

ANNUAL REPORT 2013

Better Water,
Better Lives



GUAM WATERWORKS AUTHORITY

Let it flow...

Here in paradise, we are surrounded by water. Outside of our children, it is the most precious resource we have. Water has been called “the source of life” because of its importance in everything we do, every day. It quenches and builds; is a source of fun; is strong enough to help things grow and also put out a fire; it can even be treated, recycled and reused. At GWA, we’ll keep it flowing...to you.

The 6 uses of water:

- 1. DRINKING**
Quench your thirst. Cleanse your body.
- 2. BUILDING**
A strong foundation.
- 3. SAFETY**
Protecting our property, lives and land.
- 4. RECREATION**
Come on in, the water’s fine!
- 5. AGRICULTURE**
Let it grow.
- 6. WASTEWATER**
Out with the old, in with the new.



TABLE OF CONTENTS

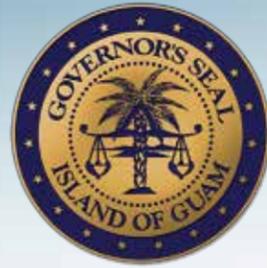
- 2** Message from the Governor & Lt. Governor
- 3** Message from Sen. Thomas C. Ada
- 4** Message from Consolidated Commission on Utilities
- 6** General Manager Report
- 10** Engineering Report
- 12** Human Resources Report
- 14** Compliance and Safety Report
- 15** Utility Services Division Report
- 18** Water Maintenance & Operations
- 20** Wastewater Division Update
- 22** Program Management Office
- 28** Employees
- 32** Financials



EDDIE BAZA CALVO
Governor of Guam



RAY TENORIO
Lt. Governor of Guam



Message from the
OFFICE OF THE GOVERNOR

CELEBRATING SAFE, RELIABLE DRINKING WATER

Hafa Adai! Our island is blessed with rich water resources. Thanks to all the men and women at the Guam Waterworks Authority, our water system has never been safer, or more reliable. Congratulations to everyone who helped complete GWA's 2013 Annual Report!

All your public servants have joined together for a common goal—a vision for a bright future for all Guamanians. The hardworking GWA family has taken us in the right direction: away from boil water notices and toward a new, modernized water system everyone can use safely.

GWA has invested millions to improve, upgrade, and modernize its infrastructure. Water isn't just another utility: it's the life source of our island.

With our gratitude and support for a stronger Guam,

EDDIE BAZA CALVO
Governor of Guam

RAY TENORIO
Lt. Governor of Guam

Message from the Chairman, **COMMITTEE ON UTILITIES, TRANSPORTATION, PUBLIC WORKS AND VETERANS AFFAIRS**

Hafa Adai!

2013 marked another good year for the Guam Waterworks Authority. Building on the improvement of years passed, the Authority continued its progress in quality customer service and efficient operations in 2013. Epitomizing the positive progress of Guam's water and wastewater utility, GWA's bond rating was upgraded just ahead of the Utility's November 2013 Water and Wastewater System Revenue Bond Sales. The credit upgrade elevated the utility to investment grade and noted substantial compliance improvements among other upward trending key rating drivers.

The positive outlook and financial health of GWA is a reflection of the Authority's investment in its most critical asset, its people.

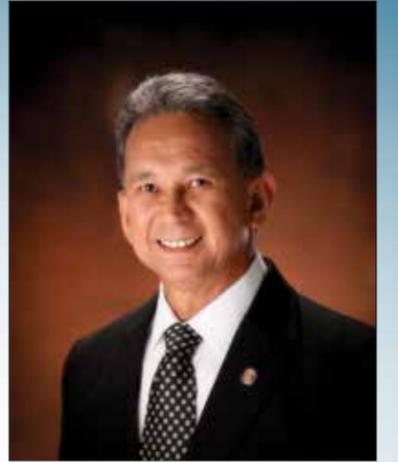
The employees of GWA: from the front-line workers to the management team are breaking boundaries and achieving milestones that benefit the entire Guamanian Community.

I congratulate the Guam Waterworks Authority on another successful year and am proud to serve as Chairman of the Committee on Utilities.

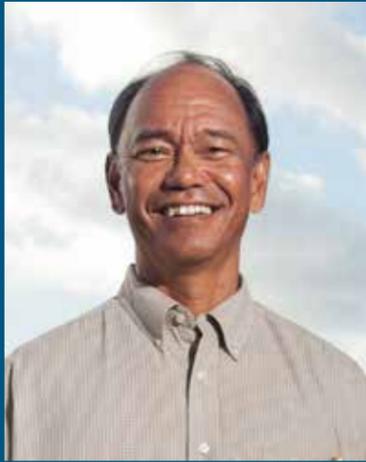
Keep up the great work! It does not go unnoticed.

Si Yu'os Ma'ase,

THOMAS C. ADA
Senator, 32nd Guam Legislature
Chairman, Committee on Utilities



SEN. THOMAS C. ADA
Chairman, Committee on Utilities



SIMON A. SANCHEZ II
CCU Chairman



JOSEPH "JOEY" T. DUENAS
Secretary

Message from the Chairman, **CONSOLIDATED COMMISSION ON UTILITIES**

2013 marked another busy year at your water utility.

As we geared up for our next round of bond borrowing in the 3rd quarter of the year, we were successful in getting approval from the Guam Legislature to borrow \$450 Million to be deployed over the next 7 years on Guam for many, many projects that will greatly improve our aging infrastructure, continue to help us produce safe drinking water, and minimize the effects of water we send into the ocean. All significantly improving the quality of our family's lives and the lives of our friends.

In October of 2013, Standard and Poor's A rating and a strong upgrade from Moody's allowed us to borrow \$190 Million on the bond markets at the lowest interest rate in years. This was a first for GWA and lays the path for investment grade level in the future. Getting such a positive rating from S&P means lower water and wastewater rates in the future. All good for a growing Guam.

We have already begun deploying this capital throughout our island:

1. Our first ever 2 Million Gallon(MG) cement seismic proof tank was finished in August 2013 and put on line early October. This tank is now known as the Central District Water Reservoir. The first ever cement tank on Guam to be built and we did it!
2. Our next two cement tanks totaling storage capacity of 1MG for our central villages of Agana Heights, Sinajana and parts of Chalan Pago. The ground breaking will take place in 2nd quarter of 2014.
3. We continue to deploy monies for our line replacement projects spending millions of dollars to replace old and leaky water lines.
4. The Hagåtña Waste Water Plant (HWWTP) will also be finished with its approximately \$14 Million dollars in improvements to continue to comply with all permits issued by the USEPA.

5. Our million dollar test bench facility will also be operational by May 2014. GWA over the last year has been able to test possible defective meters thereby catching billing errors sooner. The rate of meter non-responsiveness is less than 2%, down from a high of 25%.
6. In 2013, our GWA customer service department won top in its class, beating out 5 other customer service departments. This is a credit to the hardworking and dedicated staff of our customer service who continue to be innovative and adaptable to changing customer needs.

All in all the outlook for your water utility continues to improve, though much hard work and shared sacrifice remain to achieve our goal of improving service while protecting our water and ocean, as affordably and efficiently as possible. I thank my fellow CCU members for their huge contribution of their time and diligence in providing guidance and direction to the GWA team.

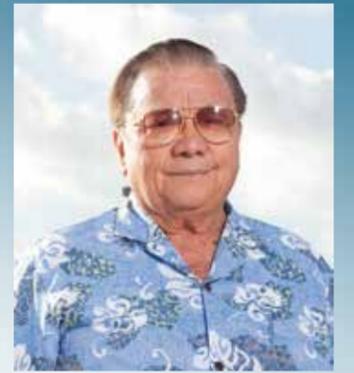
On behalf of the CCU, we wish to thank your family and neighbors who work every hour of every day at GWA to insure you have services. They are the real owners of our improvement and our future solutions and success.

Water is the source of all Life.

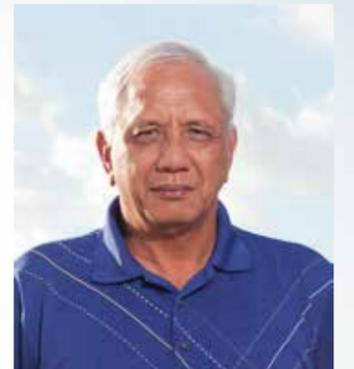
We are honored to be the public servants responsible for its protection, today and tomorrow.

Biba GWA.

SIMON A. SANCHEZ II
Chairman, Consolidated Commission on Utilities



ELOY P. HARA
Vice-Chair, Guam Waterworks Authority



PEDRO "PETE" S.N. GUERRERO
Treasurer



BENIGNO "BEN" M. PALOMO
Vice-Chair, Guam Power Authority



1
“Guam’s quality of life and economy depends on clean, efficient, and safe drinking water...”

Message from the **GENERAL MANAGER**

Guam Waterworks Authority (GWA) is committed to providing excellent water and wastewater products, programs and services in a safe, reliable, cost effective and responsible manner, developing and maintaining systems, infrastructure, and community outreach to enhance Guam’s drinking water and wastewater systems.

Instituted in 1997, GWA today delivers potable water and wastewater services to 160,000 Territory of Guam residents, U.S. Defense Installations and up to 136,000 international visitors during peak months. Guam’s quality of life and economy depends on clean, efficient and safe drinking water and wastewater infrastructure. We do our best to compassionately treat every customer like their grandfather and grandmother. According to Guam traditions, we “Respect the people of the house.”

During the past four years, we have successfully guided the utility through the most challenging time in its 16-year history, restoring consumer trust, stabilizing revenues and earning the confidence of the Environmental Protection Agency due to stellar compliance of court order deadlines.

GWA is successfully implementing the Water Resources Master Plan (WRMP 2007) to propel the utility on a long-term, progressive path to “best in class” performance by:

- **Developing sound management foundations, operations, maintenance (MOM) and financial systems**

With the support of the Consolidated Commission on Utilities (CCU), GWA has completed a plan over the last year that will set GWA on the course for success: the Comprehensive Management Plan 09/2013 (09/2013 CMP). The plan, combined with The Water Audit Program and Water Loss Control Plan – August 23, 2011, The Potable Water Enhancement Plan, and the Capital Improvement Plan 2013-2018 (CIP 2013-2018), the 2011 Court Order (CO), and the 2011 Public Utilities Commission (PUC) Stipulation, create a blueprint for success over the next few years. These critical working documents will greatly enhance



MARTIN L. ROUSH, MPA, P.E.
General Manager

planning, direction, and revenue savings for the Authority. The plans will propel GWA to the next level as they include elements which will vastly improve GWA's business model. The foundational plans along with the 2011 CO and the 2011 PUC Stipulation will move GWA forward with vision and purpose. The management and tracking of the CMP will underscore how all the elements of the plans fit GWA's overall goals. GWA employees at all staff levels are trained and informed of these plans so that they are well versed in the Authority's vision, mission, goals and operations. Our governing board, the CCU authorized GWA management to enter into a contract with Badger Meter. At the end of 2013, over 28,000 Badger Meters were installed. With this contract for these meters, GWA has moved forward and the meters are helping to bring in more revenue for the Authority. The 09/2013 CMP (online at www.guamwaterworks.org) documents GWA's financial turnaround demonstrated by a fiscal swing of \$900,000 per month over the last two years. This financial turnaround was affirmed by Standard and Poor's A- rating and a strong upgrade from Moody's.

- **Instituting sound asset management and capital planning systems and processes**

We are proud of the sustainable meter program, which includes the meter test bench used to calibrate meters. We are also proud of the reduction in Navy water purchases, which the 09/2013 CMP documents, along with the prompt leak repairs. In addition, with the funding and support of USEPA, GWA has embarked on a journey to fully account and manage existing and future GWA assets.

- **Engaging consumers to provide them appropriate levels of service**

Because of our dedication to excellent customer service delivery, we are Guam's leading agency in Customer Service, but we believe and will continue to strive to provide even better service to our consumers.

- **Achieving long-term resource sustainability**

We have effectively used the Water Resources Master Plan (WRMP 2007) to initiate, prioritize and monitor projects providing high quality, sustainable drinking water, wastewater treatment and services to individual, public and industry consumers. Approximately \$50M worth of projects developed with community input (under independent review) were encumbered in 2013 related to the delivery of sustainable, reliable, robust and secure water (and wastewater) service in a manner that protects Guam's beautiful and unique environment. This information can be found under the CIP 2013-2018 on GWA's website.

- **Establishing a road map for full regulatory compliance**

In 2012, GWA secured a \$6.7 million grant from the Environmental Protection Agency (EPA) for system-wide asset inventories, sewer system evaluations and assessments, hydraulic model development and master planning activities to identify and prioritize projects. Because of these efforts, in January 2013, GWA's Northern District Wastewater Treatment Plant met or exceeded all environmental compliance with the Clean Water Act for the first time in the History of Guam.

And as of today, the Hagåtña (Agana) Wastewater Treatment Plan (HWWTP) has now exceeded all environmental compliance with the Clean Water Act for the first time in the History of Guam. GWA has established a track record of success and meeting deadlines. The 09/2013 CMP documents GWA's stellar compliance with the 2011 Court Order and EPA's 2012 Significant Findings for Water. We are extremely proud of the relationships and partnerships that were developed during this process. We continue working to establish even stronger strategic alliances with EPA.

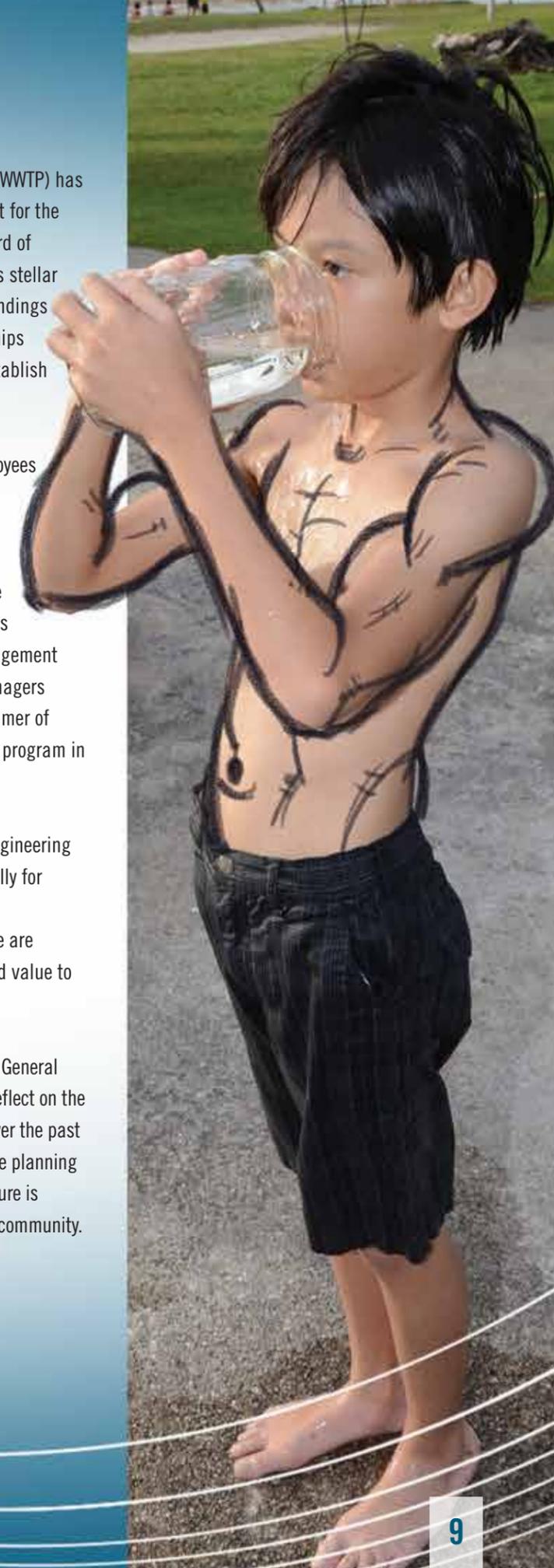
GWA's greatest assets are our employees. Therefore, investing in our employees through training and workforce development has and will always be a top priority. As GWA has some of the best employees in the country, with effective training opportunities, there is no limit to where we can take the utility together. GWA has implemented two internal training programs: one for all employees and one for supervisors and managers. Training includes all the elements of organization success; and focuses on leadership, management and the EPA Operator's Certification Exam. An additional 25 of GWA's managers began the process to become Certified Public Managers (CPMs) in the summer of 2013. This is in addition to the 24 managers who graduated from the CPM program in December 2012.

Project Management Office (PMO) Brown and Caldwell, an international engineering consulting firm with a proven track record of managing projects successfully for utilities across the country and across the world, was hired to assist GWA management in completing our CO projects over the next several years. We are pleased to have them as part of our GWA team as we know they have added value to our CMP.

June 2014 will mark the end of my fifth year at GWA and my third year as the General Manager for the Guam Waterworks Authority. The annual report is a time to reflect on the tremendous progress GWA's management team and employees have made over the past year. With the positive improvements GWA has seen in the last 24 months, the planning foundation complete and GWA employees taking ownership over GWA, the future is bright. GWA is thankful for the support of the GWA familia, the CCU, and our community.



MARTIN L. ROUSH, MPA, P.E.
General Manager



2

**“If you build it,
they will drink.”**

GWA continues to improve our distribution system, building new storage tanks, repairing leaks and replacing aging pipes islandwide. Improvements in our system means water gets to you faster, cleaner and guaranteed.



ENGINEERING DIVISION REPORT

In 2013, the engineering department worked to meet 2011 Court Order (CO) deadlines as well as continued to overcome challenges experienced in the on-going design and construction projects coupled with staffing short falls. We also focused on spending the 2010 Bonds due to the fact that the 2013 Bond projects were required to start as early as January 2014. We are excited about three of our additional staff that are undergoing the Certified Public Management program which will help develop capable and productive employees.



TOM CRUZ
Chief Engineer

Major Accomplishments 2013

1. Construction for the Barrigada 2MG Tank Project was completed in November 2013
2. All field work for the Leak Detection Phase II Project was completed which identified nearly 500 underground leaks throughout the island
3. Construction activities for the Waterline Replacement Project Phase I installed nearly 5,000 linear feet of 6" diameter pipe
4. Completed update for the water hydraulic model with the Program Management Office
5. Completed the Sanitary Sewer Evaluation Survey for the Southern Sewer Collection System
6. Completed GIS enterprise for GWA to connect all users to the GIS
7. Initiated design services for the Umatac/Merizo Wastewater Treatment Plant Interim improvements
8. Initiated design services for the Yigo/Astumbo Reservoir Replacement Project
9. Initiated engineering services for the Infiltration & Inflow for Central Wastewater Basin
10. Completed the Barrigada and Yigo Sewer Pump Station Improvements projects funded by federal grants.

Goals for 2014

1. Implement design services for the Ugum, Palantat, Hyundai water storage tanks that required replacement or major repair
2. Complete the construction of the 0.5MG Chaot, 0.5MG Agana Heights and 2.0MG Barrigada #2 water storage tanks
3. Initiate water and wastewater projects funded from the 2011-2012 State Revolving Fund Grant issue by the USEPA
4. Update the wastewater hydraulic model to allow GWA to provide better customer services for new development
5. Begin construction activities for the three new water production wells in the north
6. Continue to prepare for the military build-up by working with NAVFAC our military counterparts
7. Continue to strengthen and streamline the permits and inspection section
8. Update and finalize the GWA Development Guide Book
9. Continue to work towards completing as-built information input into the GIS
10. Continue to replace water lines that have numerous and reoccurring leaks through the line replacement project
11. Complete engineering services for the Infiltration & In-flow (I&I)/ Sanitary Sewer Evaluation Survey (SSES) work in the Northern sewer collection system.
12. Update the Capital Improvements Plan for 2014-2019 which includes a 2013 Bond Fund reallocation which funded many CO projects
13. Construction activities for the Hagåtña Wastewater Treatment Plant Interim Improvements started with completion slated for June 2013.



ZINA PANGELINAN-CHARFAUROS
Personnel Resources Administrator

HUMAN RESOURCES DIVISION REPORT

The Human Resources Division is a comprehensive human resources operation. The Guam Waterworks Authority's (GWA) Human Resources Division (HRD) consists of the following:

- Recruitment
- Records (Database) and Benefits
- Employee Management Relations
- Position Classification and Compensation

The GWA Human Resources Division is under the leadership of the General Manager, Martin L. Roush and consists of 3 Personnel Specialists (Julie C. Adams, Josephfa C. Evangelista and Julius G. Bermudez).

The Human Resources Division has primary responsibility for handling, dealing and assisting with all employee related matters. It provides services and support to our employees in ways that embrace the GWA's mission of innovation and tradition of excellence.

Human Resources Division will take a leadership role and provide service in support of GWA's vision by promoting the concept that our employees are our most valuable resource and will be treated as such. Human Resources Division will act as catalyst enabling all GWA employees to contribute at optimum levels towards the success of the GWA.

Human Resources Division assists management in a number of employment related issues, including but not limited to: hiring, termination, discipline, compensation, benefits and other employee management relation matters.

Guam Waterworks Authority's over 300 employees have opportunities to identify and expand their skills through training and development programs.

A very successful GWA's Apprenticeship Program was completed on May 2012 with a total of 24 (twenty four) Apprentices completing all requirements and graduated with Journeyman Certificates as Pump Services, Wastewater Plant Mechanics and Operators, Water Treatment Plant Operator and Plant Instrument Technicians. Our Apprentices graduates have since become permanent employees of Guam Waterworks Authority in their respective fields. The Apprentices Program requires 3 (three) to 4

(four) years of on-the-job training and is offered through the partnership with U.S. Department of Labor, The Agency for Human Resources Development and the Guam Community College.

Numerous employees have obtained new certifications or higher levels from the Guam Environmental Protection Agency (GEPA) ranging from Level 1 through Level 4 proving our commitment to enhancing optimal performance from our employees to efficiently and effectively serve our community.

1. Human Resources Division will promote and recruit the most qualified people through providing the most competitive salaries and benefits packages.
2. HRD will continue to nurture and develop full potential of our work force through training, development and career enhancements.
3. HRD will continue to provide a clean, safe and healthy workplace with long term family and community goals.
4. HRD continues to establish, administer and effectively communicate sound policies, rules and practices, while maintaining the utmost level of professionalism treating our employees with dignity and equality while maintaining company compliance with employment rules and regulations.
5. HRD will continue to foster employee orientation and professional development, foster the value of inclusiveness, camaraderie, long term employee engagement and life-long learning.

In all areas of work, the Human Resources Division firmly upholds the tenets of confidentiality, accountability and trust.

GWA's Human Resources Division continues to improve the level of customer service to our internal and external customers increasing communications with accessible information.

The Guam Waterworks Authority's Human Resources Division staff recognizes that without the support and assistance of the management and staff, HR Division would not be able to successfully carry out their duties.





PAUL J. KEMP
Assistant General Manager

COMPLIANCE & SAFETY REPORT

Accomplishments in 2012/2013:

- GWA continues to successfully manage the 11/10/2011 Court Order to EPA's Satisfaction. Hagåtña Waste Water Treatment Plant (which was the second major WWTP upgrade) will be operating in upgrade mode in March 2014.
- The Ground Water Under the Direct Influence of Surface Water (GWUDISW) study has been completed for Guam. Data verifies that GWA water is not GWUDISW and Guam's wells are ground water. This verifies the quality of Guam's well water.
- GWA Compliance Laboratory has maintained Certification for EPA Compliance Monitoring.
- GWA continues primary safety training with Water M&O and Utilities Services and Advanced Safety (Specialized) Training.
- Ugum Surface Water Treatment Plant Continuous Membrane Filtration (Submerged) process water quality continues to exceed all required standards.
- GWA has completed the items cited by USEPA in the 11/01/2012 Significant Findings of [Potential] Deficiencies (water) report.
- GWA has planned a Back-Flow/Cross-Connection control program and submitted it to USEPA for final approval.
- GWA has planned a waste water Source Control program and USEPA has approved it for implementation.
- GWA has provided the full response to the USEPA Request for Information on the waste water systems.
- The GWA Sewer Hook-Up Revolving Loan Fund program continues to be available. (See <http://www.guamwaterworks.org/documents/SewerFactSheet05192010.pdf> on the GWA Web site for details.)

Goals for 2014/2015:

- Complete the design for the replacement of the GWA Dededo Compliance Laboratory.
- Continue to manage compliance with the 2011 Court Order.
- Continue to manage compliance with all other SDWA, CAA, CWA and OSHA requirements on schedule.
- Implement the planned waste water Source Control program with USEPA support. ["Don't clog with FOG".]
- Expand the Advanced Safety (Specialized) Training Program.
- Implement the planned Back-Flow/Cross-Connection control program (pending USEPA approval of the plan).

3

"Guam's water is not only safe to drink, but has the power to stop a fire and save lives."

We at GWA follow the highest standards to ensure that the water that comes into your house and out of your tap is clean and safe for you to drink.





ELIZABETH "LISA" SAN AGUSTIN
Utility Services Administrator

UTILITY SERVICES DIVISION REPORT

GWA's Utility Services Division is made up of front line service deliverers from the Customer Services Unit, Collections Unit, Disconnect/Reconnect Unit, Small Meter Task Force, Meter Reading Unit, Revenue Protection and Recovery Unit and the Administrative Support Unit. With 50 total employees, this division serves the community of Guam from both the GWA Main Office in Upper Tumon as well as the GPA/GWA Julale Satellite Office in Hagåtña. This dedicated and committed division works hard each and every day to deliver a level of service the community of Guam can be proud of and works equally hard to improve the overall quality of service we provide our island. With the progress of the court ordered Meter Replacement Project, the division has seen changes recently – all designed to raise GWA's quality of service and to remain constantly focused on improvements for today's ratepayer. Amid changes, challenges and improvements, this division strives to meet the GWA mission to provide outstanding service to our island community.

In calendar year 2013, the Customer Service Unit assisted a total of 45,998 customers from our front counters of the GWA main office and from our GPA/GWA Julale Satellite Office. Our eight Customer Service Representatives from both locations continue to work hard every day to deliver friendly service to our ratepayers. In addition to walk-in visits, 7,789 emailed requests were received and answered by the Customer Service Unit in 2013 alone.

Our GWA Call Center is comprised of two Customer Service Representatives who received 25,071 customer calls in year 2013. These calls include billing complaints, balance inquiries and other GWA account related inquiries.

In our continued effort to improve our accounts receivables, our hard working Collections Unit of just three personnel processed 4,483 accounts with outstanding balances alongside our Disconnect/Reconnect Unit in Calendar year 2013. Through our relationship with our sister company GPA, GWA sent 52,000 ATC calls in 2013 electronically notifying customers of their GWA outstanding balances.

Our Disconnect/Reconnect Unit received and field completed 26,254 work orders in calendar year 2013 with 75% of all work orders completed within 1 billing cycle or less. This unit of seven personnel field investigate and complete all requests for

reconnection, name changes, disconnection, meter related verifications, meter leaks, meter change outs and other meter complaints island-wide.

The Meter Reading Unit successfully and consistently captured 97% electronic reads from our new Badger AMR meters in calendar year 2013 amid the massive change out of old meters. With 11 meter readers to both electronically and manually read the over 41,000 meters island-wide, this unit continues to work hard to ensure timely and accurate readings for our customers. Failed meters and fluctuating AMR and Sensus inventory was a challenge during this year but this unit continued to press on and assisted the Small Meter Task Force to complete the Meter Replacement Project. The successful completion of the Meter Replacement Project undoubtedly will serve to improve the overall successful electronic read percentages and more importantly serve to give Guam's ratepayers the reliable and accurate measurements of water consumption they expect and deserve. The Small Meter Task Force continued to change out a total of 28,441 Sensus and problematic AMR meters as of December 2013 resulting in significant progress in the Meter Replacement Project. Working very closely with the Disconnect/Reconnect Unit, Meter Reading Unit, Water Operations, Large Meter Task Force and the Revenue Protection & Recovery Unit the overall project progress is largely due to the entire team's commitment, dedication and teamwork to bring GWA meter challenges to an end and to decrease our revenue losses to failed or malfunctioning meters.

Our Revenue Protection & Recovery Unit processed and investigated 67 reports of illegal connections and unauthorized use of water services in calendar year 2013. As the administrative arm of the court ordered Meter Replacement Project, RPU prepared and processed 28,441 meter change out work orders as of December 2013, working diligently to bring GWA closer to completion of the Meter Replacement Project.

The overall division improvements in calendar year 2013 include:

- Improved our data collection of division key performance indicators to facilitate effective performance measurements
- Improve service delivery by obtaining additional Orion Read Center stations for CSR's
- Improved service quality by empowering CSR's and Supervisors to execute account resolution actions and empowered all service deliverers to negotiate payment arrangements
- Improved customer experience from our GWA main office by streamlining the customer sign in process making it simple, respectful and more effective
- Improved the look of our GWA main office customer service lobby
- Customer Service Unit was awarded the **2013 Government of Guam MagPro Customer Service Team Excellence Award** in the large department category for service excellence
- Added 2 field personnel to the Collections Unit
- Added 2 field personnel to the Revenue Protection & Recovery Unit
- Enrolled 4 USD Supervisors in the latest Certified Public Manager/Supervisory Academy training cycle

Goals for 2014

It is the goal of the Utility Services Division to remain committed to service excellence and continual improvement of our service quality. This commitment supports the following goals in 2014 to bring GWA to an improved level of service:

- Implementation of a new Customer Information System – scheduled for November 2014
- Implementation of a new sign in process to facilitate ease and efficiency – July 2014
- To update, refine and improve unit performance measurements for service quality improvements and efficiency.
- To improve collections and more aggressively collect delinquent revenues
- To improve the turnover days for work order requests
- To more aggressively and efficiently identify, resolve and recover lost revenues and to educate our community on the consequences of water theft.
- To heed the call of today's tech savvy ratepayer for more automated methods of communication through the use of SMS messaging and email.
- To aggressively prosecute theft of utility cases by working more closely with Guam Police Department and the Office of the Attorney General of Guam.
- To properly structure the division to address account dispute resolution and "back of office" functions (Document Control).
- To continue to promptly and efficiently make available resources in support of the division and the GWA mission.
- To support by carrying out all administrative demands of division functions
- To increase training and development opportunities division-wide.
- To implement a team building program in FY2014.
- To foster a culture of professional respect and to create an environment that facilitates positivity, creativity, respect, productivity and efficiency.



4

“A drink of water can quench your thirst. A frolic in water can quench your spirit.”

Running water is not as fun as running in water.

“Plants and children are alike: with a good amount of water and an abundance of love, there’s no telling how much they can grow.”

God provides us the water. GWA ensures it gets to you and thousands of homes, businesses and farms on Guam. We don’t realize it but GWA is not only responsible for the water you consume and use in your home but it plays an integral role in providing the fresh, local vegetables and fruits that you buy at your grocery stores and eat at your favorite restaurants.



WATER OPERATIONS & MAINTENANCE DIVISION REPORT

2013 Goals and Accomplishments

1. **Completion of GEUS Booster Rehabilitation** - This booster pump is located in the village of Merizo on Vicente Espinosa Street. It is situated on very low lying area and is subject to flooding during heavy rains. We have installed new valves, a second pump and motor to ensure reliable water supply in the area and elevated the whole assembly to minimize water contamination. Approximately \$90,630 from our 2010 Bond.
 2. Personnel are focused on the ongoing rehabilitation and improvement at the following Booster Pump Stations throughout Guam. Project scope involves the purchase and installation of new pump, motor and valves, repair or replacement of entry gates and perimeter fence lines, repair of missing doors and windows, repair of electrical appurtenances and construction of a shelter around the pumps and motors and power pedestal. The total cost approved for this project was \$434,524.00 and was funded by 2010 Bond Capital Improvement Projects.
 - Windward Hills
 - Hyundai
 - Gayinero
 - Pago Bay
 - Toguan Access
 - Adawag Brigade
 - Mataguac
 - Pigua
 - Santa Ana
 - Santa Rita
 - WBP2 Booster Pump
 3. Ugum Water Treatment Plant improvements continue. This includes Laboratory construction, roof cover membranes and membrane modules. All to improve the treatment of the water we take out of the Ugum River. These projects come from the 2010 Bond funded project and total almost \$100,000.
 4. Rehabilitation of several critical wells in central and northern Guam.
 5. Operations staff has saved approximately \$200,000 for more prompt leak repairs. Reduction of Navy Water Purchases through the Removal of Master Meter 159- Services will be contracted in the amount of \$49,950. GWA has an existing 24” main line located on the shoulder of the northbound lane on Rt 3. On the opposite side of Rt3 on the entrance road leading to the Southern Link Wastewater Station is Navy master Meter #159 which serves as an existing 6” water line. This project is to tap into the 24” main line and connect an 8” water line approximately 100 feet crossing Rt3. This project will help reduce navy water purchases with an average of \$15,000 a month.
 6. System in place for accountability in managing capital improvement projects meeting GWA’s performance standards utilizing JDE Work order Management and Job Costing.
 7. Relocation of Meter Reading and Meter Maintenance to Water Operations. Operations goal is to ensure all 40,000 plus meters should be regularly maintained under GWA’s Asset Management Program’s Preventive Maintenance recorded by JDE Plant and Equipment Module. This arrangement is in keeping with the structure that water meters are considered major components of a water distribution along with valves, pipes and pumps through which treated water is moved from the treatment plant to consumers. Realigning water meter task force, water meter reading to Water Operations is critical to GWA’s future success in terms of revenue, customer satisfaction and asset maintenance and developing a basis for repair versus replacement decisions.
 8. Automated solutions and technology implemented to gather water production data.

WASTEWATER DIVISION REPORT

Wastewater Collection

The transition to GWA from Veiola Water is a shared success between WWT and WWC; however some of the other achievements that occurred are as follows.

Achievements

- Upgrade of valves and pumps for Route 16 and Barrigada Pump Stations
- Replacement of critical pumps under the Emergency Asset Pump Replacement
- Performing CCTV on sewer lines and meeting the requirements Stipulated Order
- Infiltration and inflow Evaluations Sewer Networks
- WWC crews started with repair and rehab of damaged sewer lines discovered during CCTV inspections
- Transitioning of WO orders to JD Edwards

Wastewater Treatment

- Successful transition of the Veolia PMC contract over to the GWA operations & management staff.
- Start up, commissioning and successful operations of the NDWWTP new Chemically Enhanced Primary Treatment Process. This facility has now been in compliance with Court Order for 14 consecutive months and continues to meet NPDES primary treatment requirements. Continuous compliance with Court Order to meet NPDES primary treatment requirements for this facility is the goal from here on forward.
- Start up, commissioning and successful operations of the HWWTP new Chemically Enhanced Primary Treatment Process began in March 2014. Continuous compliance with Court Order to meet NPDES primary treatment requirements for this facility is the goal from here on forward.
- The operations staff has improved the aesthetics at all of the WWT facilities with improved grounds maintenance and lots of painting and will continue with this effort in the upcoming year.

6

“Water should never be wasted – not even wastewater.”

GWA is always looking for new technologies; in the way we distribute water and how we handle wastewater. One process we are exploring is water reclaiming or recycled water which comes from treating wastewater to remove solids and certain impurities and reuse it in sustainable landscaping irrigation or to recharge groundwater aquifers.



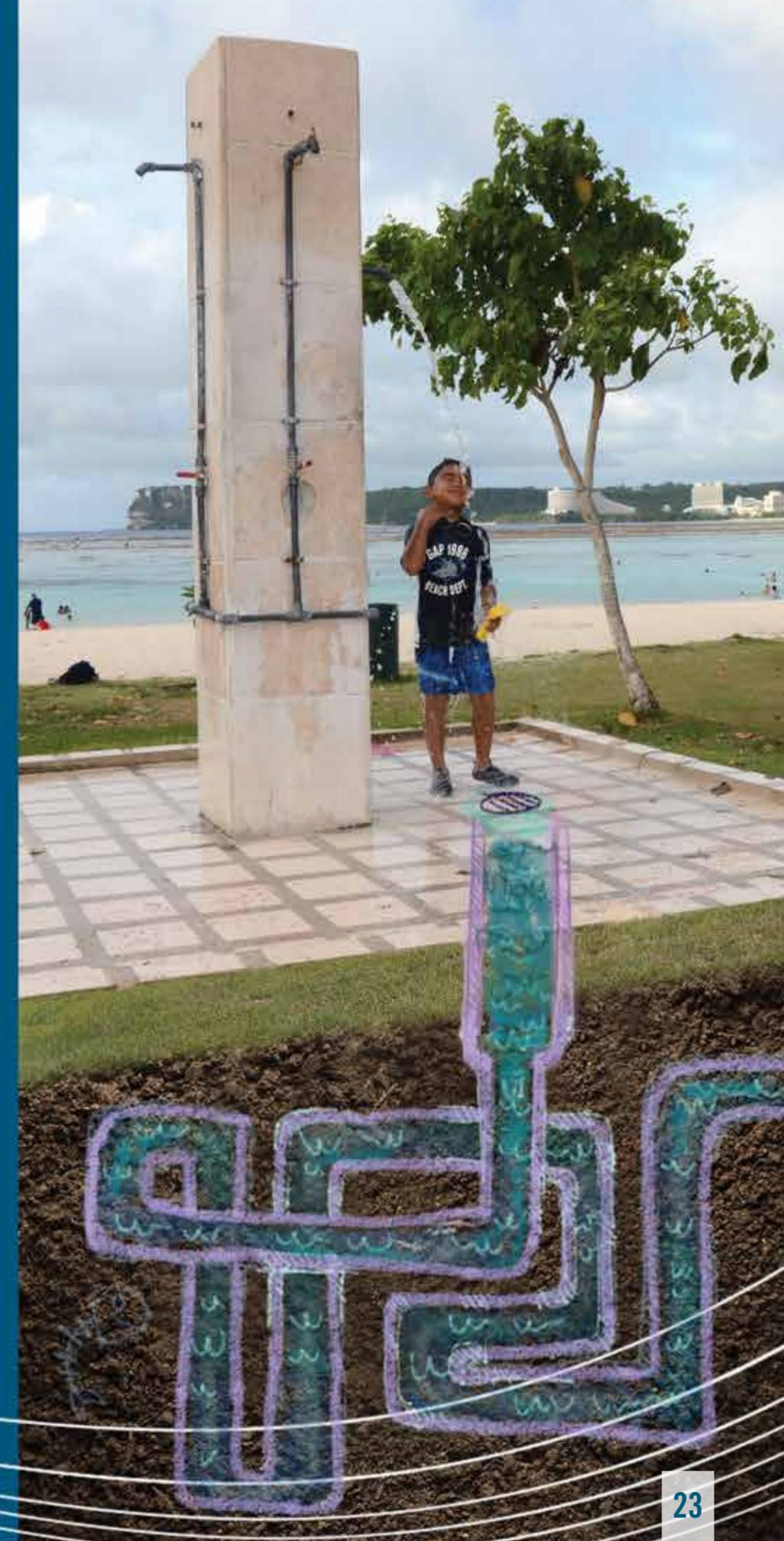
GEIGY SALAYON
Utilities Services Administrator
Water Operations and Maintenance Division



DAVID FLETCHER
Wastewater Treatment Operations
Maintenance Manager



ROY CHARGUALAF
Heavy Equipment Mechanic Leader



2013 PROGRAM MANAGEMENT OFFICE (PMO) ANNUAL SUMMARY

GWA's PMO, the Brown and Caldwell Team (which includes GHD, EA Engineering Science and Technology Services, Inc. and the Galardi Rothstein Group), continues to be an effective and valuable tool allowing GWA to meet its court ordered and contractual requirements during 2013. The BC PMO Team provides support to GWA in numerous technical areas including: engineering, operations, finance, project management, construction management and compliance. The PMO provided technical support to GWA staff related to requirements of the Court Order, the NEIC Significant Findings in Water and Wastewater, NPDES permit issues and discussions with the USEPA.



Northern District WWTP Completed Projects – Chemically Enhanced Primary Clarifiers, Sludge and Solids Handling

The PMO team helped GWA achieve significant accomplishments in 2013 through engineering, contract and construction management, operations support and consulting services.

The following accomplishments in 2013 were achieved:

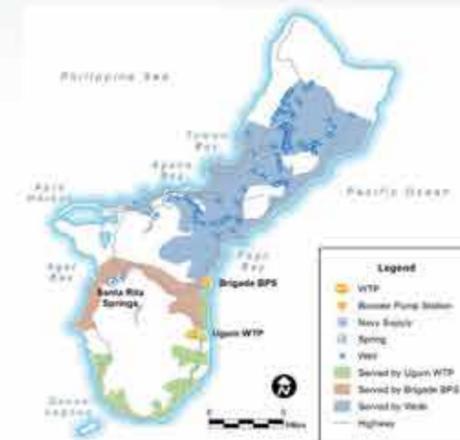
A. Court Order and NEIC Significant Findings

- Completed 67 out of 89 Court Order deadlines and developed a plan-of-action or recovery schedule to address the remaining deadlines.
- Participated in bi-weekly teleconference calls with GWA and the USEPA and prepared technical responses to meet deadlines in the Court Order and NEIC Findings of Significant Deficiencies.
- Performed facility inspections and provided guidance to GWA in early completion of NEIC Significant Findings of Deficiency in the water system. Confirmed and verified actions taken by GWA to rehabilitate the potable water booster pump stations and groundwater wells bringing them into compliance.
- Completed the Water System Monitoring Plan for the Sinajana water transmission line.

B. Analyses, Models and Manuals

- Completed the Water Hydraulic Model and System Analysis on GWA's Potable Water Distribution and Storage System. This model allows GWA to analyze and simulate flow and pressure issues throughout the island, and provides solutions to help ensure reliable customer service.
- Responded to GEPA comments and scrutiny on the Hydraulic Analysis and demonstrated its usefulness in future planning and solving problems.
- Developed an outline and approach for GWA to establish a groundwater wellhead protection program in concert with GEPA's responsibilities that will identify and mitigate potential future contamination risks.

- Completed and provided to USEPA a response for the Programmatic Management Plan (PMP) which is needed to receive and use State Revolving Fund grants.
- Achieved USEPA approval on the Ugum SWTP Operations and Maintenance Manual, thus completing the construction project and releasing final grant funds to GWA.
- Developed and submitted to USEPA the first edition of the Operations and Maintenance Manual for the Hagåtña WWTP describing the existing and new processes needed to meet Court Order compliance.



Hydraulic Model – Island-wide water distribution system



Northern District WWTP – USEPA site visit and inspection

C. NPDES Secondary Treatment Permits

- Provided technical support to GWA in negotiating NPDES Permit requirements for secondary treatment at the largest wastewater treatment facilities.
- Developed cash-flow models and conducted workshops with GWA employees and CCU Board members on the financial capability of GWA's rate payers to afford secondary treatment of wastewater at the Northern District and Hagåtña wastewater treatment plants.

D. Series 2013 Revenue Bonds Consulting Engineers Report

- Generated the consulting engineer's report that supported the Series 2013 Revenue Bond issuance. Assisted in providing documentation to the Bond Rating Agencies on the financial capability of GWA, enabling GWA to receive improved bond ratings which lowered borrowing costs for the rate payers.

DALLAS (Standard & Poor's) Nov. 4, 2013—Standard & Poor's Ratings Services said today it assigned its 'A-' rating and stable outlook to Guam Waterworks Authority's (GWA) series 2013 water and wastewater system revenue bonds.



GWA's Series 2013 Revenue Bond Public Announcement



Northern WWTP Septage Receiving Station –
Pre-construction dumping into a manhole ahead of the plant.



Post-construction disposal into a controlled facility that screens and equalizes Septage flow into the plant.



Hagåtña WWTP – Permanent closure of old outfall



Hagåtña WWTP – New effluent vertical-turbine pumps

E. Wastewater Treatment

- Finalized construction at the Northern District WWTP (under Veolia Guam oversight and construction by contractor, dck-Pacific), completing all change requests and closing the project. This includes completion of a septage receiving station, sludge digester piping and coagulant mixing facilities.
- Helped develop the technical specifications and 30% bridging contract documents to initiate construction of chemically enhanced primary treatment improvements at the Hagåtña WWTP.
- Performed construction inspection and construction management of improvements to the Hagåtña WWTP (construction by contractor GCIFI in conjunction with Core Tech, dck-Pacific and Duenas Camacho Associates). Construction oversight work involved design/build contractor negotiations on change proposals, interpretation of existing bid documents, verifying contractor pay requests and quality assurance.
- Permanently prevented effluent back-surge from spilling raw wastewater into the ocean at the Hagåtña WWTP. This was accomplished by instructing the contractors to permanently seal access to the old outfall pipe.
- Conducted system-wide facility evaluations for the Baza Gardens, Agat-Santa Rita and Umatac wastewater treatment plants. Developed the Southern Solution plans for bringing these plants into compliance with NPDES secondary effluent discharge limits.
- Coordinated double-ring infiltrometer testing (performed by Geo-Engineering and Testing) at the Umatac WWTP to determine limits for percolation and absorption of flows in the existing land application discharge fields. Generated conceptual designs to improve the performance of the land application sites through piping and grading modifications.
- Completed a design of interim measures at the Umatac WWTP to improve wastewater treatment and minimize potential for bypassing flows from the lagoon directly into the river.



Hagåtña WWTP – Chemical mixing room



Ongoing discussions between GWA Chief Engineer and dck-Pacific Superintendent at Hagåtña WWTP

Hagåtña WWTP – Abandoned effluent pump room is converted into a chemical mixing and storage facility.

BEFORE

AFTER



F. Sewer Collection and Pumping

- Completed the SSES work (supported by Underground Services, Inc.) in the Southern Sewer Basins, identifying and logging deficiencies in the manholes and sewer collection pipelines and preparing drawings and specifications for GWA to significantly reduce infiltration and inflow.
- Identified through smoke testing areas of high inflow and instructed GWA to plug and repair these sources.
- Viewed and evaluated CCTV inspection video tapes of miles of the sewer collection system in the Southern Sewer Basins to aid in locating and determining collection system deficiencies.
- Provided operations training for CCTV and Vector Truck Operations.

Training – Vector Truck and CCTV training



Training – GWA operations training for Ugum SWTP staff



G. Water Treatment and Production

- Conducted individual mentoring and training for operations staff at the Ugum SWTP. Staff training has improved plant reliability and performance.
- Prepared and conducted Ugum training classes on membrane treatment and coagulation in accordance with AWWA publications.
- Provided guidance and training for creation of an on-site laboratory, instituting procedures for membrane cleaning and repair, improved neutralization and chemical use, improved raw water pumping and adjusted in-plant flow streams to improve solids removal.



Ugum Water Treatment Plant – Total Organic Carbon Analyzer in place to monitor compliance

H. Water Distribution, Storage and Pumping

- Monitored contractor's work and construction progress on Agana Heights and Chaot water storage tanks and offered guidance to GWA on remedies for project delays.
- Evaluated engineering designs and reports from GWA's consultants to validate projects for construction: Asan Springs Rehabilitation, SCADA Master Plan, Water System Master Meters and Brigade II Booster Pumping Station.
- Conducted water audits in accordance with AWWA standards to determine the amount of non-revenue water. Identified solutions to deficiencies in data collection and recording which will improve results of water audits going forward.
- Provided consulting advice to GWA staff during construction of the meter test bench facility enabling the facility to be permitted for occupancy.
- Generated a plan for GWA's potable water storage reservoirs allowing contractors to take the tanks down for inspection and determining if the size and location of replacement tanks is adequate.
- Simulated hydraulic conditions with the hydraulic model to evaluate specific flow and pressure issues throughout the water system in areas of Nimitz Hill, Harmon Industrial Park, Agat-Santa Rita, Piti, Tumon, Pago Bay and Talafofo. Simulated the reported pressure or flow deficiencies using the hydraulic model and recommended improvements to enable GWA to develop resolutions that will improve customer service.



Barrigada Water Tank – Guam's first pre-stressed concrete water tank

I. General Assistance, Consulting and Staff Augmentation

- Provided technical assistance by supporting CIP Planning for 2013-2018 and conducted initial studies for GWA capacity and capability for future CIPs.
- Reviewed 90% Master Meter plans prepared by GWA consultants.
- Provided general direction and guidance for construction of the water meter test bench facility.
- Provided advice and background information on water and sewer system development charges.
- Assisted in conducting new development studies in Tumon and their affect on GWA's infrastructure.
- Supported GWA's General Manager on completing the 09/2013 Comprehensive Management Plan.
- Provided technical reviews on groundwater well pump failure analyses, electrical specifications for new wells and island-wide SCADA master planning
- Provided contract assistance through the development and review of the RFP for Central Basin I/I analysis, and development of the scope for Umatac-Merizo WWTP interim measures design services.
- Assisted in manpower development by creating the 2013 training plan for GWA engineering and operations.
- Provided staff augmentation through regular maintenance and updating Quarterly and Annual Reports to the USEPA on Court Order and NEIC Significant Findings, developed GWA's 5-Year Plan for consulting support of the Court Order and NEIC Significant Findings, supported USEPA site visits, attended NAVFAC EIS meetings and USGS Groundwater Aquifer study meetings, supported Non-GWUDI determinations on the groundwater aquifer, provided backup support for PUC required documentation and submittals and participated in GWA's review of consultant qualifications prior to selection.

Public information and training for the Engineering community at Barrigada storage tank



Chaot & Agana Hts storage tank construction planning





GUAM WATERWORKS AUTHORITY





GUAM WATERWORKS AUTHORITY EMPLOYEES

- Abay, Stuart Lee
Adams, Julie C.
Aguon, Benny T.
Aguon, Daniel A.
Aguon, Edward A.
Aguon, Joseph Anthony C.
Aguon, Lester D.
Aguon, Peter F.
Aguon, Prudencio F.
Aguon, Steven T.
Alano, Efren M.
Alvarez Jr., Jose
Antonio, Glorilyn D.
Apiag, Severin Hilary A.
Apuron, Manuel P.
Apuya Jr., Elizardo C.
Aquiningoc, Kenneth J.
Aquiningoc, Rita Rozanne
Arceo, Bryan J.
Arceo, Erik F.
Arceo, Peter J.
Arceo, Tommy J.
Arriola, Norma Marie I.
Asuncion, Raymond G.
Balajadia-Aguigui, Marcy
Barcenilla, Zachary J.
Barcinas, Benbenido M.
Baza, Raymond LG
Beleno, Kathleen B.
Bell, Henry J.
Benavente II, Michael J.
Benavente, Elena P.
Benavente, Joseph M.
Benavente, Linda Frances C.
Bensan, Gloria P.
Bermudez, Julius G.
Blake Jr., Steven E.
Blas, Angeninna R.
Blas, JayRyan T.
Blas, John K.T.
Blas, Kenneth Q.
Blas, Melchor M.
Borja, Ann D.
Borja, Jeffrey M.
Borja, Michael C.
Borja, Peter J.
Brown, Larry C.
Cabuhaf Jr., Geronimo P.
Calvo, Jude G.
Camacho, TeresaMarie B.
Castelo, Loreta R.
Castro, Eddie P.
Castro, Keith J.
Castro, Peter B.
Cendana, John C.
Cesa, Cecille M.
Charfauros, Jonathan A.
Chargualaf Jr., Benny E.
Chargualaf JR, Anthony P.
Chargualaf, Benny E.
Chargualaf, David B.
Chargualaf, Dean E.
Chargualaf, Frankie E.
Chargualaf, Richard A.
Chargualaf, Roy R.
Claveria, Joseph P.
Crisostomo, Diane T.
Cruz, Barbara Ann Camacho
Cruz, Bernie Antonitte Velasco
Cruz, Branden A.
Cruz, Franklin F.
Cruz, Grace R
Cruz, Greg P.
Cruz, Joaquin L.
Cruz, Jose B.
Cruz, Lucas C.
Cruz, Michelangelo Paul A.
Cruz, Patrick M.
Cruz, Peter T.
Cruz, Raymond AR
Cruz, Rose B.
Cruz, Thomas Franklin A.
Cruz, Yvonne M.
Dalisy, Teresita S.
Davis, John M.
DaHill, Betty Liz
Diaz, James N.
Diaz, Jennifer Crisostomo
Diaz, Jeremiah Frank B.
Dizon, Eliseo Q.
Duenas Jr., Agustin B.
Duenas, James B.
Duenas, Jeralle JT
Duenas, Joseph A.
Duenas, Mark Anthony A.
Duenas, Vincent Jon G.
Esguerra, Danilo I
Esguerra, Marjorie Invention
Estrada, Rodney R.
Evangelista, Josephfa Castro
Evangelista, Josephine D.
Fletcher, David A.
Flores, George V.
Flores, Ricky H
Foster, Everard P.S.
Franquez, Paul A.
Gagan, Gary George P.
Garcia, Evelyn G.
Garrido, Joseph B.
Garrido, Robert G.
Gaza, Alicia C.
Gerardo Jr., Roger A.
Gombar, Angelo N.
Gozalo, Mary C.
Grape, Karen Cheryl O.
Guerrero, Doris A.
Guerrero, Eugene A.
Guerrero, Timothy C.
Guerrero, Ursula A.C.
Guerrero, Vincent Ed
Guile Jr., Gary Allen
Gumataotao, Elizabeth H.
Gutierrez, Arthur L
Guzman, Peter A.
Halmi, Eric A.
Hechanova, Yukari Barnes
Hecita, Theresa Epacta
Herrero, Frances C.
Herrero, Jonathan James
Hoover, Matthew E.
Hufalar, Lito V.
Huntington II, Clinton W.
Ililau, Charlene
Jardel, Jose A.
Jardel, Victor A.
Kaneshiro, Derek H.
Kemp, Paul J
Laguana, Vincent Edward T.
Leal, Jerry P.
Leon Guerrero, Jesse L.
Limtiaco, Anita K.
Lizama, Francis A.
Lizama, Lance D.
Lopez, Marc D.
Lotoc, Bernardo P.
Lujan, David F.
Lujan, Evangeline C.D.
Lujan, Francis A.
Lujan, Jonathan J.
Lujan, Paul Q.
Lunod, Curtis Jerome I.
Macan, Craig A.
Mafnas, Donnie A.
Mafnas, Fred B.
Mafnas, Gilda M.
Manglona, Frankie B.
Mantanona, James C.
Mantanona, Lance JD
Martinez, Justin Honculada
Matanane, Anita M.

GUAM WATERWORKS AUTHORITY EMPLOYEES

| | | | |
|------------------------------|---------------------------|---------------------------|---------------------------|
| Mendiola Jr., Victor Cabrera | Paulino, Craig J.T. | Sablan, Bernadette M. | Tadeo, Joseph A. |
| Mendiola, Bryan R. | Paulino, Gerald M. | Sablan, Felix D. | Taimanglo, Eddie T. |
| Mendiola, Melvin P. | Paulino, Joseph M. | Sablan, Francisco T. | Taimanglo, Kyle M. |
| Meno, Frankie R. | Paulino, Josephine S.N. | Sablan, Frank J. | Taisacan, Jacalyn M. |
| Meno, Johnny B. | Paulino, Ken Jay | Sablan, Michael M. | Taitague, Anthony Earl LG |
| Meno, Michael J. | Paulino, Leo Naputi | Sablan, Patrick R. | Taitague, Craig Joseph |
| Meno, Troy R. | Perez II, Albert T. | Sablan, Shane M. | Taitague, Garrick L.G. |
| Mercado, Roger P. | Perez, N'Tasha L. | Salas, Peter G. | Taitague, Shane D |
| Mercado, Sylvia Y. | Perez, Raymond M. | Salas, William R. | Taitano, Joey A. |
| Mesa, Vincent J. | Pigg, Diana | Salayon, Ma. Teogenesa Q. | Taitano, Justin Peter S. |
| Mesngon, Ignacio C. | Pinaula, Jeffrey John | San Agustin, Elizabeth M. | Tallada, Zambales R. |
| Mikel, Kathleen S. | Portin, Christopher T. | San Miguel, John D. | Tareg, Virginia P. |
| Miller, Jacob P. | Punzalan, Joseph A. | San Nicolas, Joaquin M. | Tayama, Diane M. |
| Miller, Mark G. | Quan, Nicole Ballesta | San Nicolas, Joseph C. | Taylor, Samuel J |
| Miner, Joseph B. | Quenga, Bill A. | San Nicolas, Joseph J | Techaira, Michael J. |
| Mondina, Stephen P. | Quenga, Louvina M. | San Nicolas, Joseph SA | Tedtaotao, Frankie D. |
| Munoz, Randy M. | Quichocho, Edward M. | San Nicolas, Kin M. | Tenorio, Wade T. |
| Nagal, Janice G. | Quidachay, Jon U. | San Nicolas, Ronald D. | Topasna, Henry S. |
| Nangauta, James C. | Quinata, Anthony A. | Sanchez, Francisco C. | Topasna, Ron S. |
| Naputi, Raymond F. | Quinata, Frankie T. | Sanchez, Frank A. | Torres Jr., Ely T. |
| Natuel, Orlando O. | Quinata, Jake Terrance | Sanchez, Fred J. | Torres, Brian K. |
| Nauta, Franklin I. | Quinata, Pedro A. | Sanchez, John A. | Torres, Victor A. |
| Nauta, Peter J.D. | Quintanilla, George S | Sanchez, Lance T. | Toves, Rodney A. |
| Obermeyer, Christopher D. | Quintanilla, Michael P.M. | Sanchez, Zachary T. | Tudela, Jason Henry S. |
| Onera, Pauline J.S. | Quintanilla, Raymond C | Santos JR, Joseph M. | Tuitu'u, David U. |
| Orlino, Keith F. | Quintanilla, Sandra L. | Santos, Glenn G. | Tyquiengco, Vincent Jon |
| Pacheco, Dalisay D. | Quitlong, Delfyn S. | Santos, Jose M. | Ulloa, Lavene C. |
| Padrones, Peter J. | Quitugua, Peter S. | Santos, Mancini Liam G. | Unchangco, Leilani JC |
| Palomo, Emmanuel N. | Railey, Brett Eric | Santos, Manz Lio G. | Unchangco, Peter F. |
| Palomo, Lourdes C. | Ramos, Charles M. | Santos, Rudy M. | Untalan, Paul C. |
| Pangelinan-Charfauros, Zina | Resurreccion, Clement C. | Saturnio, Brian JL | Vicente, Marietta P. |
| Pangelinan, Jackie RF | Reyes, Kathy MT. | Schaible, Melissa B. | Villagomez, MaryDawn F. |
| Pangelinan, Jason Gerard | Ricabar, Arthur M. | Scroggs, Richard Daniel | Villagomez, Rodney J. |
| Pangelinan, Patricia D. | Rios, Albert J. | Selleck, Lauris Eldon | Wall, Jerald Lee |
| Pangelinan, Richard W. | Rivera, David F. | Sharma, Winnie S. | Wilson Jr., Carl |
| Pangelinan, Vincent EC | Robinson, Demetria G. | Sian-Denton, Carmen M. | Yam, Cheuk Nam |
| Parinas, Felix O. | Roldan, Martin T. | Siguenza, Patrick A.F. | Yeoh, Garrett K.A. |
| Parke, Albert John B. | Roush, Martin Louis | Sourgose, Peter L. | |
| Pascua, Jocelyn L | Sablan, Annie Therese H. | | |
| Paulino Jr., Luis L.G. | | | |

GUAM WATERWORKS AUTHORITY

(a component unit of the Government of Guam)



FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

Years Ended
September 30, 2013
and 2012 *(restated)*

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Waterworks Authority as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding New Accounting Pronouncements

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 as well as the Schedule of Funding Progress on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

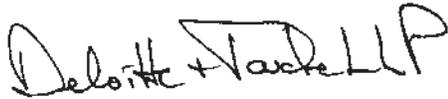
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of certain operating and maintenance expenses, construction work in progress, system development charge fund schedule of net position, revenue, expenses and changes in net position, and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

The schedules of certain operating and maintenance expenses, construction work in progress, system development charge fund schedule of net position, revenues, expenses, and changes in net position, and operating revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of certain operating and maintenance expenses, construction work in progress, system development charge fund schedule of net position, revenues, expenses, and changes in net position, and operating revenues are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employee and other data on page 49 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

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

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

June 11, 2014

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

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

As management of the Guam Waterworks Authority (GWA), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 16.

Overview of the Financial Statements

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

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 21 of this report.

Other Information

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

Financial Highlights

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

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

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

Financial Condition

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

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

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

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

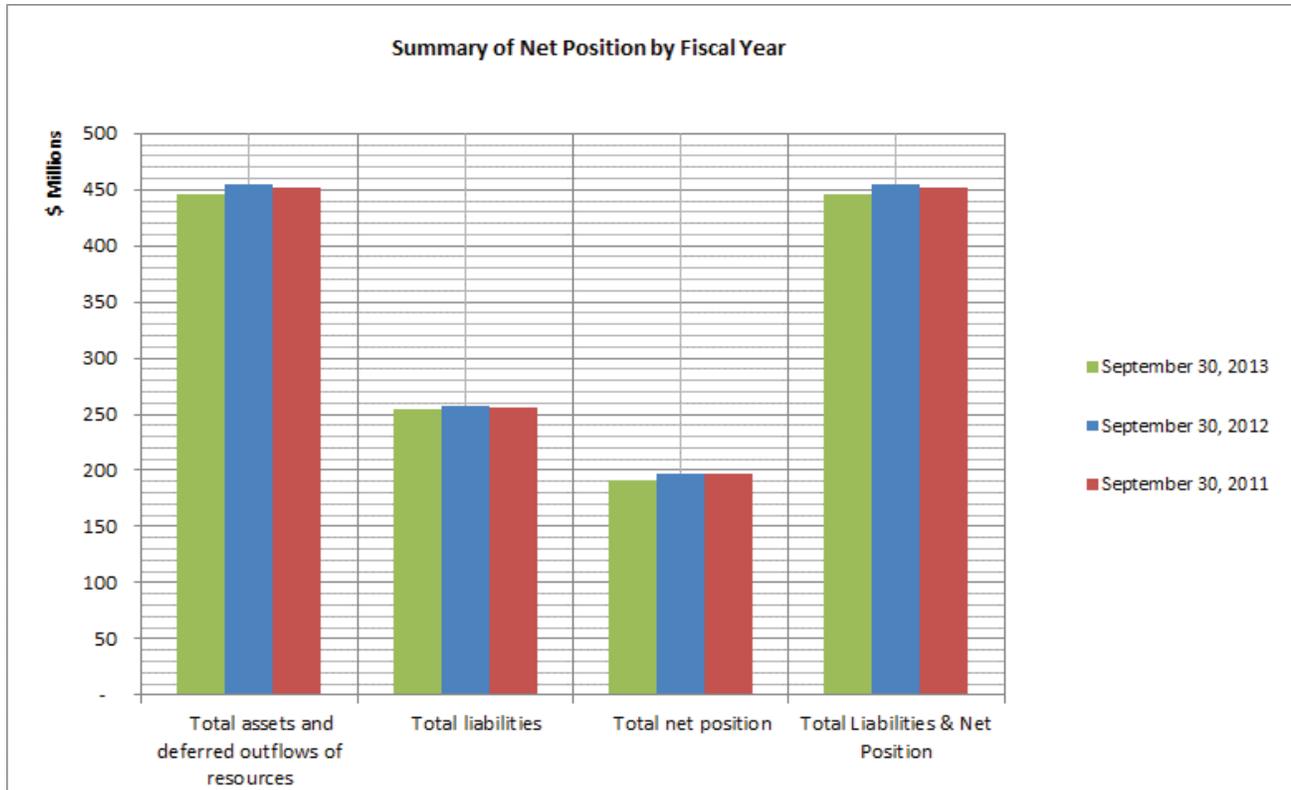
During the year ended September 30, 2013, GWA implemented Governmental Accounting Standards Board Statement No. 63 and Statement No. 65, which resulted in a restatement of 2012 and prior year financial statements. The effects of the restatement are reflected in the condensed financial information presented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

Table 1
Summary Statement of Net Position

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

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

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



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

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

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

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

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

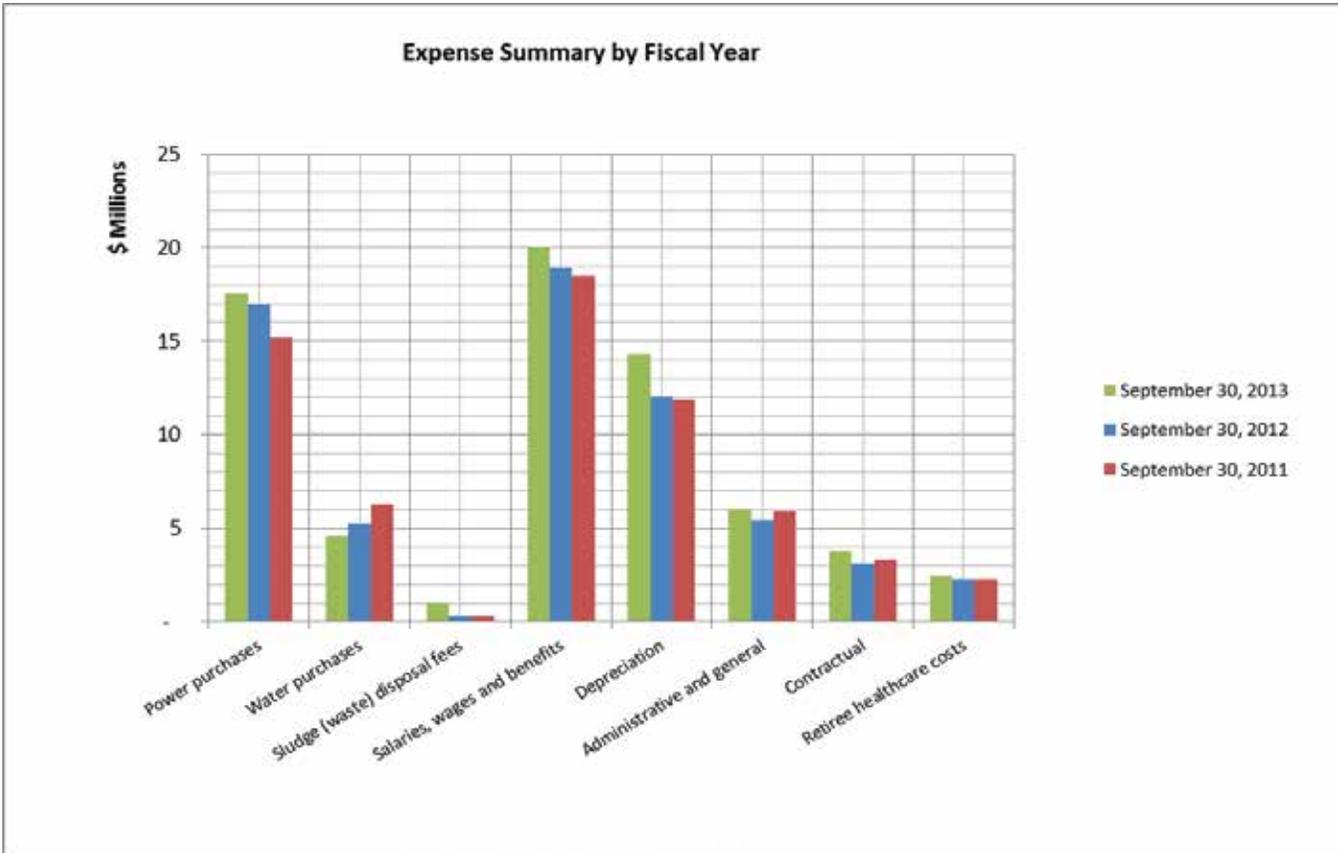
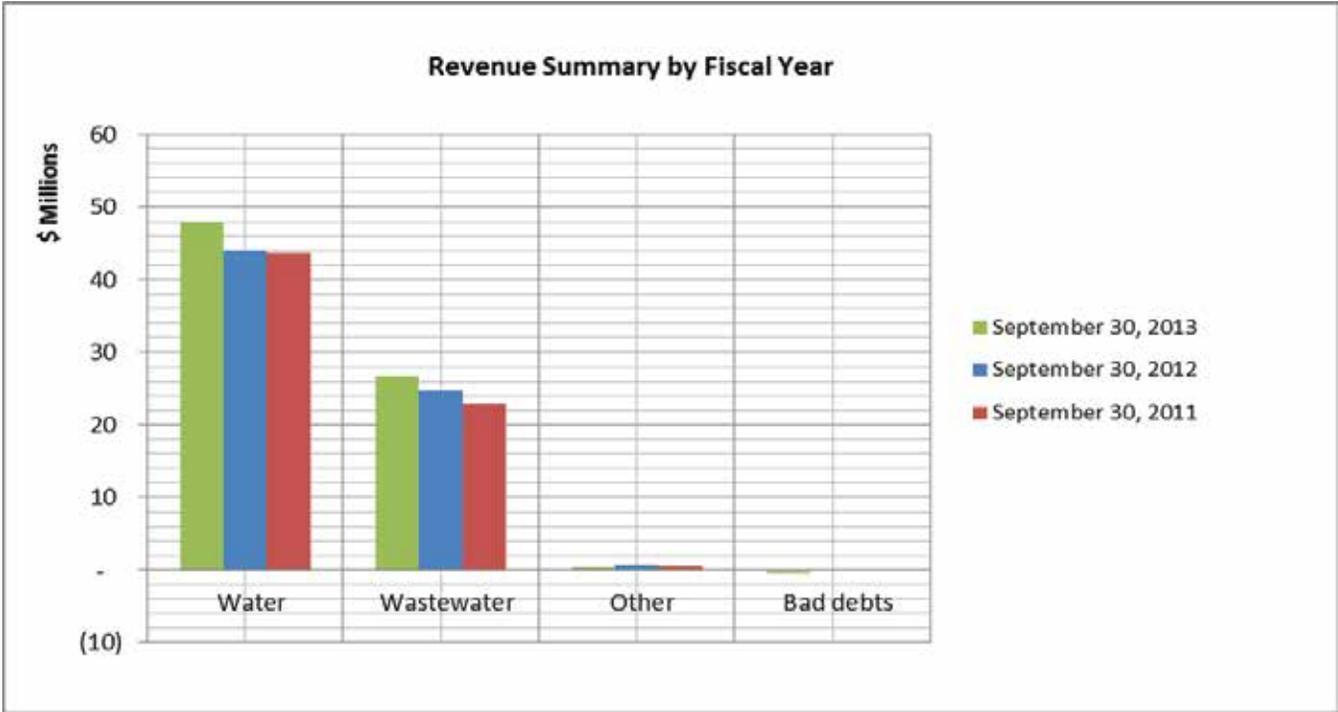
- Operating expenses increased by \$5.4 million or 8.3% over the prior fiscal year. The contributing factors were increases in power purchases, waste disposal fees, and salaries and wages. The increases in operating expenses were offset by decreases in water purchases.
- Net non-operating expenses increased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

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

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

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

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



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

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

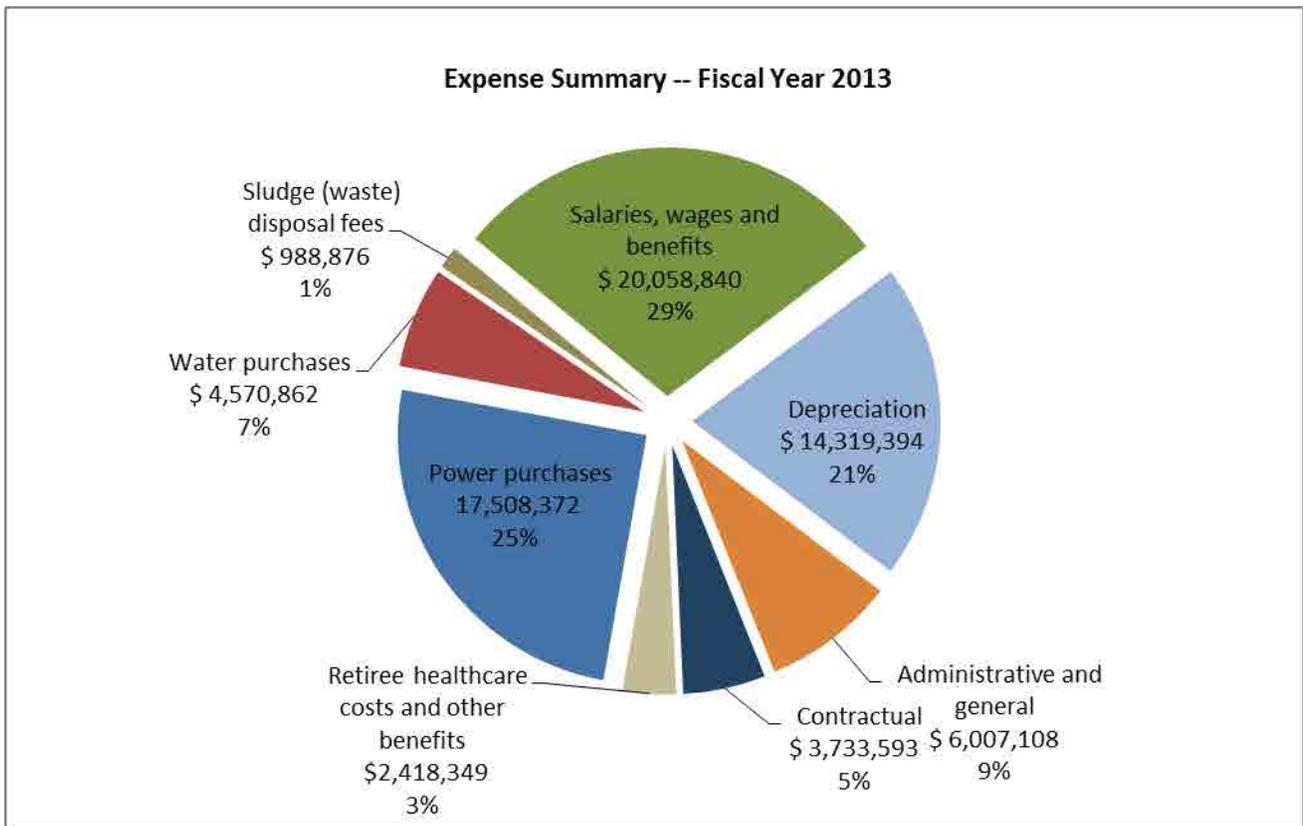
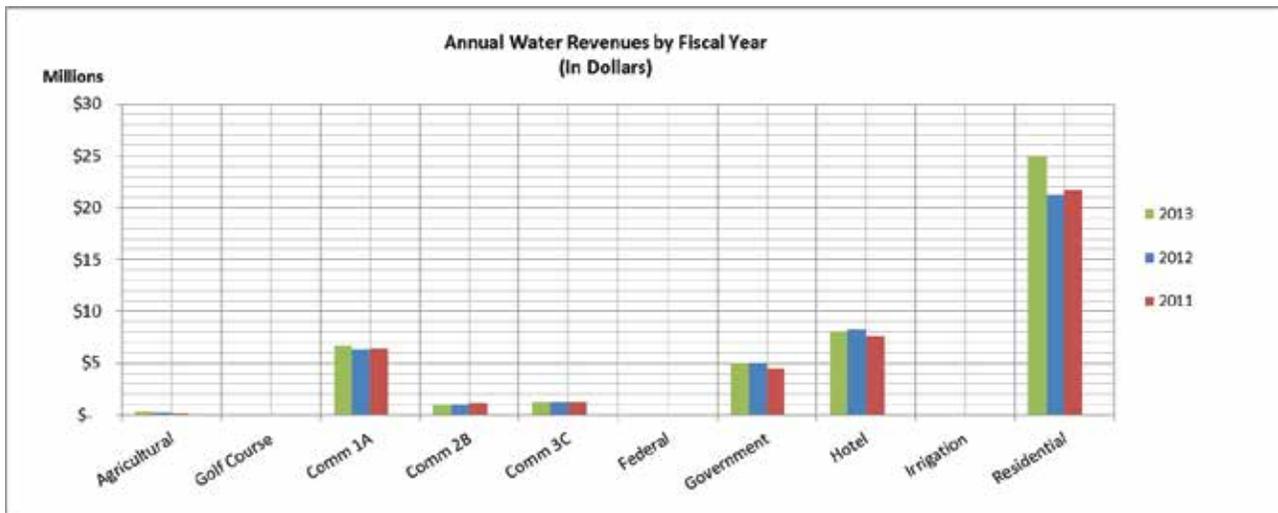


Table 3
Annual Water Revenues (Includes Surcharges and Excludes System Development Charges)

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

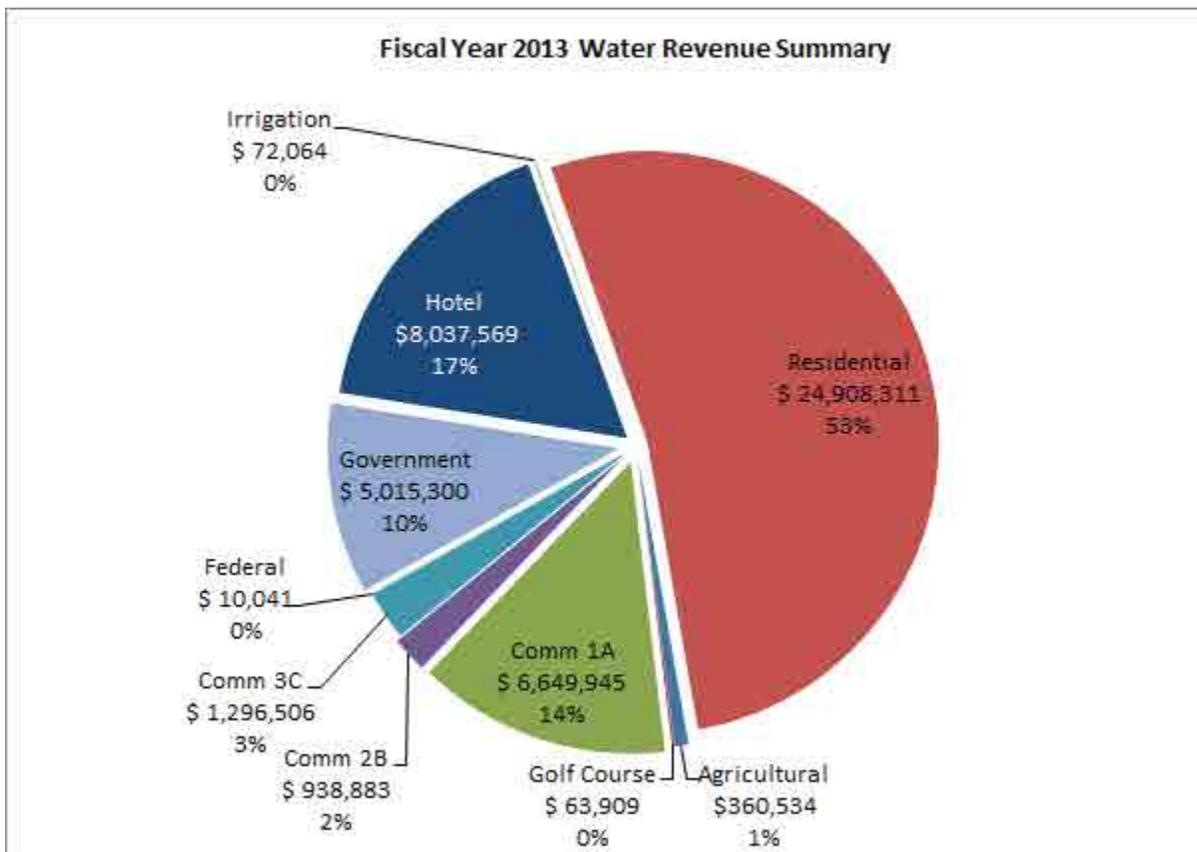
**GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)**

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



Notes:

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



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

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

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

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

Notes:

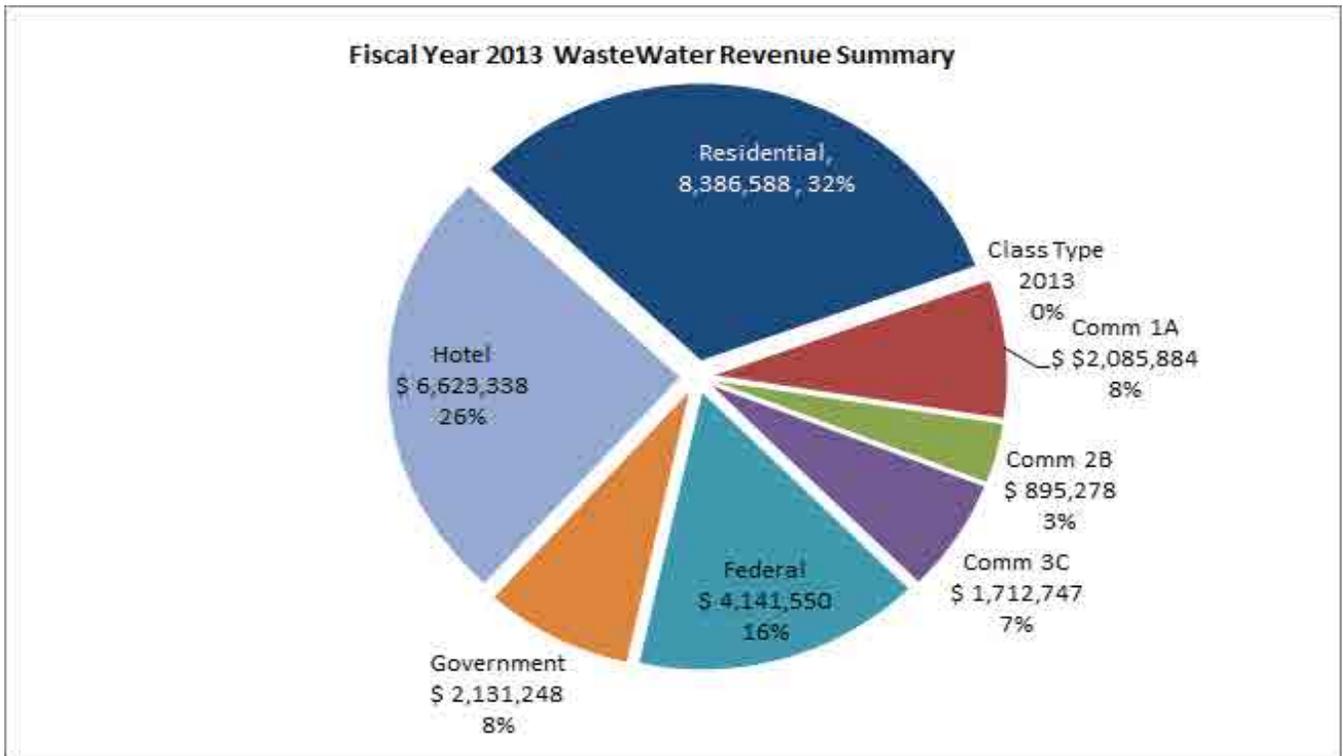
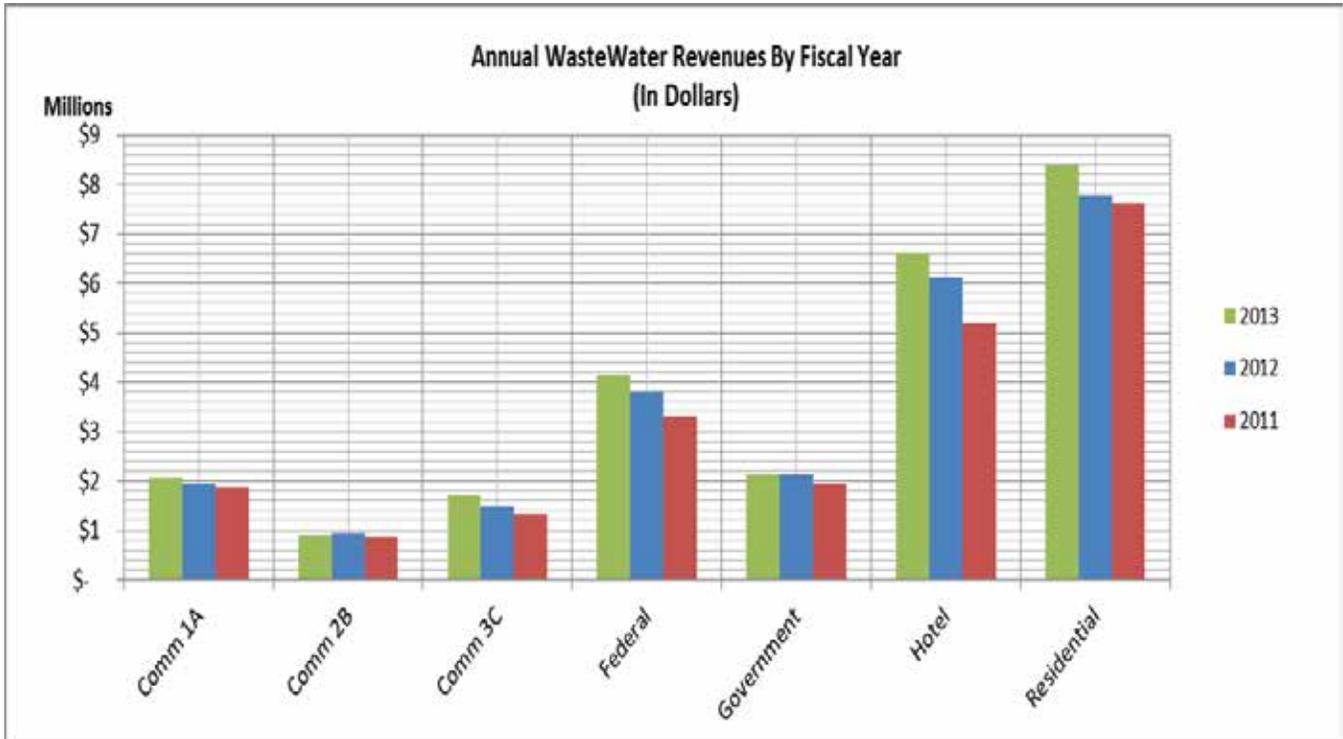
^A Bars w/o dining facilities, car wash, dept & retail stores, hospital & convalescent, laundromat, professional offices, repair shops & service stations, school & colleges, soft water service, markets w/o garbage disposal.

^B Motels, commercial and industrial laundry.

^C Auto steam cleaning, bakery & wholesale, markets w/garbage disposal, mortuaries, restaurants and bars w/in-dining facilities.

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

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



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

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

Capital Assets

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

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

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

This year's major capital additions included:

Water

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

Wastewater

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

Table 5
Capital Assets

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

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

Debt

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

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

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

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

Table 6
Long Term Debt

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

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

Looking Forward

Outlook, Challenges, and Opportunities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Request for Information

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

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

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

Statements of Net Position
September 30, 2013 and 2012

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Reporting Entity

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Net Position

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

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

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

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

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

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

All of GWA's restricted net position is expendable.

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Risk Management

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

Allowance for Doubtful Receivables

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

Materials and Supplies Inventory

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

Property, Plant and Equipment

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

Noncurrent Restricted Cash

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

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

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

Revenue Recognition

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

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

Investments

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

Capitalization of Interest

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

Capitalized Labor Costs

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

Operating and Non-Operating Revenue and Expenses

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

Grants and Contributions

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

Income Taxes

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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

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

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

Reclassifications

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(3) Cash and Cash Equivalents and Investments

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

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

| | 2013 | | | | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------|
| | Held By Trustee | | Held By GWA | | Total |
| | 2005 Bond Indenture Funds | 2010 Bond Indenture Funds | 2005 Bond Indenture Funds | 2010 Bond Indenture Funds | |
| Current restricted cash: | | | | | |
| Revenue Fund | \$ - | \$ - | \$ 5,341,283 | \$ - | \$ 5,341,283 |
| Capital Improvement Fund | - | - | 755,844 | - | 755,844 |
| Operations and Maintenance Fund | - | - | 2,841,896 | - | 2,841,896 |
| Noncurrent restricted cash: | | | | | |
| Operations, Maintenance, Renewal and Replacement Revenue Fund | - | - | | | |
| 14,753,392 | - | - | | | - |
| 14,753,392 | | | | | |
| Capitalized Interest Fund | - | - | - | 1,632,319 | 1,632,319 |
| Construction Fund | - | - | 1,845,777 | 52,400,952 | 54,246,729 |
| Investments: | | | | | |
| Bond Reserve Fund | 7,707,871 | - | - | - | 7,707,871 |
| Debt Service Fund | <u>1,926,324</u> | <u>7,566,460</u> | - | - | <u>9,492,784</u> |
| | <u>\$ 9,634,195</u> | <u>\$ 7,566,460</u> | <u>\$ 25,538,192</u> | <u>\$ 54,033,271</u> | <u>\$ 96,772,118</u> |

| | 2012 | | | | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------|
| | Held By Trustee | | Held By GWA | | Total |
| | 2005 Bond Indenture Funds | 2010 Bond Indenture Funds | 2005 Bond Indenture Funds | 2010 Bond Indenture Funds | |
| Current restricted cash: | | | | | |
| Revenue Fund | \$ - | \$ - | \$ 4,743,258 | \$ - | \$ 4,743,258 |
| Capital Improvement Fund | - | - | 469,950 | - | 469,950 |
| Operations and Maintenance Fund | - | - | 4,731,078 | - | 4,731,078 |
| Noncurrent restricted cash: | | | | | |
| Operations, Maintenance, Renewal and Replacement Revenue Fund | - | - | | | |
| 12,439,716 | - | - | | | - |
| 12,439,716 | | | | | |
| Capitalized Interest Fund | - | - | - | 8,148,241 | 8,148,241 |
| Construction Fund | - | - | 3,250,207 | 72,221,864 | 75,472,071 |
| Investments: | | | | | |
| Bond Reserve Fund | 7,707,871 | - | - | - | 7,707,871 |
| Debt Service Fund | <u>1,926,074</u> | <u>7,566,460</u> | - | - | <u>9,492,534</u> |
| | <u>\$ 9,633,945</u> | <u>\$ 7,566,460</u> | <u>\$ 25,634,209</u> | <u>\$ 80,370,105</u> | <u>\$ 123,204,719</u> |

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

Notes to Financial Statements
September 30, 2013 and 2012

(3) Cash and Cash Equivalents and Investments, Continued

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

A. Cash and Cash Equivalents

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(3) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

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

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

B. Investments

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(3) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

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

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

GWA's exposure to credit risk at September 30, 2013 and 2012 is as follows:

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

| <u>Moody's Rating</u> | 2012 | | |
|-----------------------|----------------------|----------------------|-----------------------|
| | <u>Total</u> | <u>Domestic</u> | <u>International</u> |
| AAA | \$ <u>17,200,405</u> | \$ <u>17,200,405</u> | \$ <u> -</u> |

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GWA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GWA's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in GWA's name by GWA's custodial financial institutions at September 30, 2013 and 2012.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GWA. As of September 30, 2013 and 2012, GWA has no investment representing five percent (5%) or more of total investments.

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(4) Property, Plant and Equipment

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

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

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(5) Receivables

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

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

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

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

(6) Long-Term Debt

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(6) Long-Term Debt, Continued

As of September 30, 2013, annual debt service requirements to maturity for principal and interest are as follows:

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

Notes Payable:

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.
20,937,748

| <u>2013</u> | <u>2012</u> |
|---------------|---------------|
| \$ 18,838,786 | \$ 20,937,748 |

Note payable to a bank in the original amount of \$5,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$100,785 through June 2015.

| | |
|------------------|------------------|
| <u>1,968,184</u> | <u>2,988,016</u> |
|------------------|------------------|

Total notes payable
Less amount maturities

| | |
|----------------------|----------------------|
| 20,806,970 | 23,925,764 |
| <u>(3,272,319)</u> | <u>(3,074,328)</u> |
| \$ <u>17,534,651</u> | \$ <u>20,851,436</u> |

As of September 30, 2013, annual debt service requirements to maturity for principal and interest are as follows:

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------|---------------------|----------------------|
| 2014 | \$ 3,272,319 | \$ 1,537,418 | \$ 4,809,737 |
| 2015 | <u>17,534,651</u> | <u>953,854</u> | <u>18,488,505</u> |
| | \$ <u>20,806,970</u> | \$ <u>2,491,272</u> | \$ <u>23,298,242</u> |

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

Notes to Financial Statements
September 30, 2013 and 2012

(6) Long-Term Debt, Continued

2005 Series Revenue Bonds

Proceeds of the 2005 series bonds are to be used for the purpose of funding capital improvements of water and wastewater systems, refinancing certain outstanding obligations and loans, financing new water meters, paying capitalized interest and paying related issuance costs. GWA fully paid a debt to Municipal Services Group, Inc. (MSG) with proceeds from the 2005 bond issuance.

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

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

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

Bank Loans

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

2010 Series Revenue Bonds

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(6) Long-Term Debt, Continued

2010 Series Revenue Bonds, Continued

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

Changes in Long-Term Liabilities:

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(7) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

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

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

Funding Policy:

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(7) Employees' Retirement Plan, Continued

Defined Contribution Plan

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

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

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

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

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

Other Post Employment Benefits

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(7) Employees' Retirement Plan, Continued

Other Post Employment Benefits, Continued

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

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

(8) Real Estate Property Transferred by Government of Guam

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

(9) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the U. S. Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2013 and 2012 are \$4,570,862 and \$5,263,128, respectively.

(10) Commitments and Contingencies

Merit System

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

Claims

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(10) Commitments and Contingencies, Continued

Contract Commitments

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

Program Management Office Services

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

Project Management Contracts

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

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

Operating Lease

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(10) Commitments and Contingencies, Continued

Medicare

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

Single Audit Questioned Costs

GWA undergoes annual compliance audits to satisfy federal grantor requirements. Cumulative questioned costs of \$357,727 exist from these audits as of September 30, 2013. The questioned costs will be resolved by the applicable grantor and due to GWA's inability to predict the ultimate outcome of this matter, no provision for any liability, if any, that may result from this matter has been made in the accompanying financial statements.

Stipulated Order

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(10) Commitments and Contingencies, Continued

Primary Treatment Permits

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

(11) Other Matters

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

(12) Contributions Received

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

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

(13) Supplemental/COLA Annuities

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

(14) PUC Surcharge

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(14) PUC Surcharge, Continued

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

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

(15) System Development Charge

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

(16) Related Party Transactions

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(17) Subsequent Event

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

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

Schedule 1

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

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

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

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

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

See Accompanying Independent Auditors' Report.

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

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

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

See accompanying independent auditors' report.

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

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

| Project Title | Type | Beginning Balance 2012 | Additions and Transfers | Closed out during FY2013 | Ending Balance 2013 |
|---|------------------|------------------------------|-------------------------------|--------------------------------|---------------------------|
| Baza Gardens Treatment Plant | Wastewater | \$ 500,889 | \$ 257,655 | \$ (47,015) | \$ 711,529 |
| Barrigada Tank Replacement and Refurbishment | Water | 811,028 | 5,873,120 | - | 6,684,148 |
| Bio Solids Management Plan | Water | 136,505 | - | - | 136,505 |
| Central Wastewater Moratorium Project | Wastewater | 3,585,362 | 4,280,797 | (3,927,564) | 3,938,595 |
| Chaot and Agana Heights Reservoirs | Water | 143,564 | 490,168 | - | 633,732 |
| Distribution Line Replacement | Water | 2,486,649 | 286 | (2,046,667) | 440,268 |
| General Plant Improvements | | 917,566 | 3,016,011 | (2,566,782) | 1,366,795 |
| Ground Water Chlorination | Water | 1,147,621 | 725,417 | (1,853,089) | 19,949 |
| Groundwater Under the Direct Influence (GWUDI) Project | Water | 225,007 | 21,316 | - | 246,323 |
| Hagatna Wastewater Treatment Plant | Wastewater | 463,838 | 76,325 | - | 540,163 |
| Island-Wide Real Property Survey and Mapping | Water | 469,183 | 60,832 | - | 530,015 |
| Leak Detection/Line Replacement Program | Water | 13,857 | 1,943,250 | (1,936,941) | 20,166 |
| Leak Repair Program | Water | 35,852 | 231,212 | (242,006) | 25,058 |
| Mechanical/Electrical Equipment | Water | 345,181 | 248,672 | (593,853) | - |
| Meter Replacement Program | Water | 228,643 | 7,294,178 | (6,511,277) | 1,011,544 |
| Northern District Wastewater Treatment Interim Primary Treatment Improvements Project | Wastewater | 10,073,896 | 5,997,624 | (15,566,524) | 504,996 |
| Ordot/Chalan Pago 2B | Wastewater | 622,341 | - | - | 622,341 |
| Program Management for CWIP Projects | | 762,490 | 670,796 | - | 1,433,286 |
| SCADA Project | Water | 57,152 | 876,246 | (21,957) | 911,441 |
| Sinajana Transmission Line | Water | 79,265 | 379 | (379) | 79,265 |
| Southern Sewer Basin SSES | Wastewater | 274,139 | 610,813 | - | 884,952 |
| Ugum Treatment Plant Rehabilitation | Water | - | 295,424 | (295,424) | - |
| Wastewater System Upgrades | Wastewater | 288,666 | 150,140,166 | (227,862) | 200,970 |
| Water Reservoir Condition Assessment and Rehabilitation | Water | 1,206,568 | 793,232 | - | 1,999,800 |
| Well Site Rehabilitation and New Well Site Development | Water | 1,277,434 | 581,079 | - | 1,858,513 |
| All Others | Water/Wastewater | 1,057,720 | 2,001,295 | (952,565) | 2,106,450 |
| | | <u>\$ 27,210,416</u> | <u>\$ 36,486,293</u> | <u>\$ (36,789,905)</u> | <u>\$ 26,906,804</u> |

See accompanying independent auditors' report.

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

Schedule 4

System Development Charge Fund

Schedule of Net Position, Revenue, Expenses and Changes in Net Position
September 30, 2013 and 2012

ASSETS

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

LIABILITIES AND NET POSITION

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

REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

See accompanying independent auditors' report.

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

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

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

See accompanying independent auditors' report.

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

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

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

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

See accompanying independent auditors' report.

