

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

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

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

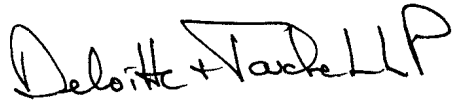
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GWA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 40 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These accompanying schedules are the responsibility of GWA's management. The accompanying schedules on pages 41 through 46 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The accompanying schedule on page 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2011, on our consideration of Guam Waterworks Authority'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

March 10, 2011

GUAM WATERWORKS AUTHORITY
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Management's Discussion and Analysis
September 30, 2010 and 2009

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, 2010. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 15.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to 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 20 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary information can be found beginning on page 40 of this report.

Financial Highlights

- Total assets of GWA exceeded total liabilities at the close of the fiscal year by \$204.3 million (net assets).
- Net assets increased by \$6.1 million (3%) as compared to an increase of \$1.7 million (0.9%) for fiscal year 2009.
- Operating revenues increased by \$9.9 million as compared to fiscal year 2009.
- Capital assets, net of accumulated depreciation at September 30, 2010 increased by \$2.3 million as compared to September 30, 2009.
- The cash collection ratio for the year ended September 30, 2010 was 101.9%.
- Operating and maintenance expenses increased by \$2.7 million as compared to fiscal year 2009.
- GWA experienced operating income of \$4.9 million for the fiscal year ended September 30, 2010 as compared to prior year's operating loss of \$2.4 million, a 268% change increase.

Financial Condition

The Authority's total net assets increased by \$6.1 million during the fiscal year (see Table 1 below) due to increases in current assets and other non-current assets.

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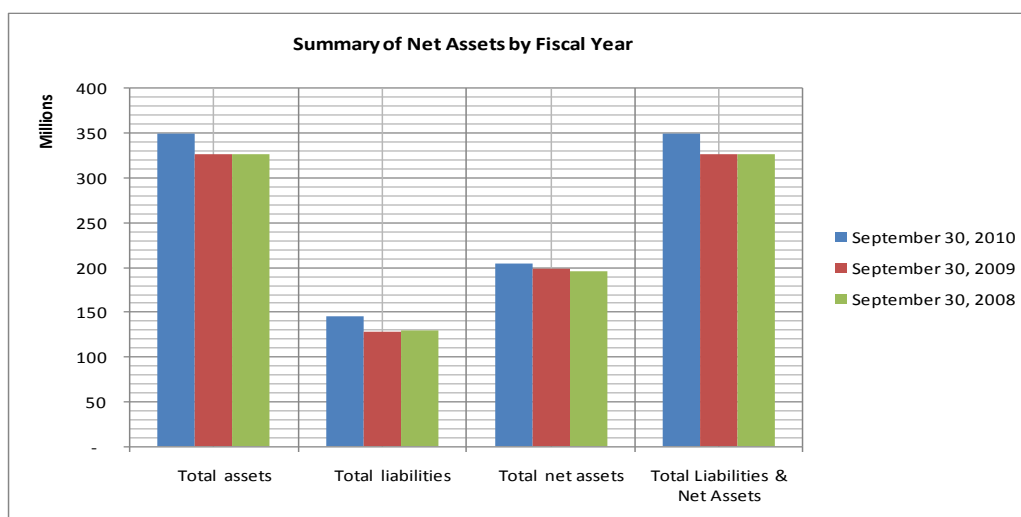
The decrease in current liabilities of \$4.0 million is due primarily to payments made to trade vendors and contractors. There was an increase in current maturities of long-term debt of \$1.9 million due primarily to a new loan with a local bank.

The increase in long-term liabilities of \$21.2 million is due to the new loan with a local bank.

The Authority's investment in capital assets, net of related debt, represents 93% of total net assets. The amount invested in capital assets, net of related debt, decreased by \$0.1 million. The decrease was the result of capital acquisitions, net of depreciation and disposals, in fiscal year 2010.

Table 1
Summary Statement of Net Assets

	September 30, 2010	September 30, 2009	September 30, 2008	2010 to 2009 Comparison	
				Increase/ (Decrease)	% Change
Current Assets	\$ 35,166,168	\$ 19,415,679	\$ 15,892,616	\$ 15,750,489	81.12%
Property, plant and equipment, net	281,605,229	279,320,424	267,744,474	2,284,805	0.82%
Other non-current assets	<u>32,954,273</u>	<u>27,660,979</u>	<u>43,331,071</u>	<u>5,293,294</u>	19.14%
Total assets	<u>349,725,670</u>	<u>326,397,082</u>	<u>326,968,161</u>	<u>23,328,588</u>	7.15%
Current liabilities	19,023,902	23,002,040	20,314,496	(3,978,138)	-17.29%
Long-term liabilities	<u>126,424,281</u>	<u>105,207,238</u>	<u>110,137,437</u>	<u>21,217,043</u>	20.17%
Total liabilities	<u>145,448,183</u>	<u>128,209,278</u>	<u>130,451,933</u>	<u>17,238,905</u>	13.45%
Net Assets:					
Invested in capital assets, net of related debt	190,678,898	190,793,854	191,576,865	(114,956)	-0.06%
Restricted	5,866,142	5,377,124	4,517,269	489,018	9.09%
Unrestricted	<u>7,732,447</u>	<u>2,016,826</u>	<u>422,094</u>	<u>5,715,621</u>	283.40%
Total net assets	<u>204,277,487</u>	<u>198,187,804</u>	<u>196,516,228</u>	<u>6,089,683</u>	3.07%
Total Liabilities and Net Assets	\$ <u>349,725,670</u>	\$ <u>326,397,082</u>	\$ <u>326,968,161</u>	\$ <u>23,328,588</u>	



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The total operating revenue of \$65.2 million increased by \$9.9 million for the current year compared with prior year and operating expenses of \$60.3 million increased by \$2.7 million compared with prior year, resulting in an increase in net operating income of \$7.3 million or 305% when compared to the prior year (see Table 2).

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

- Water revenues increased by \$8.5 million over the prior fiscal year due to an increase in consumption of 7% or 414.8 million gallons and a 2% increase or 951 in the number of customers. In addition, the first of five annual rate increases pursuant to our financial plan of 14% took effect on August 1, 2009, and there were notable revenue dollar increases in residential, government, and commercial I customer classes. The basic (fixed) water charge is assessed monthly to all customer classes without regard to consumption. Of the total water revenue, \$0.4 million represented system development charges. Please see Table 3.
- Wastewater revenues increased by \$2.6 million over the prior fiscal year due to a 3% increase or 707 in the number of customers. Similar to water revenue, the first of five annual rate increases pursuant to our financial plan of 14% took effect on August 1, 2010, and there were notable revenue dollar increases in residential, hotel, government, and commercial I 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.
- Operating expenses increased by \$2.7 million or 4.67% over the prior fiscal year. The major contributing factors were increases in salaries, wages, and benefits (\$2.2 million), water purchases (\$1.5 million), retiree healthcare costs and other benefits (\$0.5 million), depreciation (\$0.6 million) and sludge disposal (\$0.3 million). The increases in operating expenses were offset by decreases in administrative and general (\$1.2 million), electricity (\$0.6 million), and contractual (\$0.6 million).
- Non-operating expenses increased by \$1.9 million (net) or 69.7% over the prior fiscal year. The increase was due to contribution to the Government of Guam (\$0.9 million) pursuant to Public Law 30-101, and interest expense on long-term debt (\$0.5 million). There were also revenue decreases in allowance for funds used during construction (\$0.3 million) and interest income from restricted accounts (\$0.2 million) that attributed to the \$1.9 million net increase in non-operating expenses.
- Of the total water and wastewater revenue of \$42.1 million and \$22.3 million, system development charges represented \$0.41 million and \$0.39 million, respectively. The implementation of the system development charges was on March 1, 2010. The total number of approved equivalent residential units (ERU) is 271. The residential equivalent meter-size per ERU is $\frac{5}{8}$ " x $\frac{3}{4}$ ". Please see Schedule 6 on page 45.

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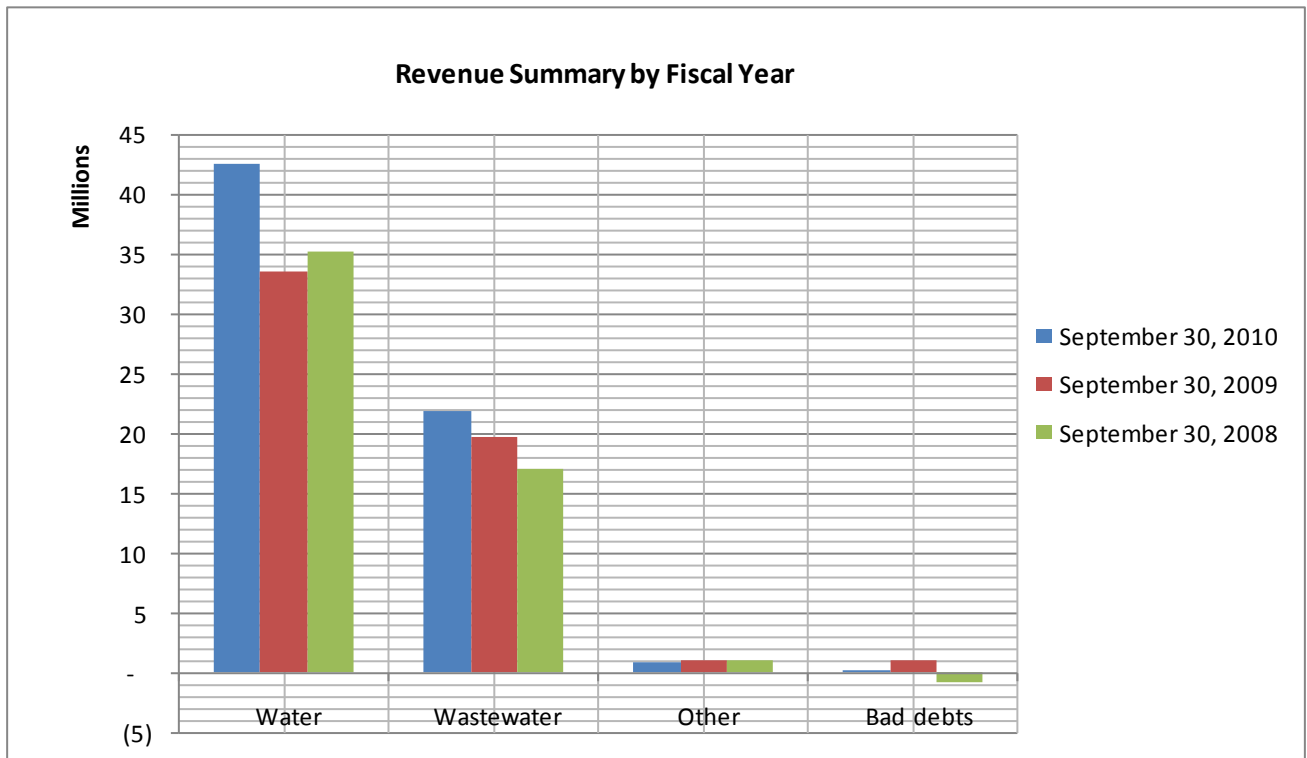
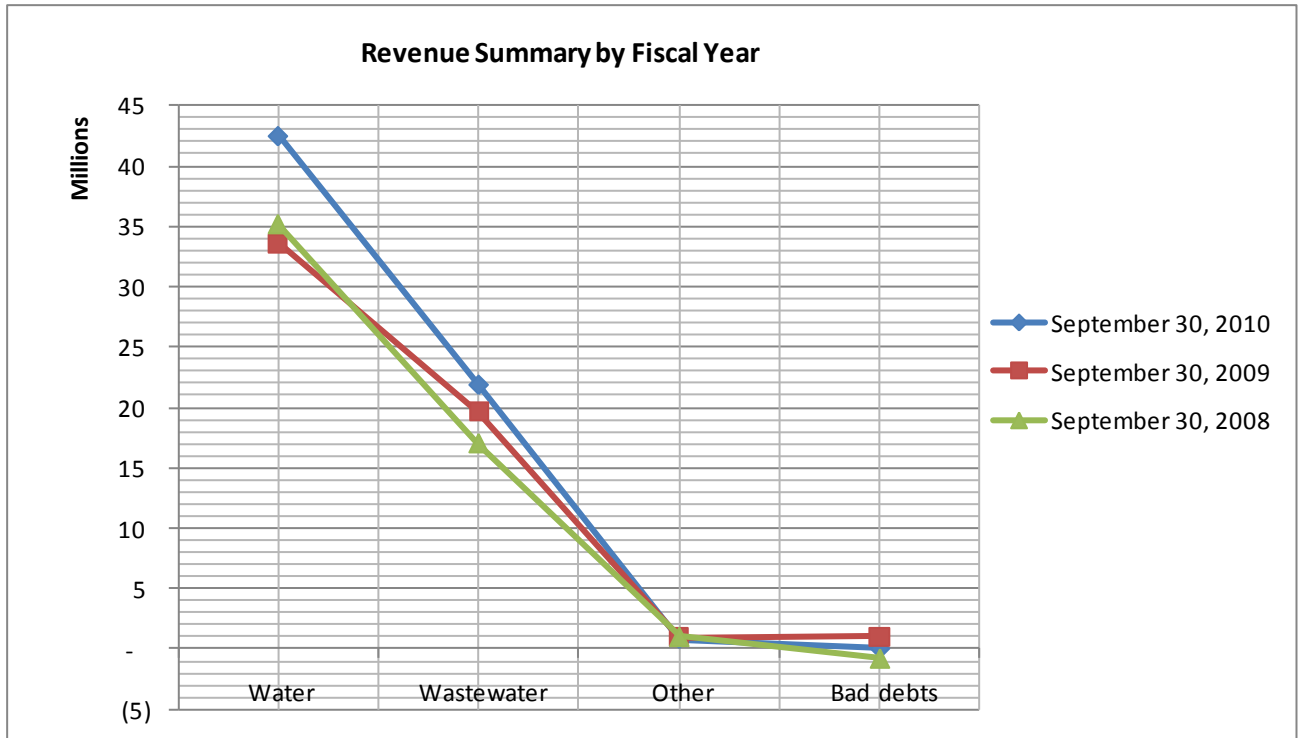
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Table 2
Results of Operations/Statement of Revenues, Expenses and Changes in Net Assets

	September 30, 2010	September 30, 2009	September 30, 2008	2010 to 2009 Comparison	
				Increase/ (Decrease)	% Change
Revenues:					
Water	\$ 42,089,058	\$ 33,580,185	\$ 35,139,785	\$ 8,508,873	25.34%
Wastewater	22,287,585	19,665,976	17,015,790	2,621,609	13.33%
Other	817,683	971,502	990,752	(153,819)	-15.83%
Bad debts	4,138	1,034,609	(803,609)	(1,030,471)	-99.60%
Total operating revenue	<u>65,198,464</u>	<u>55,252,272</u>	<u>52,342,718</u>	<u>9,946,192</u>	18.00%
Expenses:					
Power purchases	14,344,013	14,971,119	14,631,816	(627,106)	-4.19%
Water purchases	6,669,120	5,167,856	4,413,377	1,501,264	29.05%
Sludge (waste) disposal fees	294,175	-	-	294,175	100.00%
Salaries, wages and benefits	18,085,703	15,870,652	15,286,063	2,215,051	13.96%
Depreciation	11,568,858	10,952,902	10,677,756	615,956	5.62%
Administrative and general	4,078,237	5,267,571	4,184,736	(1,189,334)	-22.58%
Contractual	3,381,182	3,969,699	3,874,734	(588,517)	-14.83%
Retiree healthcare costs and other benefits	<u>1,897,530</u>	<u>1,428,843</u>	<u>1,617,355</u>	<u>468,687</u>	32.80%
Total operating expenses	<u>60,318,818</u>	<u>57,628,642</u>	<u>54,685,837</u>	<u>2,690,176</u>	4.67%
Net operating income (loss)	<u>4,879,646</u>	<u>(2,376,370)</u>	<u>(2,343,119)</u>	<u>7,256,016</u>	305.34%
Non-operating revenue (expenses), net	1,838,483	3,260,545	4,775,151	(1,422,062)	-43.61%
Less: Interest Expense	<u>(6,516,956)</u>	<u>(6,018,059)</u>	<u>(6,213,246)</u>	<u>(498,897)</u>	8.29%
Total non-operating revenues (expenses), net	<u>(4,678,473)</u>	<u>(2,757,514)</u>	<u>(1,438,095)</u>	<u>(1,920,959)</u>	-69.66%
Income (loss) before capital contributions	<u>201,173</u>	<u>(5,133,884)</u>	<u>(3,781,214)</u>	<u>5,335,057</u>	103.92%
Capital contributions	<u>5,888,510</u>	<u>6,805,460</u>	<u>3,358,462</u>	<u>(916,950)</u>	-13.47%
Change in net assets	6,089,683	1,671,576	(422,752)	4,418,107	264.31%
Net assets - beginning year	<u>198,187,804</u>	<u>196,516,228</u>	<u>196,938,980</u>	<u>1,671,576</u>	0.85%
Net assets - end of year	\$ <u>204,277,487</u>	\$ <u>198,187,804</u>	\$ <u>196,516,228</u>	\$ <u>6,089,683</u>	3.07%

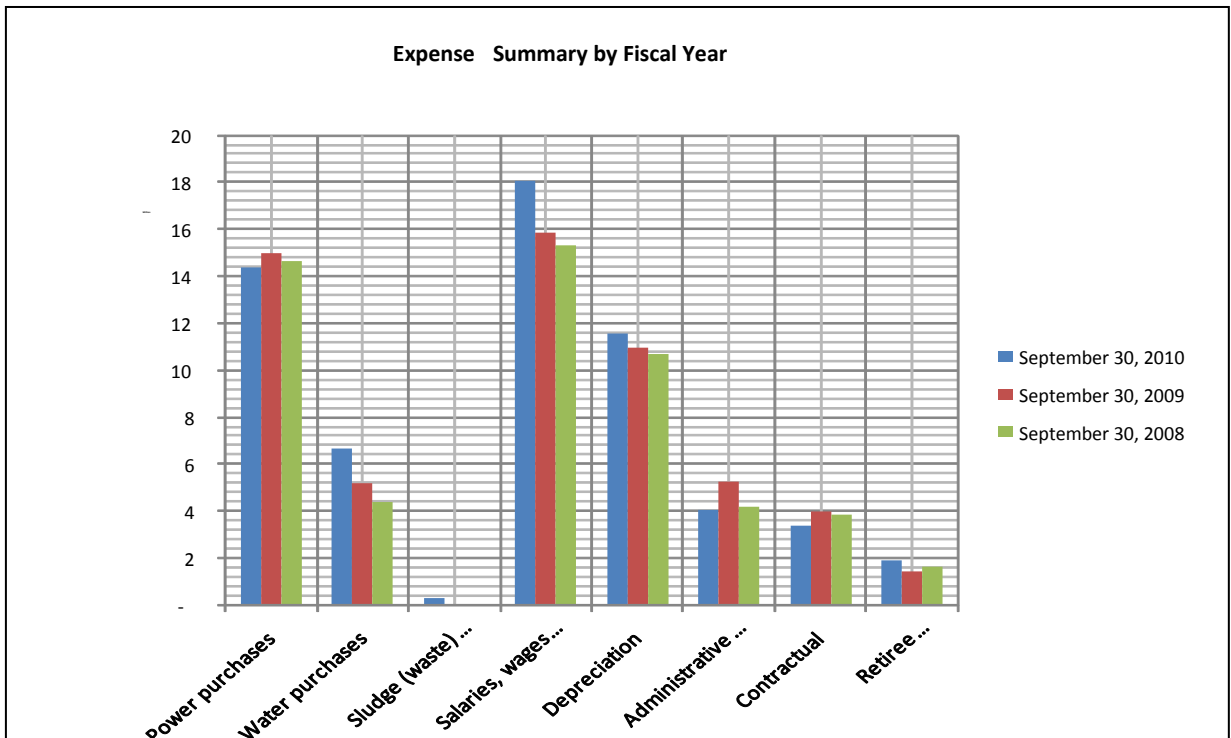
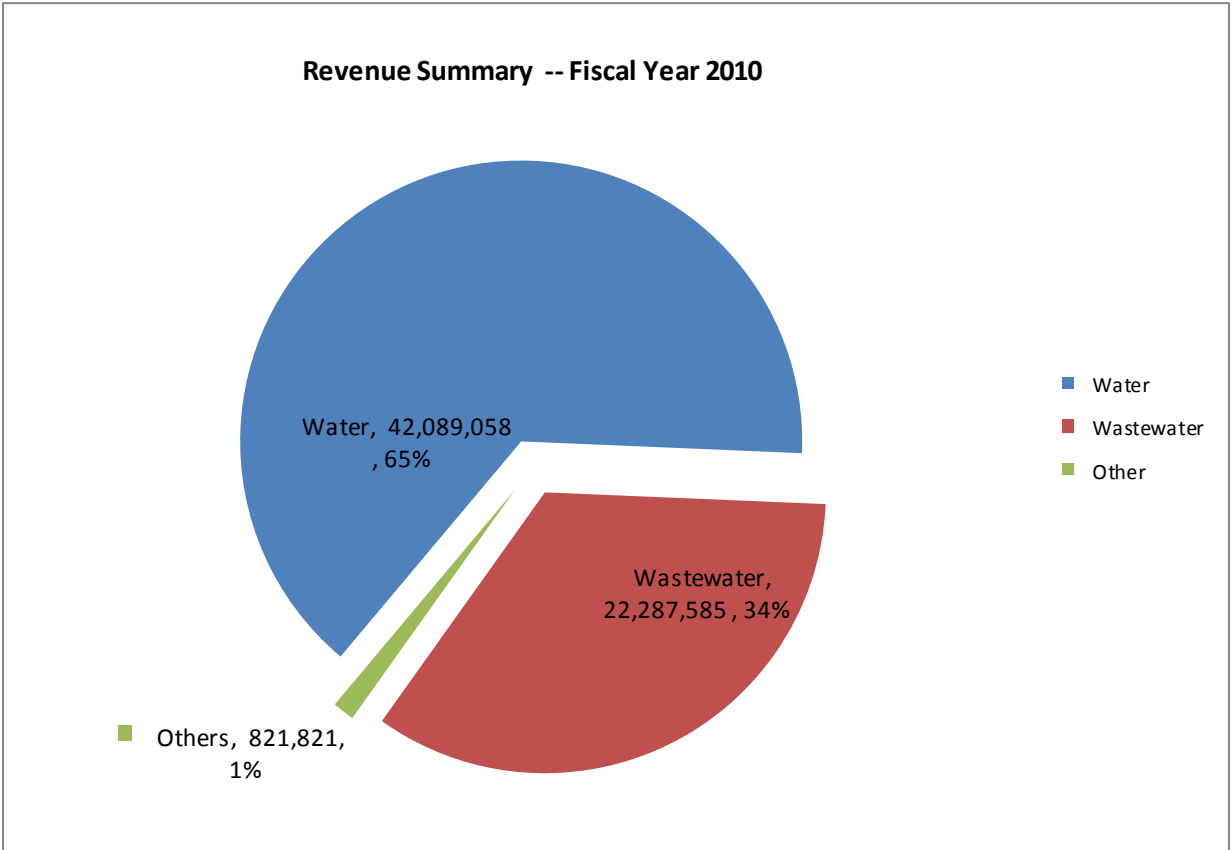
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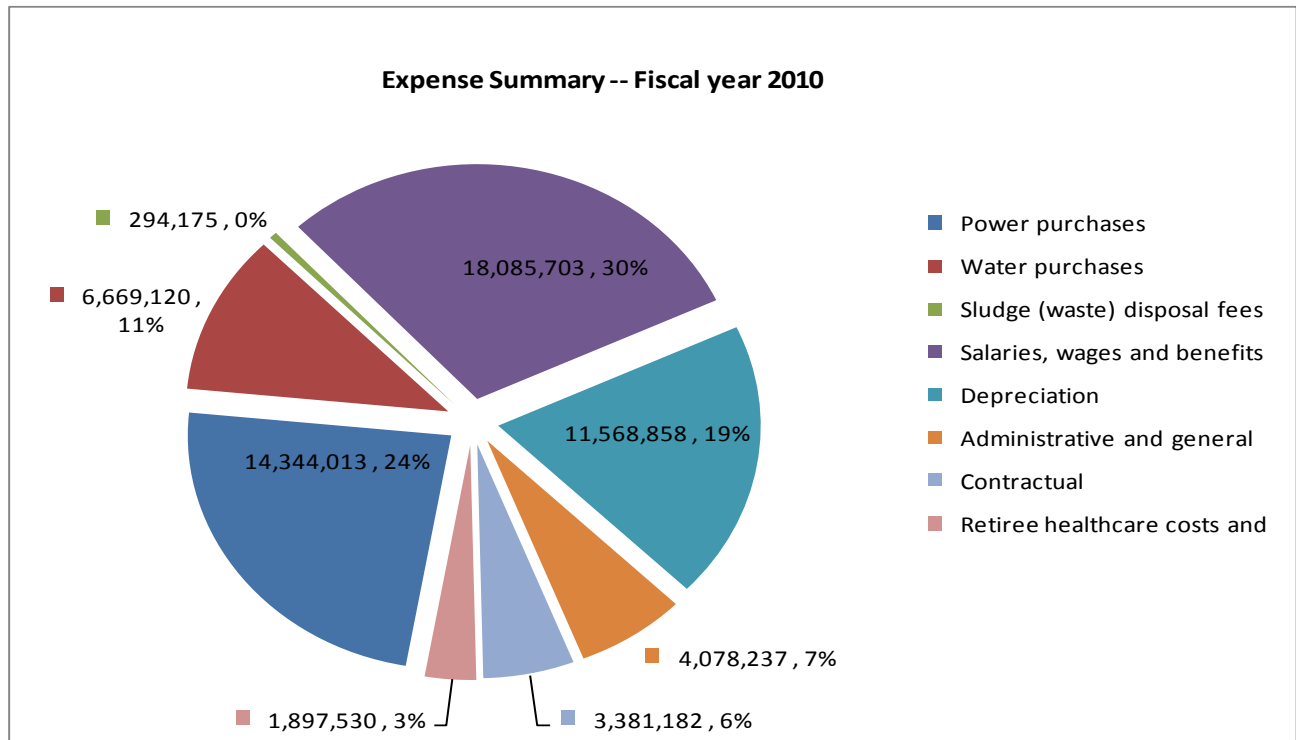
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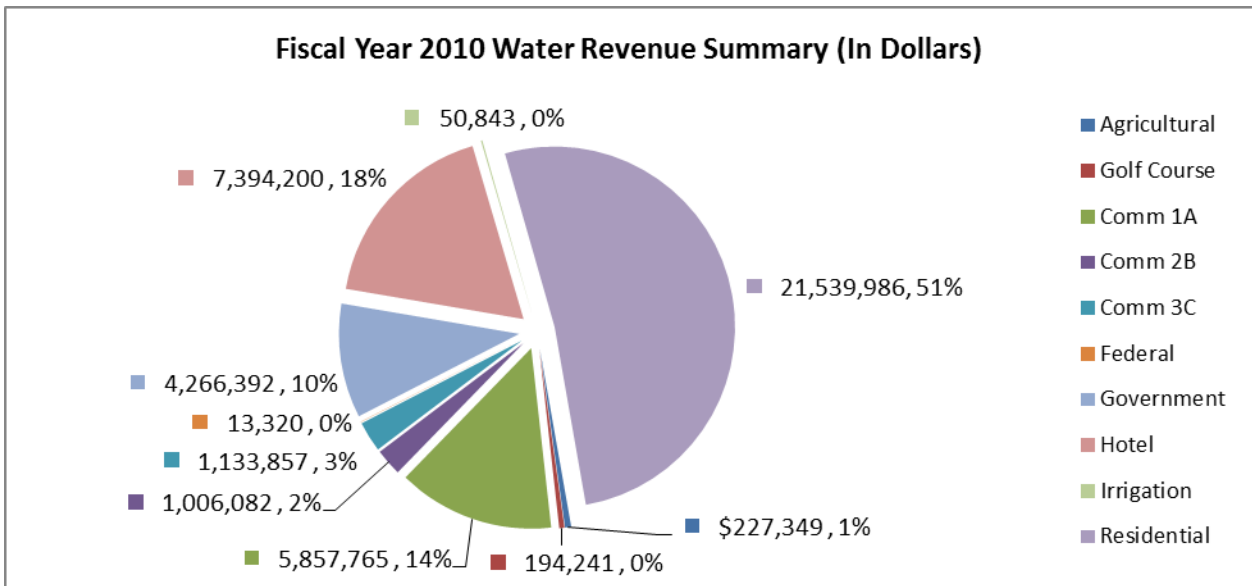
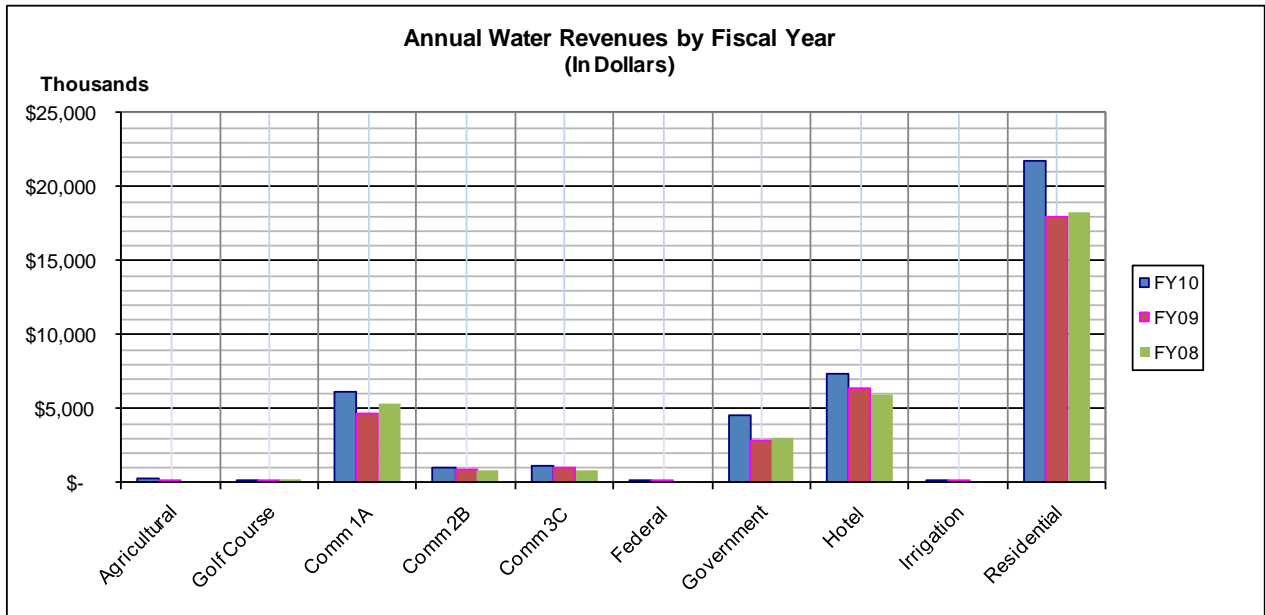
**Table 3
Annual Water Revenues (Excluding System Development Charges)
(In Dollars)**

Class Type	September 30, 2010	September 30, 2009	September 30, 2008	2010 to 2009 Comparison	
				Increase/ (Decrease)	% Change
Agricultural	\$ 227,349	\$ 158,289	\$ 145,238	\$ 69,060	44%
Golf Course	194,241	72,395	276,619	121,846	168%
Comm 1 ^A	5,857,765	4,600,410	5,376,400	1,257,355	27%
Comm 2 ^B	1,006,082	875,558	901,321	130,524	15%
Comm 3 ^C	1,133,857	995,560	867,053	138,297	14%
Federal	13,320	14,404	12,035	(1,084)	-8%
Government	4,266,392	2,865,976	3,026,164	1,400,416	49%
Hotel	7,394,200	6,324,234	6,022,626	1,069,966	17%
Irrigation	50,843	48,390	58,933	2,453	5%
Residential	<u>21,539,986</u>	<u>17,624,969</u>	<u>18,453,396</u>	<u>3,915,017</u>	22%
TOTAL	\$ <u>41,684,035</u>	\$ <u>33,580,185</u>	\$ <u>35,139,785</u>	\$ <u>8,103,850</u>	24%

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

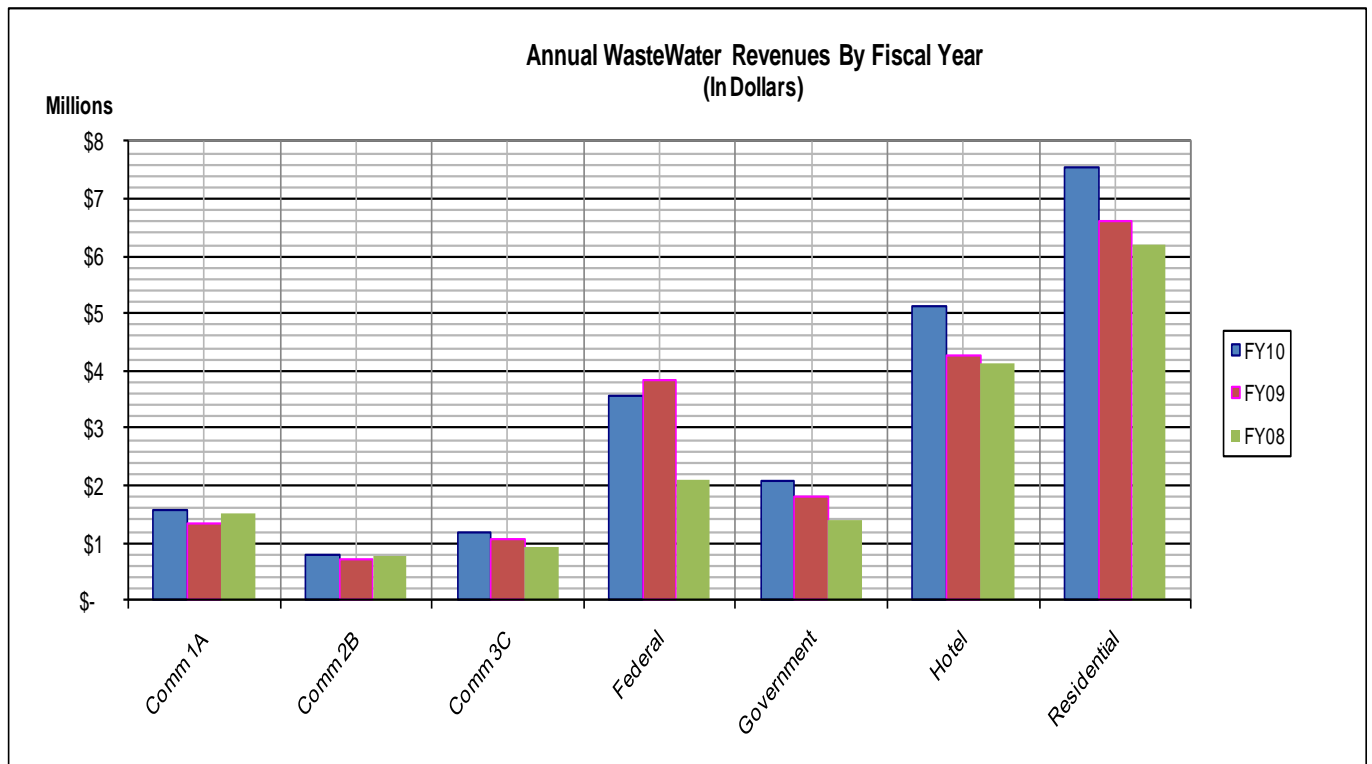


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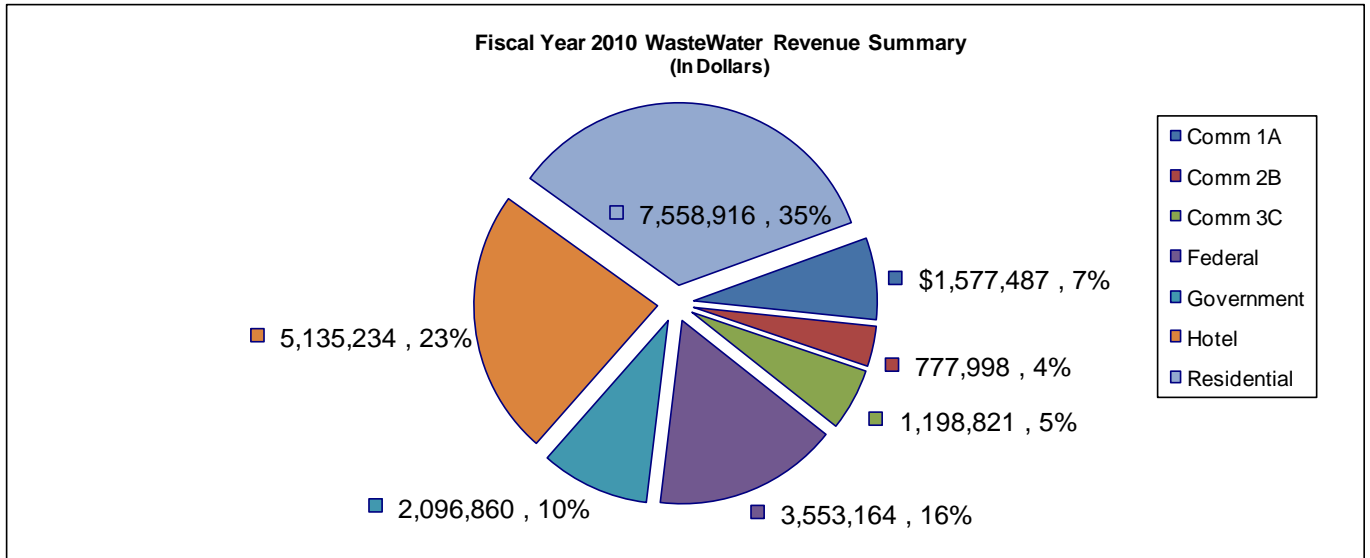
Table 4
Annual Wastewater Revenues (Excluding System Development Charges)
(In Dollars)

Class Type	September 30, 2010	September 30, 2009	September 30, 2008	2010 to 2009 Comparison	
				Increase/ (Decrease)	% Change
Comm 1 ^A	\$ 1,577,487	\$ 1,347,697	\$ 1,500,407	\$ 229,790	17%
Comm 2 ^B	777,998	724,806	761,647	53,192	7%
Comm 3 ^C	1,198,821	1,069,855	944,123	128,966	12%
Federal	3,553,164	3,832,358	2,090,269	(279,194)	-7%
Government	2,096,860	1,791,360	1,382,334	305,500	17%
Hotel	5,135,234	4,278,646	4,138,472	856,588	20%
Residential	<u>7,558,916</u>	<u>6,621,254</u>	<u>6,200,809</u>	<u>937,662</u>	14%
TOTAL	\$ <u>21,898,480</u>	\$ <u>19,665,976</u>	\$ <u>17,018,061</u>	\$ <u>2,232,504</u>	11%



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The Authority had \$282 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2010. 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 the current fiscal year 2010, capital assets increased by \$2.3 million or 1% over the prior fiscal year. In the previous fiscal year 2009, capital assets increased \$21 million or 9.48% over the fiscal year 2009 value. Both increases are consistent with the Authority's implementation of a five-year (FY 10 to FY 14) capital improvement program. For additional information concerning capital assets, please refer to note 3 to the financial statements.

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

This year's major capital additions included:

Water

Ground Water Disinfection	\$ 3,853,418
Meter Replacement Program	2,160,205
Santa Rita Springs Booster Pump Rehabilitation, Phase I	1,448,439

Wastewater

Hagatna Treatment Plant Outfall	12,334,916
Northern District Treatment Plant Outfall	11,904,771

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Table 5
Capital Assets, Net of Accumulated Depreciation

Class Type	September 30, 2010	September 30, 2009	September 30, 2008	2010 to 2009 Comparison	
				Increase/ (Decrease)	% Change
Plant, buildings and equipment, net	\$ 246,575,122	\$ 225,225,754	\$ 228,257,361	\$ 21,349,368	9.48%
Construction in progress	<u>35,030,107</u>	<u>54,094,670</u>	<u>39,487,113</u>	<u>(19,064,563)</u>	-35.24%
Total	\$ <u>281,605,229</u>	\$ <u>279,320,424</u>	\$ <u>267,744,474</u>	\$ <u>2,284,805</u>	0.82%

As of September 30, 2010, the Authority had total long-term debt outstanding of \$124.7 million, inclusive of unamortized bond premium, which is an increase of \$21 million or 20.3% over the prior year (see Table 6 below). On June 15, 2010, the Authority entered into a \$30 million loan agreement with a bank 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. The loan with Guam Power Authority will be fully satisfied this coming fiscal year 2011.

The Authority is required by bond covenants to maintain principal, interest, and reserve funds for the bond issue outstanding. In addition, the Authority is required to set rates and charges to yield revenues equal to at least 125% of the current annual debt service requirements of the outstanding 2005 revenue bonds. The payments applied to the Guam Power Authority and United States Navy are derived from assessed surcharges from current customers. For additional information concerning debt, please refer to note 5 to the financial statements.

Table 6
Long Term Debt, Less Current Maturities

Class Type	September 30, 2010	September 30, 2009	September 30, 2008	2010 to 2009 Comparison	
				Increase/ (Decrease)	% Change
2005 Bond Series	\$ 96,158,794	\$ 98,412,694	\$ 100,100,345	\$ (2,253,900)	-2.29%
Bank Notes	26,759,633	-	-	26,759,633	100.00%
Guam Power Authority	-	1,143,949	2,834,193	(1,143,949)	-100.00%
United States Navy	<u>1,817,057</u>	<u>4,162,028</u>	<u>5,649,098</u>	<u>(2,344,971)</u>	-56.34%
Total	\$ <u>124,735,484</u>	\$ <u>103,718,671</u>	\$ <u>108,583,636</u>	\$ <u>21,016,813</u>	20.26%

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Looking Forward

Outlook, Challenges, and Opportunities

Following a performance last year which ended a period of consecutive years plagued with weak financial performance, GWA concluded FY2010 with an even stronger financial performance. Water and Wastewater revenues improved 21%, surpassing the 14% rate increase that took effect at the beginning of the year, and, far outpacing Operation and Maintenance expenses which increased only 6% above the previous year's level. Metered sales and customer growth outperformed projections by 3% and 2% respectively. Change in Net Assets increased almost fourfold, from \$1,671,576 to \$6,089,683 in FY2010. Senior lien debt service coverage was much improved, from .69 to 1.44 in FY2010, exceeding the bond covenant rate of 1.25 times for the first time since 2005.

Energy costs and Navy water purchases continue to be major drivers of GWA's operational costs. Energy alone represents 1/3 and Navy rates have increased approximately 83% over the last three years. The prospect of further increases appears imminent, however, GWA is taking steps to mitigate and offset the threat of increasing costs through electrical efficiency upgrades at its major facilities. The only surface water treatment plant upgrade is nearly completed and is expected to increase production capacity by approximately 2 MGD and help toward reducing Navy water purchase costs and alleviating GWA's dependency on Navy water to meet its production requirements.

In July 2009, the Public Utilities Commission (PUC) approved the Authority's 5 year Financial Plan which comprised a series of annual rate increases subject to the PUC's review prior to implementation. Increases are effective October 1 and annually thereafter. An 8% increase went into effect October 1, 2010 and will be followed by another 4.9% and 8% in FY2012 and FY2013, respectively.

GWA launched its online bill paying service in October 2010 offering customers the ability to pay water and wastewater bills and view billing and payment history over the internet via a web portal. Customer response has been positive toward the new service. Approximately 3,000 customers use the service monthly and that number continues to increase.

A System Development Charge (SDC) was implemented in FY2010. The fee is a one-time charge for water and wastewater services which creates a new demand or future capacity requirement of the system. The SDC is a welcomed addition to GWA's capital improvement program as it results to avoid charging existing users for a portion of the system's capacity to serve future customers. The fee for a single family residential for water and wastewater is approximately \$5,600. As of February 2011, about \$1.5 million has been collected since the program's inception in March 2010.

The finance and investment community have communicated their confidence in GWA's improvements and future outlook. In July 2010, GWA was successful in obtaining a \$30 million loan paving the way for fulfilling bond reserve requirements and supplementing working capital. In November 2010, Fitch Rating Agency upgraded GWA's credit rating from stable to positive outlook and GWA successfully sold \$118 million of bonds in the municipal market. Investor appetite was so strong for GWA credit that approximately forty minutes into the sale, over \$360 million of orders were placed for the \$118 million available bonds.

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In October 2010, GWA achieved another milestone by successfully obtaining commercial insurance for its assets worth over half a billion dollars. Prior to this, GWA was self insured subject to major risk from potential property losses from two of the most probable cause of catastrophic losses for the utility, typhoons and earthquakes. Currently, its risk management program includes an "all risk" property insurance coverage, General Liability, Fleet Auto and Director and Officers Liability coverage.

The meter program to replace existing meters with AMR meters continues and is projected to be completed by August 2012. Currently there are approximately 13,000 customers whose meters remain to be changed out to the newer AMR technology. GWA is upbeat about the program as it saw metered sales improve 7% while customer growth was only at 2%. GWA believes better and more accurate meter readings are partly attributable to the improved sales and is optimistic revenues will continue to grow as more meters are replaced.

A Stipulated Order (SO) continues to bind GWA since its adjudication in 2003 although approximately 90% of the items under the Order have been completed. Seven (7) items remain uncompleted as a result of funding issues and construction delays or a combination of both. The uncompleted items prescribe operating and capital requirements on GWA in order to satisfy SDWA and CWA requirements. Funding for these items were addressed under the recently completed bond financing and the completion of the remaining items are currently under negotiation with U.S. EPA. Status hearings on the negotiation are conducted quarterly by the U.S. District Court, most recently in November 2010. The next scheduled hearing is March 2011.

The recent bond financing paved the way for much needed capital improvements to address an aging infrastructure and meet federal regulatory compliance. In November 2010, GWA's 5 year CIP Plan was approved by the CCU. Over the next five years, GWA will be laying the groundwork for Capital projects worth over \$201 million. The projects include system planning, distribution system upgrades, efficiency improvements, rehabilitation and replacements. Some but not all the projects will be paid for by existing GWA ratepayers. Sixty-five percent (65%) will be made available from the recent 2010 Revenue Bond financing while the remainder will be funded system development charges, grants and internally funded sources. There is potential that some capital projects could be paid by Department of Defense.

While GWA financial performance and operating results have improved significantly in FY2010 and while GWA is very optimistic about its future, the proposed military buildup will place immense pressure on GWA's infrastructure. GWA and the Department of the Navy signed an MOU in July 2010 detailing a broad agreement to update water and wastewater infrastructure while protecting the island's environment. Approximately \$1.4 billion dollars of projects associated with the buildup have been identified. Funding for approximately \$600 million of this amount is being pursued from the Government of Japan over the next three years and is for water and wastewater infrastructure. The Record of Decision signed in September 2010 contained the Department of Defense commitment to provide this funding from Japan and Federal sources. Financing for these improvements has yet to be finalized but is expected that the funding will be obtained at no cost to GWA's and will be made available by the Government of Japan. It is not evident what the impact will have on operations, but DOD has committed to management and the CCU that any associated buildup capital costs will not be borne by the rate payers.

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

Management's Discussion and Analysis
September 30, 2010 and 2009

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) 647-2583.

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

Statements of Net Assets
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 7,865,765	\$ 918,246
Restricted	15,363,277	5,555,634
Receivables, net	9,388,513	10,856,353
Materials and supplies inventory, net of an allowance for obsolescence of \$339,745 at September 30, 2010 and 2009	2,548,613	2,085,446
Total current assets	35,166,168	19,415,679
Property, plant and equipment:		
Utility plant in service:		
Water system	239,378,142	232,612,569
Wastewater system	215,559,217	191,154,024
Non-utility property	15,342,720	17,536,695
	470,280,079	441,303,288
Less accumulated depreciation	(223,769,245)	(216,141,822)
	246,510,834	225,161,466
Land	64,288	64,288
Construction work in progress	35,030,107	54,094,670
Property, plant and equipment, net	281,605,229	279,320,424
Other noncurrent assets:		
Restricted cash and cash equivalents	20,455,035	15,303,553
Investments	9,634,332	9,628,279
Unamortized debt issuance costs	2,864,906	2,729,147
Total other noncurrent assets	32,954,273	27,660,979
	\$ 349,725,670	\$ 326,397,082

See accompanying notes to financial statements.

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

Statements of Net Assets, Continued
September 30, 2010 and 2009

<u>LIABILITIES AND NET ASSETS</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Current maturities of long-term debt	\$ 8,365,834	\$ 6,463,363
Accounts payable:		
United States Navy	690,021	969,500
Guam Power Authority	1,033,794	2,784,039
Trade	1,723,140	3,799,370
Accrued interest	1,412,136	1,459,948
Accrued payroll and employee benefits	315,572	347,676
Current portion of employee annual leave	459,289	407,945
Accrued supplemental/COLA annuities	-	799,281
Deferred revenue	624,389	624,389
Payable to contractors	1,746,833	2,769,127
Customer deposits	1,940,464	2,093,059
Other liabilities	712,430	484,343
	<u>19,023,902</u>	<u>23,002,040</u>
Long-term debt, less current maturities:		
Revenue bonds payable	96,158,794	98,412,694
Notes payable	26,759,633	-
Guam Power Authority	-	1,143,949
United States Navy	1,817,057	4,162,028
Employee annual leave, less current portion	758,074	699,251
DCRS sick leave liability	762,047	621,013
Advances for construction	168,676	168,303
	<u>145,448,183</u>	<u>128,209,278</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	190,678,898	190,793,854
Restricted	5,866,142	5,377,124
Unrestricted	7,732,447	2,016,826
	<u>204,277,487</u>	<u>198,187,804</u>
	<u>\$ 349,725,670</u>	<u>\$ 326,397,082</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 Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Water:		
Private	\$ 36,594,380	\$ 29,188,371
Government	3,452,893	2,901,576
Legislative surcharge	1,636,762	1,490,238
System development charge	405,023	-
	42,089,058	33,580,185
Wastewater:		
Private	16,248,457	14,042,258
Government	5,650,023	5,623,718
System development charge	389,105	-
	22,287,585	19,665,976
Other	817,683	971,502
Bad debt recoveries	4,138	1,034,609
Total operating revenues	65,198,464	55,252,272
Operating and maintenance expenses:		
Power purchases	14,344,013	14,971,119
Water purchases	6,669,120	5,167,856
Waste disposal fees	294,175	-
	21,307,308	20,138,975
Salaries, wages and benefits	18,085,703	15,870,652
Depreciation	11,568,858	10,952,902
Administrative and general	4,078,237	5,267,571
Contractual	3,381,182	3,969,699
Retiree health care costs and other benefits	1,897,530	1,428,843
Total operating and maintenance expenses	60,318,818	57,628,642
Operating income (loss)	4,879,646	(2,376,370)
Nonoperating revenues (expenses):		
Allowance for funds used during construction	2,716,698	3,030,153
Interest income	11,689	238,699
Contribution to the Government of Guam	(898,700)	-
Interest expense	(6,516,956)	(6,018,059)
Other income	8,884	8,744
Loss on asset disposal	(88)	(17,051)
Total nonoperating revenues (expenses), net	(4,678,473)	(2,757,514)
Income (loss) before capital contributions	201,173	(5,133,884)
Capital contributions:		
Grants from U.S. Government	5,472,020	6,805,460
Other contributions	416,490	-
Total capital contributions	5,888,510	6,805,460
Change in net assets	6,089,683	1,671,576
Net assets at beginning of year	198,187,804	196,516,228
Net assets at end of year	\$ 204,277,487	\$ 198,187,804

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 66,552,651	\$ 52,702,683
Cash payments to suppliers for goods and services	(33,107,761)	(26,299,257)
Cash payments to employees for services	(17,866,606)	(16,161,695)
Cash payments on settlement agreements	(4,291,070)	(2,160,296)
Cash payments for retiree healthcare costs	(2,696,811)	(1,433,920)
Net cash provided by operating activities	8,590,403	6,647,515
Cash flows from noncapital financing activities:		
Proceeds from bank loan	5,000,000	-
Principal repayment of bank loan	(205,066)	-
Contribution to the Government of Guam	(898,700)	-
Interest paid on bank loan	(126,935)	-
Other interest paid on settlement agreements	(193,123)	(319,327)
Net cash provided by (used for) noncapital financing activities	3,576,176	(319,327)
Cash flows from capital and related financing activities:		
Federal grants received	4,846,323	6,034,017
Other capital contributions received	287,989	-
Acquisition of property, plant and equipment	(11,444,091)	(19,668,119)
Principal paid on revenue bond maturities	(2,055,000)	(1,960,000)
Interest paid on revenue bonds	(5,696,357)	(5,705,825)
Proceeds from bank loan	25,000,000	-
Principal repayment of bank loan	(409,430)	-
Interest paid on bank loan	(548,353)	-
Other payments	(247,025)	-
Net cash provided by (used for) capital and related financing activities	9,734,056	(21,299,927)
Cash flows from investing activities:		
Net transfers (from) to restricted funds	(14,965,178)	15,363,958
Interest income received	12,062	239,237
Net cash (used in) provided by investing activities	(14,953,116)	15,603,195
Net change in unrestricted cash and cash equivalents	6,947,519	631,456
Unrestricted cash and cash equivalents at beginning of year	918,246	286,790
Unrestricted cash and cash equivalents at end of year	\$ 7,865,765	\$ 918,246
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 3,431,954	\$ 3,030,153
Capitalized interest	(2,716,698)	(3,030,153)
Noncash capital contributions	(715,256)	-
	\$ -	\$ -

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, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	\$ 4,879,646	\$ (2,376,370)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	11,568,858	10,952,902
(Increase) decrease in assets:		
Accounts receivable	1,506,782	(2,839,933)
Materials and supplies inventory	(463,167)	331,000
Increase (decrease) in liabilities:		
Accounts payable	(8,397,024)	503,261
Accrued payroll and employee benefits	(32,104)	(224,025)
Employee annual leave	110,167	(45,044)
Accrued supplemental/COLA annuities	(799,281)	(5,077)
Customer deposits	(152,595)	290,345
Other liabilities	228,087	82,430
DCRS sick leave liability	141,034	(21,974)
Net cash provided by operating activities	\$ 8,590,403	\$ 6,647,515

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2010 and 2009

(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 Consolidated Commission on Utilities (CCU). PUC determines such matters as rates and charges for services.

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Net Assets

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

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

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the series 2005 bonds. These costs are being amortized throughout the life of the bond using the straight-line method, which approximates the effective interest 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 the noncurrent restricted cash is for long-term capital improvements and bond related activities.

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.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

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, 2010 and 2009 are \$2,164,408 and \$2,231,756, respectively.

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. Fire hydrant receivables of \$6,546,311 as of September 30, 2010 and 2009 were fully allowed for.

Cash and Cash Equivalents

For purposes of the statements of net assets 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.

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, 2010 and 2009, interest of \$2,716,698 and \$3,030,153 was capitalized.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of GWA. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, 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 \$1,886,371 and \$1,862,965 at September 30, 2010 and 2009, 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, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, GWA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GWA.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GWA.

Reclassifications

Certain balances in the 2009 financial statements have been reclassified to correspond with the 2010 presentation.

(3) Property, Plant and Equipment

Capital asset activities for the year ended September 30, 2010 are as follows:

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2009</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2010</u>
<u>Depreciable:</u>					
Utility Plant in Service					
– Water	10-50	\$ 232,612,569	\$ 8,365,641	\$ (1,600,068)	\$ 239,378,142
Utility Plant in Service					
– Wastewater	25-50	191,154,024	24,405,193	-	215,559,217
General Fixed Assets	05-10	<u>17,536,695</u>	<u>147,480</u>	<u>(2,341,455)</u>	<u>15,342,720</u>
		441,303,288	32,918,314	(3,941,523)	470,280,079
Accumulated Depreciation		<u>(216,141,822)</u>	<u>(11,568,858)</u>	<u>3,941,435</u>	<u>(223,769,245)</u>
		225,161,466	21,349,456	(88)	246,510,834
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>54,094,670</u>	<u>13,925,937</u>	<u>(32,990,500)</u>	<u>35,030,107</u>
		<u>\$ 279,320,424</u>	<u>\$ 35,275,393</u>	<u>\$ (32,990,588)</u>	<u>\$ 281,605,229</u>

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2010 and 2009

(3) Property, Plant and Equipment, Continued

Capital asset activities for the year ended September 30, 2010 are as follows:

	Estimated Useful Lives in <u>Years</u>	Beginning Balance October 1, <u>2008</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2009</u>
<u>Depreciable:</u>					
Utility Plant in Service – Water	10-50	\$ 226,342,207	\$ 6,590,362	\$ (320,000)	\$ 232,612,569
Utility Plant in Service - Wastewater	25-50	190,645,544	508,480	-	191,154,024
General Fixed Assets	05-10	<u>16,697,191</u>	<u>839,504</u>	<u>-</u>	<u>17,536,695</u>
		433,684,942	7,938,346	(320,000)	441,303,288
Accumulated Depreciation		<u>(205,491,869)</u>	<u>(10,952,902)</u>	<u>302,949</u>	<u>(216,141,822)</u>
		228,193,073	(3,014,556)	(17,051)	225,161,466
<u>Non-depreciable:</u>					
Land		64,288	-	-	64,288
Construction Work in Progress		<u>39,487,113</u>	<u>22,545,902</u>	<u>(7,938,345)</u>	<u>54,094,670</u>
		<u>\$ 267,744,474</u>	<u>\$ 19,531,346</u>	<u>\$ (7,955,396)</u>	<u>\$ 279,320,424</u>

(4) Receivables

Receivables at September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Customers:		
Private	\$ 14,281,635	\$ 14,290,438
Government	<u>9,134,273</u>	<u>10,519,117</u>
	23,415,908	24,809,555
Federal grants receivable	924,160	1,013,719
Guam Power Authority	57,511	62,322
Other	<u>463,936</u>	<u>443,759</u>
	<u>24,861,515</u>	<u>26,329,355</u>
Less allowance for doubtful receivables:		
Private	(8,088,099)	(8,088,099)
Government	<u>(7,384,903)</u>	<u>(7,384,903)</u>
	<u>(15,473,002)</u>	<u>(15,473,002)</u>
	<u>\$ 9,388,513</u>	<u>\$ 10,856,353</u>
Allowance breakdown:		
Beginning balance	\$ (15,473,002)	\$ (16,796,129)
Less:		
Write-off	-	291,402
Bad debt recovery	<u>-</u>	<u>1,031,725</u>
Ending balance	<u>\$ (15,473,002)</u>	<u>\$ (15,473,002)</u>

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

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

Notes to Financial Statements
September 30, 2010 and 2009

(5) Long-Term Debt

Long-term debt at September 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Note payable to the U.S. Navy, interest at 1.25% per annum, due in monthly installments of principal and interest of \$45,833 through March 2009, \$132,545 through March 2011, and \$264,853 through June 2012, collateralized by real property.	\$ 4,159,524	\$ 5,689,122
Payable to the Guam Power Authority in settlement of previously unpaid balances, interest at 4.33% per annum, payable in monthly principal and interest installments of \$212,899 through 2010.	1,237,496	3,998,968
2005 Series revenue bonds, initial face value of \$101,175,000, interest at varying rates from 5.000% to 5.875% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,865,000 in July 2008, increasing to \$6,810,000 in July 2035.	95,295,000	97,350,000
Note payable to a bank, interest at 7.75%, due in monthly installments of principal and interest of \$300,027 through June 15, 2020.	24,590,570	-
Note payable to a bank, interest at 7.75%, due in monthly installments of principal and interest of \$100,785 through June 2015.	<u>4,794,934</u>	<u>-</u>
Total long-term debt	130,077,524	107,038,090
Less current maturities	<u>(8,365,834)</u>	<u>(6,463,363)</u>
	121,711,690	100,574,727
Bond premium	<u>3,023,794</u>	<u>3,143,944</u>
	\$ <u>124,735,484</u>	\$ <u>103,718,671</u>

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(5) Long-Term Debt, Continued

As of September 30, 2010, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 8,365,834	\$ 7,771,582	\$ 16,137,416
2012	6,923,820	7,418,786	14,342,606
2013	5,444,590	7,069,440	12,514,030
2014	5,810,716	6,704,312	12,515,028
2015	20,182,564	9,130,600	29,313,164
2016 through 2020	12,830,000	23,208,645	36,038,645
2021 through 2025	17,155,000	18,883,269	36,038,269
2026 through 2030	22,895,000	13,139,437	36,034,437
2031 through 2035	<u>30,470,000</u>	<u>5,574,493</u>	<u>36,044,493</u>
	<u>\$ 130,077,524</u>	<u>\$ 98,900,564</u>	<u>\$ 228,978,088</u>

GWA fully paid a debt to Municipal Services Group, Inc. (MSG) with proceeds from the above bond issuance. MSG indicated that it may make a claim against GWA in connection with the investment earnings on the Acquisition Fund for the Certificates of Participation 2005 Services relative to financing the purchase and installation of GWA's water meters. No provision has been recorded in the accompanying financial statements for a liability, if any, because an estimate of the amount or range of potential loss cannot be determined at this time.

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.

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 \$7,703,544 and \$7,658,733 for the years ended September 30, 2010 and 2009, respectively, or approximately 11.8% and 13.9%, respectively, of pledged gross revenues for those years.

Total bond proceeds were \$104,779,522, including a bond premium of \$3,604,522 while GWA incurred closing costs totaling \$3,128,108. The premium, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 2005 bond. The closing costs, net of amortization, are reflected as other assets in the accompanying statements of net assets. The current year amortization of the deferred revenue and the deferred asset is reflected as other income in the accompanying statements of revenues, expenses and changes in net assets.

Management is of the opinion that compliance with applicable debt covenants occurred during the year ended September 30, 2010.

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(5) Long-Term Debt, Continued

On June 15, 2010, GWA entered into a \$30 million loan agreement with a bank 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 entitled to the full faith and credit of the Government of Guam. Pursuant to the loan agreement, 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.

Changes in Long-Term Liabilities:

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2010 and 2009:

	Outstanding October 1, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2010</u>	<u>Current</u>
Long-term debt:					
2005 series A bonds	\$ 97,350,000	\$ -	\$ (2,055,000)	\$ 95,295,000	\$ 2,160,000
Notes payable	-	30,000,000	(614,496)	29,385,504	2,625,871
U.S. Navy	5,689,122	-	(1,529,598)	4,159,524	2,342,467
Guam Power Authority	3,998,968	-	(2,761,472)	1,237,496	1,237,496
Deferred amount:					
Unamortized premium on bonds issued	3,143,944	-	(120,150)	3,023,794	-
Other:					
Employee annual leave	1,107,196	847,722	(737,555)	1,217,363	459,289
DCRS sick leave liability	621,013	141,034	-	762,047	-
Other liabilities	<u>168,303</u>	<u>373</u>	<u>-</u>	<u>168,676</u>	<u>-</u>
	<u>\$ 112,078,546</u>	<u>\$ 30,989,129</u>	<u>\$ (7,818,271)</u>	<u>\$ 135,249,404</u>	<u>\$ 8,825,123</u>
	Outstanding October 1, <u>2008</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2009</u>	<u>Current</u>
Long-term debt:					
2005 series A bonds	\$ 99,310,000	\$ -	\$ (1,960,000)	\$ 97,350,000	\$ 2,081,250
U.S. Navy	6,639,101	-	(949,979)	5,689,122	1,527,094
Guam Power Authority	5,209,285	-	(1,210,317)	3,998,968	2,855,019
Deferred amount:					
Unamortized premium on bonds issued	3,264,095	-	(120,151)	3,143,944	-
Other:					
Employee annual leave	1,152,240	600,896	(645,940)	1,107,196	407,945
DCRS sick leave liability	642,987	-	(21,974)	621,013	-
Other liabilities	<u>167,767</u>	<u>536</u>	<u>-</u>	<u>168,303</u>	<u>-</u>
	<u>\$ 116,385,475</u>	<u>\$ 601,432</u>	<u>\$ (4,908,361)</u>	<u>\$ 112,078,546</u>	<u>\$ 6,871,308</u>

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(6) 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, 2008, 2007, and 2006, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2010, 2009 and 2008, respectively, have been determined as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Normal costs (% of DB Plan payroll)	18.34%	17.36%	17.94%
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>8.84%</u>	<u>7.86%</u>	<u>8.44%</u>
Employer portion of normal costs (% of total payroll)	3.73%	3.70%	3.99%
Unfunded liability cost (% of total payroll)	<u>22.69%</u>	<u>19.68%</u>	<u>20.75%</u>
Government contribution as a % of total payroll	<u>26.42%</u>	<u>23.38%</u>	<u>24.74%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.04%</u>	<u>25.20%</u>	<u>24.07%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Funding Policy:, Continued

GWA's contributions to the DB Plan for the years ending September 30, 2010, 2009 and 2008 were \$1,321,122, \$1,273,880 and \$1,241,746, respectively, which were equal to the required contributions for the respective years then ended.

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, 2010 and 2009, 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, 2010, 2009 and 2008 were \$1,850,779, \$1,566,034 and \$1,063,161, 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 \$762,047 and \$621,013 at September 30, 2010 and 2009, 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.

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(6) Employees' Retirement Plan, Continued

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

For the years ended September 30, 2010, 2009 and 2008, GWA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Supplemental benefits	\$ 447,195	\$ 315,136	\$ 455,693
Contribution to GovGuam	294,800	-	-
Medical and dental	<u>1,155,535</u>	<u>1,113,707</u>	<u>1,161,662</u>
	<u>\$ 1,897,530</u>	<u>\$ 1,428,843</u>	<u>\$ 1,617,355</u>

(7) 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, 2010 and 2009, the property has not been recognized in the financial statements pending completion of formal transfer proceedings.

(8) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the United States Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2010 and 2009 are \$6,669,120 and \$5,118,688, respectively.

(9) Commitments and Contingencies

Claims

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

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(9) Commitments and Contingencies, Continued

Self Insurance

GWA has adopted a policy of self-insuring potential risks relative to its property, plant and equipment. GWA has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. GWA is of the opinion that it has suffered no material losses in the past three years related to damages to its utility plant-in-service. Subsequent to September 30, 2010, GWA obtained insurance coverage to mitigate potential risks to a certain extent.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$3,304,587 at September 30, 2010.

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 in January 1, 2013.

At September 30, 2010, the minimum management fees for the PMC above are as follows:

Year ending September 30,	Amount
2011	\$ 1,047,912
2012	1,077,254
2013	1,107,417
2014	<u>278,752</u>
	\$ <u>3,511,335</u>

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

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 \$472,727 exist from these audits as of September 30, 2010. 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.

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(9) Commitments and Contingencies, Continued

Stipulated Order

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

On June 5, 2003, 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.

(10) Cash and Cash Equivalents and Investments

The bond indenture agreements for the 2005 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, 2010 and 2009, investments and cash held by trustees and by GWA in these special funds and accounts are as follows:

	2010		<u>Total</u>
	Held By Trustee	Held By GWA	
	Bond Indenture Funds	Bond Indenture Funds	
Current restricted cash:			
Revenue Fund	\$ -	\$ 4,819,686	\$ 4,819,686
Capital Improvement Fund	-	14,434	14,434
Operations and Maintenance Fund	-	3,100,791	3,100,791
Noncurrent restricted cash:			
Operations, Maintenance Renewal and Replacement Revenue Fund	-	11,315,739	11,315,739
Construction Fund	-	9,139,296	9,139,296
Investments:			
Bond Reserve Fund	7,707,871	-	7,707,871
Debt Service Fund	<u>1,926,461</u>	<u>-</u>	<u>1,926,461</u>
	<u>\$ 9,634,332</u>	<u>\$ 28,389,946</u>	<u>\$ 38,024,278</u>

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(10) Cash and Cash Equivalents and Investments, Continued

	2009		<u>Total</u>
	Held By Trustee	Held By GWA	
	Bond Indenture Funds	Bond Indenture Funds	
Current restricted cash:			
Revenue Fund	\$ -	\$ 4,866,470	\$ 4,866,470
Capital Improvement Fund	-	61	61
Operations and Maintenance Fund	-	445	445
Noncurrent restricted cash:			
Operations, Maintenance Renewal and Replacement Reserve Fund	-	567,052	567,052
Construction Fund	-	14,736,501	14,736,501
Investments:			
Bond Reserve Fund	7,707,794	-	7,707,794
Debt Service Fund	<u>1,920,485</u>	<u>-</u>	<u>1,920,485</u>
	<u>\$ 9,628,279</u>	<u>\$ 20,170,529</u>	<u>\$ 29,798,808</u>

The deposits and investment policies of GWA are governed by 15 GCA 21, *Investments and Deposits* in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federated Government obligations Fund SS or the Transamerica Accidental Life Insurance Company 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

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year-end. The three categories are described below:

Category 1 Insured or registered, or collateralized with securities held by GWA or its agent in GWA's name;

Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GWA's name; or

Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GWA's name.

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(10) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2010 and 2009, the carrying amount of GWA's total cash and cash equivalents was \$43,684,077 and \$21,777,433, respectively, and the corresponding bank balances were \$44,573,266 and \$21,773,032, respectively. Of the bank balance amount, \$16,349,062 and \$2,010,002, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$28,224,204 and \$19,763,030, 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, 2010 and 2009, bank deposits in the amount of \$805,065 and \$369,802, 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, 2010 and 2009, \$15,543,997 and \$1,640,200, respectively, of cash and cash equivalents are subject to custodial credit risk.

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

	<u>2010</u>	<u>2009</u>
Current restricted:		
Capital projects	\$ 172,602	\$ 172,018
Operation and maintenance	6,001	5,986
PUC surcharge	-	56,761
Navy surcharge	184,906	43,804
Meter reserve	38,515	338,388
Sewer Hook-up Revolving Fund	71,880	71,701
Revenue Fund	4,819,686	4,866,470
Capital Improvement Fund	14,434	61
Operations and Maintenance Fund	3,100,791	445
Debt Service Fund	1,203,307	-
Moratorium project	5,000,000	-
Island Water and Sewer Infrastructure Development Fund	<u>751,155</u>	<u>-</u>
	<u>15,363,277</u>	<u>5,555,634</u>

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(10) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

Noncurrent restricted:

Operations, Maintenance, Renewal and Replacement Reserve Fund	11,315,739	567,052
Construction Fund	9,139,296	14,736,501
	20,455,035	15,303,553
Total restricted cash and cash equivalents	\$ 35,818,312	\$ 20,859,187

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by GWA or its agent in GWA's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in GWA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GWA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2010 and 2009, GWA's investment in debt securities had the following maturities:

<u>Investment Type</u>	2010		
	Investment Maturities (in years)		
	Fair Value	Less than 1	1-5
U.S. Treasury and Governmental agency obligations	\$ 9,634,332	\$ 9,634,332	\$ -

<u>Investment Type</u>	2009		
	Investment Maturities (in years)		
	Fair Value	Less than 1	1-5
U.S. Treasury and Governmental agency obligations	\$ 9,628,279	\$ 9,628,279	\$ -

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

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(10) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

GWA's exposure to credit risk at September 30, 2010 and 2009 as follow:

	2009		
<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>9,634,332</u>	\$ <u>9,634,332</u>	\$ <u> -</u>
	2009		
<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>9,628,279</u>	\$ <u>9,628,279</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, 2010 and 2009.

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, 2010 and 2009, 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.

(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 is recognized on the books of the Government of Guam and is not reflected as a liability of GWA.

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(12) Contributions Received

Contributions received by GWA during the years ended September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Grants from U.S. Government:		
Received from the U.S. Environmental Protection Agency	\$ 4,897,548	\$ 6,805,460
Passed through from the Government of Guam	<u>574,472</u>	<u>-</u>
	<u>\$ 5,472,020</u>	<u>\$ 6,805,460</u>
Other contributions:		
Received through refinancing of Government of Guam's Water Bond	<u>\$ 416,490</u>	<u>\$ -</u>

(13) Contribution to the Government of Guam (GovGuam)

During the year ended September 30, 2010, GWA recognized certain on-behalf payments \$1,193,500 as a transfer to GovGuam. Of the amount, \$898,700 was pursuant to Public Law 30-101, which mandated the reimbursement of COLA payments made by GovGuam in fiscal years 2007, 2008 and 2009 to eligible retirees. COLA payments relating to fiscal year 2010 pursuant to Public Law 30-55 of \$294,800 were included under operating expenses.

(14) Supplemental/COLA Annuities

As required by Public Law 27-106, as amended by Public Law 26-49, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2010 and 2009, GWA levied surcharges of \$1,636,762 and \$1,490,238, respectively, in accordance with this legislation. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(15) PUC Surcharge

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

On May 9, 2002, the Guam Legislature passed Public Law 26-81. The Law established a one-year moratorium of the 11.5% surcharge, wherein GWA was prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order for GWA to pay its debt to GPA, the law appropriated \$2.75 million to GWA from a bond re-financing. In May 2003, the one year moratorium expired and proceeds from the renewed surcharge of 9.60% have gone toward GWA's obligation to GPA and effective October 2003, also to the obligation to the U.S. Navy. During the years ended September 30, 2010 and 2009, revenues from the 9.60% surcharge were \$4,498,437 and \$3,562,452, respectively.

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(15) PUC Surcharge, Continued

In addition, proceeds from a legislative surcharge of 3.49% are earmarked to pay benefits for GWA's supplemental annuity for retirees. During the years ended September 30, 2010 and 2009, revenues from the legislative surcharge were \$1,636,762 and \$1,490,238, respectively.

(16) System Development Charge

On January 29, 2010, the Public Utilities Commission approved the implementation of a water and sewer system development charge (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 year ended September 30, 2010, SDC revenues amounted to \$794,128.

(17) Related Party Transactions

GWA receives electrical and administrative services from Guam Power Authority (GPA), a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2010 and 2009 were \$14,344,013 and \$14,971,119, respectively, and GWA was also charged \$488,918 and \$337,716, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,033,794 and \$2,784,039 as of September 30, 2010 and 2009, respectively. In addition, GWA has long-term debt of \$1,237,496 and \$3,998,968 due to GPA at September 30, 2010 and 2009, respectively.

(18) Subsequent Event

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.

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Schedule 1
Schedule of Equalization of Net (Income) Loss
Years Ended September 30, 1992 through 2010

	2010	2009	2008	2007	2006	2005	2003 2004	(As Restated)	2002	2001	2000	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)	1994 (1)	1993 (1)	1992 (1)
Net (income) loss	\$ (6,089,683)	(1,671,576)	\$ 422,752	\$ 1,933,050	\$ 8,097,395	\$ (1,530,194)	\$ 1,809,232	\$ 7,402,223	\$ 14,712,887	\$ 639,033	\$ 9,930,509	\$ 9,756,403	\$ 20,589,668	\$ 12,002,404	\$ 2,486,481	\$ 7,293,467	\$ 10,920,041	\$ 3,069,762	\$ 4,394,359
Less transfers from GovGuam	416,490	-	-	-	300,000	1,110,561	578,754	748,109	2,859,524	2,800,388	-	-	-	-	18,538,800	22,743,010	16,136,274	24,959,972	27,447,270
Less other operating revenues recognized in 1999 attributable to prior years	-	-	-	-	-	-	-	-	-	-	-	4,282,966	-	-	-	-	-	-	-
Equalization of net (income) loss	\$ (5,673,193)	(1,671,576)	\$ 422,752	\$ 1,933,050	\$ 8,397,395	\$ (419,633)	\$ 2,387,986	\$ 8,150,332	\$ 17,572,411	\$ 3,439,421	\$ 9,930,509	\$ 14,039,369	\$ 20,589,668	\$ 12,002,404	\$ 21,025,281	\$ 30,036,477	\$ 27,056,315	\$ 28,029,734	\$ 31,841,629

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

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 2
Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2010 and 2009

	2010	2009
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 13,281,521	\$ 11,881,420
Pension costs and other benefits	4,056,809	3,598,632
Overtime pay	747,373	390,600
Total salaries, wages and benefits	\$ 18,085,703	\$ 15,870,652
Employees at end of year	327	321
Administrative and general:		
Materials and supplies	\$ 1,708,535	\$ 2,425,951
Chemicals	971,428	958,972
Transportation	466,867	493,235
Public Utility Commission	151,787	477,605
Training	153,947	120,544
Violation fees	-	19,000
Communications	167,799	161,212
Liability claims	-	97,555
Advertising	140,639	158,386
Insurance	35,812	23,730
Miscellaneous	281,423	331,381
Total administrative and general	\$ 4,078,237	\$ 5,267,571
Contractual:		
Labor, materials and others	\$ 1,492,623	\$ 1,192,776
Equipment rental	365,435	260,888
Accounting	250,441	222,097
Legal	84,840	304,123
Testing	183,248	669,932
PMC management	1,004,595	1,319,883
Total contractual	\$ 3,381,182	\$ 3,969,699
Other expense:		
Loss on asset disposal	\$ 88	\$ 17,051
Interest expense	6,516,956	6,018,059
Retiree healthcare costs and other benefits	1,897,530	1,428,843
	\$ 8,414,574	\$ 7,463,953

See accompanying independent auditors' report.

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Schedule 3
Schedule of Cash Flows Indicating Financing Method
Year Ended September 30, 2010

Cash flows provided by operating activities	\$ 8,590,403
Cash flows used for acquisition of utility plant, net of contributed capital received	<u>(6,309,779)</u>
Cash flows if GPA were fully paid and if utility plant were built, net of contributed capital received	<u>\$ 2,280,624</u>

See accompanying independent auditors' report.

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Schedule 4
Schedule of Construction Work in Progress
Year Ended September 30, 2010

Project Title	Type	Beginning Balance 2010	Additions and Transfers	Closed out during FY2010	Ending Balance 2010
Agat/Santa Rita Sewer System	Wastewater	\$ 1,264,946	\$ 373,466	\$ (1,638,412)	\$ -
Automated Meter Reading	Water	2,803,490	1,040,452	(2,160,205)	1,683,737
Baza Gardens	Wastewater	371,564	24,293	-	395,857
Distribution Line Replacement	Water	6,807,441	970,159	-	7,777,600
Electrical Protection	Water	379,876	68,713		448,589
Ground Water Chlorination	Water	3,500,170	358,514	(3,853,418)	5,266
Hagatna and Northern District	Wastewater	22,862,766	1,376,920	(24,239,686)	-
Land Survey	Wastewater	206,465	194,932		401,397
Ordot/Chalan Pago 2B	Wastewater	622,341	-	-	622,341
Replaced Old Agat Sewer	Wasterwater	2,136,853	2,668,213	-	4,805,066
Sinajana and Agana Heights Phase II	Water	3,000,000	-	-	3,000,000
Sinajana Transmission Line	Water	2,682,856	1,480,057	-	4,162,913
Ugum Tank Replacement	Water	6,425,846	3,034,604	-	9,460,450
Umatac-Merizo Repairs and Upgrade	Wastewater	-	472,032		472,032
All Others	Water/Wastewater	1,030,056	1,863,582	(1,098,779)	1,794,859
		<u>\$ 54,094,670</u>	<u>\$ 13,925,937</u>	<u>\$ (32,990,500)</u>	<u>\$ 35,030,107</u>

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 5
Schedule of Employee and Other Data
Year Ended September 30, 2010

Department	Full-Time Employees	Category Personnel Services	Contractual Services	Materials and Supplies	Total
Board	-	\$ 195,406	\$ 36,768	-	232,174
Administration	42	2,800,680	1,118,500	7,621	3,926,801
Accounting	22	1,268,498	176,049	244,965	1,689,512
Engineering	23	1,765,929	578	18,267	1,784,774
Collection and Distribution	78	4,423,932	1,589,236	380,364	6,393,532
Utility Services	53	1,817,473	1,189	137,854	1,956,516
Production and Treatment	109	5,813,785	458,862	919,464	7,192,111
Total	327	\$ 18,085,703	\$ 3,381,182	\$ 1,708,535	\$ 23,175,420

See accompanying independent auditors' report.

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Schedule 6
System Development Charge Fund
Schedule of Net Assets, Revenue, Expenses and Changes in Net Assets
September 30, 2010

ASSETS

Current assets:		
Restricted cash	\$	751,155
Receivables		<u>45,874</u>
	\$	<u><u>797,029</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Due to GWA	\$	3,661
Net assets:		
Restricted		<u>793,368</u>
	\$	<u><u>797,029</u></u>

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Revenues:		
System development charge	\$	794,128
Other revenues		<u>745</u>
		794,873
Expenses:		
Miscellaneous		<u>1,505</u>
Change in net assets	\$	<u><u>793,368</u></u>

See accompanying independent auditors' report.

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Schedule 7
Schedule of Operating Revenues
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Water	\$ 35,548,836	\$ 28,527,495
Wastewater	21,898,480	19,665,976
Surcharges:		
PUC	4,498,437	3,562,452
Legislative	1,636,762	1,490,238
System development charge	794,128	-
Other	817,683	971,502
Bad debts recoveries	<u>4,138</u>	<u>1,034,609</u>
Total operating revenues	<u>\$ 65,198,464</u>	<u>\$ 55,252,272</u>

See accompanying independent auditors' report.