

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

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

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on the Financial Statements

We have audited the accompanying financial statements of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 as well as the Schedule of Funding Progress on page 41 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

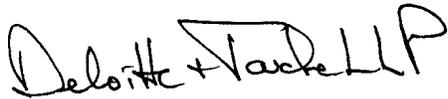
Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of certain operating and maintenance expenses, schedule of construction work in progress, schedule of net position, revenue, expenses and changes in net position for the system development charge fund, and schedule of operating revenues on pages 42 through 45 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such additional information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of employee and other data on page 46 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of GWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GWA's internal control over financial reporting and compliance.

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

June 26, 2015

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

Management's Discussion and Analysis
September 30, 2014 and 2013

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, 2014. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 12.

Overview of the Financial Statements

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

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 17 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary and statistical information can be found beginning on page 41 of this report.

Financial Condition and Results

The Authority's total net position decreased by \$7.9 million during the fiscal year (see table below) due to decreases in other non-current assets.

The net increase in current assets of about \$5.5 million is due to increases in restricted cash, trade, and other receivables.

The net increase in property, plant and equipment of \$13.86 million is due primarily to on-going in-progress for field's construction of wastewater treatment plant, upgrades pump station improvements, transmission lines, meter replacement program, ground water chlorination project, and acquisition of mechanical and electrical equipment.

The Authority's net investment in capital assets represents 98% of total net position. The net amount invested in capital assets decreased by \$4.3 million compared to prior year.

GUAM WATERWORKS AUTHORITY
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Management's Discussion and Analysis
September 30, 2014 and 2013

Summary Statements of Net Position

	September 30, 2014	September 30, 2013	September 30, 2012	2014 to 2013 Comparison Increase/ (Decrease)	% Change
Current assets	\$ 41,706,808	\$ 36,186,645	\$ 35,814,457	\$ 5,520,163	15.25%
Property, plant and equipment, net	336,039,840	322,178,207	304,802,292	13,861,633	4.30%
Other non-current assets	223,044,832	87,833,095	113,260,433	135,211,737	153.94%
Deferred outflows of resources	<u>2,468,670</u>	<u>321,057</u>	<u>335,541</u>	<u>2,147,613</u>	<u>668.92%</u>
Total assets and deferred outflows of resources	<u>603,260,150</u>	<u>446,519,004</u>	<u>454,212,723</u>	<u>154,593,533</u>	<u>34.62%</u>
Current liabilities	27,950,587	29,835,442	26,315,344	(1,884,855)	-6.32%
Long-term liabilities	<u>391,534,089</u>	<u>225,041,224</u>	<u>230,748,403</u>	<u>166,492,865</u>	<u>73.98%</u>
Total liabilities	<u>419,484,676</u>	<u>254,876,666</u>	<u>257,063,747</u>	<u>156,741,146</u>	<u>61.50%</u>
Net position:					
Net investment in capital assets	180,655,378	184,944,929	189,567,949	(4,289,551)	-2.32%
Restricted	12,934,743	11,712,242	9,472,664	1,222,501	10.44%
Unrestricted	<u>(9,814,647)</u>	<u>(5,014,833)</u>	<u>(1,891,637)</u>	<u>(4,799,814)</u>	<u>95.71%</u>
Total net position	<u>183,775,474</u>	<u>191,642,338</u>	<u>197,148,976</u>	<u>(7,866,864)</u>	<u>-4.10%</u>
Total liabilities and net position	<u>\$ 603,260,150</u>	<u>\$ 446,519,004</u>	<u>\$ 454,212,723</u>	<u>\$ 148,874,282</u>	

Operating income increased 201% from the previous year, from \$5.19 million to \$15.6 million in FY2014. A combination of factors, as illustrated on page 14, contributed to the significant improvement but growth was derived primarily from increases in demand sales from commercial accounts and savings achieved in operations and maintenance costs.

Much like in the previous fiscal years, operating revenues outpaced operating expenses in terms of the proportion of growth from the preceding year. GWA saw operating revenues improve from \$74.8 million to \$82.7 million in FY2014, or approximately 11%, while on the other hand, operating costs decreased from \$69.6 million to \$67.1 million in FY2014, or a 4% decrease from the previous year. The table below illustrates past trends dating back to FY2012.

The total operating revenues of \$82.7 million increased by \$7.9 million or 10.6% and operating expenses of \$67.1 million decreased by \$2.5 million or 3.7% for the current year resulting in net operating income of \$15.7 million or 201% increase when compared to the prior year (see table below).

- Water revenues (total) increased by \$5.2 million over the prior fiscal year due in part to a 15% increase in water rates. There were revenue dollar increases in agricultural, commercial 1, commercial 2, commercial 3, hotel, and residential customer classes.
- Wastewater revenues (total) increased by \$2.2 million or 8.28% over the prior fiscal year. A 15% rate increase in sewer charges was approved for the current year. There were revenue dollar increase in commercial 1, commercial 2, commercial 3, government, hotel, and residential customer classes.

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- Operating expenses decreases by \$2.5 million or 3.7% over the prior fiscal year. The contributing factors were decreases in power purchases, contractual, depreciation, and salaries and wages.
- Net non-operating expenses increased \$11.9 million due primarily to bond issuance costs, interest expense and loss on disposal of certain assets. Capital contributions were grants from the U.S. Government.
- Of the total water and wastewater revenue of \$53.2 million and \$28.9 million, system development charges (SDC) represented \$0.792 million and \$0.719 million, respectively. Thus, the total SDC for the current fiscal year total is \$1.63 million. Please see Schedule 4 on page 44.

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

	September 30, 2014	September 30, 2013	September 30, 2012	2014 to 2013 Comparison	
				Increase/ (Decrease)	% Change
Revenues:					
Water	\$ 53,241,495	\$ 48,003,668	\$ 44,071,415	\$ 5,237,827	10.91%
Wastewater	28,906,106	26,695,804	24,740,131	2,210,302	8.28%
Other	573,483	462,030	700,979	111,453	24.12%
Bad debts recovery (expense)	310	(361,281)	-	361,591	-100.09%
Total operating revenue	<u>82,721,394</u>	<u>74,800,221</u>	<u>69,512,525</u>	<u>7,921,173</u>	<u>10.59%</u>
Expenses:					
Power purchases	16,426,402	17,508,372	17,015,686	(1,081,970)	-6.18%
Water purchases	5,179,240	4,570,862	5,263,128	608,378	13.31%
Sludge (waste) disposal fees	1,494,012	988,876	275,938	505,136	51.08%
Salaries, wages and benefits	19,175,890	20,058,840	18,891,270	(882,950)	-4.40%
Depreciation	13,351,158	14,319,394	12,050,430	(968,236)	-6.76%
Administrative and general	6,234,980	6,007,108	5,416,166	227,872	3.79%
Contractual	2,681,070	3,733,593	3,068,764	(1,052,523)	-28.19%
Retiree healthcare costs and other benefits	2,518,851	2,418,349	2,262,583	100,502	4.16%
Total operating expenses	<u>67,061,603</u>	<u>69,605,394</u>	<u>64,243,965</u>	<u>(2,543,791)</u>	<u>-3.65%</u>
Net operating income	15,659,791	5,194,827	5,268,560	10,464,964	201.45%
Non-operating revenue (expenses)	(7,054,654)	(1,643,566)	2,632,568	(5,411,088)	329.23%
Less: interest expense	(20,031,506)	(13,538,467)	(13,885,808)	(6,493,039)	47.96%
Total non-operating revenues (expenses), net	<u>(27,086,160)</u>	<u>(15,182,033)</u>	<u>(11,253,240)</u>	<u>(11,904,127)</u>	<u>78.41%</u>
Loss before capital contributions	(11,426,369)	(9,987,206)	(5,984,680)	(1,439,163)	14.41%
Capital contributions	<u>3,559,505</u>	<u>4,480,568</u>	<u>6,679,738</u>	<u>(921,063)</u>	<u>-20.56%</u>
Change in net position	(7,866,864)	(5,506,638)	695,058	(2,360,226)	42.86%
Net position - beginning year	<u>191,642,338</u>	<u>197,148,976</u>	<u>196,453,918</u>	<u>(5,506,638)</u>	<u>-2.79%</u>
Net position - end of year	<u>\$ 183,775,474</u>	<u>\$ 191,642,338</u>	<u>\$ 197,148,976</u>	<u>\$ (7,866,864)</u>	<u>-4.10%</u>

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Revenue improvements in FY2014 are largely attributable to the private customer class as noted below. In FY2014 these sectors consists primarily of residential, commercial, and hotel customers accounted for over 50% of the increase. The tables below illustrates the distribution of revenues among major customer classes:

Annual Water Revenues (Excluding System Development Charges)

<u>ClassType</u>				% Change	2014 to 2013 Comparison
	<u>FY14</u>	<u>FY13</u>	<u>FY12</u>		Increase (Decrease)
Revenue	\$ 392,105	\$ 360,534	\$ 255,061	9%	\$ 31,571
Golf Course	55,369	63,909	62,791	-13%	(8,540)
Comm	10,581,895	8,885,334	8,539,358	19%	1,696,561
Federal	19,705	10,041	9,471	96%	9,664
Government	5,435,944	5,051,300	5,025,236	8%	420,644
Hotel	9,466,265	8,037,569	8,300,464	18%	1,428,696
Irrigation	38,822	72,064	37,982	-46%	(33,242)
Residential	<u>26,362,193</u>	<u>24,908,309</u>	<u>21,234,055</u>	6%	<u>1,453,884</u>
TOTAL	\$ <u>52,352,298</u>	\$ <u>47,353,060</u>	\$ <u>43,464,418</u>	<u>11%</u>	\$ <u>4,999,238</u>

Annual WasteWater Revenues (Excluding System Development Charges)

<u>ClassType</u>				% Change	2014 to 2013 Comparison
	<u>FY14</u>	<u>FY13</u>	<u>FY12</u>		Increase (Decrease)
Comm	\$ 5,608,846	\$ 4,693,909	\$ 4,359,275	19%	\$ 914,937
Federal	4,171,820	4,141,550	3,798,233	1%	30,270
Government	2,309,397	2,131,248	2,133,228	8%	178,149
Hotel	7,548,103	6,623,338	6,136,602	14%	924,765
Residential	<u>8,427,180</u>	<u>8,386,589</u>	<u>7,777,762</u>	-%	<u>40,591</u>
TOTAL	\$ <u>28,065,346</u>	\$ <u>25,976,634</u>	\$ <u>24,205,100</u>	<u>8%</u>	\$ <u>2,088,712</u>

Operating expenses are generally driven by power, water purchases and salaries expenses. Historically these cost account for almost 2/3rd of O&M expenses. In FY2014, O&M expenses decreased in FY2014, going from \$69.6 million in FY2013 to \$67.0 million in FY2014. The table below illustrates the changes among major cost components.

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Management's Discussion and Analysis
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O & M Expenses

	<u>2014</u>	<u>2013</u>	<u>2012</u>	2014 vs 2013 Increase (Decrease)	% Change (Decrease)
Water Purchases	\$ 5,179,240	\$ 4,570,862	\$ 5,263,128	\$ 608,378	13.31%
Power Purchases	16,426,402	17,508,372	17,015,686	(1,081,970)	-6.18%
Salaries and Wages	19,175,890	20,058,840	18,891,270	(882,950)	-4.40%
Administrative and General	7,728,992	6,995,984	5,692,104	733,008	10.48%
Contractual	2,681,070	3,733,593	3,068,764	(1,052,523)	-28.19%
Retiree health care cost and other benefits	2,518,851	2,418,349	2,262,583	100,502	4.16%
Depreciation	<u>13,351,158</u>	<u>14,319,394</u>	<u>12,050,430</u>	<u>(968,236)</u>	-6.76%
TOTAL	\$ <u>67,061,603</u>	\$ <u>69,605,394</u>	\$ <u>64,243,965</u>	\$ <u>(2,543,791)</u>	-3.65%

As reported on the Statements of Net Position, the Authority's total net position decreased by \$7.9 million during the fiscal year due to decrease in unrestricted assets.

Capital Assets

The Authority had \$336 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2014. The investment in capital assets includes buildings, improvements, water treatment plants, filter plants, water transmission and distribution mains, water storage facilities, pump stations, wastewater treatment facilities, machinery and equipment, see Table below.

In the current fiscal year 2014, capital assets increased by \$13.9 million (net) or 4.3% over the prior fiscal year. The increase is consistent with the Authority's implementation of a five-year (FY 14 to FY 18) capital improvement program.

The Authority's revenue, long-term debt, and grant-in-aid are used to finance capital investments. This year's major capital additions included:

WASTE WATER

Southern District Wastewater	\$ 1,635,000
Northern District Wastewater	750,000
Central District Wastewater	843,000
Central Wastewater Moratorium Project	7,847,000
Others	<u>542,000</u>
	\$ <u>11,617,000</u>

WATER

Deep Well Rehabilitation & Rehabilitation Program	\$ 631,281
General Plant Improvements	1,412,051
Ground Water Chlorination	2,749,012
Leak Detection/Line Replacement Program	28,003
Mechanical/Electrical Equipment	1,833,466
Meter Replacement Program	3,917,947
SCADA	547,131
Tank Repair & Replacement Program	<u>9,489,033</u>
	\$ <u>20,607,925</u>

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Management's Discussion and Analysis
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Capital Assets, Net of Accumulated Depreciation

	September 30, <u>2014</u>	September 30, <u>2013</u>	September 30, <u>2012</u>	2014 to 2013 Comparison	
				Increase (Decrease)	% Change
Plant, buildings and equipment, net	\$280,801,599	\$295,207,115	\$277,527,588	\$(14,405,516)	-4.88%
Land	64,288	64,288	64,288	-	-
Construction in progress	<u>55,173,952</u>	<u>26,906,804</u>	<u>27,210,416</u>	<u>28,267,149</u>	<u>105.06%</u>
Total	<u>\$336,039,840</u>	<u>\$322,178,207</u>	<u>\$304,802,292</u>	<u>\$ 13,861,633</u>	<u>4.30%</u>

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

Debt

As of September 30, 2014, the Authority had total long-term debt outstanding of \$396.6 million, net of unamortized costs, which is an increase of \$168 million or 71.2% over the prior year. The reason for the increase in long-term debt is because of the new issued 2013 series bonds and 2014 series bonds in the aggregate amount of \$258.2 million. The 2014 series bonds of \$85.6 million were used to refund in full the 2005 series bonds.

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

Moody's Investor Services, Fitch Rating and Standard & Poor's assigned a rating of Ba1, BB and A- respectively to GWA's Water and Wastewater Revenue Bonds Series 2013. The ratings are important benchmarks of issuer's ability to meet its financial obligation. Each rating agency incorporates a rating scale indicating credit quality of the issuer. The scales are comprised of alphabetical symbols such as "AAA", "AA", "A", "BBB", "BB", "B" etc. For example, categorical ratings in the "AAA", "AA" and "A" range denote high credit quality meaning the issuer has a high capacity to meet its financial commitments whereas categorical rating in the "BBB", "BB" and "B" range denote average credit quality. The lower the number of alpha characters assigned indicates the issuer is more susceptible to adverse effects or changes in circumstances and economic conditions than those with a higher number of alpha characters.

Long-Term Debt

	September 30, <u>2014</u>	September 30, <u>2013</u>	September 30, <u>2012</u>	2014 to 2013 Comparison	
				Increase (Decrease)	% Change
2005 Bond Series	\$ -	\$ 91,148,341	\$ 93,648,492	\$(91,148,341)	-100%
2010 Bond Series	116,715,434	116,634,755	116,554,074	80,679	0.07%
2013 Bond Series	171,137,951	-	-	171,137,951	-
2014 Bond Series	91,204,534	-	-	91,204,534	-
Bank Notes	<u>17,511,563</u>	<u>20,806,970</u>	<u>23,925,764</u>	<u>(3,295,407)</u>	<u>-15.84%</u>
Total	<u>\$396,569,482</u>	<u>\$228,590,066</u>	<u>\$234,128,330</u>	<u>\$167,979,416</u>	<u>4.30%</u>

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

Looking Forward

Outlook, Challenges, and Opportunities

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

The 2011 Federal Court, the meter replacement program and other priorities previously mentioned above will continue to and remain top priorities, however management also recognizes that while these priorities have taken precedence over a PM program in the past and for obvious reasons, the need for a stepped-up PM is at its highest point especially in view of challenges encountered from the recent storm.

A major emphasis in ensuing years will be made on transitioning to a preventive maintenance (PM) approach from a reactive maintenance approach hence with the objective of evolving into a more reliable and responsible utility.

O&M expenses for the most part will be influenced by an escalated PM program. These expenses includes: (1) an increased parts inventory, critical parts and preventive maintenance parts in order to sustain a viable PM program; (2) an accelerated vehicle maintenance and replacement program in response to increased demands for working vehicles; and (3) the filling of existing vacancies to allow GWA to perform the inspection, maintenance and operational procedures set forth by the PM program.

A new financing in the amount of \$161 million is planned for FY2016 in order to implement approximately \$129 million of capital projects pursuant to GWA's 2014 – 2019 Capital Improvement Plan.

Other initiatives include funding capital expenditures through internally generated revenues to help reduce future borrowing and financing costs and continued utilization of a debt service reserve which helped GWA achieve the PUC's 1.75 times debt coverage ratio.

Discussions are ongoing with USEPA relative to secondary treatment, implementation costs and scheduling. GWA had recently submitted to USEPA a financial capability assessment which is typically the first of several things leading up to a scheduling timeline for implementation. The first of a series of request for information anticipated was received by GWA in connection with the assessment.

Request for Information

This financial report is to provide interested parties with a general overview of GWA's finances. If you have any questions about this report or need additional information, you may submit a request in writing to: Chief Financial Officer, Guam Waterworks Authority, 578 N. Marine Corp Drive, Tamuning, GU 96913, or telephone (671) 300-6860.

**GUAM WATERWORKS AUTHORITY
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Management's Discussion and Analysis
September 30, 2014 and 2013

Management's Discussion and Analysis for the years ended September 30, 2013 and 2012 is set forth in GWA's report on the audit of financial statements which is dated June 14, 2014. That Discussion and Analysis explains in more detail major factors impacting the 2013 and 2012 financial statements. A copy of that report can be obtained by contacting the CFO office at (671) 300-6860.

GUAM WATERWORKS AUTHORITY
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Statements of Net Position
September 30, 2014 and 2013

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 2,555,136	\$ 2,662,074
Restricted	21,374,773	16,984,203
Receivables, net	15,393,379	14,254,906
Materials and supplies inventory, net of an allowance for obsolescence of \$2,504,036 at September 30, 2014 and 2013	1,712,739	1,615,170
Prepaid expenses	<u>670,781</u>	<u>670,292</u>
Total current assets	<u>41,706,808</u>	<u>36,186,645</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	271,403,753	276,615,150
Wastewater system	245,042,975	244,132,312
Non-utility property	<u>18,935,114</u>	<u>19,292,743</u>
	535,381,842	540,040,205
Less accumulated depreciation	<u>(254,580,243)</u>	<u>(244,833,090)</u>
	280,801,599	295,207,115
Land	64,288	64,288
Construction work in progress	<u>55,173,953</u>	<u>26,906,804</u>
Property, plant and equipment, net	<u>336,039,840</u>	<u>322,178,207</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	193,457,407	70,632,440
Investments	<u>29,587,425</u>	<u>17,200,655</u>
Total other noncurrent assets	<u>223,044,832</u>	<u>87,833,095</u>
Total assets	<u>600,791,480</u>	<u>446,197,947</u>
Deferred outflows of resources:		
Debt defeasance loss on refunding	<u>2,468,670</u>	<u>321,057</u>
	<u>\$ 603,260,150</u>	<u>\$ 446,519,004</u>

See accompanying notes to financial statements.

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

Statements of Net Position, Continued
September 30, 2014 and 2013

<u>LIABILITIES AND NET POSITION</u>	<u>2014</u>	<u>2013</u>
Current liabilities:		
Current maturities of long-term debt:		
Revenue bonds payable	\$ 3,955,000	\$ 2,500,000
Notes payable	3,308,220	3,272,319
Accounts payable:		
United States Navy	-	676,249
Guam Power Authority	2,987,022	2,568,473
Trade	4,440,164	2,364,873
Accrued interest	4,658,506	3,036,453
Accrued payroll and employee benefits	1,177,150	1,172,065
Current portion of employee annual leave	515,874	502,367
Payable to contractors	4,785,604	11,126,554
Customer deposits	2,060,548	2,043,851
Other liabilities	62,499	572,238
Total current liabilities	<u>27,950,587</u>	<u>29,835,442</u>
Long-term debt, less current maturities:		
Revenue bonds payable	375,102,919	205,283,096
Notes payable	14,203,343	17,534,651
Employee annual leave, less current portion	802,948	843,123
DCRS sick leave liability	1,255,580	1,211,126
Advances for construction	169,299	169,228
Total liabilities	<u>419,484,676</u>	<u>254,876,666</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	180,655,378	184,944,929
Restricted	12,934,743	11,712,242
Unrestricted	<u>(9,814,647)</u>	<u>(5,014,833)</u>
Total net position	<u>183,775,474</u>	<u>191,642,338</u>
	<u>\$ 603,260,150</u>	<u>\$ 446,519,004</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water:		
Private	\$ 44,768,939	\$ 40,597,479
Government	5,130,273	4,751,252
Legislative surcharge	2,550,287	2,004,329
System development charge	791,996	650,608
	53,241,495	48,003,668
Wastewater:		
Private	21,580,831	19,700,266
Government	6,322,582	6,127,437
Legislative surcharge	161,934	148,702
System development charge	840,759	719,170
PUC surcharge	-	229
	28,906,106	26,695,804
Other	573,483	462,030
Bad debts (expense) recovery	310	(361,281)
Total operating revenues	82,721,394	74,800,221
Operating and maintenance expenses:		
Power purchases	16,426,402	17,508,372
Water purchases	5,179,240	4,570,862
Waste disposal fees	1,494,012	988,876
	23,099,654	23,068,110
Salaries, wages and benefits	19,175,890	20,058,840
Depreciation	13,351,158	14,319,394
Administrative and general	6,234,980	6,007,108
Contractual	2,681,070	3,733,593
Retiree health care costs and other benefits	2,518,851	2,418,349
	67,061,603	69,605,394
Total operating and maintenance expenses	67,061,603	69,605,394
Operating income	15,659,791	5,194,827
Nonoperating revenues (expenses):		
Allowance for funds used during construction	5,555,246	5,164,140
Interest income	22,333	19,606
Interest expense	(20,031,506)	(13,538,467)
Bonds issuance costs	(4,168,836)	-
Loss on inventory write-down	-	(2,439,360)
Loss on property, plant and equipment disposals	(5,012,135)	(2,227,090)
Federal expenditures	(2,590,195)	(1,980,709)
Others, net	(861,067)	(180,153)
	(27,086,160)	(15,182,033)
Total nonoperating revenues (expenses), net	(27,086,160)	(15,182,033)
Loss before capital contributions	(11,426,369)	(9,987,206)
Capital contributions:		
Grants from the U.S. Government	3,559,505	4,480,568
	3,559,505	4,480,568
Change in net position	(7,866,864)	(5,506,638)
Net position at beginning of year	191,642,338	197,148,976
Net position at end of year	\$ 183,775,474	\$ 191,642,338

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 80,879,036	\$ 71,995,256
Cash payments to suppliers for goods and services	(30,805,910)	(31,956,347)
Cash payments to employees for services	(19,153,019)	(19,806,515)
Cash payments for retiree healthcare costs	(2,518,851)	(2,418,349)
Net cash provided by operating activities	28,401,256	17,814,045
Cash flows from noncapital financing activities:		
Principal repayment of bank loan	(1,093,731)	(1,019,832)
Interest paid on bank loan	(119,401)	(189,419)
Other interest paid on settlement agreements	(15,080)	(10,055)
Net cash used for noncapital financing activities	(1,228,212)	(1,219,306)
Cash flows from capital and related financing activities:		
Federal grants received	1,689,891	3,151,158
Other capital contributions	(483,909)	-
Acquisition of property, plant and equipment	(33,010,630)	(29,376,959)
Proceeds from bond issuance	258,230,000	-
Principal paid on revenue bond maturities	(88,485,000)	(2,380,000)
Interest paid on revenue bonds	(16,805,678)	(11,840,694)
Principal repayment of bank loan	(2,201,676)	(2,098,962)
Interest paid on bank loan	(1,469,293)	(1,501,523)
Advances for construction	71	66
Other payments	(5,163,784)	(205,139)
Net cash provided by (used for) capital and related financing activities	112,299,992	(44,252,053)
Cash flows from investing activities:		
Net transfers from restricted funds	(139,602,307)	27,877,827
Interest income received	22,333	19,606
Net cash (used for) provided by investing activities	(139,579,974)	27,897,433
Net change in unrestricted cash and cash equivalents	(106,938)	240,119
Unrestricted cash and cash equivalents at beginning of year	2,662,074	2,421,955
Unrestricted cash and cash equivalents at end of year	\$ 2,555,136	\$ 2,662,074
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 5,555,246	\$ 5,164,140
Capitalized interest	(5,555,246)	(5,164,140)
	\$ -	\$ -
Loss on inventory write-down	\$ -	\$ 2,439,360
Noncash decrease in construction work in progress	-	(2,046,667)
Noncash net decrease in materials and supplies inventory	-	(392,693)
	\$ -	\$ -
Noncash federal expenditures	\$ 2,590,195	\$ 1,980,709
Noncash grants from U.S. Government	(2,590,195)	(1,980,709)
	\$ -	\$ -

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, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,659,791	\$ 5,194,827
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,351,158	14,319,394
Bad debts (recovery)/expense	(310)	361,281
Increase in assets:		
Accounts receivable	(1,858,745)	(3,146,339)
Materials and supplies inventory	(97,570)	(280,402)
Prepaid expenses	(489)	(561,090)
Increase (decrease) in liabilities:		
Accounts payable	1,817,591	1,261,852
Accrued payroll and employee benefits	5,085	70,579
Employee annual leave	(26,668)	20,346
Customer deposits	16,697	(19,907)
Other liabilities	(509,738)	432,104
DCRS sick leave liability	44,454	161,400
Net cash provided by operating activities	\$ 28,401,256	\$ 17,814,045

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

(1) Reporting Entity

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Net Position

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

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

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

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

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

At September 30, 2014 and 2013, restricted net position consists of the following:

	<u>2014</u>	<u>2013</u>
Island Water and Sewer Infrastructure Development Fund	\$ 6,466,443	\$ 4,875,998
Revenue Fund	5,575,605	5,341,283
Meter reserve	636,592	1,116,842
Sewer Hook-up Revolving Fund	72,662	72,475
Navy surcharge	<u>183,441</u>	<u>305,644</u>
	<u>\$ 12,934,743</u>	<u>\$ 11,712,242</u>

All of GWA's restricted net position is expendable.

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Risk Management

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

Allowance for Doubtful Receivables

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

Materials and Supplies Inventory

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

Property, Plant and Equipment

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

Noncurrent Restricted Cash and Cash Equivalents

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

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GWA has determined the loss on defeasance of the 2014 series refunding bonds qualifies for reporting in this category.

Deferred Inflows of Resources

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

Compensated Absences

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

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

Revenue Recognition

Customer water meters are read on a cyclical basis throughout a monthly period based on the route schedules of GWA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$26.61 per month for residential accounts and 80% of current water consumption for commercial and government accounts. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2014 and 2013 are \$2,968,184 and \$2,189,562, respectively, and are included as receivables in the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

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

Investments

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

Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2014 and 2013, interest of \$5,555,246 and \$5,164,140, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2014 and 2013, labor costs of \$1,961,373 and \$1,095,619, respectively, were capitalized.

Operating and Non-Operating Revenue and Expenses

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

Grants and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions as defined by GASB Statement No. 33. Approved capital grants not yet received approximated \$1,264,254 and \$322,447 at September 30, 2014 and 2013, 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
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Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2014, GWA implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of GWA and will require restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that GWA will record upon implementation of Statement 68 is \$39,302,920.

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

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

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

Notes to Financial Statements
September 30, 2014 and 2013

(3) Cash and Cash Equivalents and Investments

The bond indenture agreements for the 2010, 2013 and 2014 series revenue bonds require the establishment of special funds to be held and administered by trustees and by GWA. In addition, proceeds from borrowings to fund capital improvements are maintained by GWA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used to fund capital improvements.

At September 30, 2014 and 2013, investments and cash held by trustees and by GWA in these special funds and accounts are as follows:

	2014						Total
	Held By Trustee			Held By GWA			
	2010 Bond Indenture Funds	2013 Bond Indenture Funds	2014 Bond Indenture Funds	2010 Bond Indenture Funds	2013 Bond Indenture Funds	2014 Bond Indenture Funds	
Current restricted cash:							
Revenue Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,575,605	\$ 5,575,605
Capital Improvement Fund	-	-	-	-	-	3,835,075	3,835,075
Operations and Maintenance Fund	-	-	-	-	-	3,083,481	3,083,481
Noncurrent restricted cash:							
Operations, Maintenance, Renewal, and Replacement	-	-	-	-	-	14,753,392	14,753,392
Revenue Fund							
Capitalized Interest Fund	1,892,850	-	-	-	11,665,718	-	13,558,568
Construction Fund	-	-	-	26,766,505	139,110,451	1,161,340	167,038,296
Investments:							
Bond Reserve Fund	-	-	7,707,602	-	-	-	7,707,602
Debt Service Fund	<u>7,566,460</u>	<u>12,031,688</u>	<u>388,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,986,973</u>
	<u>\$ 9,459,310</u>	<u>\$ 12,031,688</u>	<u>\$ 8,096,427</u>	<u>\$ 26,766,505</u>	<u>\$ 150,776,169</u>	<u>\$ 28,408,893</u>	<u>\$ 235,538,992</u>

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2014 and 2013

(3) Cash and Cash Equivalents and Investments, Continued

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

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

A. Cash and Cash Equivalents

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

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2014 and 2013

(3) Cash and Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

As of September 30, 2014 and 2013, the carrying amount of GWA's total cash and cash equivalents was \$217,387,316 and \$90,278,717, respectively, and the corresponding bank balances were \$218,424,173 and \$92,138,195, respectively. Of the bank balance amount, \$11,390,125 and \$11,469,756, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$207,034,048 and \$80,668,439, 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, 2014 and 2013, bank deposits in the amount of \$686,482 and \$848,256, 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, 2014 and 2013, \$14,703,643 and \$10,621,500, 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>2014</u>	<u>2013</u>
Current restricted:		
Capital projects	\$ 164,004	\$ 163,899
Operation and maintenance	6,100	6,094
Navy surcharge	183,441	305,644
Meter reserve	636,592	1,116,842
Sewer Hook-up Revolving Fund	72,662	72,475
Revenue Fund	5,575,605	5,341,283
Capital Improvement Fund	3,835,075	755,844
Operations and Maintenance Fund	3,083,481	2,841,896
Debt Service Fund	1,342,062	1,204,473
Moratorium project	9,308	299,755
Island Water and Sewer Infrastructure Development Fund	<u>6,466,443</u>	<u>4,875,998</u>
	<u>21,374,773</u>	<u>16,984,203</u>
Noncurrent restricted:		
2005 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	14,753,392	14,753,392
Construction Fund	1,161,340	1,845,777
2010 Bond Indenture Funds:		
Construction Fund	26,766,505	52,400,952
Capitalized Interest Fund	-	1,632,319
2013 Bond Indenture Funds:		
Construction Fund	139,110,451	-
Capitalized Interest Fund	<u>11,665,718</u>	<u>-</u>
	<u>193,457,407</u>	<u>70,632,440</u>
Total restricted cash and cash equivalents	<u>\$ 214,832,180</u>	<u>\$ 87,616,643</u>

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2014 and 2013

(3) Cash and Cash Equivalents and Investments, Continued

B. Investments

As of September 30, 2014 and 2013, GWA's investment in debt securities had the following maturities:

	2014		
	Investment Maturities (in years)		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>29,587,425</u>	\$ <u>29,587,425</u>	\$ <u>-</u>
	2013		
	Investment Maturities (in years)		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
U.S. Treasury and Governmental agency obligations	\$ <u>17,200,655</u>	\$ <u>17,200,655</u>	\$ <u>-</u>

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

GWA's exposure to credit risk at September 30, 2014 and 2013 is as follows:

	2014		
<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>29,587,425</u>	\$ <u>29,587,425</u>	\$ <u>-</u>
	2013		
<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ <u>17,200,655</u>	\$ <u>17,200,655</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, 2014 and 2013.

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(3) Cash and Cash Equivalents and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GWA. As of September 30, 2014 and 2013, GWA has no investment representing five percent (5%) or more of total investments.

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

(4) Property, Plant and Equipment

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

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

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(4) Property, Plant and Equipment, Continued

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

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

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

(5) Receivables

Receivables at September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Customers:		
Private	\$ 19,521,128	\$ 17,542,298
Government	<u>2,855,237</u>	<u>3,298,031</u>
	22,376,365	20,840,329
Federal grants receivable	2,000	724,581
Guam Power Authority	1,544,169	1,538,306
Other	<u>758,817</u>	<u>439,662</u>
	<u>24,681,351</u>	<u>23,542,878</u>
Less allowance for doubtful receivables:		
Private	(8,449,380)	(8,449,380)
Government	<u>(838,592)</u>	<u>(838,592)</u>
	<u>(9,287,972)</u>	<u>(9,287,972)</u>
	<u>\$ 15,393,379</u>	<u>\$ 14,254,906</u>

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

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

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(6) Long-Term Debt

Long-term debt at September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
<u>Revenue Bonds:</u>		
2005 Series revenue bonds, initial face value of \$101,175,000, interest at varying rates from 5.000% to 5.875% per annum, payable semi-annually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,865,000 in July 2008, increasing to \$6,810,000 in July 2035. Refunded through bond Series 2014 in August 2014.	\$ -	\$ 88,485,000
2010 Series revenue bonds, initial face value of \$118,825,000, interest at varying rates from 4.000% to 5.625% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,055,000 in July 2015, increasing to \$14,460,000 in July 2040.	118,825,000	118,825,000
2013 Series revenue bonds, initial face value of \$172,630,000, interest at varying rates from 5.000% to 5.500% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,695,000 in July 2020, increasing to \$25,880,000 in July 2043.	172,630,000	-
2014 Series refunding bonds, initial face value of \$85,600,000, interest at varying rates from 5.000% to 6.000% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,900,000 in July 2015, maturity date in July 2035.	<u>85,600,000</u>	<u>-</u>
Total revenue bonds payable	377,055,000	207,310,000
Less current maturities	<u>(3,955,000)</u>	<u>(2,500,000)</u>
	373,100,000	204,810,000
Bond premium – 2014 series bonds, net	5,604,534	-
Bond discount – 2013 series bonds	(1,492,049)	-
Bond discount – 2010 series bonds	(2,109,566)	(2,190,245)
Bond premium – 2005 series bonds	<u>-</u>	<u>2,663,341</u>
	<u>\$ 375,102,919</u>	<u>\$ 205,283,096</u>

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September 30, 2014 and 2013

(6) Long-Term Debt, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,955,000	\$ 19,347,512	\$ 23,302,512
2016	4,910,000	19,648,317	24,558,317
2017	5,040,000	19,522,301	24,562,301
2018	5,200,000	19,366,797	24,566,797
2019	5,420,000	19,182,802	24,602,802
2020 through 2024	38,525,000	87,825,456	126,350,456
2025 through 2029	57,265,000	77,755,956	135,020,956
2030 through 2034	73,700,000	63,151,519	136,851,519
2035 through 2039	87,355,000	45,353,975	132,708,975
2040 through 2043	<u>95,685,000</u>	<u>20,685,838</u>	<u>116,370,838</u>
	<u>\$ 377,055,000</u>	<u>\$ 391,840,473</u>	<u>\$ 768,895,473</u>

Notes Payable:

	<u>2014</u>	<u>2013</u>
Note payable to a bank in the original amount of \$25,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$300,027 through June 2015; refinanced principal balance of \$14,856,080, interest at 5.25% per annum, due in monthly installments of principal and interest of \$285,000 through June 2020.	\$ 16,637,110	\$ 18,838,786
Note payable to a bank in the original amount of \$5,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$100,785 through June 2015.	<u>874,453</u>	<u>1,968,184</u>
Total notes payable	17,511,563	20,806,970
Less current maturities	<u>(3,308,220)</u>	<u>(3,272,319)</u>
	<u>\$ 14,203,343</u>	<u>\$ 17,534,651</u>

As of September 30, 2014, annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,308,220	\$ 231,087	\$ 3,539,307
2016	2,737,921	682,079	3,420,000
2017	2,887,103	532,897	3,420,000
2018	3,042,376	377,624	3,420,000
2019	3,206,001	213,999	3,420,000
Thereafter	<u>2,329,942</u>	<u>48,018</u>	<u>2,377,960</u>
	<u>\$ 17,511,563</u>	<u>\$ 2,085,704</u>	<u>\$ 19,597,267</u>

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Notes to Financial Statements
September 30, 2014 and 2013

(6) Long-Term Debt, Continued

2005 Series Revenue Bonds

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

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

Total bond proceeds from the 2005 series bonds were \$104,779,522, including a bond premium of \$3,604,522 while GWA incurred closing costs totaling \$3,128,108. The bond premium was being deferred and amortized on a straight line basis over the average remaining life of the 2005 bond. On August 7, 2014, the Authority issued 2014 series bonds to refund the outstanding 2005 revenue series bonds.

2010 Series Revenue Bonds

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

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

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

All gross revenues, except System Development Charge (SDC) revenues, of GWA have been pledged to repay the 2010 series bonds principal and interest. The debt service for the 2010 series bonds was \$6,516,400 for each of the years ended September 30, 2014 and 2013 or approximately 9% and 10%, respectively, of pledged gross revenues.

2013 Series Revenue Bonds

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

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Notes to Financial Statements
September 30, 2014 and 2013

(6) Long-Term Debt, Continued

2013 Series Revenue Bonds, Continued

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

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

The debt service for the 2013 series bonds was \$5,158,349 for the year ended September 30, 2014 or approximately 9% of pledged gross revenues.

2014 Series Refunding Bonds

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

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

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

The debt service for the 2014 series bonds will commence on January 1, 2015.

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(6) Long-Term Debt, Continued

Bank Loans

On June 15, 2010, GWA entered into a \$30 million bank loan for the purpose of: (a) funding a portion of the cost of a moratorium project, (b) funding the Operation, Maintenance, Renewal and Replacement Reserve Fund and Operations and Maintenance Fund as defined in the bond indenture agreements for the 2005 series revenue bonds, and (c) payments of accounts payable and other purposes. The loan is guaranteed by the Government of Guam and is entitled to the full faith and credit of the Government of Guam. Pursuant to the loan, GWA pledged all revenues but subject first, to a consent decree, and second, to the prior pledge and lien and other provisions of the bond indenture agreements for the 2005 series revenue bonds refunded through 2014 series revenue bonds in 2014.

Changes in Long-Term Liabilities:

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2014 and 2013:

	Outstanding October 1, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2014</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ -	\$ 118,825,000	\$ 1,055,000
2013 series A bonds	-	172,630,000	-	172,630,000	-
2014 series A and B bonds	-	85,600,000	-	85,600,000	2,900,000
2005 series A bonds	88,485,000	-	(88,485,000)	-	-
Notes payable	20,806,970	-	(3,295,407)	17,511,563	3,308,220
Deferred amount:					
Unamortized premium on 2005 bonds issued	2,663,341	-	(2,663,341)	-	-
Unamortized discount on 2010 bonds issued	(2,190,245)	-	80,679	(2,109,566)	-
Unamortized discount on 2013 bonds issued	-	(1,492,049)	-	(1,492,049)	-
Unamortized premium on 2014 bonds issued	-	5,619,665	-	5,619,665	-
Unamortized discount on 2014 bonds issued	-	(15,131)	-	(15,131)	-
	228,590,066	262,342,485	(94,363,069)	396,569,482	7,263,220
Other:					
Employee annual leave	1,345,490	820,642	(847,310)	1,318,822	515,874
DCRS sick leave liability	1,211,126	44,454	-	1,255,580	-
Advances for construction	169,228	71	-	169,299	-
	<u>\$ 231,315,910</u>	<u>\$ 263,207,652</u>	<u>\$ (95,210,379)</u>	<u>\$ 399,313,183</u>	<u>\$ 7,779,094</u>

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

Changes in Long-Term Liabilities, Continued

	Outstanding October 1, <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2013</u>	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 118,825,000	\$ -	\$ -	\$ 118,825,000	\$ -
2005 series A bonds	90,865,000	-	(2,380,000)	88,485,000	2,500,000
Notes payable	23,925,764	-	(3,118,794)	20,806,970	3,272,319
Deferred amount:					
Unamortized premium on 2005 bonds issued	2,783,492	-	(120,151)	2,663,341	-
Unamortized discount on 2010 bonds issued	<u>(2,270,926)</u>	<u>-</u>	<u>80,681</u>	<u>(2,190,245)</u>	<u>-</u>
	234,128,330	-	(5,538,264)	228,590,066	5,772,319
Other:					
Employee annual leave	1,325,144	822,045	(801,699)	1,345,490	502,367
DCRS sick leave liability	1,049,726	161,400	-	1,211,126	-
Advances for construction	<u>169,162</u>	<u>66</u>	<u>-</u>	<u>169,228</u>	<u>-</u>
	<u>\$ 236,672,362</u>	<u>\$ 983,511</u>	<u>\$ (6,339,963)</u>	<u>\$ 231,315,910</u>	<u>\$ 6,274,686</u>

(7) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

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

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

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(7) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2012, 2011, and 2010, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2014, 2013 and 2012, respectively, have been determined as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal costs (% of DB Plan payroll)	16.61%	17.52%	17.07%
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>7.11%</u>	<u>8.02%</u>	<u>7.57%</u>
Employer portion of normal costs (% of total payroll)	2.39%	3.00%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.01%</u>	<u>24.33%</u>	<u>23.75%</u>
Government contribution as a % of total payroll	<u>26.40%</u>	<u>27.33%</u>	<u>26.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.03%</u>	<u>30.09%</u>	<u>28.30%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GWA's contributions to the DB Plan for the years ending September 30, 2014, 2013 and 2012 were \$1,191,600, \$1,274,361 and \$1,251,402, 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, 2014 and 2013 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

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(7) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

GWA's contributions to the DCRS Plan for the years ended September 30, 2014, 2013 and 2012 were \$2,495,968, \$2,374,906 and \$2,345,226, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GWA has accrued an estimated liability of \$1,255,580 and \$1,211,126 at September 30, 2014 and 2013, 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.

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.

Other Post Employment Benefits

For the years ended September 30, 2014, 2013 and 2012, GWA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Supplemental benefits	\$ 300,000	\$ 455,675	\$ 461,313
Contribution to GovGuam (COLA payments)	523,800	320,100	304,700
Medical and dental	<u>1,695,051</u>	<u>1,642,574</u>	<u>1,496,570</u>
	<u>\$ 2,518,851</u>	<u>\$ 2,418,349</u>	<u>\$ 2,262,583</u>

(8) Real Estate Property Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate property under GWA's administration. As of September 30, 2014 and 2013, the property has not been recognized in the financial statements pending completion of formal transfer proceedings.

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(9) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the U.S. Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2014 and 2013 are \$5,179,240 and \$4,570,862, respectively.

(10) Commitments and Contingencies

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GWA did not calculate or pay any bonuses pursuant to the law from 1991 through 2012. As of September 30, 2014, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2013. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Claims

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

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$21,082,176 at September 30, 2014, of which \$1,264,254 will be funded by federal contracts from the U.S. Government.

Program Management Office Services

On February 6, 2012, GWA entered into a contract for Program Management Office (PMO) services to provide a wide variety of as needed program management services and general staff assistance for the development of required utility infrastructure improvements. The PMO provides GWA with additional resources to address the deadlines defined in the November 10, 2011 court order and supports GWA staff in executing 2010 and 2013 Series Bond funded projects, military buildup, and other related tasks. The PMO contract is for a five-year period with an option to extend for two two-year periods. Contract commitments for the PMO services approximate \$2,722,426 as of September 30, 2014.

Operating Lease

In January 2012, GWA entered into a three year office space lease with a monthly rental of \$13,655 expiring in January 2015. Future minimum lease payments in 2015 total \$47,792.

Rent expense under this agreement totaled \$163,860 during the years ended September 30, 2014 and 2013.

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(10) Commitments and Contingencies, Continued

Operating Lease, Continued

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

Medicare

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

Single Audit Questioned Costs

GWA undergoes annual compliance audits to satisfy federal grantor requirements. Cumulative questioned costs of \$330,931 exist from these audits as of September 30, 2014. The questioned costs will be resolved by the applicable grantor and due to GWA's inability to predict the ultimate outcome of this matter, no provision for any liability, if any, that may result from this matter has been made in the accompanying financial statements.

Court Order

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

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

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(10) Commitments and Contingencies, Continued

Court Order, Continued

In 2006, the Court Order was amended which required GWA to perform approximately \$220 million worth of capital improvement projects and perform other actions to bring GWA's system into compliance. However, GWA was unable to meet all deadlines set out in the amended Court Order. The District Court ordered the parties to stipulate as to scope of remaining projects and project completion dates; however, the parties were unable to reach an agreement on all items. As a result, on November 10, 2011, the District Court issued an order setting new deadlines for the unfinished projects and establishing new projects that were not part of the amended Court Order. As of September 30, 2014, the financial impact of the order has not been fully known and has been estimated to cost approximately \$450 million to \$500 million, including financing costs.

Primary Treatment Permits

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

(11) Other Matters

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

(12) Contributions Received

Contributions received by GWA during the years ended September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Grants from U.S. Government:		
Received from the USEPA	\$ 3,130,105	\$ 2,528,785
Passed through from the Government of Guam	<u>429,400</u>	<u>1,951,783</u>
	\$ <u>3,559,505</u>	\$ <u>4,480,568</u>

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(13) Supplemental/COLA Annuities

As required by Public Law 26-49, as amended by Public Law 27-106, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2014 and 2013, GWA levied surcharges of \$2,712,221 and \$2,153,031, respectively, in accordance with this legislation. The supplemental benefits are derived from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(14) PUC Surcharge

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

On May 9, 2002, the Guam Legislature passed Public Law 26-81, which established a one-year moratorium on the 11.5% surcharge, wherein GWA was prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order for GWA to pay its debt to GPA, the law appropriated \$2.75 million to GWA from a bond re-financing. In May 2003, the one year moratorium expired and proceeds from the renewed surcharge of 9.60% have gone toward GWA's obligation to GPA and, effective October 2003, also to the obligation to the U.S. Navy. Effective October 1, 2011, the surcharge was reduced to 2%. In July 2012, the surcharge was discontinued since the obligations to GPA and the U.S. Navy were paid in full. During the years ended September 30, 2014 and 2013, revenues from the surcharge were \$0 and \$229, respectively.

In addition, proceeds from a legislative surcharge of 3.9% and 5.6% for fiscal years 2014 and 2013, respectively, are earmarked to pay benefits for GWA's supplemental annuity for retirees.

During the years ended September 30, 2014 and 2013, revenues from the legislative surcharge were \$2,712,221 and \$2,153,031, respectively.

(15) System Development Charge

On January 29, 2010, PUC approved the implementation of a water and sewer SDC which authorized GWA to charge water and wastewater SDC to applicable customers on and after March 2, 2010. SDC revenues generated and collected are to be expended for costs associated with the construction, expansion, upgrade, and repair of water and wastewater facilities for users who are for the first time connecting property into the Guam water or wastewater system or for builders if the density of the existing connection is increased. SDC revenues may also be used to pay the principal sum and interest and other finance costs on bonds, notes or other obligations issued by or on behalf of GWA to finance such capital improvements or facilities expansion or renovations. During the years ended September 30, 2014 and 2013, SDC revenues were \$1,632,755 and \$1,369,778, respectively.

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(16) Related Party Transactions

GWA receives electrical and administrative services from GPA, a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2014 and 2013 were \$16,426,402 and \$17,508,372, respectively, and GWA was also charged \$764,950 and \$212,731, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$2,987,022 and \$2,568,473 as of September 30, 2014 and 2013, respectively.

For the years ended September 30, 2014 and 2013, GWA billed GPA a total of \$1,255,765 and \$1,244,392, respectively, for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2014 and 2013 were \$1,544,169 and \$1,293,557, respectively, which is included in receivables in the accompanying statements of net position.

GWA receives waste disposal services from Guam Solid Waste Authority (GSWA). Waste disposal fees for the years ended September 30, 2014 and 2013 were \$1,494,012 and \$988,876, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$390,720 and \$267,742 as of September 2014 and 2013, respectively, and were included in trade accounts payable in the accompanying statements of net position.

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Schedule 1
Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension

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

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

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule 2
Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 13,180,236	\$ 13,701,320
Pension costs and other benefits	4,964,306	5,130,117
Overtime pay	1,031,348	1,227,403
Total salaries, wages and benefits	<u>\$ 19,175,890</u>	<u>\$ 20,058,840</u>
Administrative and general:		
Chemicals	\$ 1,685,261	\$ 1,383,500
Materials and supplies	1,331,986	1,225,417
Insurance	1,257,144	1,259,930
Transportation	697,226	702,831
Public Utility Commission	311,131	397,205
Communications	182,792	183,629
Training	170,845	127,209
Advertising	88,561	110,517
Liability claims	51,626	85,812
Miscellaneous	458,408	531,058
Total administrative and general	<u>\$ 6,234,980</u>	<u>\$ 6,007,108</u>
Contractual:		
Labor, materials and others	\$ 1,655,557	\$ 1,311,272
Equipment rental	337,293	431,154
PMC management	289,690	1,138,425
Property rental	163,861	163,861
Testing	150,644	231,626
Accounting	83,611	441,858
Legal	414	15,397
Total contractual	<u>\$ 2,681,070</u>	<u>\$ 3,733,593</u>
Other expense:		
Interest expense	\$ 20,031,506	\$ 13,538,467
Retiree healthcare costs and other benefits	2,518,851	2,418,349
	<u>\$ 22,550,357</u>	<u>\$ 15,956,816</u>

See accompanying independent auditors' report.

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Schedule 3
Schedule of Construction Work in Progress
Year Ended September 30, 2014

Project Title	Type	Beginning Balance 2013	Additions and Transfers	Closed out during FY2014	Ending Balance 2014
Baza Gardens Treatment Plant	Wastewater	\$ 711,529	\$ 23,786	\$ (23,786)	\$ 711,529
Barrigada Tank Replacement and Refurbishment	Water	6,684,148	3,120,589	(672,414)	9,132,323
Bio Solids Management Plan	Water	136,505	-	(136,505)	-
Central Wastewater Moratorium Project	Wastewater	3,938,595	7,847,427	-	11,786,022
Chaot and Agana Heights Reservoirs	Water	633,732	2,647,094	-	3,280,826
Distribution Line Replacement	Water	440,268	(372,892)	(67,376)	-
General Plant Improvements	Water/Wastewater	1,366,795	144,104	(142,959)	1,367,940
Ground Water Chlorination	Water	19,949	-	-	19,949
Groundwater Under the Direct Influence (GWUDI) Project	Water	246,323	67,693	(280,075)	33,941
Hagatna Wastewater Treatment Plant	Wastewater	540,163	46,277	-	586,440
Island-Wide Real Property Survey and Mapping	Water	530,015	92,897	-	622,912
Leak Detection/Line Replacement Program	Water	20,166	456,858	(455,904)	21,120
Leak Repair Program	Water	25,058	893	-	25,951
Mechanical/Electrical Equipment	Water	-	155,706	-	155,706
Meter Replacement Program	Water	1,011,544	3,000,052	(693,695)	3,317,901
Northern District Wastewater Treatment Interim Primary Treatment Improvements Project	Wastewater	504,996	1,716,870	(468,721)	1,753,145
Ordot/Chalan Pago 2B	Wastewater	622,341	-	-	622,341
Program Management for CWIP Projects	Water/Wastewater	1,433,286	2,268,272	-	3,701,558
SCADA Project	Water	911,441	515,519	-	1,426,960
Sinajana Transmission Line	Water	79,265	-	-	79,265
Southern Sewer Basin SSES	Wastewater	884,952	107,345	-	992,297
Ugum Treatment Plant Rehabilitation	Water	-	198,205	-	198,205
Wastewater System Upgrades	Wastewater	200,970	21,385	-	222,355
Water Reservoir Condition Assessment and Rehabilitation	Water	1,999,800	455,918	-	2,455,718
Well Site Rehabilitation and New Well Site Development	Water	1,858,513	73,303	-	1,931,816
All Others	Water/Wastewater	2,106,450	9,637,624	(1,016,342)	10,727,732
		<u>\$ 26,906,804</u>	<u>\$ 32,224,925</u>	<u>\$ (3,957,776)</u>	<u>\$ 55,173,953</u>

See accompanying independent auditors' report.

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Schedule 4
System Development Charge Fund
Schedule of Net Position, Revenue, Expenses and Changes in Net Position
September 30, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Restricted cash	\$ 6,466,443	\$ 4,875,998
Receivables	141,168	82,588
	\$ 6,607,611	\$ 4,958,586

LIABILITIES AND NET POSITION

Current liabilities:		
Due to GWA	\$ 8,242	\$ 6,124
Net position:		
Restricted	6,599,369	4,952,462
	\$ 6,607,611	\$ 4,958,586

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues:		
System development charge	\$ 1,632,755	\$ 1,369,778
Other revenues	14,152	15,276
	1,646,907	1,385,054
Expenses:		
Miscellaneous	-	3,866
	1,646,907	1,381,188
Change in net position	1,646,907	1,381,188
Net position at beginning of year	4,952,462	3,571,274
Net position at end of year	\$ 6,599,369	\$ 4,952,462

See accompanying independent auditors' report.

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Schedule 5
Schedule of Operating Revenues
Years Ended September 30, 2014 and 2013

	2014	2013
Water	\$ 49,899,212	\$ 45,348,731
Wastewater	27,903,413	25,827,703
Surcharges:		
Legislative	2,712,221	2,153,031
PUC	-	229
System development charge	1,632,755	1,369,778
Other	573,483	462,030
Bad debts (expense) recovery	310	(361,281)
Total operating revenues	\$ 82,721,394	\$ 74,800,221

See accompanying independent auditors' report.

GUAM WATERWORKS AUTHORITY
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Schedule 6
Schedule of Employee and Other Data
Years Ended September 30, 2014 and 2013

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

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

See accompanying independent auditors' report.