

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

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

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

(RESTATED)

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

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 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 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 financial position of the Guam Waterworks Authority as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding New Accounting Pronouncements

As described in Note 2 to the financial statements, during the year ended September 30, 2013, GWA has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The 2012 financial statements were restated for the effect of adopting these accounting pronouncements. Our opinion is not modified with respect to this matter.

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 15 as well as the Schedule of Funding Progress on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

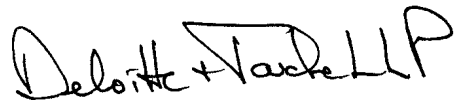
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of certain operating and maintenance expenses, construction work in progress, system development charge fund schedule of net position, revenue, expenses and changes in net position, and operating revenues on pages 45 through 48 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of certain operating and maintenance expenses, construction work in progress, system development charge fund schedule of net position, revenues, expenses, and changes in net position, and operating revenues are the responsibility of management and were derived from and relate 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 schedules of certain operating and maintenance expenses, construction work in progress, system development charge fund schedule of net position, revenues, expenses, and changes in net position, and operating revenues are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employee and other data on page 49 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 June 11, 2014, on our consideration of GWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GWA's internal control over financial reporting and compliance.

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

June 11, 2014

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

Management's Discussion and Analysis
September 30, 2013 and 2012

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, 2013. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 16.

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 21 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary and statistical information can be found beginning on page 44 of this report.

Financial Highlights

- Total assets and deferred outflows of resources of GWA exceeded total liabilities at the close of the fiscal year by \$191.6 million (net position).
- Net position decreased by \$5.5 million in FY 2013.
- Operating revenues increased by \$5.3 million in FY 2013.
- Capital assets, net of accumulated depreciation, at September 30, 2013 increased by \$17.4 million as compared to September 30, 2012.
- Operating and maintenance expenses increased by \$5.4 million in FY 2013.
- Operating income of \$5.2 million in FY 2013 remains relatively unchanged from prior years level of \$5.3 million.

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Financial Condition

The Authority's total net position decreased by \$5.5 million during the fiscal year (see Table 1 below) due to decreases in other non-current assets.

The net increase in current assets of about \$372 thousand is due to increases in trade and other receivables.

The net increase in property, plant and equipment of \$17.4 million is due to the construction of wastewater treatment plant and pump station improvements, transmission lines, meter replacements, ground water chlorination project, and acquisition of mechanical and electrical equipment.

The Authority's net investment in capital assets represents 97% of total net position. The net amount invested in capital assets decreased by \$4.6 million compared to prior year.

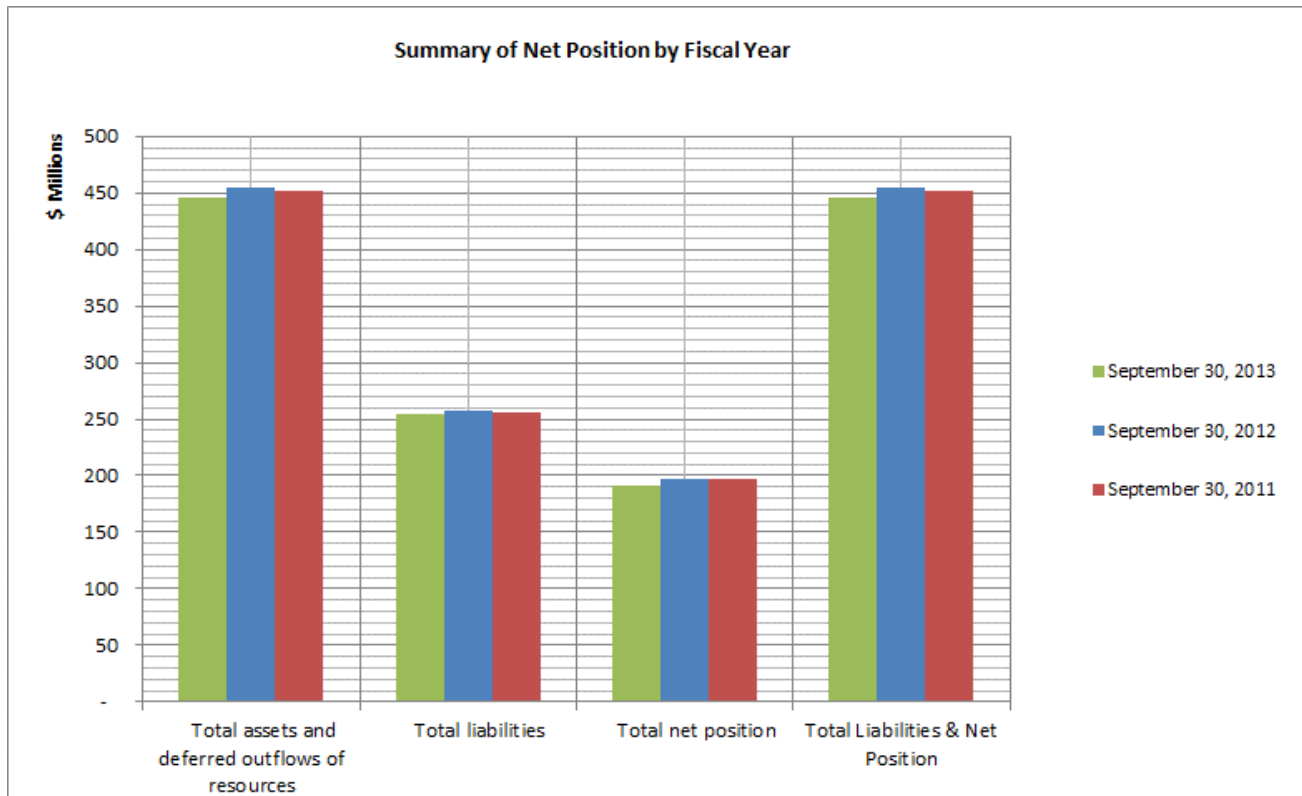
During the year ended September 30, 2013, GWA implemented Governmental Accounting Standards Board Statement No. 63 and Statement No. 65, which resulted in a restatement of 2012 and prior year financial statements. The effects of the restatement are reflected in the condensed financial information presented below in Tables 1 and 2.

Table 1
Summary Statement of Net Position

	September 30, 2013	As Restated	As Restated	2013 to 2012 Comparison	
		September 30, 2012	September 30, 2011	Increase/ (Decrease)	% Change
Current Assets	\$ 36,186,645	\$ 35,814,457	\$ 33,073,629	\$ 372,188	1.04%
Property, plant and equipment, net	322,178,207	304,802,292	284,212,877	17,375,915	5.70%
Other non-current assets	87,833,095	113,260,433	134,434,890	(25,427,338)	-22.45%
Deferred outflows of resources	321,057	335,541	351,451	(14,484)	-4.32%
Total assets and deferred outflows of resources	446,519,004	454,212,723	452,072,847	(7,693,719)	-1.69%
Current liabilities	29,835,442	26,315,344	19,405,499	3,520,098	13.38%
Long-term liabilities	225,041,224	230,748,403	236,213,430	(5,707,179)	-2.47%
Total liabilities	254,876,666	257,063,747	255,618,929	(2,187,081)	-0.85%
Net Position					
Net investment in capital assets	184,944,929	189,567,949	189,524,913	(4,623,020)	-2.44%
Restricted	11,712,242	9,472,664	8,049,966	2,239,578	23.64%
Unrestricted	(5,014,833)	(1,891,637)	(1,120,961)	(3,123,196)	165.11%
Total net position	191,642,338	197,148,976	196,453,918	(5,506,638)	-2.79%
Total liabilities and net position	\$ 446,519,004	\$ 454,212,723	\$ 452,072,847	\$ (7,693,719)	-1.69%

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The total operating revenues of \$74.8 million increased by \$5.3 million or 7.6% and operating expenses of \$69.6 million increased by \$5.4 million or 8.3% for the current year resulting in net operating income of \$5.2 million or 1.4% decrease when compared to the prior year (see Table 2).

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

- Water revenues (total) increased by \$3.9 million over the prior fiscal year due in part to a 9.14% increase in water rates. There was also an increase in total consumption of 8% or 469.7 million gallons and a 1% increase, or 344, in the monthly average in the number of water customers. There were revenue dollar increases in agricultural, commercial, irrigation, and residential customer classes, and decreases in government and hotel customer classes. The basic (fixed) water charge is assessed monthly to all customer classes without regard to consumption. Please see Table 3.
- Wastewater revenues (total) increased by \$1.9 million or 8% over the prior fiscal year. A 9.14% rate increase in sewer charges was approved for the current year. There was an increase in wastewater consumption of 8% or 326.4 million gallons as compared to prior year. There were revenue dollar increases in commercial 1, commercial 3, federal, hotel, and residential customer classes, and decreases in commercial 2 customer classes. The basic (fixed) sewer charges are assessed monthly to residential customers without regard to consumption; however, all other customer classes are charged 80% of volumetric water consumption. Please see Table 4.

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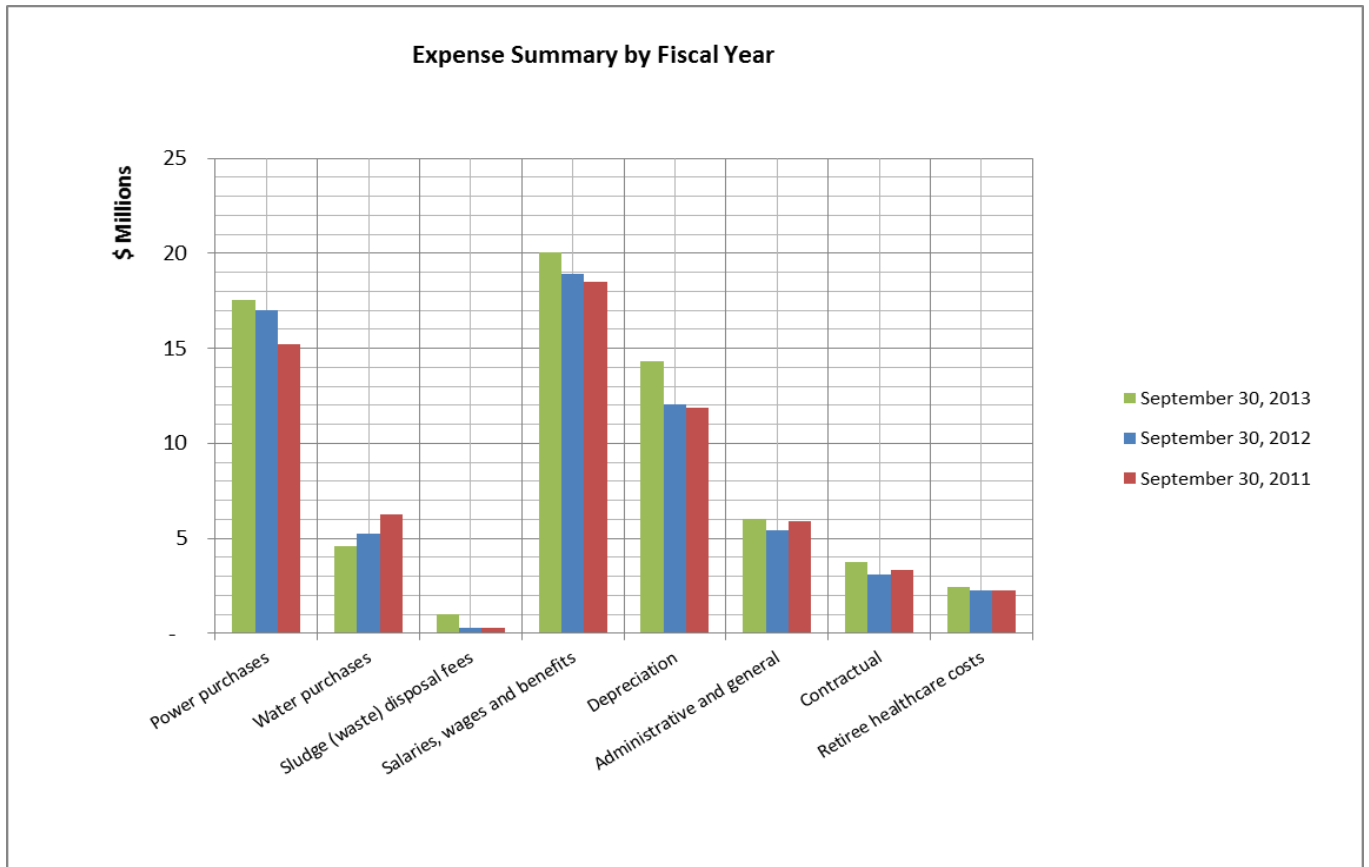
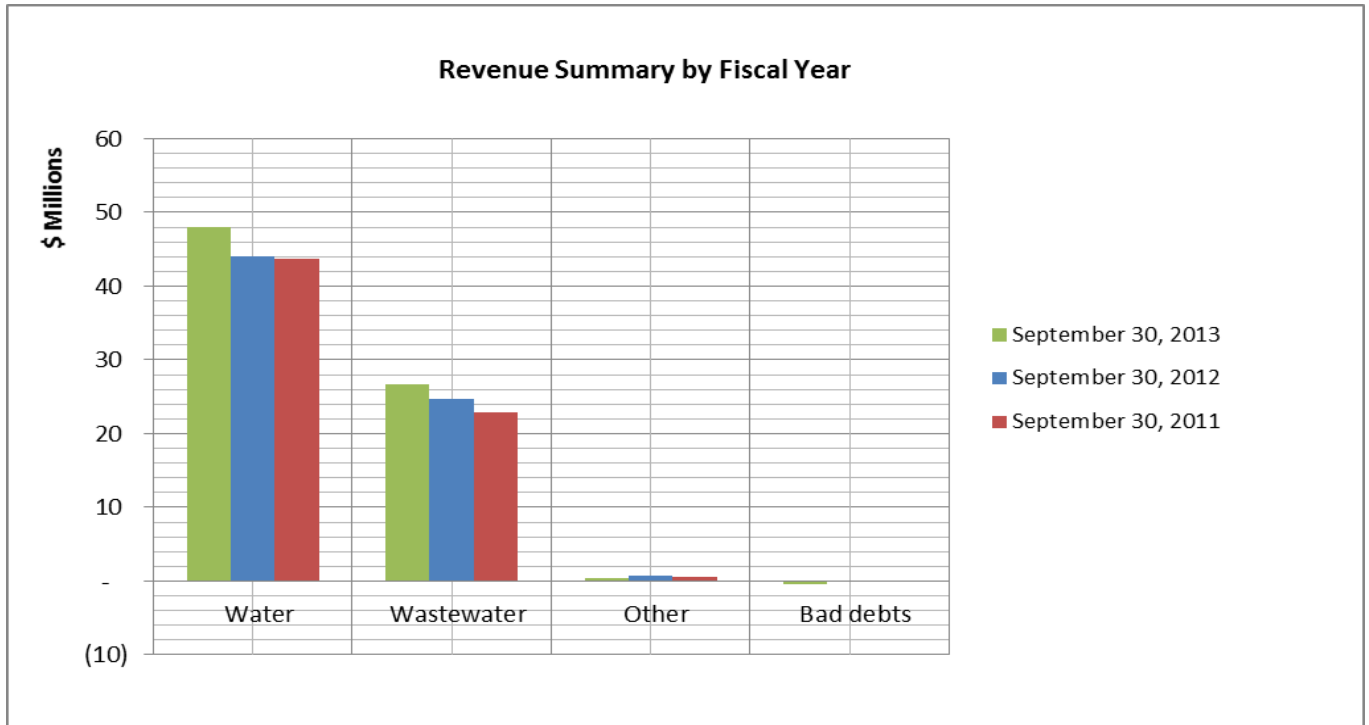
- Operating expenses increased by \$5.4 million or 8.3% over the prior fiscal year. The contributing factors were increases in power purchases, waste disposal fees, and salaries and wages. The increases in operating expenses were offset by decreases in water purchases.
- Net non-operating expenses increased \$3.9 million due primarily to inventory write-down and loss on disposal of certain assets. Capital contributions were grants from the U.S. Government.
- Of the total water and wastewater revenue of \$48.0 million and \$26.7 million, system development charges (SDC) represented \$0.651 million and \$0.719 million, respectively. Thus, the total SDC for the current fiscal year total is \$1.37 million. Please see Schedule 4 on page 47.

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

	September 30, 2013	As Restated September 30, 2012	As Restated September 30, 2011	2013 to 2012 Comparison Increase/ (Decrease)	Comparison % Change
Revenues:					
Water	\$ 48,003,668	\$ 44,071,415	\$ 43,747,618	\$ 3,932,253	8.92%
Wastewater	26,695,804	24,740,131	22,960,591	1,955,673	7.90%
Other	462,030	700,979	606,994	(238,949)	-34.09%
Bad debts	(361,281)	-	-	(361,281)	-100.00%
Total operating revenue	<u>74,800,221</u>	<u>69,512,525</u>	<u>67,315,203</u>	<u>5,287,696</u>	<u>7.61%</u>
Expenses:					
Power purchases	17,508,372	17,015,686	15,191,769	492,686	2.90%
Water purchases	4,570,862	5,263,128	6,283,246	(692,266)	-13.15%
Sludge (waste) disposal fees	988,876	275,938	305,469	712,938	258.37%
Salaries, wages and benefits	20,058,840	18,891,270	18,499,114	1,167,570	6.18%
Depreciation	14,319,394	12,050,430	11,854,307	2,268,964	18.83%
Administrative and general	6,007,108	5,416,166	5,885,100	590,942	10.91%
Contractual	3,733,593	3,068,764	3,355,465	664,829	21.66%
Retiree healthcare costs other benefits	2,418,349	2,262,583	2,244,032	155,766	6.88%
Total operating expenses	<u>69,605,394</u>	<u>64,243,965</u>	<u>63,618,502</u>	<u>5,361,429</u>	<u>8.35%</u>
Net operating income	<u>5,194,827</u>	<u>5,268,560</u>	<u>3,696,701</u>	<u>(73,733)</u>	<u>-1.40%</u>
Non-operating revenue (expenses)	(1,643,566)	2,632,568	1,950,924	(4,276,134)	-162.43%
Less: Interest Expense	(13,538,467)	(13,885,808)	(13,366,111)	347,341	-2.50%
Total non-operating revenues (expenses), net	<u>(15,182,033)</u>	<u>(11,253,240)</u>	<u>(11,415,187)</u>	<u>(3,928,793)</u>	<u>34.91%</u>
Loss before capital contributions	(9,987,206)	(5,984,680)	(7,718,486)	(4,002,526)	66.88%
Capital contributions	<u>4,480,568</u>	<u>6,679,738</u>	<u>4,788,268</u>	<u>(2,199,170)</u>	<u>-32.92%</u>
Change in net position	(5,506,638)	695,058	(2,930,218)	(6,201,696)	-892.26%
Net position - beginning of year	<u>197,148,976</u>	<u>196,453,918</u>	<u>199,384,136</u>	<u>695,058</u>	<u>0.35%</u>
Net position - end of year	<u>\$ 191,642,338</u>	<u>\$ 197,148,976</u>	<u>\$ 196,453,918</u>	<u>\$ (5,506,638)</u>	<u>-2.79%</u>

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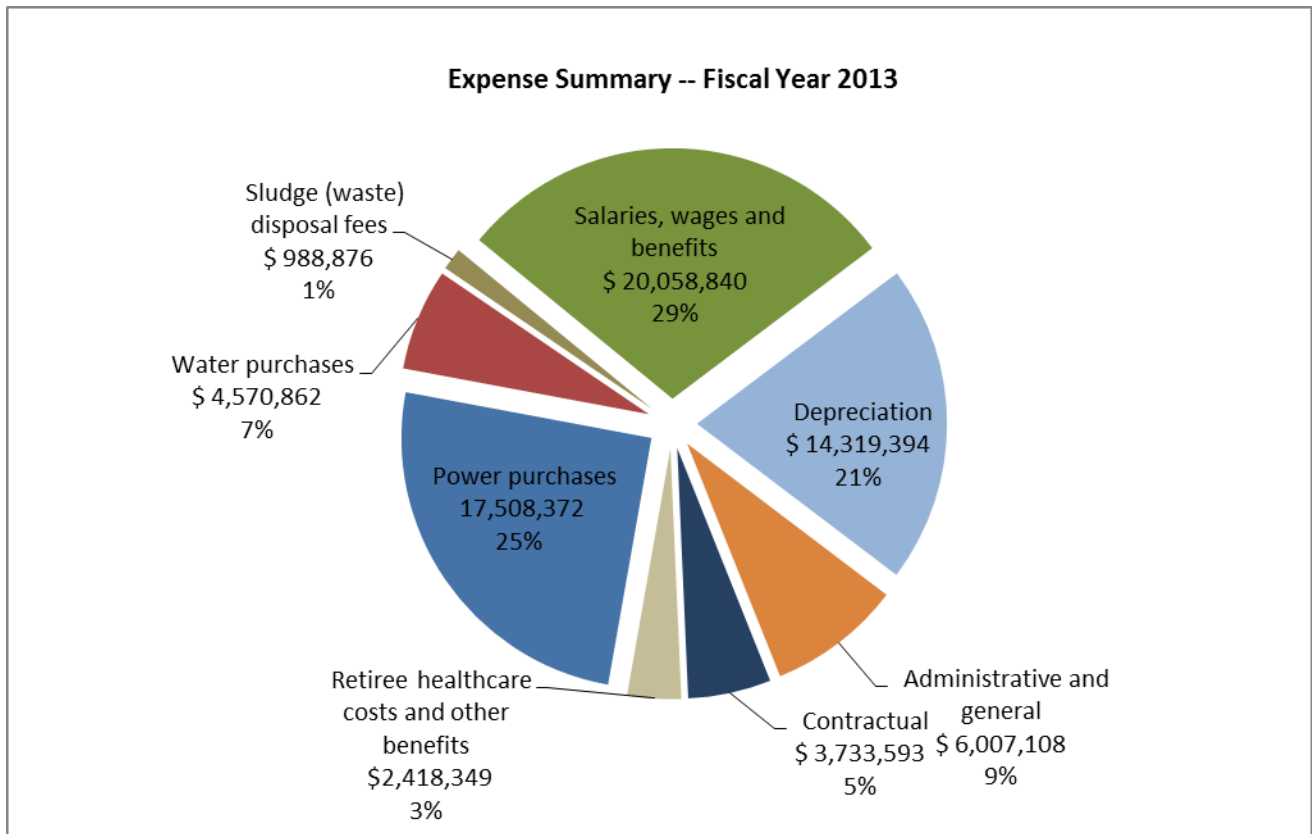
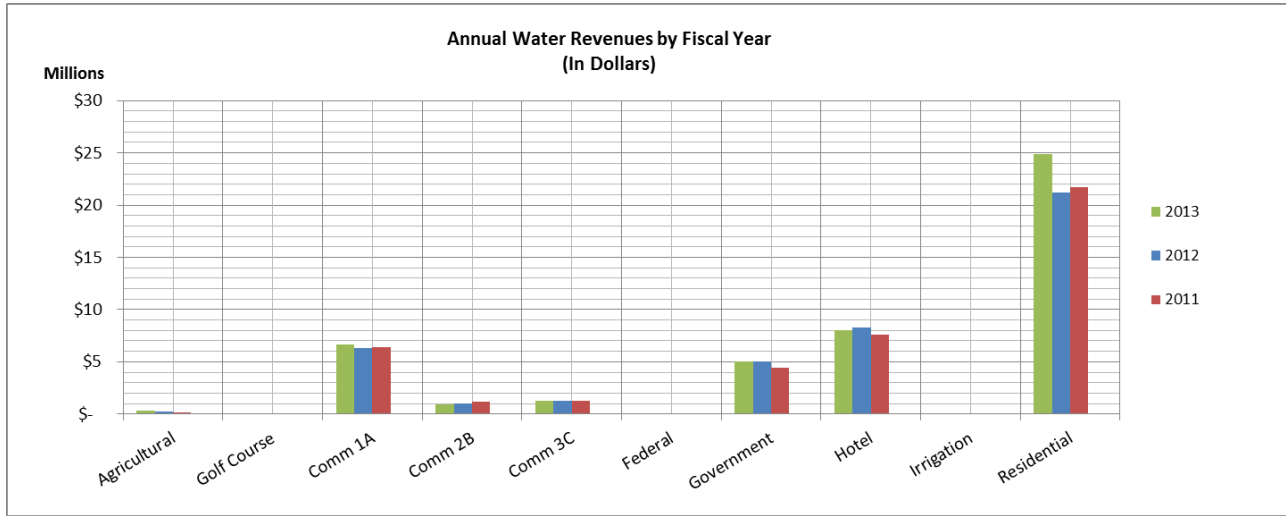


Table 3
Annual Water Revenues (Includes Surcharges and Excludes System Development Charges)

Class Type	September 30,	September 30,	September 30,	% Change	2013 to 2012
	2013	2012	2011	Increase (Decrease)	Comparison Increase (Decrease)
Agricultural	\$ 360,534	\$ 255,061	\$ 178,081	41%	\$ 105,473
Golf Course	63,909	62,791	73,247	2%	1,118
Comm 1 ^A	6,649,945	6,301,102	6,428,626	6%	348,843
Comm 2 ^B	938,883	1,005,031	1,136,049	-7%	(66,148)
Comm 3 ^C	1,296,506	1,233,225	1,269,874	5%	63,281
Federal	10,041	9,472	26,184	6%	569
Government	5,015,300	5,025,237	4,437,617	0%	(9,937)
Hotel	8,037,569	8,300,464	7,590,889	-3%	(262,895)
Irrigation	72,064	37,982	38,991	90%	34,082
Residential	24,908,309	21,234,055	21,722,871	17%	3,674,254
TOTAL	\$ 47,353,060	\$ 43,464,420	\$ 42,902,429	9%	\$ 3,888,640

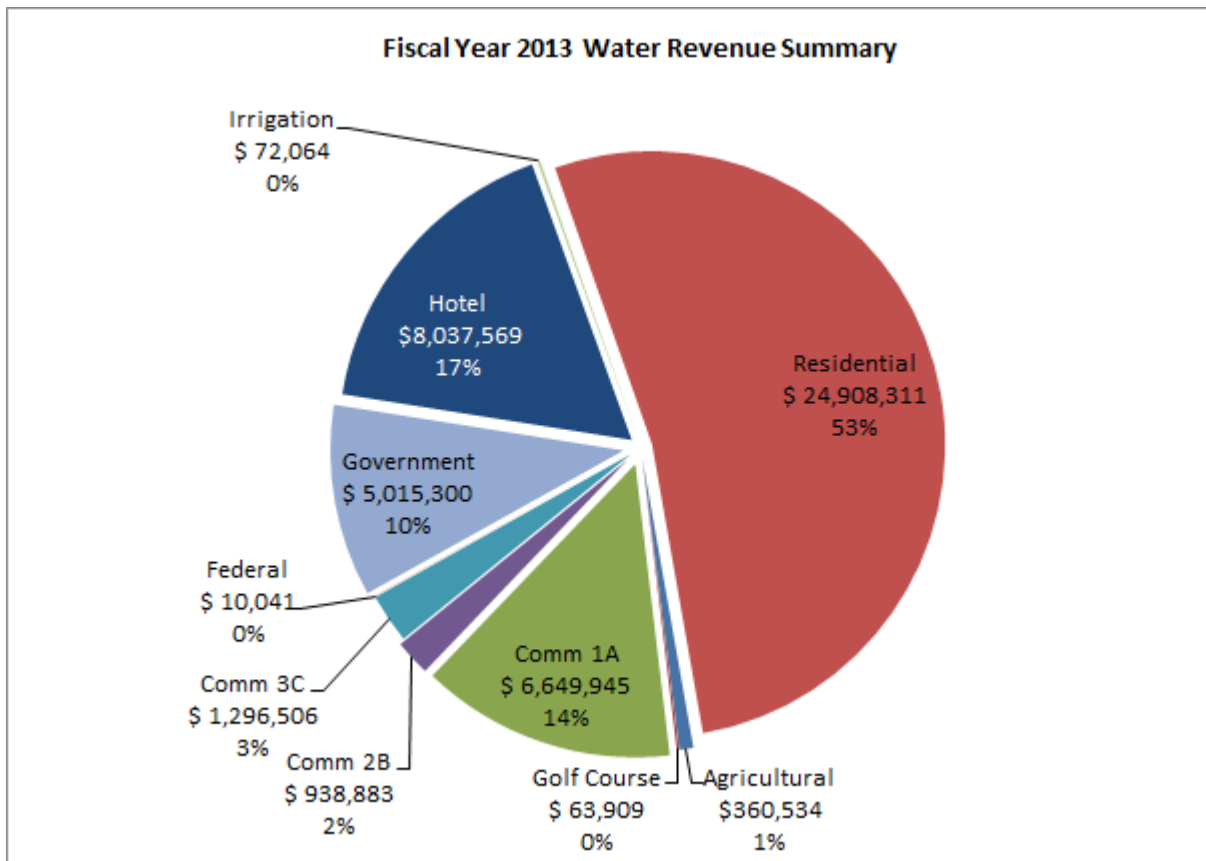
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Notes:

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



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

Class Type				2013 to 2012	
	September 30, 2013	September 30, 2012	September 30, 2011	% Change Increase (Decrease)	Comparison Increase (Decrease)
Comm 1 ^A	\$ 2,085,884	\$ 1,937,198	\$ 1,872,934	8%	\$ 148,686
Comm 2 ^B	895,278	936,600	875,021	-4%	(41,322)
Comm 3 ^C	1,712,747	1,485,478	1,350,252	15%	227,269
Federal	4,141,550	3,798,233	3,319,549	9%	343,317
Government	2,131,248	2,133,228	1,923,714	0%	(1,980)
Hotel	6,623,338	6,136,602	5,209,326	8%	486,736
Residential	8,386,589	7,777,762	7,628,104	8%	608,827
TOTAL	\$ 25,976,634	\$ 24,205,101	\$ 22,178,900	0%	\$ 1,771,533

Notes:

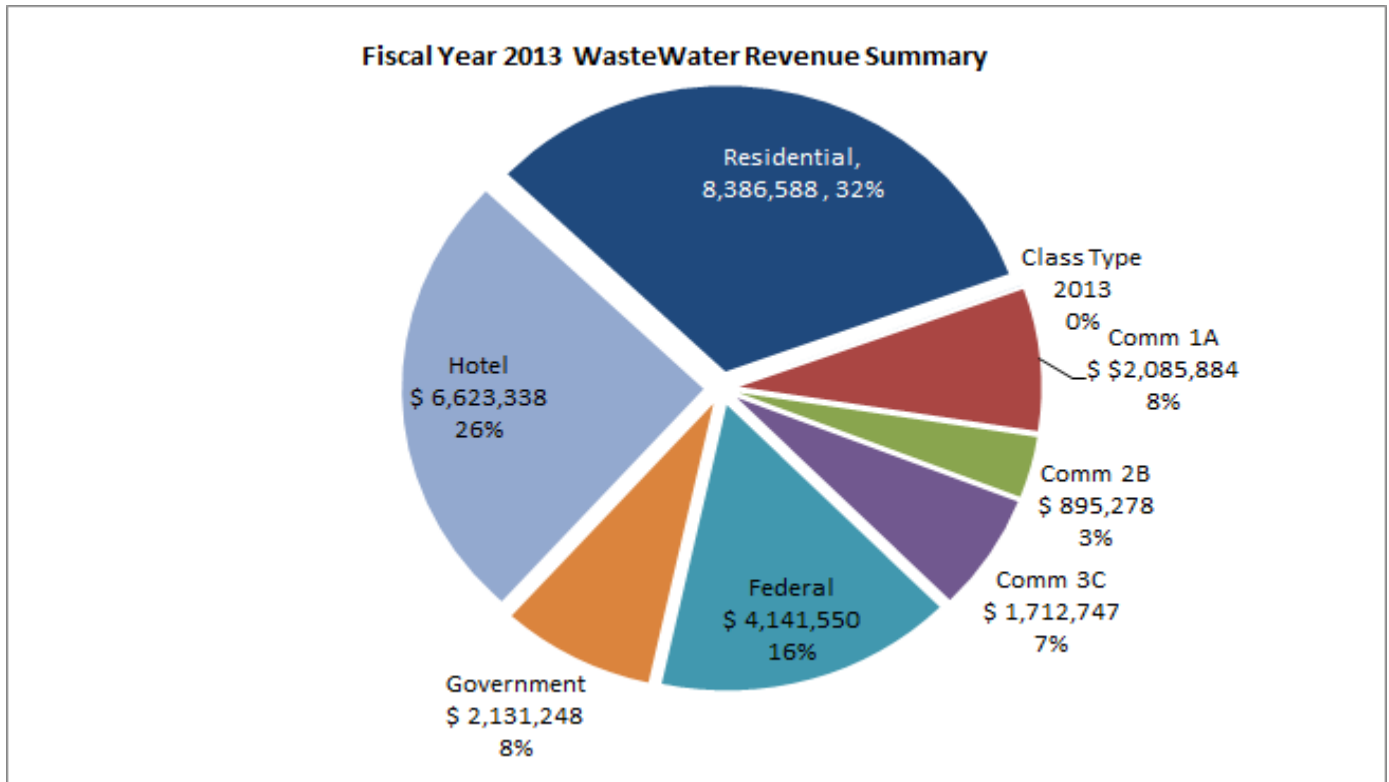
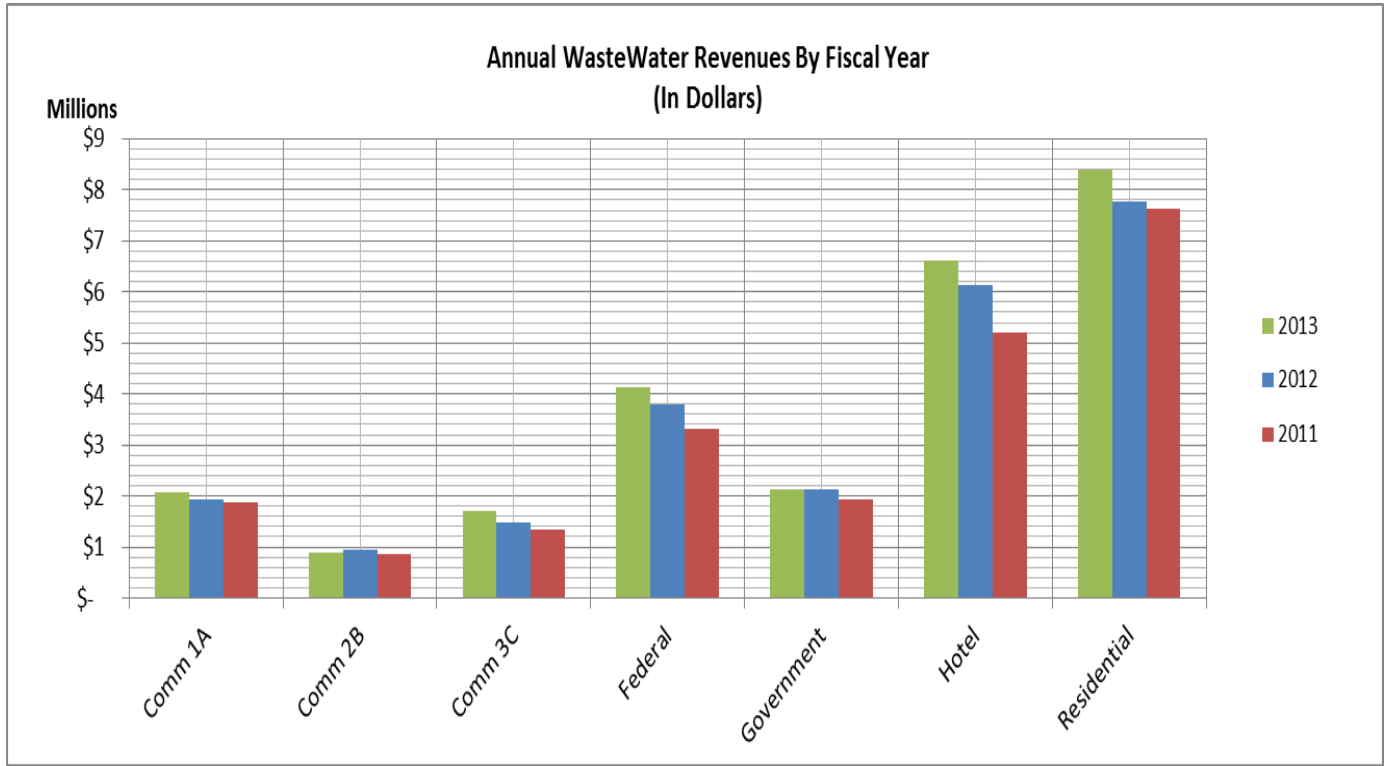
^A Bars w/o dining facilities, car wash, dept & retail stores, hospital & convalescent, laundromat, professional offices, repair shops & service stations, school & colleges, soft water service, markets w/o garbage disposal.

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Capital Assets

GWA had \$322.2 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2013. The investment in capital assets includes buildings, improvements, water treatment plants, filter plants, water transmission and distribution mains, water storage facilities, pump stations, wastewater treatment facilities, machinery and equipment (see Table 5).

In 2013, capital assets increased by \$17.4 million (net) or 5.7% over the prior fiscal year. The increase is consistent with the Authority's implementation of a five-year (FY 12 to FY 16) capital improvement program.

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

This year's major capital additions included:

Water

Meter Replacement Program	\$ 6,511,277
General Plant Improvements	2,566,782
Leak Detection/Line Replacement Program	1,936,941
Ground Water Chlorination	1,853,089
Mechanical/Electrical Equipment	593,853

Wastewater

Northern District Wastewater Treatment Interim Improvements	15,566,524
Central Wastewater Moratorium Project	3,927,564

Table 5
Capital Assets

	September 30 2013	September 30 2012	September 30 2011	2013 to 2012 Comparison	
				Increase/ (Decrease)	% Change
Plant, buildings and equipment, net	\$ 295,207,115	\$ 277,527,588	\$ 254,363,700	\$ 17,679,527	6.37%
Land	64,288	64,288	64,288	-	-
Construction in progress	26,906,804	27,210,416	29,784,889	(303,612)	-1.12%
Total	<u>\$ 322,178,207</u>	<u>\$ 304,802,292</u>	<u>\$ 284,212,877</u>	<u>\$ 17,375,915</u>	<u>5.70%</u>

For additional information concerning capital assets, please refer to note 4 to the financial statements.

Debt

As of September 30, 2013, GWA had total long-term debt outstanding of \$222.8 million, net of unamortized costs, which is a decrease of -\$5.9 million or -2.6% over the prior year (see Table 6 below). The reason for the decrease in long-term debt is because of principal balance reduction in our 2005 Bond Series and Bank Notes.

GWA is required by bond covenants to maintain principal, interest, and reserve funds for the bond issue outstanding. In addition, GWA is required to set rates and charges to yield revenues equal to at least 125% of the current annual debt service requirements of the outstanding 2005 and 2010 revenue bond series. The Public Utilities Commission (PUC) set the requirement at 175%.

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Table 6
Long Term Debt

	September 30, 2013	September 30, 2012	September 30, 2011	2013 to 2012 Comparison	
				Increase/ (Decrease)	% Change
2005 Bond Series	\$ 88,485,000	\$ 90,865,000	\$ 93,135,000	\$ (2,380,000)	-2.62%
2010 Bond Series	118,825,000	118,825,000	118,825,000	-	-
Bank Notes	20,806,970	23,925,764	26,752,042	(3,118,794)	-13.04%
United States Navy	-	-	1,161,292	-	-
Total	<u>\$ 228,116,970</u>	<u>\$ 233,615,764</u>	<u>\$ 239,873,334</u>	<u>\$ (5,498,794)</u>	<u>-2.35%</u>

For additional information concerning debt, please refer to note 6 to the financial statements.

Looking Forward

Outlook, Challenges, and Opportunities

Over the last several years, GWA has made tremendous progress in addressing a long history of operational and regulatory compliance problems pre-dating the establishment of GWA as an autonomous entity and creation of the Consolidated Commission on Utilities (CCU).

The CCU and PUC have been very supportive of GWA's needs and instrumental in the progress achieved to date.

Significant improvements in the maintenance and operation of the water and wastewater system have produced positive results by reducing line losses, decreasing dependence on Department of Defense (DOD) Navy as a supplemental source of supply and complying with regulatory mandates such as the Clean Water Act and Safe Drinking Water Act.

Other improvements to the System have substantially enhanced operating revenues, controlled operating expenses, and produced positive returns on GWA's finances. These improvements include the implementation of an aggressive meter replacement program. Since August 2012, approximately 30,000 meters (or 75% of GWA's total meters) have been removed and replaced with new Badger meters.

The prompt leak repair program is responsible for GWA's decreased dependence on DOD Navy. The successes of the program has led to major cost savings amounting to millions of dollars over the past years despite DOD Navy raising their rates every year dating back to 2010.

The 2011 Federal Court Order is a top priority of GWA and GWA has been working very closely with the U.S. Environmental Protection Agency (EPA) to address compliance issues. For the first time since the Clean Water Act was passed, GWA's largest wastewater facility is in primary treatment compliance and the island's second largest treatment facility is currently in compliance since spring of 2014.

GWA's request for an extension of its 301(h) waiver was denied by U.S. EPA and GWA is faced with the requirement to implement secondary treatment at its two largest plants, the Hagatna and Northern wastewater treatment plants. Discussions with U.S. EPA are already underway on establishing the requirements for secondary treatment however, a timeline to implement secondary treatment has not begun. GWA will be seeking from U.S. EPA the same extended timelines granted to other communities to migrate to secondary treatment. GWA's 5-Year Capital Plan does not address this issue although it could significantly impact GWA's finances.

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GWA does not expect the proposed military buildup will materially affect GWA's future capital requirements. However, to the extent it will require capital improvements to the System, it is GWA's expectation that these capital improvements will be paid with federal funds or grants, by way of a DOD agreement that DOD will be responsible for all direct and indirect impacts resulting from the buildup.

In October 2013, PUC approved GWA's 2nd five-year rate plan (FY2014 – FY2018) which includes among other things, an increase in base rate in the aggregate of 57% and approximately half a billion dollars of additional borrowing in three separate series of financing throughout the rate plan period. The first financing took place in November 2013 and GWA was able to successfully secure approximately \$172 million of financing. GWA received an investment grade rating of A- with a stable outlook for the series 2013 water and wastewater system revenue bonds.

Approximately 2/3rd of total borrowings will go towards meeting the 2011 Court Order. Key court ordered projects include wastewater treatment upgrades, storage tank replacement, leak repair and line replacements and groundwater chlorination. The deadline to complete most of the projects is 2021 although key milestones are established throughout this period. Indicators of GWA's success towards meeting the 2011 Court Order are EPA has not issued fines related to the 2011 Court Order nor has GWA been required to have an update hearing with the District Court.

GWA, like many utilities, face the common challenges of an aging infrastructure, gradual increases in the cost of operating a system and progressively stringent regulatory compliance requirements. A wide spectrum of utilities recognize that sound financial management and efficiency optimization are key initiatives among others for systematically managing and addressing these challenges in a reasonable and prudent manner. The success of GWA has been in its planning and communication. One example is the 09/2013 Comprehensive Management Plan, which documents GWA's improvement and creates a roadmap for future success. Refer to the 09/2013 Comprehensive Management Plan on our website at www.guamwaterworks.org.

These challenges will continue to place unprecedented financial stress on utilities due to the nature of a utility's operating environment, but an even greater challenge facing utilities today is the pressure on keeping the cost of delivering essential water and waste water services affordable to the community.

Request for Information

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

Management's Discussion and Analysis for the years ended September 30, 2012 and 2011 is set forth in GWA's report on the audit of financial statements which is dated May 30, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2012 and 2011 financial statements. A copy of that report can be obtained by contacting the CFO office at (671) 647-7838.

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

Statements of Net Position
September 30, 2013 and 2012

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2013</u>	<u>2012 As Restated (Note 2)</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 2,662,074	\$ 2,421,955
Restricted	16,984,203	19,434,692
Receivables, net	14,254,906	12,121,147
Materials and supplies inventory, net of an allowance for obsolescence of \$2,504,036 at September 30, 2013 and \$64,677 at September 30, 2012	1,615,170	1,727,461
Prepaid expenses	670,292	109,202
Total current assets	<u>36,186,645</u>	<u>35,814,457</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	276,615,150	279,765,742
Wastewater system	244,132,312	227,270,443
Non-utility property	19,292,743	17,049,671
	540,040,205	524,085,856
Less accumulated depreciation	<u>(244,833,090)</u>	<u>(246,558,268)</u>
	295,207,115	277,527,588
Land	64,288	64,288
Construction work in progress	26,906,804	27,210,416
Property, plant and equipment, net	<u>322,178,207</u>	<u>304,802,292</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	70,632,440	96,060,028
Investments	17,200,655	17,200,405
Total other noncurrent assets	<u>87,833,095</u>	<u>113,260,433</u>
Total assets	<u>446,197,947</u>	<u>453,877,182</u>
Deferred outflows of resources:		
Debt defeasance costs	321,057	335,541
	<u>\$ 446,519,004</u>	<u>\$ 454,212,723</u>

See accompanying notes to financial statements.

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

Statements of Net Position, Continued
September 30, 2013 and 2012

<u>LIABILITIES AND NET POSITION</u>	<u>2013</u>	<u>2012 As Restated (Note 2)</u>
Current liabilities:		
Current maturities of long-term debt:		
Revenue bonds payable	\$ 2,500,000	\$ 2,380,000
Notes payable	3,272,319	3,074,328
Accounts payable:		
United States Navy	676,249	404,726
Guam Power Authority	2,568,473	1,444,824
Trade	2,364,873	2,498,193
Accrued interest	3,036,453	3,039,677
Accrued payroll and employee benefits	1,172,065	1,101,486
Current portion of employee annual leave	502,367	469,631
Payable to contractors	11,126,554	9,698,587
Customer deposits	2,043,851	2,063,758
Other liabilities	572,238	140,134
	<u>29,835,442</u>	<u>26,315,344</u>
Long-term debt, less current maturities:		
Revenue bonds payable	205,283,096	207,822,566
Notes payable	17,534,651	20,851,436
Employee annual leave, less current portion	843,123	855,513
DCRS sick leave liability	1,211,126	1,049,726
Advances for construction	169,228	169,162
	<u>254,876,666</u>	<u>257,063,747</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	184,944,929	189,567,949
Restricted	11,712,242	9,472,664
Unrestricted	(5,014,833)	(1,891,637)
	<u>191,642,338</u>	<u>197,148,976</u>
	<u>\$ 446,519,004</u>	<u>\$ 454,212,723</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012 As Restated (Note 2)
Operating revenues:		
Water:		
Private	\$ 40,597,479	\$ 35,309,082
Government	4,751,252	4,497,672
Legislative surcharge	2,004,329	2,901,946
System development charge	650,608	606,995
PUC surcharge	-	755,720
	48,003,668	44,071,415
Wastewater:		
Private	19,700,266	18,273,640
Government	6,127,437	5,661,535
Legislative surcharge	148,702	213,131
System development charge	719,170	535,030
PUC surcharge	229	56,795
	26,695,804	24,740,131
Other	462,030	700,979
Bad debts expense	(361,281)	-
Total operating revenues	74,800,221	69,512,525
Operating and maintenance expenses:		
Power purchases	17,508,372	17,015,686
Water purchases	4,570,862	5,263,128
Waste disposal fees	988,876	275,938
	23,068,110	22,554,752
Salaries, wages and benefits	20,058,840	18,891,270
Depreciation	14,319,394	12,050,430
Administrative and general	6,007,108	5,416,166
Contractual	3,733,593	3,068,764
Retiree health care costs and other benefits	2,418,349	2,262,583
	69,605,394	64,243,965
Total operating and maintenance expenses	69,605,394	64,243,965
Operating income	5,194,827	5,268,560
Nonoperating revenues (expenses):		
Allowance for funds used during construction	5,164,140	4,946,472
Interest income	19,606	34,122
Interest expense:		
Revenue bonds 2010	(6,516,400)	(6,516,400)
Revenue bonds 2005	(5,294,544)	(5,382,419)
Others	(1,727,523)	(1,986,989)
Loss on inventory write-down	(2,439,360)	-
Loss on property, plant and equipment disposals	(2,227,090)	-
Federal expenditures	(1,980,709)	(2,233,586)
Others, net	(180,153)	(114,440)
	(15,182,033)	(11,253,240)
Total nonoperating revenues (expenses), net	(15,182,033)	(11,253,240)
Loss before capital contributions	(9,987,206)	(5,984,680)
Capital contributions:		
Grants from the U.S. Government	4,480,568	6,679,738
	(5,506,638)	695,058
Change in net position	(5,506,638)	695,058
Net position at beginning of year	197,148,976	196,453,918
Net position at end of year	\$ 191,642,338	\$ 197,148,976

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 71,995,256	\$ 68,153,410
Cash payments to suppliers for goods and services	(31,956,347)	(31,352,812)
Cash payments to employees for services	(19,806,515)	(18,721,167)
Cash payments on settlement agreements	-	(1,161,292)
Cash payments for retiree healthcare costs	(2,418,349)	(2,262,583)
Net cash provided by operating activities	17,814,045	14,655,556
Cash flows from noncapital financing activities:		
Principal repayment of bank loan	(1,019,832)	(935,871)
Interest paid on bank loan	(189,419)	(269,275)
Other interest paid on settlement agreements	(10,055)	(16,428)
Net cash used for noncapital financing activities	(1,219,306)	(1,221,574)
Cash flows from capital and related financing activities:		
Federal grants received	3,151,158	3,435,450
Acquisition of property, plant and equipment	(29,376,959)	(19,415,181)
Principal paid on revenue bond maturities	(2,380,000)	(2,270,000)
Interest paid on revenue bonds	(11,840,694)	(11,954,194)
Principal repayment of bank loan	(2,098,962)	(1,890,407)
Interest paid on bank loan	(1,501,523)	(1,701,286)
Advances for construction	66	216
Other payments	(205,139)	(138,000)
Net cash used for capital and related financing activities	(44,252,053)	(33,933,402)
Cash flows from investing activities:		
Net transfers from restricted funds	27,877,827	20,952,711
Interest income received	19,606	34,122
Net cash provided by investing activities	27,897,433	20,986,833
Net change in unrestricted cash and cash equivalents	240,119	487,413
Unrestricted cash and cash equivalents at beginning of year	2,421,955	1,934,542
Unrestricted cash and cash equivalents at end of year	\$ 2,662,074	\$ 2,421,955
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 5,164,140	\$ 4,946,472
Capitalized interest	(5,164,140)	(4,946,472)
	\$ -	\$ -
Loss on inventory write-down	\$ 2,439,360	\$ -
Noncash decrease in construction work in progress	(2,046,667)	-
Noncash net decrease in materials and supplies inventory	(392,693)	-
	\$ -	\$ -
Noncash federal expenditures	\$ 1,980,709	\$ 2,233,586
Noncash grants from U.S. Government	(1,980,709)	(2,233,586)
	\$ -	\$ -

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,194,827	\$ 5,268,560
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,319,394	12,050,430
Bad debts	361,281	-
(Increase) decrease in assets:		
Accounts receivable	(3,146,339)	(1,473,715)
Materials and supplies inventory	(280,402)	310,252
Prepaid expenses	(561,090)	142,496
Increase (decrease) in liabilities:		
Accounts payable	1,261,852	(2,304,109)
Accrued payroll and employee benefits	70,579	53,422
Employee annual leave	20,346	(1,638)
Customer deposits	(19,907)	114,600
Other liabilities	432,104	376,939
DCRS sick leave liability	161,400	118,319
Net cash provided by operating activities	\$ 17,814,045	\$ 14,655,556

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Reporting Entity

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

GWA utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Position

Net position represents the residual interest in GWA's assets after liabilities are deducted and consists of the following three sections:

Net investment in capital assets - include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

Restricted nonexpendable - net position subject to externally imposed stipulations that require GWA to maintain them permanently.

Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GWA pursuant to those stipulations or that expire with the passage of time.

At September 30, 2013 and 2012, restricted net position consists of the following:

	<u>2013</u>	<u>2012</u>
Revenue Fund	\$ 5,341,283	\$ 4,743,257
Island Water and Sewer Infrastructure Development Fund	4,875,998	3,502,680
Meter reserve	1,116,842	1,132,445
Sewer Hook-up Revolving Fund	72,475	72,341
Navy surcharge	<u>305,644</u>	<u>21,941</u>
	\$ <u>11,712,242</u>	\$ <u>9,472,664</u>

All of GWA's restricted net position is expendable.

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the CCU or may otherwise be limited by contractual agreements with outside parties.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Risk Management

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

Allowance for Doubtful Receivables

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

Materials and Supplies Inventory

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

Property, Plant and Equipment

Plant in service of \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items over \$5,000.

Noncurrent Restricted Cash

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GWA has determined the loss on defeasance of the Municipal Services Group debt qualifies for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. GWA has no items that qualify for reporting in this category.

Compensated Absences

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

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

Revenue Recognition

Customer water meters are read on a cyclical basis throughout a monthly period based on the route schedules of GWA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$25.08 per month for residential accounts and 80% of current water consumption for commercial and government accounts. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2013 and 2012 are \$2,189,562 and \$2,414,870, respectively, and included in receivables, net on the accompanying financial statements.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. Beginning in fiscal year 2008, GWA ceased recognizing revenues on water provided to fire hydrants.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

For purposes of the statements of cash flows, cash and cash equivalents do not include restricted cash and cash equivalents.

Investments

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

Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2013 and 2012, interest of \$5,164,140 and \$4,946,472, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2013 and 2012, labor costs of \$1,095,619 and \$1,090,682, respectively, were capitalized.

Operating and Non-Operating Revenue and Expenses

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

Grants and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions as defined by GASB Statement No. 33. Approved capital grants not yet received approximated \$322,447 and \$1,214,576 at September 30, 2013 and 2012, respectively.

Income Taxes

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2013, GWA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

The effect on the 2012 financial statements as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is as follows:

Net position as of September 30, 2011, as originally reported	\$ 201,347,269
Reversal of debt issuance costs	(4,710,036)
Reversal of amortization of debt issuance costs	<u>(183,315)</u>
Net position as of September 30, 2011, as restated	\$ <u>196,453,918</u>
Change in net position for the year ended September 30, 2012, as originally reported	\$ 511,743
Reversal of amortization of debt issuance costs	<u>183,315</u>
Change in net position for the year ended September 30, 2012, as restated	\$ <u>695,058</u>

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

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

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of GWA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of GWA.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to correspond to the 2013 presentation.

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

Notes to Financial Statements
September 30, 2013 and 2012

(3) Cash and Cash Equivalents and Investments

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

At September 30, 2013 and 2012, investments and cash held by trustees and by GWA in these special funds and accounts are as follows:

	2013				Total
	Held By Trustee		Held By GWA		
	2005 Bond Indenture Funds	2010 Bond Indenture Funds	2005 Bond Indenture Funds	2010 Bond Indenture Funds	
Current restricted cash:					
Revenue Fund	\$ -	\$ -	\$ 5,341,283	\$ -	\$ 5,341,283
Capital Improvement Fund	-	-	755,844	-	755,844
Operations and Maintenance Fund	-	-	2,841,896	-	2,841,896
Noncurrent restricted cash:					
Operations, Maintenance, Renewal and Replacement Revenue Fund	-	-	14,753,392	-	14,753,392
Capitalized Interest Fund	-	-	-	1,632,319	1,632,319
Construction Fund	-	-	1,845,777	52,400,952	54,246,729
Investments:					
Bond Reserve Fund	7,707,871	-	-	-	7,707,871
Debt Service Fund	<u>1,926,324</u>	<u>7,566,460</u>	-	-	<u>9,492,784</u>
	<u>\$ 9,634,195</u>	<u>\$ 7,566,460</u>	<u>\$ 25,538,192</u>	<u>\$ 54,033,271</u>	<u>\$ 96,772,118</u>
	2012				
	Held By Trustee		Held By GWA		
	2005 Bond Indenture Funds	2010 Bond Indenture Funds	2005 Bond Indenture Funds	2010 Bond Indenture Funds	Total
Current restricted cash:					
Revenue Fund	\$ -	\$ -	\$ 4,743,258	\$ -	\$ 4,743,258
Capital Improvement Fund	-	-	469,950	-	469,950
Operations and Maintenance Fund	-	-	4,731,078	-	4,731,078
Noncurrent restricted cash:					
Operations, Maintenance, Renewal and Replacement Revenue Fund	-	-	12,439,716	-	12,439,716
Capitalized Interest Fund	-	-	-	8,148,241	8,148,241
Construction Fund	-	-	3,250,207	72,221,864	75,472,071
Investments:					
Bond Reserve Fund	7,707,871	-	-	-	7,707,871
Debt Service Fund	<u>1,926,074</u>	<u>7,566,460</u>	-	-	<u>9,492,534</u>
	<u>\$ 9,633,945</u>	<u>\$ 7,566,460</u>	<u>\$ 25,634,209</u>	<u>\$ 80,370,105</u>	<u>\$ 123,204,719</u>

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(3) Cash and Cash Equivalents and Investments, Continued

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

A. Cash and Cash Equivalents

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

As of September 30, 2013 and 2012, the carrying amount of GWA's total cash and cash equivalents was \$90,278,717 and \$117,916,675, respectively, and the corresponding bank balances were \$92,138,195 and \$118,599,444, respectively. Of the bank balance amount, \$11,469,756 and \$11,858,779, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$80,668,439 and \$106,740,665, respectively, represents short-term investments held and administered by GWA's trustees in GWA's name in accordance with various trust agreements and bond indentures. As of September 30, 2013 and 2012, bank deposits in the amount of \$848,256 and \$4,400,744, respectively, were FDIC insured. GWA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2013 and 2012, \$10,621,500 and \$7,458,035, respectively, of cash and cash equivalents are subject to custodial credit risk.

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(3) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

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

	<u>2013</u>	<u>2012</u>
Current restricted:		
Capital projects	\$ 163,899	\$ 163,664
Operation and maintenance	6,094	6,031
Navy surcharge	305,644	21,941
Meter reserve	1,116,842	1,132,445
Sewer Hook-up Revolving Fund	72,475	72,341
Revenue Fund	5,341,283	4,743,257
Capital Improvement Fund	755,844	469,950
Operations and Maintenance Fund	2,841,896	4,731,078
Debt Service Fund	1,204,473	1,204,480
Moratorium project	299,755	3,386,825
Island Water and Sewer Infrastructure Development Fund	<u>4,875,998</u>	<u>3,502,680</u>
	<u>16,984,203</u>	<u>19,434,692</u>
Noncurrent restricted:		
2005 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	14,753,392	12,439,716
Construction Fund	1,845,777	3,250,207
2010 Bond Indenture Funds:		
Construction Fund	52,400,952	72,221,864
Capitalized Interest Fund	<u>1,632,319</u>	<u>8,148,241</u>
	<u>70,632,440</u>	<u>96,060,028</u>
Total restricted cash and cash equivalents	\$ <u>87,616,643</u>	\$ <u>115,494,720</u>

B. Investments

As of September 30, 2013 and 2012, GWA's investment in debt securities had the following maturities:

<u>Investment Type</u>	<u>2013</u>		
	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>17,200,655</u>	\$ <u>17,200,655</u>	\$ <u>-</u>

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(3) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

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

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, 2013 and 2012 is as follows:

<u>Moody's Rating</u>	2013		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>17,200,655</u>	\$ <u>17,200,655</u>	\$ <u> -</u>

<u>Moody's Rating</u>	2012		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>17,200,405</u>	\$ <u>17,200,405</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, 2013 and 2012.

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, 2013 and 2012, GWA has no investment representing five percent (5%) or more of total investments.

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

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(4) Property, Plant and Equipment

Capital asset activities for the year ended September 30, 2013 are as follows:

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2012</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2013</u>
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 279,765,742	\$ 11,726,654	\$ (14,877,246)	\$ 276,615,150
Utility Plant in Service - Wastewater	25-50	227,270,443	20,228,181	(3,366,312)	244,132,312
General Fixed Assets	5-10	<u>17,049,671</u>	<u>2,271,176</u>	<u>(28,104)</u>	<u>19,292,743</u>
		524,085,856	34,226,011	(18,271,662)	540,040,205
Accumulated Depreciation		<u>(246,558,268)</u>	<u>(14,319,394)</u>	<u>16,044,572</u>	<u>(244,833,090)</u>
		277,527,588	19,906,617	(2,227,090)	295,207,115
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>27,210,416</u>	<u>36,486,293</u>	<u>(36,789,905)</u>	<u>26,906,804</u>
		<u>\$ 304,802,292</u>	<u>\$ 56,392,910</u>	<u>\$ (39,016,995)</u>	<u>\$ 322,178,207</u>

As of September 30, 2013, GWA determined that \$2,046,667 of distribution line replacement materials originally recorded to construction work in progress will not be utilized for the intended project. GWA reclassified the amount to materials and supplies inventory and recorded a 100% inventory reserve as of September 30, 2013.

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

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2011</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2012</u>
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 251,010,331	\$ 29,667,810	\$ (912,399)	\$ 279,765,742
Utility Plant in Service - Wastewater	25-50	223,236,826	4,033,617	-	227,270,443
General Fixed Assets	5-10	<u>15,740,095</u>	<u>1,512,891</u>	<u>(203,315)</u>	<u>17,049,671</u>
		489,987,252	35,214,318	(1,115,714)	524,085,856
Accumulated Depreciation		<u>(235,623,552)</u>	<u>(12,050,430)</u>	<u>1,115,714</u>	<u>(246,558,268)</u>
		254,363,700	23,163,888	-	277,527,588
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>29,784,889</u>	<u>32,639,845</u>	<u>(35,214,318)</u>	<u>27,210,416</u>
		<u>\$ 284,212,877</u>	<u>\$ 55,803,733</u>	<u>\$ (35,214,318)</u>	<u>\$ 304,802,292</u>

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(5) Receivables

Receivables at September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Customers:		
Private	\$ 17,542,298	\$ 15,637,020
Government	<u>3,298,031</u>	<u>8,999,260</u>
	20,840,329	24,636,280
Federal grants receivable	724,581	1,373,880
Guam Power Authority	1,538,306	1,151,696
Other	<u>439,662</u>	<u>432,293</u>
	<u>23,542,878</u>	<u>27,594,149</u>
Less allowance for doubtful receivables:		
Private	(8,449,380)	(8,088,099)
Government	<u>(838,592)</u>	<u>(7,384,903)</u>
	<u>(9,287,972)</u>	<u>(15,473,002)</u>
	\$ <u>14,254,906</u>	\$ <u>12,121,147</u>

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

Fire hydrants receivables of \$6,546,311 were fully allowed for in the allowance for doubtful receivables as of September 30, 2012 and were written-off as of September 30, 2013.

(6) Long-Term Debt

Long-term debt at September 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Revenue Bonds:		
2005 Series revenue bonds, initial face value of \$101,175,000, interest at varying rates from 5.000% to 5.875% per annum, payable semi-annually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,865,000 in July 2008, increasing to \$6,810,000 in July 2035.	\$ 88,485,000	\$ 90,865,000
2010 Series revenue bonds, initial face value of \$118,825,000, interest at varying rates from 4.000% to 5.625% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,055,000 in July 2015, increasing to \$14,460,000 in July 2040.	<u>118,825,000</u>	<u>118,825,000</u>
Total revenue bonds payable	207,310,000	209,690,000
Less current maturities	<u>(2,500,000)</u>	<u>(2,380,000)</u>
	204,810,000	207,310,000
Bond discount – 2010 series bonds	(2,190,245)	(2,270,926)
Bond premium – 2005 series bonds	<u>2,663,341</u>	<u>2,783,492</u>
	\$ <u>205,283,096</u>	\$ <u>207,822,566</u>

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September 30, 2013 and 2012

(6) Long-Term Debt, Continued

As of September 30, 2013, 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>
2014	\$ 2,500,000	\$ 11,721,694	\$ 14,221,694
2015	3,690,000	11,584,194	15,274,194
2016	3,875,000	11,397,070	15,272,070
2017	4,065,000	11,207,794	15,272,794
2018	4,280,000	10,992,856	15,272,856
2019 through 2023	25,240,000	51,121,356	76,361,356
2024 through 2028	33,300,000	43,062,881	76,362,881
2029 through 2033	44,005,000	32,355,606	73,360,606
2034 through 2038	58,205,000	18,152,219	76,357,219
2039 through 2040	<u>28,150,000</u>	<u>2,396,813</u>	<u>30,546,813</u>
	\$ <u>207,310,000</u>	\$ <u>203,992,483</u>	\$ <u>411,302,483</u>

Notes Payable:

	<u>2013</u>	<u>2012</u>
Note payable to a bank in the original amount of \$25,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$300,027 through June 2015.	\$ 18,838,786	\$ 20,937,748
Note payable to a bank in the original amount of \$5,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$100,785 through June 2015.	<u>1,968,184</u>	<u>2,988,016</u>
Total notes payable	20,806,970	23,925,764
Less amount maturities	<u>(3,272,319)</u>	<u>(3,074,328)</u>
	\$ <u>17,534,651</u>	\$ <u>20,851,436</u>

As of September 30, 2013, 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>
2014	\$ 3,272,319	\$ 1,537,418	\$ 4,809,737
2015	<u>17,534,651</u>	<u>953,854</u>	<u>18,488,505</u>
	\$ <u>20,806,970</u>	\$ <u>2,491,272</u>	\$ <u>23,298,242</u>

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

2005 Series Revenue Bonds

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. GWA fully paid a debt to Municipal Services Group, Inc. (MSG) with proceeds from the 2005 bond issuance.

All gross revenues, except PUC surcharge revenues, of GWA have been pledged to repay the 2005 series bond principal and interest. The debt service for the 2005 series bond was \$7,704,294 and \$7,707,794 for the years ended September 30, 2013 and 2012, respectively, or approximately 10.5% and 11.4%, respectively, of pledged gross revenues for those years.

Total bond proceeds from the 2005 series bonds were \$104,779,522, including a bond premium of \$3,604,522 while GWA incurred closing costs totaling \$3,128,108. The bond premium has been deferred and amortized on a straight line basis over the average remaining life of the 2005 bond.

Management is of the opinion that compliance with applicable debt covenants occurred during the year ended September 30, 2013.

Bank Loans

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

2010 Series Revenue Bonds

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

Total bond proceeds were \$116,404,591, net of a bond discount of \$2,420,409 and GWA incurred closing costs of \$2,805,108. The bond discount has been deferred and amortized on a straight line basis over the average remaining life of the 2010 bond.

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

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

2010 Series Revenue Bonds, Continued

All gross revenues, except System Development Charge (SDC) revenues, of GWA have been pledged to repay the 2010 series bond principal and interest. The debt service for the 2010 series bond was \$6,516,400 for each of the years ended September 30, 2013 and 2012 or approximately 9% and 10%, respectively, of pledged gross revenue for those years.

Changes in Long-Term Liabilities:

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2013 and 2012:

	Outstanding October 1, <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2013</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ -	\$ 118,825,000	\$ -
2005 series A bonds	90,865,000	-	(2,380,000)	88,485,000	2,500,000
Notes payable	23,925,764	-	(3,118,794)	20,806,970	3,272,319
Deferred amount:					
Unamortized premium on 2005 bonds issued	2,783,492	-	(120,151)	2,663,341	-
Unamortized discount on 2010 bonds issued	(2,270,926)	-	80,681	(2,190,245)	-
Other:					
Employee annual leave	1,325,144	822,045	(801,699)	1,345,490	502,367
DCRS sick leave liability	1,049,726	161,400	-	1,211,126	-
Advances for construction	<u>169,162</u>	<u>66</u>	<u>-</u>	<u>169,228</u>	<u>-</u>
	<u>\$ 236,672,362</u>	<u>\$ 983,511</u>	<u>\$ (6,339,963)</u>	<u>\$ 231,315,910</u>	<u>\$ 6,274,686</u>
	Outstanding October 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2012</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ -	\$ 118,825,000	\$ -
2005 series A bonds	93,135,000	-	(2,270,000)	90,865,000	2,380,000
Notes payable	26,752,042	-	(2,826,278)	23,925,764	3,074,328
U.S. Navy	1,161,292	-	(1,161,292)	-	-
Deferred amount:					
Unamortized premium on 2005 bonds issued	2,903,643	-	(120,151)	2,783,492	-
Unamortized discount on 2010 bonds issued	(2,351,607)	-	80,681	(2,270,926)	-
Other:					
Employee annual leave	1,326,782	725,796	(727,434)	1,325,144	469,631
DCRS sick leave liability	931,407	118,319	-	1,049,726	-
Advances for construction	<u>168,946</u>	<u>216</u>	<u>-</u>	<u>169,162</u>	<u>-</u>
	<u>\$ 242,852,505</u>	<u>\$ 844,331</u>	<u>\$ (7,024,474)</u>	<u>\$ 236,672,362</u>	<u>\$ 5,923,959</u>

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(7) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

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

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

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
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>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GWA's contributions to the DB Plan for the years ending September 30, 2013, 2012 and 2011 were \$1,274,361, \$1,251,402 and \$1,331,651, respectively, which were equal to the required contributions for the respective years then ended.

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(7) Employees' Retirement Plan, Continued

Defined Contribution Plan

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2013 and 2012 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GWA's contributions to the DCRS Plan for the years ended September 30, 2013, 2012 and 2011 were \$2,374,906, \$2,345,226 and \$2,223,307, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GWA has accrued an estimated liability of \$1,211,126 and \$1,049,726 at September 30, 2013 and 2012, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post Employment Benefits

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(7) Employees' Retirement Plan, Continued

Other Post Employment Benefits, Continued

For the years ended September 30, 2013, 2012 and 2011, GWA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Supplemental benefits	\$ 455,675	\$ 461,313	\$ 288,988
Contribution to GovGuam (COLA payments)	320,100	304,700	304,700
Medical and dental	<u>1,642,574</u>	<u>1,496,570</u>	<u>1,650,344</u>
	<u>\$ 2,418,349</u>	<u>\$ 2,262,583</u>	<u>\$ 2,244,032</u>

(8) Real Estate Property Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate property under GWA's administration. As of September 30, 2013 and 2012, the property has not been recognized in the financial statements pending completion of formal transfer proceedings.

(9) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the U. S. 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, 2013 and 2012 are \$4,570,862 and \$5,263,128, respectively.

(10) Commitments and Contingencies

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GWA did not calculate or pay any bonuses pursuant to the law from 1991 through 2012. As of September 30, 2013, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2013. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Claims

Due to the nature of its operations, GWA is subject to various claims by private and governmental customers and vendors for various alleged losses. Because an estimate of the amount or range of potential loss cannot be determined at this time, no provision for any liability that may result from such claims has been made in the financial statements.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(10) Commitments and Contingencies, Continued

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$13,930,919 at September 30, 2013 of which \$322,447 will be funded by federal contracts from the U.S. Government.

Program Management Office Services

On February 6, 2012, GWA entered into a contract for Program Management Office (PMO) services to provide a wide variety of as needed program management services and general staff assistance for the development of required utility infrastructure improvements. The PMO provides GWA with additional resources to address the deadlines defined in the November 10, 2011 stipulated order and supports GWA staff in executing 2010 and 2013 Series Bond funded projects, military buildup, and other related tasks. The PMO contract is for a five-year period with an option to extend for two two-year periods. Contract commitments for the PMO services approximate \$2,504,410 as of September 30, 2013.

Project Management Contracts

On December 5, 2006, GWA entered into Performance Management Contracts (PMC) for the operation and maintenance of its Wastewater Treatment Plants, Collection System, and Lift Stations. PMC contracts are for a period of 3 years and have been extended to mature on December 28, 2013. The future minimum annual management fees payable for the PMC contracts is \$286,557 for fiscal year 2014.

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

Operating Lease

In January 2012, GWA entered into a three year office space lease with a monthly rental of \$13,655. Future minimum lease payments are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 163,860
2015	<u>47,792</u>
	\$ <u>211,652</u>

Rent expense under this agreement totaled \$163,860 during the years ended September 30, 2013 and 2012.

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

Medicare

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

Single Audit Questioned Costs

GWA undergoes annual compliance audits to satisfy federal grantor requirements. Cumulative questioned costs of \$357,727 exist from these audits as of September 30, 2013. 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 U.S. Government filed a complaint against GWA and the Government of Guam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. Both GWA and the U.S. Department of Justice, Environmental and Natural Resources Division, mutually agreed in the form of a Stipulated Order to resolve the violation issues.

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

In 2006, the Stipulated Order was amended which required GWA to perform approximately \$220 million worth of capital improvement projects and perform other actions to bring GWA's system into compliance. However, GWA was unable to meet all deadlines set out in the amended Stipulated Order. The District Court ordered the parties to stipulate as to scope of remaining projects and project completion dates; however, the parties were unable to reach an agreement on all items. As a result, on November 10, 2011, the District Court issued an order setting new deadlines for the unfinished projects and establishing new projects that were not part of the amended Stipulated Order. As of September 30, 2013, the financial impact of the order has not been fully known and has been estimated to cost approximately \$450 million to \$500 million, including financing costs.

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

Primary Treatment Permits

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

(11) Other Matters

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

(12) Contributions Received

Contributions received by GWA during the years ended September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Grants from U.S. Government:		
Received from the USEPA	\$ 2,528,785	\$ 5,085,473
Passed through from the Government of Guam	<u>1,951,783</u>	<u>1,594,265</u>
	<u>\$ 4,480,568</u>	<u>\$ 6,679,738</u>

(13) Supplemental/COLA Annuities

As required by Public Law 26-49, as amended by Public Law 27-106, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2013 and 2012, GWA levied surcharges of \$2,153,031 and \$3,115,077, respectively, in accordance with this legislation. The supplemental benefits are derived from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(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.

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Notes to Financial Statements
September 30, 2013 and 2012

(14) PUC Surcharge, Continued

On May 9, 2002, the Guam Legislature passed Public Law 26-81, which established a one-year moratorium on the 11.5% surcharge, wherein GWA was prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order for GWA to pay its debt to GPA, the law appropriated \$2.75 million to GWA from a bond re-financing. In May 2003, the one year moratorium expired and proceeds from the renewed surcharge of 9.60% have gone toward GWA's obligation to GPA and, effective October 2003, also to the obligation to the U.S. Navy. Effective October 1, 2011, the surcharge was reduced to 2%. In July 2012, the surcharge was discontinued since the obligations to GPA and the U.S. Navy were paid in full. During the years ended September 30, 2013 and 2012, revenues from the surcharge were \$229 and \$812,515, respectively.

In addition, proceeds from a legislative surcharge of 2.63% and 5.6% for fiscal years 2013 and 2012, respectively, are earmarked to pay benefits for GWA's supplemental annuity for retirees. During the years ended September 30, 2013 and 2012, revenues from the legislative surcharge were \$2,153,031 and \$3,115,077, respectively.

(15) System Development Charge

On January 29, 2010, PUC approved the implementation of a water and sewer SDC which authorized GWA to charge water and wastewater SDC to applicable customers on and after March 2, 2010. SDC revenues generated and collected are to be expended for costs associated with the construction, expansion, upgrade, and repair of water and wastewater facilities for users who are for the first time connecting property into the Guam water or wastewater system or for builders if the density of the existing connection is increased. SDC revenues may also be used to pay the principal sum and interest and other finance costs on bonds, notes or other obligations issued by or on behalf of GWA to finance such capital improvements or facilities expansion or renovations. During the years ended September 30, 2013 and 2012, SDC revenues amounted to \$1,369,778 and \$1,142,025, respectively.

(16) Related Party Transactions

GWA receives electrical and administrative services from GPA, a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2013 and 2012 were \$17,508,372 and \$17,015,686, respectively, and GWA was also charged \$212,731 and \$419,703, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$2,568,473 and \$1,444,824 as of September 30, 2013 and 2012, respectively.

For the years ended September 30, 2013 and 2012, GWA billed GPA a total of \$1,244,392 and \$1,337,828, respectively, for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2013 and 2012 were \$1,293,557 and \$930,063, respectively, which is included in receivables in the accompanying statements of net position.

GWA receives waste disposal services from Guam Solid Waste Authority (GSWA). Waste disposal fees for the years ended September 30, 2013 and 2012 were \$988,876 and \$275,938, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$267,742 and \$875,582 as of September 2013 and 2012, respectively, and were included in trade accounts payable in the accompanying statements of net position.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(17) Subsequent Event

On November 20, 2013, GWA entered into a bond purchase agreement for the issuance of \$172,630,000 Water and Wastewater System Revenue Bonds, Series 2013, to finance various water and wastewater capital improvement projects.

GUAM WATERWORKS AUTHORITY
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Schedule 1

Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for the Guam Waterworks Authority's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 26,386,000	\$ 26,386,000	0.0%	\$ 11,071,238	238.3%
October 1, 2009	\$ -	\$ 34,026,487 *	\$ 34,026,487 *	0.0%	\$ 13,281,521	256.2%
October 1, 2011	\$ -	\$ 38,357,000	\$ 38,357,000	0.0%	\$ 13,410,801	286.0%

* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is only for GWA's active employees. It does not include the actuarial accrued liability for GWA's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule 2
Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 13,701,320	\$ 13,410,801
Pension costs and other benefits	5,130,117	4,686,325
Overtime pay	1,227,403	794,144
Total salaries, wages and benefits	<u>\$ 20,058,840</u>	<u>\$ 18,891,270</u>
Administrative and general:		
Insurance	\$ 1,259,930	\$ 1,334,264
Materials and supplies	1,225,417	1,068,690
Chemicals	1,383,500	977,788
Transportation	702,831	697,780
Public Utility Commission	397,205	269,409
Liability claims	85,812	228,285
Communications	183,629	179,297
Training	127,209	67,884
Advertising	110,517	42,634
Miscellaneous	531,058	550,135
Total administrative and general	<u>\$ 6,007,108</u>	<u>\$ 5,416,166</u>
Contractual:		
PMC management	\$ 1,138,425	\$ 1,107,418
Labor, materials and others	1,311,272	925,606
Equipment rental	431,154	378,807
Accounting	441,858	354,598
Testing	231,626	165,819
Property rental	163,861	116,068
Legal	15,397	20,448
Total contractual	<u>\$ 3,733,593</u>	<u>\$ 3,068,764</u>
Other expense:		
Interest expense	\$ 13,538,467	\$ 13,885,808
Retiree healthcare costs and other benefits	2,418,349	2,262,583
	<u>\$ 15,956,816</u>	<u>\$ 16,148,391</u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 3
Schedule of Construction Work in Progress
Year Ended September 30, 2013

Project Title	Type	Beginning Balance 2012	Additions and Transfers	Closed out during FY2013	Ending Balance 2013
Baza Gardens Treatment Plant	Wastewater	\$ 500,889	\$ 257,655	\$ (47,015)	\$ 711,529
Barrigada Tank Replacement and Refurbishment	Water	811,028	5,873,120	-	6,684,148
Bio Solids Management Plan	Water	136,505	-	-	136,505
Central Wastewater Moratorium Project	Wastewater	3,585,362	4,280,797	(3,927,564)	3,938,595
Chaot and Agana Heights Reservoirs	Water	143,564	490,168	-	633,732
Distribution Line Replacement	Water	2,486,649	286	(2,046,667)	440,268
General Plant Improvements	Water/Wastewater	917,566	3,016,011	(2,566,782)	1,366,795
Ground Water Chlorination	Water	1,147,621	725,417	(1,853,089)	19,949
Groundwater Under the Direct Influence (GWUDI) Project	Water	225,007	21,316	-	246,323
Hagatna Wastewater Treatment Plant	Wastewater	463,838	76,325	-	540,163
Island-Wide Real Property Survey and Mapping	Water	469,183	60,832	-	530,015
Leak Detection/Line Replacement Program	Water	13,857	1,943,250	(1,936,941)	20,166
Leak Repair Program	Water	35,852	231,212	(242,006)	25,058
Mechanical/Electrical Equipment	Water	345,181	248,672	(593,853)	-
Meter Replacement Program	Water	228,643	7,294,178	(6,511,277)	1,011,544
Northern District Wastewater Treatment Interim Primary Treatment Improvements Project	Wastewater	10,073,896	5,997,624	(15,566,524)	504,996
Ordot/Chalan Pago 2B	Wastewater	622,341	-	-	622,341
Program Management for CWIP Projects	Water/Wastewater	762,490	670,796	-	1,433,286
SCADA Project	Water	57,152	876,246	(21,957)	911,441
Sinajana Transmission Line	Water	79,265	379	(379)	79,265
Southern Sewer Basin SSES	Wastewater	274,139	610,813	-	884,952
Ugum Treatment Plant Rehabilitation	Water	-	295,424	(295,424)	-
Wastewater System Upgrades	Wastewater	288,666	140,166	(227,862)	200,970
Water Reservoir Condition Assessment and Rehabilitation	Water	1,206,568	793,232	-	1,999,800
Well Site Rehabilitation and New Well Site Development	Water	1,277,434	581,079	-	1,858,513
All Others	Water/Wastewater	1,057,720	2,001,295	(952,565)	2,106,450
		<u>\$ 27,210,416</u>	<u>\$ 36,486,293</u>	<u>\$ (36,789,905)</u>	<u>\$ 26,906,804</u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 4
System Development Charge Fund
Schedule of Net Position, Revenue, Expenses and Changes in Net Position
September 30, 2013 and 2012

ASSETS

	2013	2012
Current assets:		
Restricted cash	\$ 4,875,998	\$ 3,502,680
Receivables	82,588	70,384
	\$ 4,958,586	\$ 3,573,064

LIABILITIES AND NET POSITION

Current liabilities:		
Due to GWA	\$ 6,124	\$ 1,790
Net position:		
Restricted	4,952,462	3,571,274
	\$ 4,958,586	\$ 3,573,064

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues:		
System development charge	\$ 1,369,778	\$ 1,142,025
Other revenues	15,276	12,308
	1,385,054	1,154,333
Expenses:		
Miscellaneous	3,866	7,119
Change in net position	1,381,188	1,147,214
Net position at beginning of year	3,571,274	2,424,060
Net position at end of year	\$ 4,952,462	\$ 3,571,274

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 5
Schedule of Operating Revenues
Years Ended September 30, 2013 and 2012

	2013	2012
Water	\$ 45,348,731	\$ 39,806,754
Wastewater	25,827,703	23,935,175
Surcharges:		
Legislative	2,153,031	3,115,077
PUC	229	812,515
System development charge	1,369,778	1,142,025
Other	462,030	700,979
Bad debts expense	(361,281)	-
Total operating revenues	\$ 74,800,221	\$ 69,512,525

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 6
Schedule of Employee and Other Data
Years Ended September 30, 2013 and 2012

2013					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ 203,513	\$ 3,580	\$ -	\$ 207,093
Administration	41	3,082,877	1,021,456	75,020	4,179,353
Accounting	22	1,502,500	365,672	258,688	2,126,860
Engineering	28	2,195,165	811	5,377	2,201,353
Collection and Distribution	63	4,512,172	1,926,162	281,375	6,719,709
Utility Services	51	2,195,047	49,234	52,373	2,296,654
Production and Treatment	110	6,367,566	366,678	552,584	7,286,828
Total	315	\$ 20,058,840	\$ 3,733,593	\$ 1,225,417	\$ 25,017,850

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

See accompanying independent auditors' report.