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(3) Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees in accordance with the bond indenture for the purpose of funding various capital projects and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2015.

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

As of September 30, 2015, investments at fair value are as follows:

Mutual funds	\$ <u>17,719,680</u>
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As of September 30, 2015, these investments are restricted and available for the following purposes:

Restricted investments:	
Capital projects	\$ 22,097
Debt service	<u>17,697,583</u>
	\$ <u>17,719,680</u>

(4) Receivables

Receivables as of September 30, 2015, including allowances for uncollectible accounts, are as follows:

Commercial	\$ 1,898,994
Residential	1,645,281
Government:	
Guam Waterworks Authority (GWA)	401,751
Other	186,017
Note	<u>392,550</u>
	4,524,593
Allowance for uncollectible accounts	<u>(1,054,993)</u>
	\$ <u>3,469,600</u>

The Solid Waste Operations Fund entered into a \$750,000 promissory note with a commercial customer for past due tipping fees. The note, due in initial monthly installments of principal and interest of \$19,022 commencing February 29, 2012, bears interest at 10% per annum. Effective February 29, 2016, monthly principal and interest payments on the note increased to \$26,790 and matures in February 2017. At September 30, 2015, the balance was \$392,550 with a corresponding amount recorded as unearned revenue.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(5) Bonds Payable

The Limited Obligation (Section 30) Bonds, 2009 Series A (original issue of \$202,425,000, dated June 1, 2009) have varying interest rates at 5% - 5.75% per annum, payable semiannually on June 1 and December 1, principal fund payments due in varying annual installments commencing with a payment of \$4,590,000 on June 30, 2013 and increasing to a final payment of \$15,235,000 on June 30, 2035. The bonds were issued for the purpose of constructing a new landfill, closure of the Ordot Dump, prepaying a bank loan and funding capitalized interest, and are backed by the full faith and credit of GovGuam, payable solely from and collateralized by a pledge of Section 30 federal income tax collections.

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

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

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

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(5) Bonds Payable, Continued

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(5) Bonds Payable, Continued

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

<u>Year ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 5,330,000	\$ 10,339,956	\$ 15,669,956
2017	5,610,000	10,059,444	15,669,444
2018	5,915,000	9,756,913	15,671,913
2019	6,240,000	9,430,044	15,670,044
2020	6,595,000	9,077,081	15,672,081
2021 - 2025	38,895,000	39,462,022	78,357,022
2026 - 2030	51,240,000	27,112,687	78,352,687
2031 - 2035	<u>68,115,000</u>	<u>10,241,756</u>	<u>78,356,756</u>
	<u>\$ 187,940,000</u>	<u>\$ 125,479,903</u>	<u>\$ 313,419,903</u>

During the year ended September 30, 2015, payments for debt service totaled \$15,669,956.

GovGuam has pledged a portion of future General Fund Section 30 revenues to repay the \$202,425,000 in limited obligation bonds. This debt is payable solely from Section 30 revenues payable to GovGuam by the United States Government pursuant to Section 30 of the Organic Act, Title 48, U.S. Code, Section 41421(h). Total principal and interest remaining on this debt is approximately \$313,419,903 payable through December 2034. For the year ended September 30, 2015, Section 30 revenues were \$71,446,424.

At September 30, 2015, fund balance of \$17,583,308 is restricted for debt service purposes.

At September 30, 2015, GovGuam management is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(6) Commitments and Contingencies

A. Landfill Closure and Postclosure Costs

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(6) Commitments and Contingencies, Continued

A. Landfill Closure and Postclosure Costs, Continued

On March 17, 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works (DPW) in Guam in Receivership. After receiving and reviewing qualifications information on firms presented by GovGuam and the U.S. Environmental Protection Agency, and conducting interviews and reference checks, the District Court Judge selected and appointed a receiver. The Receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of the Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW's Solid Waste Division. For the year ended September 30, 2015, recorded receiver related expenditures were \$1,611,380 with accumulated receiver related expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2015 amount to \$16,038,998. Of this amount, \$3,848,700 was funded by the General Fund and the remaining was funded from solid waste operations. The District Court maintains a separate trust account from which Receiver fees are paid. Accordingly, timing differences occur between GovGuam records and the fees actually paid and payable to the Receiver by the District Court of Guam.

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

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

State and federal laws and regulations require GovGuam to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure and post closure care costs reported as expenditures in the accompanying financial statements represent actual closure and post closure care costs incurred during fiscal year 2015. The estimated landfill closure and post closure care liability at September 30, 2015 is not included in the accompanying fund financial statements. Instead, GovGuam has reported an amount of \$15,670,894 as landfill closure and post closure care liability at September 30, 2015 within GovGuam's government-wide financial statements based on 100% capacity for the Ordot Dump and \$3,179,380 reported based on the use of 3.58% of the estimated capacity of Layon landfill. The Layon landfill consists of up to eleven cells and has an estimated lifespan of 50 years. Currently, GovGuam has projected utilizing two cells that together have a projected life of 10 years. GovGuam will recognize the remaining estimated cost of closure and post closure care of \$88,809,504 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2015. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2015

(6) Commitments and Contingencies, Continued

B. Land Condemnation

On October 31, 2012, a Court Order was issued for the payment of approximately \$25,115,683 for the condemnation of land which encompasses the Layon landfill. A payment of \$3,410,000 was deposited to the Court and distributed to the landowners, with the remaining balance of \$21,705,683 plus interest at 6% per annum calculated from January 24, 2008 to be made. GovGuam negotiated long-term tax credit certificates with certain landowners. During the year ended September 30, 2015, tax credits in the amount of \$13,800,175 were redeemed in lieu of payments associated with this Court Order. As of September 30, 2015, the outstanding liability associated with these tax credits is \$6,829,301, and which is reported as a liability within GovGuam's government-wide financial statements.

C. Contract Commitments

GovGuam has commitments under certain significant contracts at September 30, 2015. As of September 30, 2015, encumbrances associated with these contracts are as follows:

Solid Waste Operations Fund	\$ 5,189,265
Capital Projects Fund	<u>2,499,737</u>
	\$ <u>7,689,002</u>

D. Litigation

GSWA is party to various legal proceedings. GSWA's legal counsel is of the opinion that the probable outcome of such cases existing at September 30, 2015, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

(7) Major Customers

During the year ended September 30, 2015, one commercial customer accounted for approximately 28% of total tipping fees revenues.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Balance Sheets
September 30, 2015 and 2014

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2015	2014	2015	2014	2015	2014
ASSETS						
Cash and cash equivalents	\$ 16,011,974	\$ 12,136,155	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	3,334,141	2,514,474	11,113,855	12,680,525	15,748,582	15,728,119
Investments	-	-	22,097	23,833,979	17,697,583	17,490,391
Receivables, net:						
Tipping fees	3,469,600	3,648,910	-	-	-	-
Total assets	\$ 22,815,715	\$ 18,299,539	\$ 11,135,952	\$ 36,514,504	\$ 33,446,165	\$ 33,218,510
LIABILITIES						
Accounts payable	\$ 163,957	\$ 128,925	\$ -	\$ -	\$ -	\$ -
Contracts payable	679,317	1,345,703	3,191,750	3,388,201	-	-
Receiver fees payable	225,478	416,415	324,373	350,452	-	-
Retention payable	27,408	9,668	2,712,418	2,670,913	-	-
Host community premium benefits payable	98,755	79,065	-	-	-	-
Accrued payroll and other	42,942	47,172	-	-	-	-
Unearned revenue	392,550	412,222	-	-	-	-
Due to General Fund	1,373,946	917,837	79,224	34,270	15,862,857	15,843,046
Total liabilities	3,004,353	3,357,007	6,307,765	6,443,836	15,862,857	15,843,046
FUND BALANCES						
Fund balances:						
Restricted for:						
Capital projects	3,334,141	2,514,474	4,828,187	30,070,668	-	-
Debt service	-	-	-	-	17,583,308	17,375,464
Committed for:						
Solid waste operations	16,477,221	12,428,058	-	-	-	-
Total fund balances	19,811,362	14,942,532	4,828,187	30,070,668	17,583,308	17,375,464
Total liabilities and fund balances	\$ 22,815,715	\$ 18,299,539	\$ 11,135,952	\$ 36,514,504	\$ 33,446,165	\$ 33,218,510

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2015 and 2014

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2015	2014	2015	2014	2015	2014
Revenues:						
Tipping fees	\$ 17,918,559	\$ 17,021,640	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	332,456	327,045	-	-	-	-
Use of money and property	41,636	59,070	37,064	123,098	233,861	243,893
Net change in fair value of investments	-	-	11,909	37,997	(26,017)	(123,065)
Transfers in from General Fund	-	-	-	13,500	15,669,956	15,672,331
Total revenues	<u>18,292,651</u>	<u>17,407,755</u>	<u>48,973</u>	<u>174,595</u>	<u>15,877,800</u>	<u>15,793,159</u>
Expenditures:						
Current:						
General government	855,395	766,763	825,594	829,607	-	-
Environmental protection	12,262,554	13,023,987	-	-	-	-
Capital projects	-	-	24,465,860	27,396,528	-	-
Debt service:						
Principal	-	-	-	-	5,070,000	4,825,000
Interest	-	-	-	-	10,599,956	10,847,331
Host Community Premium Benefits	305,872	321,670	-	-	-	-
Transfers out to General Fund	-	2,248,549	-	-	-	-
Total expenditures	<u>13,423,821</u>	<u>16,360,969</u>	<u>25,291,454</u>	<u>28,226,135</u>	<u>15,669,956</u>	<u>15,672,331</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,868,830</u>	<u>1,046,786</u>	<u>(25,242,481)</u>	<u>(28,051,540)</u>	<u>207,844</u>	<u>120,828</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	68,417
Operating transfers out	-	-	-	(68,417)	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,417)</u>	<u>-</u>	<u>68,417</u>
Net change in fund balances	4,868,830	1,046,786	(25,242,481)	(28,119,957)	207,844	189,245
Fund balances at the beginning of the year	<u>14,942,532</u>	<u>13,895,746</u>	<u>30,070,668</u>	<u>58,190,625</u>	<u>17,375,464</u>	<u>17,186,219</u>
Fund balances at the end of the year	<u>\$ 19,811,362</u>	<u>\$ 14,942,532</u>	<u>\$ 4,828,187</u>	<u>\$ 30,070,668</u>	<u>\$ 17,583,308</u>	<u>\$ 17,375,464</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2015 and 2014

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2015	2014	2015	2014	2015	2014
Revenues:						
Tipping fees	\$ 17,918,559	\$ 17,021,640	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	332,456	327,045	-	-	-	-
Use of money and property	41,636	59,070	37,064	123,098	233,861	243,893
Net change in fair value of investments	-	-	11,909	37,997	(26,017)	(123,065)
Transfers in from General Fund	-	-	-	13,500	15,669,956	15,672,331
Total revenues	<u>18,292,651</u>	<u>17,407,755</u>	<u>48,973</u>	<u>174,595</u>	<u>15,877,800</u>	<u>15,793,159</u>
Expenditures:						
Salaries and wages - regular	976,664	1,036,595	-	-	-	-
Salaries and wages - overtime	64,907	165,331	-	-	-	-
Fringe benefits	385,023	403,064	-	-	-	-
Travel	-	1,596	-	-	-	-
Contractual services	11,185,833	10,223,067	25,226,611	28,134,090	-	-
Supplies	350,011	514,144	-	-	-	-
Equipment	14,384	6,144	-	-	-	-
Utilities - power and water	70,153	70,428	-	-	-	-
Capital outlays	-	1,318,663	64,768	78,458	-	-
Principal retirement	-	-	-	-	5,070,000	4,825,000
Interest and fiscal charges	-	48,723	-	13,587	10,599,956	10,847,331
Host Community Premium Benefits	305,872	321,670	-	-	-	-
Transfers out to General Fund	-	2,248,548	-	-	-	-
Miscellaneous	70,974	2,996	75	-	-	-
Total expenditures	<u>13,423,821</u>	<u>16,360,969</u>	<u>25,291,454</u>	<u>28,226,135</u>	<u>15,669,956</u>	<u>15,672,331</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,868,830</u>	<u>1,046,786</u>	<u>(25,242,481)</u>	<u>(28,051,540)</u>	<u>207,844</u>	<u>120,828</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	68,417
Operating transfers out	-	-	-	(68,417)	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,417)</u>	<u>-</u>	<u>68,417</u>
Net change in fund balances	<u>4,868,830</u>	<u>1,046,786</u>	<u>(25,242,481)</u>	<u>(28,119,957)</u>	<u>207,844</u>	<u>189,245</u>
Fund balances at the beginning of the year	<u>14,942,532</u>	<u>13,895,746</u>	<u>30,070,668</u>	<u>58,190,625</u>	<u>17,375,464</u>	<u>17,186,219</u>
Fund balances at the end of the year	<u>\$ 19,811,362</u>	<u>\$ 14,942,532</u>	<u>\$ 4,828,187</u>	<u>\$ 30,070,668</u>	<u>\$ 17,583,308</u>	<u>\$ 17,375,464</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
SOLID WASTE FUNDS

Comparative Schedule of Receivables, Billings and Collections
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Receivables:		
Commercial haulers	\$ 2,291,544	\$ 2,227,889
Residential	1,645,281	1,751,214
Government	<u>587,768</u>	<u>524,237</u>
	4,524,593	4,503,340
Allowance for uncollectible accounts	<u>(1,054,993)</u>	<u>(854,430)</u>
	\$ <u>3,469,600</u>	\$ <u>3,648,910</u>
Billings:		
Commercial haulers	\$ 10,085,101	\$ 9,871,720
Residential	6,281,321	6,186,299
Government	<u>1,490,020</u>	<u>1,553,520</u>
Total billings	\$ <u>17,856,442</u>	\$ <u>17,611,539</u>
Collections:		
Commercial haulers	\$ 10,409,332	\$ 9,913,720
Residential	6,381,693	6,137,064
Government	1,516,529	1,288,647
Transfer stations	298,682	335,379
Other	<u>53,879</u>	<u>48,621</u>
Total collections	\$ <u>18,660,115</u>	\$ <u>17,723,431</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Consent Decree Contracts
Year Ended September 30, 2015

Purpose of Contract	Total Purchase Order/Contract Amount	Cumulative Expenditures as of September 30, 2015	Remaining Amount	Work Status
Customer Service Software	\$ 500,000	\$ 386,148	\$ 113,852	On-going
Emergency Repairs at Transfer Stations	\$ 33,378	33,378	-	Closed
Provider of Online and Paperless Residential Account Services	Indefinite	26,833	-	On-going
Layon Landfill - Construction of Entrance Facilities and Cells 1 and 2	\$ 25,277,787	25,277,787	-	Closed
Environmental Closure of the Ordot Dump Planning Environmental Monitoring for Final Closure of Ordot Dump	\$ 42,134,415	36,911,356	5,223,059	On-going
Layon Landfill - Construction of Access Road and and Utility Improvements for Community Groundwater Quality Monitoring Services	\$ 8,575,563	8,091,136	484,427	On-going
Improvements of GSWA Building	\$ 28,369,411	28,360,499	8,912	Closed
	\$ 3,526,341	3,296,158	230,183	On-going
	\$ 129,801	129,801	-	Closed
	GovGuam			
New Trucks, Roll-off Containers and Trash Carts	Purchase Orders	5,162,249	-	On-going
	GovGuam			
Crane Qualification and Rigging Course	Purchase Orders	24,983	-	Closed
Security Services for the Solid Waste Compound	\$ 16,904	16,904	-	Closed
Construction Management Services for Layon Landfill and related projects	\$ 8,446,084	7,409,910	1,036,174	On-going
Construction Management Services for Ordot Dump Closure and Other Consent Decree Projects	\$ 8,237,632	6,154,280	2,083,352	On-going
	Minimum Monthly Charge Plus Per Ton			
Hauler-only Transfer Station	Excess Charge	11,085,265	-	On-going
New Trucks	\$ 191,916	191,916	-	Closed
	Monthly Charge Plus Per Ton			
Operation of Layon Landfill	Excess Charge	13,625,036	-	On-going
GSWA Power Service Separation	\$ 113,256	113,256	-	Closed
Layon Landfill - Construction of Landfill Operations Road and Mass Grading for Cells 1 and 2	\$ 10,045,245	10,045,245	-	Closed
Construction of Harmon Residential Transfer Station and Household Hazardous Waste Facility	\$ 2,410,000	2,015,901	394,099	Liquidated Damages Assessed
	GovGuam			
Roll-off Containers and Equipment Rental	Purchase Orders	194,137	-	Closed
Safety Improvements for Dero Road	\$ 19,134	19,134	-	Closed
	GovGuam			
New Computers and Software for GSWA Administration	Purchase Orders	39,583	-	Closed
Temporary Staffing Services for the Solid Waste Management Division	Indefinite	4,228,530	-	On-going
Security Services for the Solid Waste Compound	Indefinite	951,779	-	On-going
	GovGuam			
Water Truck Rental for Fire Suppression	Purchase Orders	14,900	-	Closed
Technical Assistance	\$ 305,347	26,275	-	Closed
Layon Landfill - Design and Engineering Services	\$ 10,124,332	3,337,558	See Note Below	Closed
	GovGuam			
New Trucks	Purchase Orders	91,700	-	Closed
	Monthly Charge Plus Disposal Cost			
Operation of Household Hazardous Waste Facility		414,096	-	On-going
		<u>\$ 167,675,733</u>	<u>\$ 9,574,058</u>	

Note: The contract for Layon landfill - design and engineering services is a contract that pre-existed the Receivership. The cumulative expenditures shown are the expenses the Receiver paid directly through the construction sub-account. The difference between the contract amount and the expenditures as of September 30, 2015 represent Receiver's understanding of the amounts spent directly by the Government of Guam, almost all of which occurred before the Receiver was appointed.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
SOLID WASTE FUNDS

Comparative Schedule of Employees and Other Data
Years Ended September 30, 2015 and 2014

	2015	2014
<u>Full Time Employees:</u>		
Employee count:		
Administrative Support	3	3
Residential Collection	20	21
Convenience Center/Transfer Stations	5	8
Total employee count	28	32
Personnel costs:		
Salaries and wages - regular	\$ 976,664	\$ 1,036,595
Salaries and wages - overtime	64,907	165,331
Fringe benefits	385,023	403,064
Total personnel costs	\$ 1,426,594	\$ 1,604,990
<u>Contract services:</u>		
Employee count:		
Administrative Support	11	11
Sanitation Workers	27	27
Total employee count	38	38
Total personnel costs	\$ 1,199,103	\$ 1,148,522

See accompanying independent auditors' report.

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

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds") which comprise the balance sheet as of and for the year ended September 30, 2015, and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated May 24, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

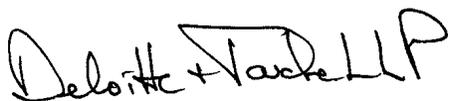
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2015-001.

Solid Waste Operations Fund Response to Findings

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

Purpose of this Report

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

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

May 24, 2016

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2015

Finding No. 2015-001

Procurement

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

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

Condition: During the year ended September 30, 2015, local funds totaling \$1,331,857 were utilized for Solid Waste Management Division expenditures, which demonstrated no competitive procurement (i.e., sole source procurement) or which were procured through an inappropriate procurement method. A summary of these services are as follows:

Temporary staffing services for the Solid Waste Management Division	\$ 1,178,988
Independent contractor services as the Solid Waste Management Division Services Administrator	96,600
Independent contractor services as the Solid Waste Management Division Customer Service Supervisor	<u>56,074</u>
	\$ <u>1,331,662</u>

Cause: The lack of enforcing internal control over compliance with Guam procurement requirements.

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

Recommendation: We recommended that the department or agency responsible for procuring goods or services under the Solid Waste Operations Fund enforce established procurement regulations consistently for all procurement, and maintain records sufficient to detail the significant history of procurement. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-001, Continued

Procurement, Continued

The Receiver does not concur with Finding No. 2015-001. The District Court of Guam, in its Order appointing the Receiver addressed this issue directly. In its Order, dated March 17, 2008, the Court requires the Receiver to comply with Guam law and regulation, “unless, in the best judgment of the Receiver, such compliance would unreasonably delay the progress in meeting the mandates of the Consent Decree”. While the finding cites Guam procurement regulations, it fails to take into consideration the authority granted to the Receiver in its appointment order from the United States District Court of Guam. In relevant part, the Order confers the following authority:

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

The Order also provides that GovGuam:

“... shall be responsible for compensation and expenses of the Receiver and of any and all persons or entities employed or contracted by the Receiver in carrying out the provisions of this Order.

Early in the work of the Receivership, the Receiver sought to build within GSWA (then known as the Solid Waste Management Division) the capacity to properly manage the affairs of the agency, a critical need without which compliance with the Consent Decree would have been impossible. Financial management and customer service were key elements of the ability to properly manage the affairs of GSWA and our early effort was to build on the best of the employees already working there.

After identifying an individual within the organization with the skills necessary to work with us on the financial management side of the agency, we sought to bring that person’s compensation and job responsibilities in line with this need through the GovGuam personnel system. Despite a significant effort, we were not successful in our work to accomplish the needed changes through the GovGuam personnel system.

We subsequently explored a number of other options for acquiring these personnel services, initially settling on a plan to supplement the salaries of some existing GovGuam employees to achieve the needed changes. However, after consulting with the Office of the Attorney General of Guam and understanding their objections to our initial plan in this area, we decided to pursue a different approach based on the authority cited above. This decision was based on the advice we received from the Office of the Attorney General.

A letter, dated May 28, 2009 from Deputy Attorney General Patrick Mason, which has been provided to the auditors, is the basis for the approach we adopted after much discussion and review. The letter contains a discussion of the Attorney General’s objection to one approach we were considering and concludes with the following comment:

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-001, Continued

Procurement, Continued

“If the Receiver deems it necessary to hire its own employees to handle Consent Decree matters or contract with other entities to handle Consent Decree matters, it can do so pursuant to and in compliance with Guam and federal law.”

Based on our respect for the Attorney General’s opinion, this was the course of action we decided to follow and we believe it to be consistent with the Orders of the District Court and Guam and federal law.

The contracts with Pacific Human Resource Services, Inc., and our direct contracts with contract employees, are the vehicles the Receiver has used to address the issues outlined above. These personnel were carefully selected based on their experience and performance while actually working for the Receiver as either GovGuam employees or through the contract with Pacific Human Resources Services. These employees have been key to the Receiver’s success and, in the best judgement of the Receiver, there was simply no other practical way to accomplish compliance with the Consent Decree. The very positive results achieved through the Receivership clearly validate the judgement of the Receiver in this matter.

In conclusion, the audit finding completely ignores the authority and discretion given to the Receiver by the District Court. For this reason, the audit finding is wrong. The contracts that are the subject of this finding were acquired in a manner that is both lawful and fully authorized based on the Orders of the District Court and the advice of the Office of the Attorney General of Guam. Auditors have cited no legal authority for their contrary opinion.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Unresolved Prior Year Findings
Year Ended September 30, 2015

Unresolved Prior Year Findings

As of September 30, 2015, the status of all audit findings included in the Schedule of Findings and Responses as of September 30, 2015 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2015-001.

Finding No. 2012-1 – Not corrected. See corrective action plan to Finding No. 2015-001.

Finding No. 2013-1 – Not corrected. See corrective action plan to Finding No. 2015-001.

Finding No. 2014-001 – Not corrected. See corrective action plan to Finding No. 2015-001.