

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

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

**YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(AS RESTATED)**

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on the Financial Statements

We have audited the accompanying financial statements of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2015 and 2014, 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 Guam Waterworks Authority as of September 30, 2015 and 2014, 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 a Matter

As discussed in Note 2 to the financial statements, in 2015, GWA adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting these standards, GWA has elected to restate its 2014 financial statements to reflect the adoption of these standards. 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 11 as well as the Schedule of Funding Progress on page 46, the Schedule of Proportional Share of the Net Pension Liability on page 47, and the Schedule of Pension Contributions on page 48, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

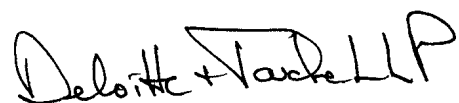
Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Certain Operating and Maintenance Expenses, the Schedule of Construction Work in Progress, the Schedule of Net Position, Revenue, Expenses and Changes in Net Position for the System Development Charge Fund, and the Schedule of Operating Revenues on pages 49 through 52 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such additional information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Employee and Other Data on page 53 has not been subjected to the auditing procedures applied in the audit of the 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 January 22, 2016, 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.

January 22, 2016

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

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

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, 2015. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 12.

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 17 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 46 of this report.

Financial Condition and Results

The Authority's total net position increased by \$18.6 million during the fiscal year (see table below). However, the Authority restated prior year due to the recognition of the Authority's proportionate share of the unfunded retirement liability under the Government of Guam Retirement Fund.

The net increase in current assets of about \$12.9 million is due to increases in restricted and unrestricted cash, trade, and other receivables.

The net increase in property, plant and equipment of \$24 million is due primarily to on-going in-progress construction of wastewater treatment plant, upgrades to pump station improvements, transmission lines, meter replacement program, ground water chlorination project, and acquisition of mechanical and electrical equipment.

The Authority's net investment in capital assets represents 109% of total net position. The net amount invested in capital assets decreased by \$0.58 million compared to prior year.

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In 2015, GWA adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. GWA participates in a single-employer pension plan as defined by GASB Statement No. 68. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on GWA's proportionate share of those of the overall plan. Refer to Note 2 for cumulative change and Note 8 for details of GASB Statement No. 68.

Summary Statement of Net Position

	September 30, 2015	As Restated	As Restated	2015 to 2014 Comparison	
		September 30, 2014	September 30, 2013	Increase/ (Decrease)	% Change
Current and other assets	\$ 248,055,723	\$ 264,751,640	\$ 124,019,740	\$ (16,695,917)	-6.31%
Property, plant and equipment, net	360,109,966	336,039,840	322,178,207	24,070,126	7.16%
Deferred outflows of resources	6,128,089	6,156,238	3,970,324	(28,149)	-0.46%
Total assets and deferred outflows	<u>\$ 614,293,778</u>	<u>\$ 606,947,718</u>	<u>\$ 450,168,271</u>	<u>\$ 7,346,060</u>	1.21%
Current and other liabilities	\$ 56,371,599	\$ 61,451,578	\$ 68,272,796	\$ (5,079,979)	-8.27%
Long-term debt	389,165,861	396,569,482	228,590,066	(7,403,621)	-1.87%
Deferred inflows of resources	3,568,590	2,303,348	-	1,265,242	54.93%
Total liabilities and deferred inflows	<u>449,106,050</u>	<u>460,324,408</u>	<u>296,862,862</u>	<u>(11,218,358)</u>	-2.94%
Net position:					
Net investment in capital assets	180,072,079	180,655,378	184,944,929	(583,299)	-0.32%
Restricted	15,898,661	12,934,743	11,712,242	2,963,918	22.91%
Unrestricted	<u>(30,783,012)</u>	<u>(46,966,811)</u>	<u>(43,351,762)</u>	<u>16,183,799</u>	-34.46%
Total net position	<u>165,187,728</u>	<u>146,623,310</u>	<u>153,305,409</u>	<u>18,564,418</u>	12.66%
Total liabilities, deferred inflows and net position	<u>\$ 614,293,778</u>	<u>\$ 606,947,718</u>	<u>\$ 450,168,271</u>	<u>\$ 7,346,060</u>	1.21%

Operating income increased 73.1% from the previous year, from \$16.8 million to \$29.2 million in FY2015. A combination of factors, as illustrated on page 14, contributed to the significant improvement but growth was derived primarily from rate increases.

Much like in the previous fiscal years, operating revenues outpaced operating expenses in terms of the proportion of growth from the preceding year. GWA saw operating revenues improve from \$82.7 million to \$93.1 million in FY2015, or approximately 12.6%, while on the other hand, operating costs decreased from \$65.9 million to \$64 million in FY2015, or a 2.9% decrease from the previous year. The table below illustrates past trends dating back to FY2013.

The total operating revenues of \$93.1 million increased by \$10.4 million or 12.6% and operating expenses of \$64 million decreased by \$1.9 million or 2.9% for the current year resulting in net operating income of \$29.2 million or 73.1% increase when compared to the prior year (see table below).

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- Water revenues (total) increased by \$6.3 million over the prior fiscal year due in part to a 11.8% increase in water rates. There were revenue dollar increases in commercial, government, hotel, and residential customer classes.
- Wastewater revenues (total) increased by \$5.0 million or 17.2% over the prior fiscal year. A 14.5% rate increase in sewer charges was approved for the current year. There were revenue dollar increases in all customer classes.
- Operating expenses decreased by \$1.9 million or 2.9% over the prior fiscal year. The contributing factor was due to the recognition of the Authority's proportionate share of the unfunded retirement liability under the Government of Guam Retirement Fund.
- Net non-operating expenses were reduced by \$12.9 million due to increases in revenues. Capital contributions were grants from the U.S. Government.
- Of the total water and wastewater revenue of \$59.5 million and \$33.9 million, system development charges (SDC) represented \$0.573 million and \$0.610 million, respectively. Thus, the total SDC for the current fiscal year total is \$1.2 million.

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

	September 30, 2015	As Restated September 30, 2014	September 30, 2013	2015 to 2014 Comparison	
				Increase/ (Decrease)	% Change
Revenues:					
Water	\$ 59,518,287	\$ 53,241,495	\$ 48,003,668	\$ 6,276,792	11.79%
Wastewater	33,886,360	28,906,106	26,695,804	4,980,254	17.23%
Other	706,657	573,483	462,030	133,174	23.22%
Bad debts	(980,243)	310	(361,281)	(980,553)	-316307.42%
Total operating revenues	<u>93,131,061</u>	<u>82,721,394</u>	<u>74,800,221</u>	<u>10,409,667</u>	12.58%
Expenses:					
Power purchases	14,026,448	16,426,402	17,508,372	(2,399,954)	-14.61%
Water purchases	5,098,872	5,179,240	4,570,862	(80,368)	-1.55%
Sludge (waste) disposal fees	1,343,767	1,494,012	988,876	(150,245)	-10.06%
Salaries, wages and benefits	16,168,167	17,991,125	20,058,840	(1,822,958)	-10.13%
Depreciation	14,543,396	13,351,158	14,319,394	1,192,238	8.93%
Administrative and general	6,503,317	6,234,980	6,007,108	268,337	4.30%
Contractual	2,793,267	2,681,070	3,733,593	112,197	4.18%
Retiree healthcare costs and other benefits	3,491,101	2,518,851	2,418,349	972,250	38.60%
Total operating expenses	<u>63,968,335</u>	<u>65,876,838</u>	<u>69,605,394</u>	<u>(1,908,503)</u>	-2.90%
Net operating income	29,162,726	16,844,556	5,194,827	12,318,170	73.13%
Non-operating revenues (expenses)	6,680,260	(7,054,654)	(1,643,566)	13,734,914	-194.69%
Less: Interest Expense	(20,865,205)	(20,031,506)	(13,538,467)	(833,699)	4.16%
Total non-operating revenues (expenses), net	<u>(14,184,945)</u>	<u>(27,086,160)</u>	<u>(15,182,033)</u>	<u>12,901,215</u>	-47.63%
Income (loss) before capital contributions	14,977,781	(10,241,604)	(9,987,206)	25,219,385	-246.24%
Capital contributions	<u>3,586,637</u>	<u>3,559,505</u>	<u>4,480,568</u>	<u>27,132</u>	0.76%
Change in net position	18,564,418	(6,682,099)	(5,506,638)	25,246,517	-377.82%
Net position - beginning year	146,623,310	153,305,409	197,148,976	(6,682,099)	-4.36%
Restatement of beginning net position	-	-	(38,336,929)	-	
Net position - end of year	<u>\$ 165,187,728</u>	<u>\$ 146,623,310</u>	<u>\$ 153,305,409</u>	<u>\$ 18,564,418</u>	12.66%

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Management's Discussion and Analysis
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Revenue improvements in FY2015 are largely attributable to the private customer classes as noted below. In FY2015, these sectors consist primarily of commercial, hotel and residential customers and accounted for over 89% of the increase. The tables below illustrates the distribution of revenues among major customer classes:

Annual Water Revenues (Excluding System Development Charges)

Class Type	FY15	FY14	FY13	% Change	2015 to 2014
					Comparison Increase (Decrease)
Agricultural	\$ 375,120	\$ 392,105	\$ 360,534	-16%	\$ (61,882)
Golf Course	84,844	55,369	63,909	47%	26,295
Comm	12,529,070	10,581,895	8,885,334	13%	1,388,377
Federal	18,449	19,705	10,041	-11%	(2,111)
Government	6,083,130	5,435,944	5,051,300	7%	381,566
Hotel	11,132,531	9,466,265	8,037,569	12%	1,149,989
Irrigation	18,425	38,822	72,064	-57%	(22,145)
Residential	<u>28,705,488</u>	<u>26,459,394</u>	<u>24,908,309</u>	<u>6%</u>	<u>1,533,677</u>
TOTAL	\$ <u>58,947,057</u>	\$ <u>52,449,449</u>	\$ <u>47,353,060</u>	<u>8%</u>	\$ <u>4,393,767</u>

Annual WasteWater Revenues (Excluding System Development Charges)

Class Type	FY15	FY14	FY13	% Change	2015 to 2014
					Comparison Increase (Decrease)
Comm	\$ 6,988,489	\$ 5,608,846	\$ 4,693,909	22%	\$ 1,230,179
Federal	4,926,563	4,171,820	4,141,550	17%	704,004
Government	3,325,856	2,309,397	2,131,248	32%	748,169
Hotel	9,266,983	7,548,103	6,623,338	21%	1,589,110
Residential	<u>8,768,445</u>	<u>8,427,181</u>	<u>8,386,589</u>	<u>4%</u>	<u>342,487</u>
TOTAL	\$ <u>33,276,336</u>	\$ <u>28,065,347</u>	\$ <u>25,976,634</u>	<u>16%</u>	\$ <u>4,613,950</u>

Operating expenses are generally driven by power, water purchases and salaries expenses. Historically, these costs account for almost 2/3rd of operating and maintenance expenses. In FY2015, operating and maintenance expenses decreased, going from \$65.9 million in FY2014 to \$64 million in FY2015. The table below illustrates the changes among major cost components.

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Operating and Maintenance Expenses

	<u>2015</u>	<u>2014</u>	<u>2013</u>	2015 vs 2014 Increase (Decrease)	% Change (Decrease)
Water purchases	\$ 5,098,872	\$ 5,179,240	\$ 4,570,862	\$ (80,368)	-1.55%
Power purchases	14,026,448	16,426,402	17,508,372	(2,399,954)	-14.61%
Waste disposal costs	1,343,767	1,494,012	988,876	(150,245)	-10.06%
Salaries and wages	16,168,167	17,991,125	20,058,840	(1,822,958)	-10.13%
Administrative and general	6,503,317	6,234,980	6,007,108	268,337	4.30%
Contractual	2,793,267	2,681,070	3,733,593	112,197	4.18%
Retiree health care cost and other benefits	3,491,101	2,518,851	2,418,349	972,250	38.60%
Depreciation	<u>14,543,396</u>	<u>13,351,158</u>	<u>14,319,394</u>	<u>1,192,238</u>	8.93%
TOTAL	<u>\$ 63,968,335</u>	<u>\$ 65,876,838</u>	<u>\$ 69,605,394</u>	<u>\$ (1,908,503)</u>	-2.90%

As reported on the Statements of Net Position, the Authority's total net position increased by \$18.6 million during the fiscal year due to decrease in unrestricted position.

Capital Assets

The Authority had \$360 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2015. 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 below.

In the current fiscal year 2015, capital assets increased by \$24.1 million (net) or 7.2% over the prior fiscal year. The increase is consistent with the Authority's implementation of a five-year (FY 15 to FY 19) 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:

WASTE WATER

Southern District Wastewater	\$ 435,000
Northern District Wastewater	816,000
Central District Wastewater	750,000
Central Wastewater Moratorium Project	11,970,000
Others	<u>176,000</u>
	<u>\$ 14,147,000</u>

WATER

Water Booster Pump Station	\$ 285,000
General Plant Improvements	3,826,000
Line Replacement/Leak Repair Program	1,630,000
Mechanical/Electrical Equipment	879,000
Meter Replacement Program	5,169,000
Ugum Water Treatment Plant Intake	29,000
Reduction of Navy Water Purchases	121,000
Tank Repair & Replacement Program	<u>15,022,000</u>
	<u>\$ 26,961,000</u>

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Capital Assets, Net of Accumulated Depreciation

	September 30, 2015	September 30, 2014	September 30, 2013	2015 to 2014 Comparison	
				Increase (Decrease)	% Change
Plant, buildings and equipment, net	\$307,154,511	\$280,801,599	\$295,207,115	\$ 26,352,912	9.38%
Land	64,288	64,288	64,288	-	-
Construction in progress	<u>52,891,167</u>	<u>55,173,953</u>	<u>26,906,804</u>	<u>(2,282,786)</u>	<u>-4.14%</u>
Total	<u>\$360,109,966</u>	<u>\$336,039,840</u>	<u>\$322,178,207</u>	<u>\$ 24,070,126</u>	<u>7.16%</u>

For additional information concerning capital assets, please refer to Note 5 to the financial statements.

Debt

As of September 30, 2015, the Authority had total long-term debt outstanding of \$389.2 million, which is a decrease of \$7.4 million or -1.87% over the prior year representing repayment of debt in accordance with debt service requirements.

The Authority is required by bond covenants to maintain principal, interest, and reserve funds for the bond issue outstanding. In addition, the Authority is required to set rates and charges to yield revenues equal to at least 125% of the current annual debt service requirements of the outstanding 2010, 2013 and 2014 refunding revenue bond series. The Public Utilities Commission set the requirement at 175%.

Moody's Investor Services, Fitch Rating and Standard & Poor's assigned a rating of Baa2, BBB- and A- respectively to GWA's Water and Wastewater Revenue Bonds Series 2013. The ratings are important benchmarks of issuer's ability to meet its financial obligation. Each rating agency incorporates a rating scale indicating credit quality of the issuer. The scales are comprised of alphabetical symbols such as "AAA", "AA", "A", "BBB", "BB", "B" etc. For example, categorical ratings in the "AAA", "AA" and "A" range denote high credit quality meaning the issuer has a high capacity to meet its financial commitments whereas categorical rating in the "BBB", "BB" and "B" range denote average credit quality. The lower the number of alpha characters assigned indicates the issuer is more susceptible to adverse effects or changes in circumstances and economic conditions than those with a higher number of alpha characters.

Long-Term Debt

	September 30, 2015	September 30, 2014	September 30, 2013	2015 to 2014 Comparison	
				Increase (Decrease)	% Change
2005 Bond Series	\$ -	\$ -	\$ 91,148,341	\$ -	-
2010 Bond Series	117,770,000	118,825,000	116,634,755	(1,055,000)	-0.89%
2013 Bond Series	172,630,000	172,630,000	-	-	0.00%
2014 Bond Series	84,568,085	87,602,919	-	(3,034,834)	-3.46%
Bank Notes	<u>14,197,776</u>	<u>17,511,563</u>	<u>20,086,970</u>	<u>(3,313,787)</u>	<u>-18.92%</u>
Total	<u>\$ 389,165,861</u>	<u>\$ 396,569,482</u>	<u>\$ 228,590,066</u>	<u>\$ (7,403,621)</u>	<u>-1.87%</u>

For more information concerning debt, please refer to Note 6 to the financial statements.

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Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in GWA's report on the audit of financial statements which is dated June 28, 2015. That Discussion and Analysis explains in more detail major factors impacting the 2014 financial statements. A copy of that report can be obtained by contacting the CFO office at (671) 300-6860.

Looking Forward

Outlook, Challenges, and Opportunities

Much like previous years, water supply reliability, reduced dependence on DOD Navy water supply, water quality, leak detection, line repair, meter replacement and complying with requirements of the 2011 Federal Court Order will continue to be the focus for 2016

A major emphasis for 2016 will also be to transition to a preventive maintenance from a reactive maintenance approach. Management recognizes that the need for a stepped-up preventive maintenance program is at its highest point in view of infrastructure investment of more than \$400 million by way of past bond borrowings to replace, rehabilitate and repair assets.

To build on the capacity to perform timely routine maintenance, inspections of equipment and facilities before they fail or before they occur or develop into major repairs, certain additional operation and maintenance (O&M) expenses will have to be incurred to make this transition.

O&M expenses that will be influenced for the most part by an escalated preventive maintenance include among other expenses: (1) an increased supplies and materials inventory for critical parts and preventive maintenance supplies in order to provide timely resources for routine maintenance (2) an accelerated vehicle maintenance and replacement program in response to increased demands for working vehicles; and (3) the recruitment of skillsets to perform timely inspections and maintenance of assets so that the asset would reach its estimated useful life.

Debt service on senior revenue bonds will increase in 2016. This is due to the most part to capitalized interest on the 2013 System Revenue Bonds which will be fully exhausted by the second quarter of FY2016.

A new financing in the amount of \$161 million is planned for FY2016. The financing will be undertaken in conjunction with GWA's 2014 – 2019 Capital Improvement Plan. It is projected to generate approximately \$129 million of water and wastewater projects. The projects are primarily related to a 2011 Federal Court Order. The financing has been approved by the CCU and PUC and the bond sale is expected to be completed in mid-February 2016.

There will be continued impetus in 2016 and beyond to fund certain capital expenditures by way of revenue funds to help reduce the need to borrow for projects. This is pursuant to GWA's approved 2014-2018 rate plan which embarked on a goal of generating approximately \$48 million during the five (5) year rate plan period.

Plans for 2016 also includes continued funding of a Debt Service and Working Capital reserve to help achieve debt coverage requirements and help smooth the need for rate increases in the future. Over \$9 million has been generated since approval of the policies in 2014.

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A \$30 million, 7.5%, five (5) year Bank of Guam million Loan matured on June 15, 2015. The loan consisted of two (2) promissory Notes, a \$25 million and \$5 million note. The \$5 million note has been fully satisfied and a \$15 million balloon payment due on the \$25 million note was re-financed through 2020 at an interest rate of 5.25%.

The Hagatna and Northern District Wastewater treatment plants require upgrades to secondary treatment. Discussions with U.S. EPA are on-going relative to scheduling. GWA and U.S. EPA had recently started discussion on a financial capability model which is typically the first of several things leading up to a scheduling timeline. This discussion is in its early stages and have yet to produce any significant milestones as of this writing.

GWA expects to receive federal funding for the Northern District plant upgrade as the buildup from the relocation of U.S. military personnel from Japan to Guam will directly impact the plant. DOD has offered to provide up to \$170 million to assist with the upgrade. Approximately \$105 million has already been appropriated and authorized to DOD for water and wastewater projects. The funding is subject to meeting certain federal requirements and these conditions are actively being discussed in order to get the upgrade underway.

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) 300-6860.

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

Statements of Net Position
September 30, 2015 and 2014

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2015</u>	<u>2014</u> (As Restated)
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 5,504,949	\$ 2,555,136
Restricted	29,093,758	21,374,773
Receivables, net	17,548,957	15,393,379
Materials and supplies inventory, net of an allowance for obsolescence of \$457,370 at September 30, 2015 and \$2,504,036 at September 30, 2014	1,777,241	1,712,739
Prepaid expenses	646,748	670,781
Total current assets	<u>54,571,653</u>	<u>41,706,808</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	294,780,104	271,403,753
Wastewater system	258,799,236	245,042,975
Non-utility property	21,612,653	18,935,114
	575,191,993	535,381,842
Less accumulated depreciation	<u>(268,037,482)</u>	<u>(254,580,243)</u>
	307,154,511	280,801,599
Land	64,288	64,288
Construction work in progress	52,891,167	55,173,953
Property, plant and equipment, net	<u>360,109,966</u>	<u>336,039,840</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	161,206,090	193,457,407
Investments	32,277,980	29,587,425
Total other noncurrent assets	<u>193,484,070</u>	<u>223,044,832</u>
Total assets	<u>608,165,689</u>	<u>600,791,480</u>
Deferred outflows of resources:		
Debt defeasance loss on refunding	2,112,398	2,468,670
Deferred outflows from pension	4,015,691	3,687,568
Total deferred outflows of resources	<u>6,128,089</u>	<u>6,156,238</u>
Total assets and deferred outflows of resources	<u>\$ 614,293,778</u>	<u>\$ 606,947,718</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, 2015 and 2014

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>
Current liabilities:		
Current maturities of long-term debt:		
Revenue bonds payable	\$ 4,910,000	\$ 3,955,000
Notes payable	2,737,804	3,308,220
Accounts payable:		
Guam Power Authority	-	2,987,022
Trade	4,113,426	4,440,164
Accrued interest	4,957,551	4,658,506
Accrued payroll and employee benefits	1,151,332	1,177,150
Current portion of employee annual leave	511,267	515,874
Payable to contractors	6,518,638	4,785,604
Customer deposits	1,997,941	2,060,548
Other liabilities	640,502	62,499
	27,538,461	27,950,587
Total current liabilities		
Long-term debt, less current maturities:		
Revenue bonds payable	370,058,085	375,102,919
Notes payable	11,459,972	14,203,343
Employee annual leave, less current portion	892,695	802,948
DCRS sick leave liability	1,540,507	1,255,580
Advances for construction	-	169,299
Net pension liability	34,047,740	38,536,384
	445,537,460	458,021,060
Total liabilities		
Deferred inflows of resources:		
Deferred inflows from pension	3,568,590	2,303,348
	3,568,590	2,303,348
Commitments and contingencies		
Net position:		
Net investment in capital assets	180,072,079	180,655,378
Restricted	15,898,661	12,934,743
Unrestricted	(30,783,012)	(46,966,811)
	165,187,728	146,623,310
Total net position		
	165,187,728	146,623,310
Total liabilities, deferred inflows of resources and net position	\$ 614,293,778	\$ 606,947,718

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, 2015 and 2014

	2015	2014 (As Restated)
Operating revenues:		
Water:		
Private	\$ 50,917,880	\$ 44,768,939
Government	5,828,186	5,130,273
Legislative surcharge	2,200,991	2,550,287
System development charge	571,230	791,996
	59,518,287	53,241,495
Wastewater:		
Private	24,674,981	21,580,831
Government	8,004,316	6,322,582
Legislative surcharge	597,039	161,934
System development charge	610,024	840,759
	33,886,360	28,906,106
Other	706,657	573,483
Bad debts (expense) recovery	(980,243)	310
Total operating revenues	93,131,061	82,721,394
Operating and maintenance expenses:		
Power purchases	14,026,448	16,426,402
Water purchases	5,098,872	5,179,240
Waste disposal fees	1,343,767	1,494,012
	20,469,087	23,099,654
Salaries, wages and benefits	16,168,167	17,991,125
Depreciation	14,543,396	13,351,158
Administrative and general	6,503,317	6,234,980
Contractual	2,793,267	2,681,070
Retiree health care costs and other benefits	3,491,101	2,518,851
Total operating and maintenance expenses	63,968,335	65,876,838
Operating income	29,162,726	16,844,556
Nonoperating revenues (expenses):		
Allowance for funds used during construction	9,791,856	5,555,246
Interest income	23,490	22,333
Interest expense	(20,865,205)	(20,031,506)
Bonds issuance costs	-	(4,168,836)
Loss on property, plant and equipment disposals	(222,012)	(5,012,135)
Federal expenditures	(2,691,636)	(2,590,195)
Others, net	(221,438)	(861,067)
Total nonoperating revenues (expenses), net	(14,184,945)	(27,086,160)
Income (loss) before capital contributions	14,977,781	(10,241,604)
Capital contributions:		
Grants from the U.S. Government	3,586,637	3,559,505
Change in net position	18,564,418	(6,682,099)
Net position at beginning of year	146,623,310	153,305,409
Net position at end of year	\$ 165,187,728	\$ 146,623,310

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, 2015 and 2014

	2015	2014 (As Restated)
Cash flows from operating activities:		
Cash received from customers	\$ 91,084,696	\$ 80,877,037
Cash payments to suppliers for goods and services	(32,541,897)	(30,805,910)
Cash payments to employees for services	(19,375,443)	(19,153,019)
Cash payments for retiree healthcare costs	(3,491,101)	(2,518,851)
Net cash provided by operating activities	35,676,255	28,399,257
Cash flows from noncapital financing activities:		
Principal repayment of bank loan	(874,453)	(1,093,731)
Interest paid on bank loan	(28,377)	(109,371)
Other interest paid on settlement agreements	-	(15,081)
Net cash used for noncapital financing activities	(902,830)	(1,218,183)
Cash flows from capital and related financing activities:		
Federal grants received	723,181	1,691,891
Other capital contributions	-	(483,909)
Acquisition of property, plant and equipment	(27,479,943)	(33,010,559)
Proceeds from bond issuance	-	253,066,216
Principal paid on revenue bond maturities	(3,955,000)	(88,485,000)
Interest paid on revenue bonds	(19,418,723)	(16,911,708)
Principal repayment of bank loan	(2,439,334)	(2,201,676)
Interest paid on bank loan	(1,119,060)	(1,373,293)
Net cash provided by (used for) capital and related financing activities	(53,688,879)	112,291,962
Cash flows from investing activities:		
Net change in restricted funds	21,841,777	(139,602,307)
Interest income received	23,490	22,333
Net cash provided by (used for) investing activities	21,865,267	(139,579,974)
Net change in unrestricted cash and cash equivalents	2,949,813	(106,938)
Unrestricted cash and cash equivalents at beginning of year	2,555,136	2,662,074
Unrestricted cash and cash equivalents at end of year	\$ 5,504,949	\$ 2,555,136
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 9,791,856	\$ 5,555,246
Capitalized interest	(9,791,856)	(5,555,246)
	\$ -	\$ -
Noncash federal expenditures	\$ 2,691,636	\$ 2,590,195
Noncash grants from U.S. Government	(2,691,636)	(2,590,195)
	\$ -	\$ -

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, 2015 and 2014

	2015	2014 (As Restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 29,162,726	\$ 16,844,556
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,543,396	13,351,158
Bad debts (recovery)/expense	980,243	(310)
Recovery of provision for inventory obsolescence	(2,046,666)	-
Non-cash pension costs	(3,551,525)	(1,184,765)
(Increase) decrease in assets:		
Accounts receivable	(2,964,001)	(1,860,744)
Materials and supplies inventory	1,982,164	(97,569)
Prepaid expenses	24,033	(489)
Increase (decrease) in liabilities:		
Accounts payable	(3,313,760)	1,817,591
Accrued payroll and employee benefits	(25,818)	5,085
Employee annual leave	85,140	(26,668)
Customer deposits	(62,607)	16,697
Other liabilities	578,003	(509,739)
DCRS sick leave liability	284,927	44,454
Net cash provided by operating activities	\$ 35,676,255	\$ 28,399,257

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(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. The 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. Revenues are recognized when earned and expenses are recognized when incurred. 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 categories:

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.

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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

At September 30, 2015 and 2014, restricted net position consists of the following:

	<u>2015</u>	<u>2014</u>
Island Water and Sewer Infrastructure Development Fund	\$ 7,852,884	\$ 6,466,443
Revenue Fund	7,035,771	5,575,605
Meter reserve	648,433	636,592
Sewer Hook-up Revolving Fund	84,684	72,662
Navy surcharge	<u>276,889</u>	<u>183,441</u>
	<u>\$ 15,898,661</u>	<u>\$ 12,934,743</u>

All of GWA's restricted net position is expendable.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance based on the specific identification method.

Materials and Supplies Inventory

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

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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 and Cash Equivalents

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

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 2014 series refunding bonds, the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify 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 determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between GWA pension contributions and proportionate share of contributions 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.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences, Continued

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

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GWA recognizes a net pension liability for the pension plan in which it participates, which represents GWA's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Bond Premiums and Discounts

Bond premiums and discounts are amortized using the straight-line method, which approximates the effective yield method, over the life of the related bond issue.

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 \$26.61 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, 2015 and 2014 are \$2,724,515 and \$2,968,184, respectively, and are included as receivables in the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, interest of \$9,791,856 and \$5,555,246, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2015 and 2014, labor costs of \$2,344,682 and \$1,961,373, 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. Approved capital grants not yet received approximated \$4,106,732 and \$1,264,254 at September 30, 2015 and 2014, 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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2015, GWA implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did have a material effect on the accompanying financial statements resulting in the restatement of GWA's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. The implementation of GASB Statement No. 68 results in GWA reporting deferred outflows of resources of \$3,649,267 and a net pension liability of \$41,986,196 as of October 1, 2013. GWA's net position as of October 1, 2013 and GWA's statement of revenues, expenses and changes in net position for the year ended September 30, 2014 have been restated to reflect the required adjustments as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2013:			
Net position	\$ <u>191,642,338</u>	\$ <u>(38,336,929)</u>	\$ <u>153,305,409</u>
For the year ended September 30:			
Salaries, wages and benefits expense	\$ <u>19,175,890</u>	\$ <u>(1,184,765)</u>	\$ <u>17,991,125</u>
Change in net position	\$ <u>(7,866,864)</u>	\$ <u>1,184,765</u>	\$ <u>(6,682,099)</u>
As of September 30:			
Deferred outflows of from pension	\$ <u>-</u>	\$ <u>3,687,568</u>	\$ <u>3,687,568</u>
Net pension liability	\$ <u>-</u>	\$ <u>(38,536,384)</u>	\$ <u>(38,536,384)</u>
Deferred inflows of from pension	\$ <u>-</u>	\$ <u>(2,303,348)</u>	\$ <u>(2,303,348)</u>
Net position	\$ <u>183,775,474</u>	\$ <u>(37,152,164)</u>	\$ <u>146,623,310</u>

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of GWA.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management believes that the implementation of this statement will have a material effect on the financial statements of GWA.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management believes that the implementation of this statement will have a material effect on the financial statements of GWA.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

(3) Cash and Cash Equivalents and Investments

The bond indenture agreements for the 2010, 2013 and 2014 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, 2015 and 2014, investments and cash held by trustees and by GWA in these special funds and accounts are as follows:

	2015						Total
	Held By Trustee			Held By GWA			
	2010 Bond Indenture Funds	2013 Bond Indenture Funds	2014 Bond Indenture Funds	2010 Bond Indenture Funds	2013 Bond Indenture Funds	2014 Bond Indenture Funds	
Current restricted cash:							
Revenue Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,035,771	\$ 7,035,771
Capital Improvement Fund	-	-	-	-	-	2,903,865	2,903,865
Operations and Maintenance Fund	-	-	-	-	-	4,833,482	4,833,482
Noncurrent restricted cash:							
Operations, Maintenance, Renewal, and Replacement	-	-	-	-	-	14,753,392	14,753,392
Revenue Fund							
Capitalized Interest Fund	2,016,050	-	-	-	2,334,792	-	4,350,842
Construction Fund	-	-	-	17,726,953	125,495,988	894,965	144,117,906
Investments:							
Bond Reserve Fund	-	1,165,573	7,707,602	-	-	-	8,873,175
Debt Service Fund	<u>7,566,460</u>	<u>12,031,688</u>	<u>1,790,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,388,755</u>
	<u>\$ 9,582,510</u>	<u>\$ 13,197,261</u>	<u>\$ 9,498,209</u>	<u>\$ 17,726,953</u>	<u>\$ 127,830,780</u>	<u>\$ 30,421,475</u>	<u>\$ 208,257,188</u>

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September 30, 2015 and 2014

(3) Cash and Cash Equivalents and Investments, Continued

	2014						Total
	Held By Trustee			Held By GWA			
	2010 Bond Indenture Funds	2013 Bond Indenture Funds	2014 Bond Indenture Funds	2010 Bond Indenture Funds	2013 Bond Indenture Funds	2014 Bond Indenture Funds	
Current restricted cash:							
Revenue Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,575,605	\$ 5,575,605
Capital Improvement Fund	-	-	-	-	-	3,835,075	3,835,075
Operations and Maintenance Fund	-	-	-	-	-	3,083,481	3,083,481
Noncurrent restricted cash:							
Operations, Maintenance, Renewal, and Replacement	-	-	-	-	-	14,753,392	14,753,392
Revenue Fund							
Capitalized Interest Fund	1,892,850	-	-	-	11,665,718	-	13,558,568
Construction Fund	-	-	-	26,766,505	139,110,452	1,161,340	167,038,297
Investments:							
Bond Reserve Fund	-	-	7,707,602	-	-	-	7,707,602
Debt Service Fund	<u>7,566,460</u>	<u>12,031,688</u>	<u>388,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,986,973</u>
	<u>\$ 9,459,310</u>	<u>\$ 12,031,688</u>	<u>\$ 8,096,427</u>	<u>\$ 26,766,505</u>	<u>\$ 150,776,170</u>	<u>\$ 28,408,893</u>	<u>\$ 235,538,993</u>

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

A. Cash and Cash Equivalents

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

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(3) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

As of September 30, 2015 and 2014, the carrying amount of GWA's total cash and cash equivalents was \$195,804,797 and \$217,387,316, respectively, and the corresponding bank balances were \$197,818,711 and \$218,424,173, respectively. Of the bank balance amount, \$16,217,638 and \$11,390,125, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$181,601,073 and \$207,034,048, 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, 2015 and 2014, bank deposits in the amount of \$524,836 and \$686,482, 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, 2015 and 2014, \$15,692,802 and \$10,703,643, respectively, of cash and cash equivalents are subject to custodial credit risk.

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

	<u>2015</u>	<u>2014</u>
Current restricted:		
Capital projects	\$ -	\$ 164,004
Operation and maintenance	6,107	6,100
Navy surcharge	276,889	183,441
Meter reserve	648,433	636,592
Sewer Hook-up Revolving Fund	84,684	72,662
Revenue Fund	7,035,771	5,575,605
Capital Improvement Fund	2,903,865	3,835,075
Operations and Maintenance Fund	4,833,482	3,083,481
Debt Service Fund	5,446,188	1,342,062
Moratorium project	5,455	9,308
Island Water and Sewer Infrastructure Development Fund	<u>7,852,884</u>	<u>6,466,443</u>
	<u>29,093,758</u>	<u>21,374,773</u>
Noncurrent restricted:		
2005 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	14,753,392	14,753,392
Construction Fund	894,965	1,161,340
2010 Bond Indenture Funds:		
Construction Fund	17,726,953	26,766,505
2013 Bond Indenture Funds:		
Construction Fund	125,495,988	139,110,452
Capitalized Interest Fund	<u>2,334,792</u>	<u>11,665,718</u>
	<u>161,206,090</u>	<u>193,457,407</u>
Total restricted cash and cash equivalents	\$ <u>190,299,848</u>	\$ <u>214,832,180</u>

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(3) Cash and Cash Equivalents and Investments, Continued

B. Investments

As of September 30, 2015 and 2014, GWA's investment in debt securities had the following maturities:

<u>Investment Type</u>	2015		
	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>32,277,980</u>	\$ <u>32,277,980</u>	\$ <u> -</u>
<u>Investment Type</u>	2014		
	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>29,587,425</u>	\$ <u>29,587,425</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, 2015 and 2014 is as follows:

<u>Moody's Rating</u>	2015		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>32,277,980</u>	\$ <u>32,277,980</u>	\$ <u> -</u>
<u>Moody's Rating</u>	2014		
	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>29,587,425</u>	\$ <u>29,587,425</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, 2015 and 2014.

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September 30, 2015 and 2014

(3) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GWA. As of September 30, 2015 and 2014, 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.

(4) Receivables

Receivables at September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Customers:		
Private	\$ 22,136,853	\$ 19,521,128
Government	<u>4,411,987</u>	<u>2,855,237</u>
	26,548,840	22,376,365
Federal grants receivable	173,820	2,000
Guam Power Authority	344,766	1,544,169
Other	<u>749,763</u>	<u>758,817</u>
	<u>27,817,189</u>	<u>24,681,351</u>
Less allowance for doubtful receivables:		
Private	(9,520,932)	(8,449,380)
Government	<u>(747,300)</u>	<u>(838,592)</u>
	<u>(10,268,232)</u>	<u>(9,287,972)</u>
	<u>\$ 17,548,957</u>	<u>\$ 15,393,379</u>

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

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(5) Property, Plant and Equipment

Capital asset activities for the year ended September 30, 2015 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2014	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2015
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 271,403,753	\$ 23,956,654	\$ (580,303)	\$ 294,780,104
Utility Plant in Service - Wastewater	25-50	245,042,975	14,032,751	(276,490)	258,799,236
General Fixed Assets	5-10	<u>18,935,114</u>	<u>3,131,292</u>	<u>(453,753)</u>	<u>21,612,653</u>
		535,381,842	41,120,697	(1,310,546)	575,191,993
Accumulated Depreciation		<u>(254,580,243)</u>	<u>(14,543,396)</u>	<u>1,086,157</u>	<u>(268,037,482)</u>
		280,801,599	26,577,301	(224,389)	307,154,511
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>55,173,953</u>	<u>38,835,533</u>	<u>(41,118,319)</u>	<u>52,891,167</u>
		<u>\$ 336,039,840</u>	<u>\$ 65,412,834</u>	<u>\$ (41,342,708)</u>	<u>\$ 360,109,966</u>

Capital asset activities for the year ended September 30, 2014 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2013	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2014
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 276,615,150	\$ 2,174,775	\$ (7,386,172)	\$ 271,403,753
Utility Plant in Service - Wastewater	25-50	244,132,312	1,597,507	(686,844)	245,042,975
General Fixed Assets	5-10	<u>19,292,743</u>	<u>185,495</u>	<u>(543,124)</u>	<u>18,935,114</u>
		540,040,205	3,957,777	(8,616,140)	535,381,842
Accumulated Depreciation		<u>(244,833,090)</u>	<u>(13,351,158)</u>	<u>3,604,005</u>	<u>(254,580,243)</u>
		295,207,115	(9,393,381)	(5,012,135)	280,801,599
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>26,906,804</u>	<u>32,224,927</u>	<u>(3,957,778)</u>	<u>55,173,953</u>
		<u>\$ 322,178,207</u>	<u>\$ 22,831,546</u>	<u>\$ (8,969,913)</u>	<u>\$ 336,039,840</u>

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Notes to Financial Statements
September 30, 2015 and 2014

(6) Long-Term Debt

Long-term debt at September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
<u>Revenue Bonds:</u>		
2010 Series revenue bonds, initial face value of \$118,825,000, interest at varying rates from 4% to 5.5% 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.	\$ 117,770,000	\$ 118,825,000
2013 Series revenue bonds, initial face value of \$172,630,000, interest at varying rates from 5% to 5.5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,695,000 in July 2020, increasing to \$25,880,000 in July 2043.	172,630,000	172,630,000
2014 Series refunding bonds, initial face value of \$85,600,000, interest at varying rates from 5% to 6% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,900,000 in July 2015, maturity date in July 2035.	<u>82,700,000</u>	<u>85,600,000</u>
Total revenue bonds payable	373,100,000	377,055,000
Less current maturities	<u>(4,910,000)</u>	<u>(3,955,000)</u>
	368,190,000	373,100,000
Bond premium – 2014 series bonds, net	5,337,921	5,604,534
Bond discount – 2013 series bonds	(1,440,950)	(1,492,049)
Bond discount – 2010 series bonds	<u>(2,028,886)</u>	<u>(2,109,566)</u>
	<u>\$ 370,058,085</u>	<u>\$ 375,102,919</u>

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Notes to Financial Statements
September 30, 2015 and 2014

(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 4,910,000	\$ 19,648,317	\$ 24,558,317
2017	5,040,000	19,522,301	24,562,301
2018	5,200,000	19,366,797	24,566,797
2019	5,420,000	19,182,802	24,602,802
2020	8,350,000	18,949,325	27,299,325
2021 through 2025	40,510,000	86,626,981	127,136,981
2026 through 2030	60,210,000	75,795,881	136,005,881
2031 through 2035	70,730,000	60,600,463	131,330,463
2036 through 2040	99,070,000	42,259,319	141,329,319
2041 through 2043	<u>73,660,000</u>	<u>19,872,463</u>	<u>93,532,463</u>
	<u>\$ 373,100,000</u>	<u>\$ 381,824,649</u>	<u>\$ 754,924,649</u>

Notes Payable:

	<u>2015</u>	<u>2014</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; refinanced principal balance of \$14,856,080, interest at 5.25% per annum, due in monthly installments of principal and interest of \$285,000 through June 2020.	\$ 14,197,776	\$ 16,637,110
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>874,453</u>
Total notes payable	14,197,776	17,511,563
Less current maturities	<u>(2,737,804)</u>	<u>(3,308,220)</u>
	<u>\$ 11,459,972</u>	<u>\$ 14,203,343</u>

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

Notes Payable, Continued:

As of September 30, 2015, annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,737,804	\$ 682,196	\$ 3,420,000
2017	2,886,981	533,019	3,420,000
2018	3,042,248	377,752	3,420,000
2019	3,205,865	214,135	3,420,000
2020	<u>2,324,878</u>	<u>55,848</u>	<u>2,380,726</u>
	<u>\$ 14,197,776</u>	<u>\$ 1,862,950</u>	<u>\$ 16,060,726</u>

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 bonds.

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

All gross revenues, except System Development Charge (SDC) revenues, of GWA have been pledged to repay the 2010 series bonds principal and interest. The debt service for the 2010 series bonds were \$7,571,400 and \$6,516,400 for each of the years ended September 30, 2015 and 2014 or approximately 8%, respectively, of pledged gross revenues.

2013 Series Revenue Bonds

On December 12, 2013, the Guam Waterworks Authority issued \$172,630,000 Water and Wastewater System Revenue Bonds, Series 2013, to fund capital improvement projects in connection with the financing of its 5 year Capital Improvement Plan. A portion of the bond proceeds was used to fund certain bond reserves, pay for capitalized interest and costs in connection with the issue but, for the most part, the proceeds will be used to pay for capital projects.

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(6) Long-Term Debt, Continued

2013 Series Revenue Bonds, Continued

Total bond proceeds were \$171,097,017, net of a bond discount of \$1,492,049 and GWA incurred closing costs of \$2,961,409. The bond discount has been deferred and amortized on a straight line basis over the average remaining life of the 2013 bonds.

The 2013 Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, revenues to secure the payment of principal and interest on the Bonds. Revenues consist primarily of all gross income and revenue received by GWA from the ownership or operation of the System, subject to the provisions of the Indenture and exclusive of certain surcharges.

The debt service for the 2013 series bonds were \$9,331,688 and \$5,158,349 for the years ended September 30, 2015 and 2014 or approximately 10% and 6%, respectively, of pledged gross revenues.

2014 Series Refunding Bonds

On August 7, 2014, GWA issued the 2014 Bonds to refund all of GWA's outstanding Guam Waterworks Authority Water and Wastewater Revenue Bonds, Series 2005, and to pay costs of issuing the 2014 Bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2005 bonds and interest thereon to become due on or prior to July 1, 2015 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2005 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$2,468,670 representing the difference between the reacquisition price and the carrying amount of the 2005 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by almost \$13,873,732 over the next twenty years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$8,352,503.

The Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, revenues to secure the payment of principal and interest on the Bonds. Revenues consist primarily of all gross income and revenue received by GWA from the ownership or operation of the System, subject to the provisions of the Indenture and exclusive of certain surcharges.

Total bond proceeds were \$92,533,037, including net bond premium of \$5,619,665 and funds from deposit in 2005 Bond Fund and Bond Reserve Fund of \$1,284,068. GWA incurred closing costs of \$1,536,177. The net bond premium has been deferred and is being amortized on a straight line basis over the average remaining life of the 2014 bonds.

The debt service for the 2014 series bonds commenced on January 1, 2015. The debt service for the 2014 series bonds was \$6,399,425 for the year ended September 30, 2015 or approximately 7% of pledged gross revenues.

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Notes to Financial Statements
September 30, 2015 and 2014

(6) Long-Term Debt, Continued

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 refunded through 2014 series revenue bonds in 2014.

(7) Change in Long-Term Liabilities

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2015 and 2014:

	Outstanding October 1, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2015</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ (1,055,000)	\$ 117,770,000	\$ 1,590,000
2013 series A bonds	172,630,000	-	-	172,630,000	-
2014 series A and B bonds	85,600,000	-	(2,900,000)	82,700,000	3,320,000
Notes payable	17,511,563	-	(3,313,787)	14,197,776	2,737,804
Deferred amount:					
Unamortized discount on 2010 bonds issued	(2,109,566)	-	80,680	(2,028,886)	-
Unamortized discount on 2013 bonds issued	(1,492,049)	-	51,099	(1,440,950)	-
Unamortized premium on 2014 bonds issued	5,619,665	-	(269,744)	5,349,921	-
Unamortized discount on 2014 bonds issued	<u>(15,131)</u>	<u>-</u>	<u>3,131</u>	<u>(12,000)</u>	<u>-</u>
	396,569,482	-	(7,403,621)	389,165,861	7,647,804
Other:					
Employee annual leave	1,318,822	89,746	(4,606)	1,403,962	511,267
DCRS sick leave liability	1,255,580	284,927	-	1,540,507	-
Advances for construction	169,299	-	(169,299)	-	-
Net pension liability	<u>38,536,384</u>	<u>615,475</u>	<u>(5,104,119)</u>	<u>34,047,740</u>	<u>-</u>
	<u>\$ 437,849,567</u>	<u>\$ 990,148</u>	<u>\$ (12,681,645)</u>	<u>\$ 426,158,070</u>	<u>\$ 8,159,071</u>

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(7) Change in Long-Term Liabilities, Continued

	Outstanding October 1, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2014</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ -	\$ 118,825,000	\$ 1,055,000
2013 series A bonds	-	172,630,000	-	172,630,000	-
2014 series A and B bonds	-	85,600,000	-	85,600,000	2,900,000
2005 series A bonds	88,485,000	-	(88,485,000)	-	-
Notes payable	20,806,970	-	(3,295,407)	17,511,563	3,308,220
Deferred amount:					
Unamortized premium on 2005 bonds issued	2,663,341	-	(2,663,341)	-	-
Unamortized discount on 2010 bonds issued	(2,190,245)	-	80,679	(2,109,566)	-
Unamortized discount on 2013 bonds issued	-	(1,492,049)	-	(1,492,049)	-
Unamortized premium on 2014 bonds issued	-	5,619,665	-	5,619,665	-
Unamortized discount on 2014 bonds issued	-	(15,131)	-	(15,131)	-
	228,590,066	262,342,485	(94,363,069)	396,569,482	7,263,220
Other:					
Employee annual leave	1,345,490	820,642	(847,310)	1,318,822	515,874
DCRS sick leave liability	1,211,126	44,454	-	1,255,580	-
Advances for construction	169,228	71	-	169,299	-
Net pension liability	<u>41,986,196</u>	<u>2,459,113</u>	<u>(5,908,925)</u>	<u>38,536,384</u>	<u>-</u>
	<u>\$ 273,302,106</u>	<u>\$ 265,666,765</u>	<u>\$ (101,119,304)</u>	<u>\$ 437,849,567</u>	<u>\$ 7,779,094</u>

(8) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: GWA participates in the GovGuam Defined Benefit (DB) Plan, a single-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. 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.

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Notes to Financial Statements
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(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Plan Membership: As of September 30, 2014, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,226
Terminated employees entitled to benefits but not yet receiving them	4,941
Current members	<u>2,692</u>
	<u>14,859</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

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(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2013 actuarial valuation was used for determining the year ended September 30, 2015 statutory contributions. Member contributions are required at 9.5% of base pay.

As a result of actuarial valuations performed as of September 30, 2013, 2012, and 2011, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2015, 2014 and 2013, respectively, have been determined as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Normal costs (% of DB Plan payroll)	15.92%	16.61%	17.52%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.37%</u>	<u>7.11%</u>	<u>8.02%</u>
Employer portion of normal costs (% of total payroll)	2.05%	2.39%	3.00%
Unfunded liability cost (% of total payroll)	<u>24.09%</u>	<u>24.01%</u>	<u>24.33%</u>
Government contribution as a % of total payroll	<u>26.14%</u>	<u>26.40%</u>	<u>27.33%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>29.85%</u>	<u>30.03%</u>	<u>30.09%</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, 2015, 2014 and 2013 were \$1,096,069, \$1,191,600 and \$1,274,361, respectively, which were equal to the required contributions for the respective years then ended.

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Notes to Financial Statements
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(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	16.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

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Notes to Financial Statements
September 30, 2015 and 2014

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate: The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2014 Net Pension Liability.

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>43,637,759</u>	\$ <u>34,047,740</u>	\$ <u>26,806,014</u>

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability: At September 30, 2015 and 2014, GWA reported a liability of \$34,047,740 and \$38,536,384, respectively, for its proportionate share of the net pension liability. GWA's proportion of the net pension liability was based on projection of GWA's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2015 and 2014, GWA's proportion was 2.7319% and 2.9568%, respectively.

Pension Expense: For the years ended September 30, 2015 and 2014, GWA recognized pension expense of \$362,873 and \$2,459,113, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2015 and 2014, GWA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements
September 30, 2015 and 2014

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 252,600	\$ -	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	-	2,591,419	-	2,303,348
Contributions subsequent to the measurement date	3,763,091	-	3,687,568	-
Changes in proportion and difference between GWA contributions and proportionate share of contributions	-	977,171	-	-
	\$ 4,015,691	\$ 3,568,590	\$ 3,687,568	\$ 2,303,348

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30</u>	
2016	\$ (1,372,425)
2017	\$ (647,855)
2018	\$ (647,855)
2019	\$ (647,855)

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, 2015 and 2014 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.

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Notes to Financial Statements
September 30, 2015 and 2014

(8) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

GWA's contributions to the DCRS Plan for the years ended September 30, 2015, 2014 and 2013 were \$3,199,900, \$2,994,520 and \$2,849,337, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,667,022, \$2,495,968 and \$2,374,906 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2015, 2014 and 2013, 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 \$1,540,507 and \$1,255,580 at September 30, 2015 and 2014, 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 single-employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

For the years ended September 30, 2015, 2014 and 2013, GWA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Supplemental benefits	\$ 662,852	\$ 300,000	\$ 455,675
Contribution to GovGuam (COLA payments)	584,000	523,800	320,100
Medical and dental	<u>2,244,249</u>	<u>1,695,051</u>	<u>1,642,574</u>
	<u>\$ 3,491,101</u>	<u>\$ 2,518,851</u>	<u>\$ 2,418,349</u>

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(9) 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, 2015 and 2014, the property has not been recognized in the financial statements pending completion of formal transfer proceedings.

(10) 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, 2015 and 2014 are \$5,098,872 and \$5,179,240, respectively.

(11) 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, 2015, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2014. 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 accompanying financial statements.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$48,915,477 at September 30, 2015, of which \$4,106,732 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 court 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 \$5,404,549 as of September 30, 2015.

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(11) Commitments and Contingencies, Continued

Operating Lease

In January 2012, GWA entered into a three year office space lease with a monthly rental of \$13,655 that expired in January 2015. .

Rent expense under this agreement totaled \$47,792 and \$163,860 during the years ended September 30, 2015 and 2014, respectively.

In February 2015, GWA moved to a new building owned by Guam Power Authority (GPA). GWA does not currently have a signed lease agreement with GPA but pays for its share of building maintenance costs. GWA may be billed for rent expense in the future upon a decision of the CCU.

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 \$330,931 exist from these audits as of September 30, 2015. 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.

Court 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 Court Order to resolve the violation issues.

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

Court Order, Continued

On June 5, 2003, a Court 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 Court 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 Court 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 Court 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 Court Order. As of September 30, 2015, 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.

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 will determine implementation schedule for secondary treatment.

(12) 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.

(13) Contributions Received

Contributions received by GWA during the years ended September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Grants from U.S. Government:		
Received from the U.S. EPA	\$ 3,506,633	\$ 3,130,105
Passed through from the Government of Guam	<u>80,004</u>	<u>429,400</u>
	<u>\$ 3,586,637</u>	<u>\$ 3,559,505</u>

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(14) 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, 2015 and 2014, GWA levied surcharges of 3.7% and 3.9%, respectively, amounting to \$2,798,030 and \$2,712,221, 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.

(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, 2015 and 2014, SDC revenues were \$1,181,254 and \$1,632,755, 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, 2015 and 2014 were \$14,026,448 and \$16,426,402, respectively, and GWA was also charged \$917,250 and \$764,950, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$933,386 and \$2,987,022 as of September 30, 2015 and 2014, respectively.

For the years ended September 30, 2015 and 2014, GWA billed GPA a total of \$1,426,618 and \$1,255,765, respectively, for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2015 and 2014 were \$344,766 and \$1,544,169, 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, 2015 and 2014 were \$1,343,767 and \$1,494,012, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$135,098 and \$390,720 as of September 2015 and 2014, respectively, and were included in trade accounts payable in the accompanying statements of net position.

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Required Supplemental Information (Unaudited)
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.

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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2015	2014
Total net pension liability	\$ 1,246,306,754	\$ 1,303,304,636
GWA's proportionate share of the net pension liability	\$ 34,047,740	\$ 38,536,384
GWA's proportion of the net pension liability	2.73%	2.96%
GWA's covered-employee payroll**	\$ 13,930,486	\$ 13,733,821
GWA's proportionate share of the net pension liability as percentage of its covered employee payroll	244.41%	280.59%
Plan fiduciary net position as a percentage of the total pension liability	56.60%	53.45%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2015	2014
Actuarially determined contribution	\$ 3,684,774	\$ 3,658,076
Contribution in relation to the actuarially determined contribution	3,687,568	3,649,267
Contribution deficiency (excess)	\$ (2,794)	\$ 8,809
GWA's covered-employee payroll **	\$ 13,930,486	\$ 13,733,821
Contribution as a percentage of covered-employee payroll	26.47%	26.57%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 14,803,408	\$ 14,500,666
Pension costs and other benefits	362,883	2,459,111
Overtime pay	<u>1,001,876</u>	<u>1,031,348</u>
Total salaries, wages and benefits	<u>\$ 16,168,167</u>	<u>\$ 17,991,125</u>
Administrative and general:		
Chemicals	\$ 2,418,497	\$ 1,685,261
Materials and supplies	1,367,765	1,331,986
Insurance	1,236,685	1,257,144
Transportation	462,372	697,226
Public Utility Commission	432,436	311,131
Communications	198,103	182,792
Training	147,240	170,845
Advertising	89,572	88,561
Liability claims	69,765	51,626
Miscellaneous	<u>80,882</u>	<u>458,408</u>
Total administrative and general	<u>\$ 6,503,317</u>	<u>\$ 6,234,980</u>
Contractual:		
Labor, materials and others	\$ 1,617,961	\$ 1,655,557
Equipment rental	228,475	337,293
PMC management	-	289,690
Property rental	40,965	163,861
Testing	481,067	150,644
Accounting	424,662	83,611
Legal	<u>137</u>	<u>414</u>
Total contractual	<u>\$ 2,793,267</u>	<u>\$ 2,681,070</u>
Other expense:		
Interest expense	\$ 20,865,205	\$ 20,031,506
Retiree healthcare costs and other benefits	<u>3,491,101</u>	<u>2,518,851</u>
	<u>\$ 24,356,306</u>	<u>\$ 22,550,357</u>

See accompanying independent auditors' report.

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

Schedule of Construction Work in Progress
Year Ended September 30, 2015

Project Title	Type	Beginning Balance FY2014	Additions and Transfers	Closed out during FY2015	Ending Balance FY2015
Baza Gardens Treatment Plant	Wastewater	\$ 711,529	\$ 978		\$ 712,507
Barrigada Tank Replacement and Refurbishment	Water	9,132,323	6,006,536	(15,138,859)	-
Central Guam Reservoirs	Water	-	606,786	-	606,786
Central Wastewater Moratorium Project	Wastewater	11,786,022	-	(11,786,022)	-
Chaot and Agana Heights Reservoirs	Water	3,280,826	4,755,691	(7,893)	8,028,624
General Plant Improvements	Water/Wastewater	1,367,940	2,523,113	(3,128,523)	762,530
Ground Water Chlorination	Water	19,949	-	-	19,949
Groundwater Under the Direct Influence (GWUDI) Project	Water	33,941	104,376	(138,317)	-
Hagatna Wastewater Treatment Plant	Wastewater	586,440	142,768	(494,468)	234,740
I&I SSES Southern	Wastewater	-	463,406	-	463,406
Island-Wide Real Property Survey and Mapping	Water	622,912	111,262	-	734,174
Leak Detection/Line Replacement Program	Water	21,120	317,618	(12,635)	326,103
Leak Repair Program	Water	25,951	1,013,268	(1,016,404)	22,815
Lift Station Upgrades	Wastewater	-	234,167	(175,502)	58,665
Mechanical/Electrical Equipment	Water	155,706	1,047,711	(878,885)	324,532
Meter Replacement Program	Water	3,317,901	3,061,899	(5,169,385)	1,210,415
Northern District Wastewater Treatment Interim Primary Treatment Improvements Project	Wastewater	1,753,145	-	(126,237)	1,626,908
Ordot/Chalan Pago 2B	Wastewater	622,341	-	-	622,341
Program Management for CWIP Projects	Water/Wastewater	3,701,558	3,981,361	(227,797)	7,455,122
SCADA Project	Water	1,426,960	138,825	-	1,565,785
Sinajana Transmission Line	Water	79,265	-	-	79,265
Southern Sewer Basin SSES	Wastewater	992,297	-	-	992,297
SSES for Central Sewer System	Wastewater	-	943,596	-	943,596
Ugum Treatment Plant Rehabilitation	Water	198,205	95,161	(29,238)	264,128
Wastewater System Upgrades	Wastewater	222,355	-	-	222,355
Wastewater Collection System Repl/Rehab	Wastewater	-	503,761	(390,760)	113,001
Water Reservoir Condition Assessment and Rehabilitation	Water	2,455,718	-	-	2,455,718
Water System Reservoirs Improvements	Water	-	1,222,815	-	1,222,815
Well Site Rehabilitation and New Well Site Development	Water	1,931,816	-	-	1,931,816
All Others	Water/Wastewater	10,727,732	11,551,378	(2,388,336)	19,890,774
		<u>\$ 55,173,953</u>	<u>\$ 38,826,476</u>	<u>\$ (41,109,261)</u>	<u>\$ 52,891,167</u>

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

System Development Charge Fund
Schedule of Net Position, Revenue, Expenses and Changes in Net Position
September 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Restricted cash	\$ 7,852,884	\$ 6,466,443
Receivables	<u>120,348</u>	<u>141,168</u>
	<u>\$ 7,973,232</u>	<u>\$ 6,607,611</u>

LIABILITIES AND NET POSITION

Current liabilities:		
Due to GWA	\$ 173,879	\$ 8,242
Net position:		
Restricted	<u>7,799,353</u>	<u>6,599,369</u>
	<u>\$ 7,973,232</u>	<u>\$ 6,607,611</u>

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues:		
System development charge	\$ 1,181,254	\$ 1,632,755
Other revenues	<u>18,730</u>	<u>14,152</u>
	1,199,984	1,646,907
Expenses:		
Miscellaneous	<u>-</u>	<u>-</u>
Change in net position	1,199,984	1,646,907
Net position at beginning of year	<u>6,599,369</u>	<u>4,952,462</u>
Net position at end of year	<u>\$ 7,799,353</u>	<u>\$ 6,599,369</u>

See accompanying independent auditors' report.

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

Schedule of Operating Revenues
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Water	\$ 56,746,066	\$ 49,899,212
Wastewater	32,679,297	27,903,413
Surcharges:		
Legislative	2,798,030	2,712,221
System development charge	1,181,254	1,632,755
Other	706,657	573,483
Bad debts (expense) recovery	<u>(980,243)</u>	<u>310</u>
Total operating revenues	<u>\$ 93,131,061</u>	<u>\$ 82,721,394</u>

See accompanying independent auditors' report.

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

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

2015					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ 24,930	\$ -	\$ -	24,930
Administration	45	3,434,390	1,301,692	93,255	4,829,337
Accounting	25	1,308,069	285,810	281,096	1,874,975
Engineering	28	1,779,399	804	4,981	1,785,184
Collection and Distribution	47	4,819,753	691,876	259,464	5,771,093
Utility Services	57	1,018,094	15,927	15,702	1,049,723
Production and Treatment	107	7,359,987	202,788	713,267	8,276,042
Total	309	\$ 19,744,622	\$ 2,498,897	\$ 1,367,765	\$ 23,611,284

2014					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ 176,723	\$ -	\$ -	176,723
Administration	44	4,860,706	731,306	161,251	5,753,263
Accounting	20	1,365,246	95,100	280,759	1,741,105
Engineering	28	1,642,709	-	7,428	1,650,137
Collection and Distribution	57	4,064,780	1,409,192	231,669	5,705,641
Utility Services	47	858,618	32,440	14,020	905,078
Production and Treatment	105	6,207,108	413,032	636,859	7,256,999
Total	301	\$ 19,175,890	\$ 2,681,070	\$ 1,331,986	\$ 23,188,946

See accompanying independent auditors' report.