

**GUAM WATERWORKS AUTHORITY**

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

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**YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

## INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of GWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

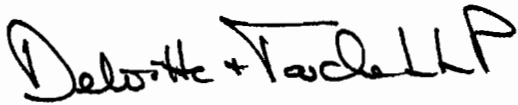
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GWA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1-4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GWA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits of the financial statements for the years ended September 30, 2005 and 2004, were made for the purpose of expressing our opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 22-25 are presented for purposes of additional analysis. These schedules are the responsibility of Guam Waterworks Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, except for the information presented in Schedule 1 (page 22) upon which we express no assurance, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2006, on our consideration of the Guam Waterworks Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

April 13, 2006

# GUAM WATERWORKS AUTHORITY

## Management's Discussion and Analysis September 30, 2005

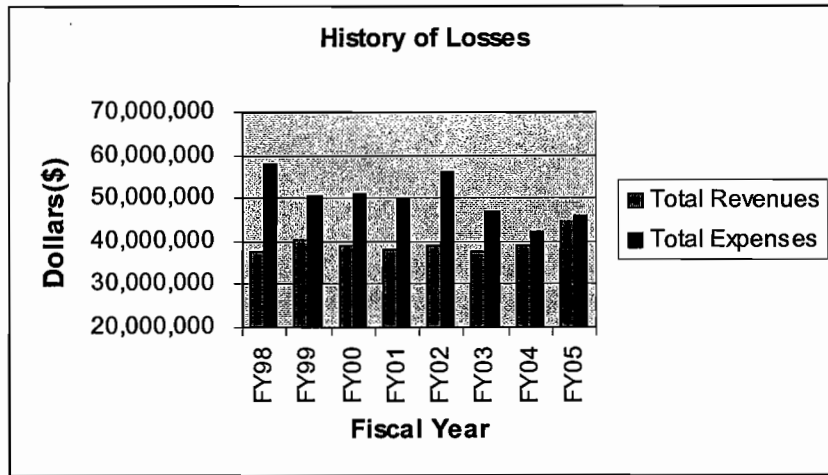
The following Management Discussion and Analysis (MD&A) is designed to provide an overview of the financial performance of Guam Waterworks Authority (GWA) for the fiscal year ended September 30, 2005. The information presented in this MD&A should be considered in conjunction with the financial statements and the notes thereto, that follow this section.

The Guam Waterworks Authority is a public corporation of the Government of Guam under the direction of an elected five-member Consolidated Commission on Utilities (CCU) that replaced the appointed Board of Directors on January 2, 2003. Under the new governance structure, GWA is directly accountable to the ratepayers of Guam. The CCU also has oversight over the Guam Power Authority. GWA is the primary supplier of water and primary provider of sewer services to the Guam community consisting of approximately 39,000 water customers and approximately 21,000 sewer customers.

Fiscal Year 2005 was a year of continued improvement for the Guam Waterworks Authority (GWA). During the year, GWA hired 4 Direct Responsible Charge Operators and had 16 employees become certified as Direct Responsible Charge Operators. While GWA was able to come into compliance with the Safe Drinking Water Act prior to these manpower additions, the hiring of these certified operators will ensure that GWA remains in compliance in the future. Also, during the year GWA hired a full time Chief Engineer. These personnel additions have been a significant factor in advancing the turn around taking place at GWA. GWA is also continuing to meet most of its milestones under the Stipulated Court Order which is being administered by the United States Environmental Protection Agency.

There were no boil water notices during the year at GWA. This was the first time this has happened in many years. The island's drinking water had been declared unsafe for consumption nearly 50% of the time during certain periods as recently as four years ago.

The following chart shows GWA's continued financial improvement:



The major accomplishment for GWA was the receipt of a Ba2 bond rating from Moody's Investors Service, Inc. and BB rating from Fitch, Inc. Although not investment grade ratings, they represent the acknowledgement from credit agencies of the substantial improvements that have been made at the utility in the last few years. This also marked the first time that GWA received a bond rating from a nationally recognized credit rating agency. These ratings enabled GWA to be in a position to issue bonds. In December 2005, GWA completed an issuance of \$101,175,000 in bonds.

# **GUAM WATERWORKS AUTHORITY**

Management's Discussion and Analysis  
September 30, 2005

GWA is continuing with the creation of a Master Plan which is expected to be completed in the summer of 2006. This master plan will lay the foundation for future capital improvements and will identify additional areas where GWA needs to improve in order to be an effective and efficient organization. A significant piece of the master plan is a final financial plan that will help layout some alternatives for financing the capital improvements that are required.

## **Other Highlights**

In the middle of the year, GWA entered into a financing arrangement to enable the Utility to move forward with an automated meter reading program. The meters are on target to be installed by December 31, 2006. This date is well ahead of the deadline for completion of the project under GWA's Stipulated Order. At the time of GWA's bond financing, it was determined that the financing arrangement should be defeased through the issuance of bonds.

In December 2005, GWA filed for the third of a three phase rate increase. The petition resulted in the award of a 3% rate increase in January 2006.

## **Receivables**

Accounts Receivable has continued to be a significant challenge for GWA. When the Consolidated Commission on Utilities took over the governance of GWA in January 2003, there were 6,648 accounts that had balances past due in excess of 90 days and were actively consuming water. There was virtually no disconnection policy in place at that time. GWA has been addressing this problem but the progress has been slower than we would like. Contributing to the problem is that many meters have been buried or are overcome by vegetation. Historically, there has been no common standard for meter placement which adds to the difficulty of locating meters. Also, GWA has been finding that many of the customers who get disconnected for non-payment are unable to comply with GWA's reconnection policy requiring a 50% payment of past due amounts. This has led to a consistent decrease in the number of active customer accounts even though the overall economic environment has been positive.

During 2005, GWA increased its bad debt reserve by \$3.5 million for these accounts. This is believed to be a one time charge that should not be repeated in future years. Currently, there are approximately 2,200 accounts that are past due in excess of 90 days that are actively consuming water.

In August 2005, GWA entered into a short term contract with a private contractor to assist in the reading of meters. GWA opted not to fill a few vacant meter reading positions in light of the fact that the employees would not be required after the implementation of the automated meter reading project. The transition to the new meter readers caused some delays in GWA's ability to get billings out in a timely manner. As a result of these delays, GWA's accounts receivable at year end was unusually high. GWA has taken measures to resolve the transitional issues and is confident the receivable balances will return to normal in the first few months of Fiscal Year 2006.

# GUAM WATERWORKS AUTHORITY

Management's Discussion and Analysis  
September 30, 2005

## Summary of Financial Condition-Comparative Analysis

	<u>FY2005</u>	<u>FY2004</u>	<u>Percent Increase (Decrease)</u>
Assets:			
Cash	\$ 5,712,134	\$ 4,231,807	34.98
Receivables, net	9,869,946	8,404,461	17.44
Other assets	3,306,621	2,195,576	50.60
Noncurrent restricted cash	15,532,656	-	100.00
Plant in service, net	<u>220,166,031</u>	<u>221,668,469</u>	(0.68)
	<u>254,587,388</u>	<u>236,500,313</u>	
Liabilities:			
Current liabilities	15,745,413	12,291,754	28.10
Long-term liabilities	<u>38,098,938</u>	<u>24,995,716</u>	52.42
	<u>53,844,351</u>	<u>37,287,470</u>	
Net assets	<u>200,743,037</u>	<u>199,212,843</u>	0.77
	<u>\$ 254,587,388</u>	<u>\$ 236,500,313</u>	
Operating revenues	\$ 44,405,996	\$ 38,840,590	14.33
Operating expenses	45,962,622	42,248,398	8.79
Non-operating revenues, net	<u>3,086,820</u>	<u>1,598,576</u>	93.10
Increase (decrease) in net assets	\$ <u>1,530,194</u>	\$ <u>(1,809,232)</u>	

The growth in the cash balances is due to the Acquisition fund for the automated meter reading project.

The growth in receivables is mainly due to transitional problems in switching to contracted meter reading.

The net increase in plant in service remained fairly level. The additions to plant in service approximated the amount of assets depreciated during the year. GWA is still ramping up the physical improvements to the system which will take place over the next few years.

The increase in current liabilities is due to some timing issues related to the receipt of some vendor billings and the additional accrual of amounts representing supplemental annuities and cost of living allowances for some of GWA's retirees. During the year, the CCU reversed its position on the annuities and instructed GWA to petition the Public Utilities Commission for a rate to pay ongoing supplemental annuities and cost of living allowances as well as making up for amounts past due.

The increase in long term liabilities are the certificates of participation issued for the automated meter reading program.

Revenues increased as a result of the recent rate increases as well as gains from the ability to meet daily water demand through most of the island on a 24/7 basis.

# **GUAM WATERWORKS AUTHORITY**

Management's Discussion and Analysis  
September 30, 2005

Operating Expense increases were mainly driven by a large bad debt charge of approximately \$3.5 million. We believe this is a one time event associated with GWA's efforts to bring its accounts receivable amounts under control.

**GUAM WATERWORKS AUTHORITY**

Statements of Net Assets  
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	\$ 200,595,049	\$ 194,823,853
Wastewater system	173,861,945	174,628,020
Non utility property	14,588,842	16,999,915
Construction work in progress	8,773,879	3,444,858
	<u>397,819,715</u>	<u>389,896,646</u>
Less accumulated depreciation	<u>(177,653,684)</u>	<u>(168,228,177)</u>
Property, plant and equipment, net	<u>220,166,031</u>	<u>221,668,469</u>
Noncurrent restricted cash	<u>15,532,656</u>	<u>-</u>
Current assets:		
Cash:		
Unrestricted	1,566,433	4,066,678
Restricted	4,145,701	165,129
Accounts receivable, net	9,869,946	8,404,461
Materials and supplies inventory, net of allowance for obsolescence of \$380,425 at September 30, 2005 and 2004	1,883,465	2,141,846
Other assets	1,423,156	53,730
Total current assets	<u>18,888,701</u>	<u>14,831,844</u>
	<u>\$ 254,587,388</u>	<u>\$ 236,500,313</u>

See accompanying notes to financial statements.



**GUAM WATERWORKS AUTHORITY**

Statements of Net Assets, Continued  
September 30, 2005 and 2004

<u>LIABILITIES AND NET ASSETS</u>	<u>2005</u>	<u>2004</u>
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 2,651,519	\$ 2,463,578
Accounts payable:		
United States Navy	446,389	130,987
Guam Power Authority	2,633,062	1,588,829
Trade	4,825,413	3,841,760
Accrued payroll and employee benefits	432,869	331,842
Current portion of employee annual leave	327,889	384,690
Accrued supplemental/COLA annuities	1,976,175	1,236,418
Deferred revenue	457,850	376,722
Payable to contractors	249,790	426,182
Customer deposits	1,744,457	1,510,746
Total current liabilities	15,745,413	12,291,754
<b>Long-term debt, less current maturities:</b>		
Long-term debt	15,292,641	-
Guam Power Authority	9,640,101	11,295,826
United States Navy	7,561,820	8,181,048
Employee annual leave, less current portion	612,047	660,969
Retirement fund deferred contributions	4,193,719	4,376,883
DCRS sick leave liability	331,916	317,068
Advances for construction	164,542	163,922
Other liabilities	302,152	-
Total liabilities	53,844,351	37,287,470
<b>Commitments and contingencies</b>		
<b>Net assets:</b>		
Invested in capital assets, net of related debt	218,981,314	221,668,469
Restricted	4,145,701	165,129
Unrestricted	(22,383,978)	(22,620,755)
Total net assets	200,743,037	199,212,843
	\$ 254,587,388	\$ 236,500,313

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Water:		
Private	\$ 28,413,600	\$ 23,320,725
Government	1,833,874	2,064,725
	30,247,474	25,385,450
Wastewater:		
Private	10,729,420	10,513,474
Government	3,155,729	2,718,565
	13,885,149	13,232,039
Other	273,373	223,101
Total operating revenues	44,405,996	38,840,590
Operating and maintenance expenses:		
Water purchases	6,368,221	5,127,204
Power purchases	8,976,229	8,688,115
	15,344,450	13,815,319
Salaries and wages	11,590,367	12,918,917
Depreciation	9,425,507	9,425,878
Administrative and general	7,274,693	3,553,020
Contractual	2,327,605	2,535,264
	45,962,622	42,248,398
Total operating and maintenance expenses	45,962,622	42,248,398
Operating loss	(1,556,626)	(3,407,808)
Other income (expense):		
Recoveries of bad debts	1,145,511	1,700,104
Interest income	29,668	72,526
Interest expense, net of related interest income of \$222,250 in 2005 and \$0 in 2004	(131,363)	(828,499)
Other expense	(1,549,307)	(146,505)
Other income	68,195	-
Loss on missing deposits	-	(7,000)
Loss on asset disposal	-	(3,664)
Write-off of discontinued projects	-	(117,382)
Supplemental/COLA annuities	(503,822)	(246,856)
	(941,118)	422,724
Total other (expense) income, net	(941,118)	422,724
Loss before capital contributions	(2,497,744)	(2,985,084)
Capital contributions:		
Grants from U.S. Government	2,917,377	597,098
Other contributions	1,110,561	578,754
	4,027,938	1,175,852
Total capital contributions	4,027,938	1,175,852
Increase (decrease) in net assets	1,530,194	(1,809,232)
Net assets at beginning of year	199,212,843	201,022,075
Net assets at end of year	\$ 200,743,037	\$ 199,212,843

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2005 and 2004

	2005	2004
<u>Increase in cash</u>		
Cash flows from operating activities:		
Cash received from customers	\$ 39,926,345	\$ 37,076,421
Cash payments to suppliers for goods and services	(21,099,168)	(19,393,144)
Cash payments to employees for services	(11,023,621)	(11,230,926)
Net cash provided by operating activities	7,803,556	6,452,351
Cash flows from capital and related financing activities:		
Contributed capital received	4,027,938	1,175,852
Acquisition of utility plant	(7,922,444)	(3,370,716)
Proceeds from loan	15,385,845	-
Repayments of long-term debt	(2,180,217)	(2,733,988)
Interest paid	(353,613)	(828,499)
Net cash provided by (used in) capital and related financing activities	8,957,509	(5,757,351)
Cash flows from investing activities:		
Transfers to restricted fund	(19,513,228)	(731)
Interest income received	251,918	72,526
Net cash (used in) provided by investing activities	(19,261,310)	71,795
Net (decrease) increase in unrestricted cash	(2,500,245)	766,795
Unrestricted cash at beginning of year	4,066,678	3,299,883
Unrestricted cash at end of year	\$ 1,566,433	\$ 4,066,678

See accompanying notes to financial statements.

**GUAM WATERWORKS AUTHORITY**

Statements of Cash Flows, Continued  
Years Ended September 30, 2005 and 2004

	2005	2004
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,556,626)	\$ (3,407,808)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	9,425,507	9,425,878
Bad debt expense	3,282,341	1,018,936
Recovered revenue	1,145,511	1,700,104
Other expense	(1,984,934)	(521,407)
(Increase) decrease in assets:		
Accounts receivable	(4,747,827)	(2,004,084)
Materials and supplies inventory	258,381	(740,335)
Long-term receivable	-	(752,594)
Other assets	(1,369,426)	(53,730)
Increase (decrease) in liabilities:		
Accounts payable	2,248,021	108,837
Accrued payroll	840,784	(131,575)
Employees' annual leave	(609,545)	(358,438)
Accrued supplemental/COLA annuities	503,822	246,856
Customer deposits	233,711	86,472
Other liabilities	302,152	(95,908)
Retirement fund deferred contributions	(183,164)	1,900,563
DCRS sick leave liability	14,848	30,584
Net cash provided by operating activities	\$ 7,803,556	\$ 6,452,351

See accompanying notes to financial statements.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (1) Organization Summary of Significant Accounting Policies

### Organization

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

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

### Basis of Accounting

GWA is accounted for on a "flow of economic resources management focus," using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statements of net assets, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### Net Assets

Net assets represent the residual interest in GWA's assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All of GWA's restricted net assets are expendable. All other net assets are unrestricted.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

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

### Trade Accounts Receivable

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

### Materials and Supplies Inventories

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

### Other Assets

Other assets consist of the loan fees associated with the note payable to Municipal Services Group, Inc. Loan fees are amortized throughout the life of the loan using the straight-line method.

### Property, Plant and Equipment

Plant in service amounting to \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 50 years for plant assets). Current policy is to capitalize items over \$700.

### Noncurrent Restricted Cash

Noncurrent assets consist of restricted cash. The purpose of the restricted cash is for long-term capital improvements and bond related activities.

### Accrued Annual Leave

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

During the year ended September 30, 2003, Public Law 27-05 was implemented, reducing the amount of leave employees can earn in a fiscal year (either 104 or 156 hours) and the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours, but not to exceed 100 hours as of February 28, 2003 shall be credited to the employees sick leave. The remaining excess hours must be used by September 30, 2004 or will be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

(1) Organization Summary of Significant Accounting Policies, Continued

Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$22 per month for residential accounts and 80% of current water consumption for commercial and government accounts.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, however, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. GWA is currently pursuing the matter of billing such service with the PUC. Fire hydrant revenue was \$755,245 and \$561,210 for the years ended September 30, 2005 and 2004, respectively. Fire hydrant receivables were \$6,634,434 and \$5,010,485 as of September 30, 2005 and 2004, respectively.

Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2005 and 2004, \$308,476 and \$0 was capitalized.

Operating and Non-Operating Revenue and Expenses

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

Grants and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions as defined by GASB Statement No. 33. Approved capital grants not yet received amounted to approximately \$1,951,738 and \$973,280 at September 30, 2005 and 2004, respectively.

(2) Property, Plant and Equipment

	Beginning Balance October 1, <u>2004</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2005</u>
Utility Plant in Service – Water	\$ 194,823,853	\$ 5,771,196	\$ -	\$ 200,595,049
Utility Plant in Service - Wastewater	174,628,020	363,631	(1,129,706)	173,861,945
General Fixed Assets	16,999,915	829,317	(3,240,390)	14,588,842
Accumulated Depreciation	(168,228,177)	(9,425,507)	-	(177,653,684)
Construction Work in Progress	<u>3,444,858</u>	<u>7,095,858</u>	<u>(1,766,837)</u>	<u>8,773,879</u>
	<u>\$ 221,668,469</u>	<u>\$ 4,634,495</u>	<u>\$ (6,136,933)</u>	<u>\$ 220,166,031</u>

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

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

	Beginning Balance October 1, <u>2003</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2004</u>
Utility Plant in Service – Water	\$ 192,962,490	\$ 2,275,506	\$ (414,143)	\$ 194,823,853
Utility Plant in Service - Wastewater	173,819,906	808,114	-	174,628,020
General Fixed Assets	16,622,625	377,290	-	16,999,915
Accumulated Depreciation	(157,491,400)	(9,425,878)	(1,310,899)	(168,228,177)
Construction Work in Progress	<u>1,864,754</u>	<u>1,956,767</u>	<u>(376,663)</u>	<u>3,444,858</u>
	<u>\$ 227,778,375</u>	<u>\$ (4,008,201)</u>	<u>\$ (2,101,705)</u>	<u>\$ 221,668,469</u>

### (3) Accounts Receivable

Accounts receivable at September 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Customers:		
Private	\$ 12,654,327	\$ 17,320,628
Government	<u>8,309,060</u>	<u>8,202,912</u>
	20,963,387	25,523,540
Federal agencies	451,888	723,279
GPA	<u>260,700</u>	<u>286,547</u>
	<u>21,675,975</u>	<u>26,533,366</u>
Less allowance for doubtful receivables:		
Private	(5,171,595)	(12,273,090)
Government	<u>(6,634,434)</u>	<u>(5,855,815)</u>
	<u>(11,806,029)</u>	<u>(18,128,905)</u>
	<u>\$ 9,869,946</u>	<u>\$ 8,404,461</u>
Allowance breakdown:		
Beginning balance	\$ (18,128,905)	\$ (19,594,362)
Less:		
Accounts written off during the year	8,459,706	784,289
Recoveries of bad debts	1,145,511	1,700,104
Bad debt expense	<u>(3,282,341)</u>	<u>(1,018,936)</u>
Ending balance	<u>\$ (11,806,029)</u>	<u>\$ (18,128,905)</u>

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



## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

### (4) Long-Term Debt

Long-term debt at September 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Note payable to Municipal Services Group, Inc., interest at 5.18%, due in semi-annual installments of principal and interest of \$444,499 through July 15, 2007, \$1,172,054 through July 15, 2015 (see note 17).	\$ 15,385,845	\$ -
Note payable to the U.S. Navy, interest at 1.25%, due in monthly installments of principal and interest of \$45,833 through March 2009, \$132,545 through March 2011, and \$264,853 through June 2012, collateralized by real property. (see note 15).	8,012,964	8,626,591
Payable to the Guam Power Authority in settlement of previously unpaid balances, interest at 4.33%, payable in monthly principal and interest installments of \$212,899 through 2010.	<u>11,747,272</u>	<u>13,313,861</u>
Total long-term debt	35,146,081	21,940,452
Less current portion	<u>(2,651,519)</u>	<u>(2,463,578)</u>
	<u>\$ 32,494,562</u>	<u>\$ 19,476,874</u>

As of September 30, 2005, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 2,651,519	\$ 1,342,264	\$ 3,993,783
2007	2,755,154	1,238,629	3,993,783
2008	4,337,181	1,111,711	5,448,892
2009	4,947,382	920,305	5,867,687
2010	6,119,397	698,746	6,818,143
2011 –2014	12,079,361	1,472,067	13,551,428
2015	<u>2,256,087</u>	<u>88,023</u>	<u>2,344,110</u>
	<u>\$ 35,146,081</u>	<u>\$ 6,871,745</u>	<u>\$ 42,017,826</u>

Long-term debt includes invoices financed by IBM Credit Corporation (ICC) under a \$3.5 million line of credit. The purpose of the credit line is for the preapproved purchase, installation and upgrades of GWA's accounting and operating software and hardware systems, technical training and support of such systems, and related expenses. On June 4, 2001, ICC restructured 100% of the outstanding balance of credit line due to nonpayment under existing terms. GWA adhered to the restructured plan until January 2002. On June 21, 2002, GWA was officially in default on its line of credit agreement. Beginning March 2003 to May 2003, GWA made payments to ICC based on the June 2001 restructured terms. In May 2003, ICC restructured 100% of the remaining balance. The credit line has been fully paid as of September 30, 2004.

**GUAM WATERWORKS AUTHORITY**

Notes to Financial Statements  
September 30, 2005 and 2004

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

The following summarizes movements in GWA's non-current liabilities for the years ended September 30, 2005 and 2004:

	Outstanding September 30, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2005</u>	<u>Current</u>	<u>Noncurrent</u>
Long-term debt	\$ -	\$ 15,385,845	\$ -	\$ 15,385,845	\$ 93,204	\$ 15,292,641
Guam Power Authority	13,313,861	-	1,566,589	11,747,272	2,107,171	9,640,101
U.S. Navy	8,626,591	-	613,627	8,012,964	451,144	7,561,820
Employee annual leave	1,045,659	-	105,723	939,936	327,889	612,047
Retirement fund deferred contributions	4,376,883	-	183,164	4,193,719	-	4,193,719
DCRS sick leave liability	317,068	14,848	-	331,916	-	331,916
Other liabilities	<u>163,922</u>	<u>302,772</u>	<u>-</u>	<u>466,694</u>	<u>-</u>	<u>466,694</u>
	<u>\$ 27,843,984</u>	<u>\$ 15,703,465</u>	<u>\$ 2,469,103</u>	<u>\$ 41,078,346</u>	<u>\$ 2,979,408</u>	<u>\$ 38,098,938</u>
	Outstanding September 30, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2004</u>	<u>Current</u>	<u>Noncurrent</u>
Guam Power Authority	\$ 15,190,311	\$ -	\$ 1,876,450	\$ 13,313,861	\$ 2,018,035	\$ 11,295,826
U.S. Navy	9,000,000	-	373,409	8,626,591	445,543	8,181,048
IBM	484,129	-	484,129	-	-	-
Employee annual leave	1,404,097	-	358,438	1,045,659	384,690	660,969
Retirement fund deferred contributions	2,476,320	1,900,563	-	4,376,883	-	4,376,883
DCRS sick leave liability	286,484	30,584	-	317,068	-	317,068
Other liabilities	<u>314,574</u>	<u>-</u>	<u>150,652</u>	<u>163,922</u>	<u>-</u>	<u>163,922</u>
	<u>\$ 29,155,915</u>	<u>\$ 1,931,147</u>	<u>\$ 3,243,078</u>	<u>\$ 27,843,984</u>	<u>\$ 2,848,268</u>	<u>\$ 24,995,716</u>

**(5) Employees' Retirement Plan**

Employees of GWA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

**GUAM WATERWORKS AUTHORITY**

Notes to Financial Statements  
September 30, 2005 and 2004

(5) Employees' Retirement Plan, Continued

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GWA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of actuarial valuations performed as of September 30, 2003, 2002 and 2001 (applicable to fiscal year 2005, 2004 and 2003, respectively), contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal costs (% of DB Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs (% of total payroll)	<u>19.93%</u>	<u>16.23%</u>	<u>22.94%</u>
	38.23%	33.89%	39.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	28.73%	24.39%	29.86%
Agency specific adjustments	<u>- %</u>	<u>- %</u>	<u>2.68%</u>
Government contribution as a % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>32.54%</u>
Government contribution as a % of total payroll	<u>24.89%</u>	<u>20.81%</u>	<u>29.25%</u>

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, of qualifying payroll for both of the years ended September 30, 2005 and 2004.

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	<u>2003</u> <u>Actuarial Valuation</u>	<u>2002</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll increases	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuation performed as of September 30, 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GWA as a separate sponsor, the accrued unfunded liability at September 30, 2005 and 2004 may be materially different than that recorded in the accompanying financial statements.

Contributions into the DCRS 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 annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (5) Employees' Retirement Plan, Continued

Statutory employer contributions into the DCRS for the years ended September 30, 2005 and 2004 are determined using the same rate as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. Management recorded an estimated liability of \$331,916 and \$317,068 at September 30, 2005 and 2004, respectively, for benefits to be payable under Public Law 26-86.

Retirement expense for the years ended September 30, 2005, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash contributions and accruals	\$ 4,696,784	\$ 2,835,588	\$ 2,963,017
(Decrease) increase in accrued unfunded liability to the retirement fund	<u>(183,164)</u>	<u>1,900,563</u>	<u>1,263,158</u>
	<u>\$ 4,513,620</u>	<u>\$ 4,736,151</u>	<u>\$ 4,226,175</u>

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

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate properties under GWA's administration. As of September 30, 2005 and 2004, the properties have not been recognized in the financial statements pending completion of formal transfer proceedings.

## (7) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the United States Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2005 and 2004 are \$4,531,722 and \$3,280,492, respectively.

## (8) Commitments and Contingencies

### Claims

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

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

### (8) Commitments and Contingencies, Continued

#### Self Insurance

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

#### Contract Commitments

Contract commitments in connection with projects currently in construction amount to approximately \$1,951,738 at September 30, 2005.

#### 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 \$115,000 exist from these audits as of September 30, 2005. The questioned costs will be resolved by the applicable grantor and due to GWA's inability to predict the ultimate outcome of this matter, no provision for any liability, if any, that may result from this matter has been made in the accompanying financial statements.

#### Stipulated Order

In or about December 2002, the United States Government filed a complaint against the Guam Waterworks Authority and the Government of Guam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. Both GWA and the U.S. Government of Justice, Environmental and Natural Resources Division mutually agreed in the form of Stipulated Order to resolve the violation issues.

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

**GUAM WATERWORKS AUTHORITY**

Notes to Financial Statements  
September 30, 2005 and 2004

(8) Commitments and Contingencies, Continued

Stipulated Order, Continued

GWA has entered into a long-term agreement to purchase a minimum of 3 to 4 million gallons per day of potable water at \$1.57 per 1,000 gallons for a period of 20 years. If GWA decides to terminate the agreement, GWA must pay a fixed termination fee.

Typhoon Pongsona

In 2003, GWA incurred additional expenses related to Typhoon Pongsona amounting to approximately \$1.67 million. GWA may be able to receive reimbursement for this amount from the federal government. While management is currently in negotiations to obtain reimbursements, these costs have been expensed as incurred.

(9) Cash and Cash Equivalents

For purposes of the statements of net assets and the statements of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less.

Bank balances of demand and time deposit accounts held in the name of GWA totaled \$21,010,527 and \$4,066,678 as of September 30, 2005 and 2004, respectively, of which \$452,570 and \$405,812 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. In addition, \$4,000 was held on hand for the exchange fund and petty cash as of September 30, 2005 and 2004. Restricted cash on hand consists of cash received for specific capital projects and for bond indenture related accounts. At September 30, 2005, total restricted cash amounted to \$19,678,357.

The current restricted cash amounted to \$4,145,701 and \$165,129 as of September 30, 2005 and 2004, respectively. The noncurrent restricted cash amounted to \$15,532,656 and \$0 as of September 30, 2005 and 2004, respectively.

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

	<u>2005</u>	<u>2004</u>
Current restricted:		
Capital projects	\$ 166,067	\$ 165,129
Operation and maintenance	1,240,985	-
PUC surcharge	2,025,482	-
Navy surcharge	404,089	-
Earth Tech	252,012	-
Meter reserve	6,832	-
Escrow account	<u>50,234</u>	<u>-</u>
	<u>4,145,701</u>	<u>165,129</u>
Noncurrent restricted:		
Debt service related	1,342,087	-
Capital acquisition related	13,246,501	-
CIP reserve fund	<u>944,068</u>	<u>-</u>
	<u>15,532,656</u>	<u>-</u>
Total restricted cash	<u>\$ 19,678,357</u>	<u>\$ 165,129</u>

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (10) Other Matters

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

## (11) New Accounting Principles

GWA implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the year ended September 30, 2005. Implementation of these Statements did not have a material effect on GWA's financial statements.

GWA will be implementing GASB Statement No. 47, *Accounting for Termination Benefits* for the year ended September 30, 2006. GWA has not evaluated the financial statement impact of GASB No. 47.

## (12) System Development Fund

Public Law 19-47 created the Water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time from any property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirements for water and/or sewer services and installation of infrastructure to be done by the builder.

The Fund shall be expended only for expanding, upgrading or repairing water and wastewater facilities on Guam. Such restricted cash is placed in various savings and time certificate of deposit accounts. In 2005 and 2004, the net change in Water and Sewer Development Fund equaled \$938 and \$731, respectively. The changes represent transfers from and transfers to the unrestricted fund, respectively, for the purposes previously mentioned in this note.

## (13) Contributions Received

Contributions received by GWA during the years ended September 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Grants from U.S. Government:		
Received from the Environmental Protection Agency	\$ 2,836,249	\$ 328,078
Received from the Federal Emergency Management Agency	<u>81,128</u>	<u>269,020</u>
	<u>\$ 2,917,377</u>	<u>\$ 597,098</u>
Other contributions:		
Proceeds received through refinancing of Water Bond	\$ <u>1,110,561</u>	\$ <u>578,754</u>

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

### (14) Accrued Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by Public Law 26-49 and 27-29 thereafter, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits paid to retirees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits. GWA's regulator has determined that payment of this liability will not be a recoverable cost. GWA has not been able to initiate litigation to resolve this matter. Therefore, GWA is currently unable to predict when the accrued balance will be paid.

### (15) PUC Surcharge

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

On May 9, 2002, the Guam Legislature passed Public Law 26-81. The Law established a one-year moratorium of the 11.5% surcharge, wherein GWA was prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order for GWA to pay its debt to GPA, the law appropriated \$2.75 million to GWA from a bond re-financing. In May 2003, the one year moratorium expired and proceeds from the renewed surcharge have gone toward GWA's obligation to GPA and effective October 2003, also to the obligation to the U.S. Navy.

### (16) Related Party Transactions

GWA receives electrical and administrative services from Guam Power Authority (GPA), a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2005 and 2004 were \$8,820,481 and \$8,688,115, respectively, and GWA was also charged \$116,871 and \$341,189, respectively, for administrative services provided by GPA. In addition, GWA has a long-term debt of \$11,747,272 and \$13,313,861 due to GPA at September 30, 2005 and 2004, respectively (see note 4).

### (17) Subsequent Events

In January 2006, GWA issued a bond in the amount of \$101,175,000 for the purpose of funding capital improvements to GWA's water and wastewater systems, refinancing certain outstanding obligations of GWA, and financing new water meters. Interest on the bond is payable on January 1 and July of each year, commencing January 1, 2006. Interest accrues on a 360 day year twelve 30-day months. The bond matures on July 1, 2035.

GWA fully paid the debt to Municipal Services Group, Inc. (MSG) through the above debt issuance. As a result, MSG has indicated that it may make a claim against GWA in connection with the investment earnings on the Acquisition Fund for the Certificates of Participation 2005 Services relative to financing the purchase and installation of GWA's water meters. No provision has been recorded in the accompanying financial statements for any liability, if any, that may result from the matter as it is management's position that no claim will ultimately be asserted.

In March 2006, GWA terminated the long-term agreement set forth in note 8, Stipulated Order.



GUAM WATERWORKS AUTHORITY

Schedule 1  
 Schedule of Equalization of Net (Income) Less  
 Years Ended September 30, 1990 through 2005

	2005	2004	2003 (As Restated)	2002	2001	2000	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)	1994 (1)	1993 (1)	1992 (1)	1991 (1)	1990 (1)
Net (income) loss	\$ (1,530,194)	\$ 1,809,232	\$ 7,402,223	\$ 14,712,887	\$ 639,033	\$ 9,930,509	\$ 9,756,403	\$ 20,589,668	\$ 12,002,404	\$ 2,486,481	\$ 7,293,467	\$ 10,920,041	\$ 3,069,762	\$ 4,394,359	\$ 1,744,519	\$ 67,612
Less transfers from GovGuam	1,110,561	578,754	748,109	2,859,524	2,800,388	-	-	-	-	18,538,800	22,743,010	16,136,274	24,959,972	27,447,270	22,064,351	24,009,417
Less other operating revenues recognized in 1999 attributable to prior years	-	-	-	-	-	-	4,282,966	-	-	-	-	-	-	-	-	-
Effect of unfunded pension liability	183,164	(1,900,563)	(1,263,158)	77,489	(52,940)	(155,899)	927,990	437,109	(3,516,573)	3,926,422	5,053	(278,750)	(784,801)	(1,478,412)	(1,389,512)	(2,346,147)
Equalization of net (income) loss	\$ (236,469)	\$ 487,423	\$ 6,887,174	\$ 17,649,900	\$ 3,386,481	\$ 9,774,610	\$ 14,967,359	\$ 21,026,777	\$ 8,485,831	\$ 24,951,703	\$ 30,041,530	\$ 26,777,565	\$ 27,244,933	\$ 30,363,217	\$ 22,419,358	\$ 21,730,882

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

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 2  
 Schedule of Certain Operating and Maintenance Expenses  
 Years Ended September 30, 2005 and 2004

	2005	2004
<b>Salaries and wages:</b>		
Regular, differential and hazardous pay	\$ 6,583,666	\$ 7,813,121
Pension costs	4,513,620	4,736,151
Overtime pay	478,233	339,061
Sick leave	14,848	30,584
	<u>\$ 11,590,367</u>	<u>\$ 12,918,917</u>
Total salaries and wages		
Employees at end of year	235	242
<b>Administrative and general:</b>		
Materials and supplies	\$ 2,033,352	\$ 1,047,976
Bad debts	3,282,341	1,018,936
Chemicals	542,074	446,517
Public Utility Commission	350,403	339,345
Transportation	459,021	267,375
Communications	85,449	110,804
Liability claims	296,820	85,732
Advertising	46,735	53,776
Regulatory expense	-	33,260
Miscellaneous	178,498	149,299
	<u>\$ 7,274,693</u>	<u>\$ 3,553,020</u>
Total administrative and general		
<b>Contractual:</b>		
Equipment rental	\$ 994,720	\$ 1,007,267
Labor, materials and others	941,426	952,489
Testing	282,257	218,204
Accounting	121,137	205,979
Legal	(11,935)	94,657
Engineering	-	56,668
	<u>\$ 2,327,605</u>	<u>\$ 2,535,264</u>
Total contractual		
<b>Other expense:</b>		
Privatization	\$ 1,212,984	\$ 125,675
Other	336,323	20,830
	<u>\$ 1,549,307</u>	<u>\$ 146,505</u>

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 3  
Schedule of Cash Flows Indicating Financing Method  
Year Ended September 30, 2005

Cash flows provided by operating activities	\$ 7,803,556
Less nonpayment to GPA for 2005 expenses	<u>-</u>
Cash flows if all GPA expenses for 2005 were paid	7,803,556
Cash flows used for acquisition of utility plant, net of contributed capital received	<u>(3,894,506)</u>
Cash flows if GPA were fully paid and if utility plant were built, net of contributed capital received	<u>\$ 3,909,050</u>

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 4  
 Schedule of Construction Work in Progress  
 Year Ended September 30, 2005

Project Title	Type	Ending Balance 2004	Additions and Transfers	Close out to FA FY2005	Ending Balance 2005
Talofofo/Windward Hills Water System	Water	\$ 373,172	\$ -	\$ (373,172)	\$ -
Agat/Santa Rita Sewer System	Wastewater	302,212	116,244	-	418,456
Leyang South Barrigada	Wastewater	628,963	1,650,408	-	2,279,371
Ordot/Chalan Pago 2B	Wastewater	600,461	21,881	-	622,342
Watershed Master Plan	Water	467,215	2,472,078	-	2,939,293
All Others	Water/Wastewater	1,072,835	2,835,247	(1,393,665)	2,514,417
		<u>\$ 3,444,858</u>	<u>\$ 7,095,858</u>	<u>\$ (1,766,837)</u>	<u>\$ 8,773,879</u>

See accompanying independent auditors' report.