

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND
(A GOVERNMENTAL FUND OF THE
GOVERNMENT OF GUAM)**

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

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited the accompanying balance sheets of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the Funds), as of September 30, 2011 and 2010, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the Government of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Solid Waste Operations Fund and those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

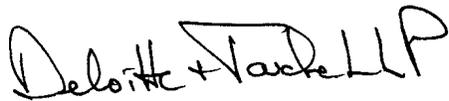
In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, as of September 30, 2011 and 2010, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Government of Guam adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental fund Type Definitions*.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Government of Guam's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the Funds' 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supplementary information on pages 21 to 23 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Government of Guam's management. Such additional information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

November 28, 2012

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis
September 30, 2011 and 2010

Our discussion and analysis of the Government of Guam ("GovGuam") Solid Waste Operations Fund ("GGSWOF") financial performance provides an overview of the GGSWOF's financial activities for the fiscal years ended September 30, 2011 and 2010. Please read it in conjunction with the GGSWOF's financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2010, total fund balance decreased by \$48,329,147 (or 25.8%) from a fund balance of \$187,561,236 in 2009 to a fund balance of \$139,232,089 in 2010. For the fiscal year ended September 30, 2011, total fund balance decreased by \$31,706,888 (or 22.8%) from a fund balance of \$139,232,089 in 2010 to a fund balance of \$107,525,201 in 2011.
- During the years ended September 30, 2011 and 2010, total combined expenditures for governmental fund operations were \$49,991,379 and \$59,071,610, respectively, including expenditures recorded or payments relating to capital projects of \$31,179,078 and \$41,631,599, respectively; debt service requirements of \$11,197,456 and \$10,668,687, respectively; and receiver fee expenditures of \$2,811,271 and \$2,805,902, respectively. These expenditures were funded, in part, by the generation of tipping fees revenues during the years ended September 30, 2011 and 2010 of \$13,855,171 and \$9,031,645, respectively; investment earnings of \$866,471 and \$1,710,818, respectively; and a transfer from GovGuam's General Fund during the year ended September 30, 2011 of \$3,562,849 for debt service.
- Total combined expenditures decreased by \$9,080,231 (or 15.4%) from 2010 to 2011 due primarily to a reduction in capital project expenditures associated with the construction of the Layon landfill, which opened on September 1, 2011. Total combined revenues increased by \$7,542,028 (or 70.2%) from 2010 to 2011 due primarily to an increase in tipping fees revenues of \$4,823,526 (or 53.4%) and a transfers in from GovGuam's General Fund of \$3,562,849.
- During the years ended September 30, 2011 and 2010, the Solid Waste Operations Fund generated operating surpluses of \$5,305,251 and \$5,067,505, respectively. Tipping fees revenues recorded by the Solid Waste Operations Fund were \$13,855,171 in 2011, an increase of \$4,823,526 (or 53.4%) compared to the previous year due to incremental increases in tipping and associated fee rates. Expenditures recorded by the Solid Waste Operations Fund were \$4,803,574 in 2011, an increase of \$838,152 (or 21.1%) compared to the previous year due primarily to an increase in repairs and maintenance costs of \$258,437 and an increase in rental costs of \$274,080.
- During the years ended September 30, 2011 and 2010, receiver fees paid to Gershman, Brickner & Bratton (the Receiver) were \$2,811,271 and \$2,805,902, respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2011 total \$9,732,208.

2. Overview of the Financial Statements

The GGSWOF's financial statements include all of the activities of the Solid Waste Operations Fund and funds related to the Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds"). The financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balance. The assets, liabilities and fund balances of the Funds are reported in self-balancing funds.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis
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GGSWOF's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The GGSWOF financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measureable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

The notes to the financial statements include additional information needed to provide a further understanding of the basic financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on GGSWOF's assets, liabilities and fund balance at year-end. A condensed summary of GGSWOF's balance sheet is shown below as of September 30, 2011, 2010 and 2009. GGSWOF 2009 balances were extracted from the GovGuam September 30, 2009 audited financial statements. GGSWOF 2009 balances were not separately audited and thus are presented as "unaudited".

	<u>2011</u>	<u>2010</u>	<u>Unaudited 2009</u>
Assets:			
Cash and cash equivalents	\$ 5,677,761	\$ 2,471,152	\$ 545,316
Receivables	3,614,602	2,188,698	1,645,886
Interfund balances	3,695,344	-	-
Due from General Fund	1,896,357	2,224,303	-
Restricted assets	<u>107,544,719</u>	<u>142,286,301</u>	<u>188,668,625</u>
Total Assets	\$ <u>122,428,783</u>	\$ <u>149,494,115</u>	\$ <u>190,859,827</u>
Liabilities:			
Contracts payable	\$ 1,204,942	\$ 7,064,507	\$ -
Retention payable	1,742,497	2,567,890	-
Interfund balances	3,695,344	-	-
Due to General Fund	6,036,440	-	1,372,572
Other liabilities	<u>2,224,359</u>	<u>629,629</u>	<u>1,926,019</u>
Total Liabilities	<u>14,903,582</u>	<u>10,262,026</u>	<u>3,298,591</u>
Fund Balances	<u>107,525,201</u>	<u>139,232,089</u>	<u>187,561,236</u>
Total Liabilities and Fund Balances	\$ <u>122,428,783</u>	\$ <u>149,494,115</u>	\$ <u>190,859,827</u>

**GOVERNMENT OF GUAM
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Management's Discussion and Analysis
September 30, 2011 and 2010

Total assets decreased by \$41,365,712 (or 21.7%) during 2010 from \$190,859,827 to \$149,494,115, and further decreased by \$27,065,332 (or 18.1%) during 2011 from \$149,494,115 to \$122,428,783. These decreases were primarily the result of a decrease in restricted asset amounts held in trust associated with the construction of the Layon landfill and other Consent Decree projects. On the other hand, total liabilities increased by \$6,963,435 (or 211%) during 2010 from \$3,298,591 to \$10,262,026, and further increased by \$4,641,556 (or 45.2%) during 2011 from \$10,262,026 to \$14,903,582. These increases were primarily the result of an increase in construction contract liabilities and other payables associated with the construction of the new Layon landfill and other Consent Decree projects.

Total fund balances decreased by \$48,329,147 (or 25.8%) during 2010 from \$187,561,236 to \$139,232,089, and further decreased by \$31,706,888 (or 22.8%) during 2011 from \$139,232,089 to \$107,525,201. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation (Section 30) Bond issue wherein these funds are restricted for Consent Decree projects. As of September 30, 2011 and 2010, fund balances are restricted in the amounts of \$97,335,041 and \$135,271,973, respectively.

Statement of Revenues, Expenses and Changes in Fund Balances

The Statement of Revenues, Expenses and Changes in Fund Balance show the effect of revenues and expenditures on GGSWOF's fund balance for the year. GGSWOF's statements of revenues, expenses and changes in fund balances for the years ended September 30, 2011, 2010 and 2009 are summarized as follows. GGSWOF 2009 balances were extracted from the GovGuam September 30, 2009 audited financial statements. GGSWOF 2009 balances were not separately audited and thus are presented as "unaudited".

	<u>2011</u>	<u>2010</u>	<u>Unaudited 2009</u>
Revenues:			
Tipping fees	\$ 13,855,171	\$ 9,031,645	\$ 4,201,754
Investment earnings	866,471	1,710,818	579,334
Transfer from General Fund	<u>3,562,849</u>	<u>-</u>	<u>-</u>
	<u>18,284,491</u>	<u>10,742,463</u>	<u>4,781,088</u>
Expenditures:			
Current:			
General government	3,225,904	2,940,667	2,583,664
Environmental protection	4,388,941	3,830,657	4,476,907
Other	-	-	830,692
Capital projects	31,179,078	41,631,599	-
Debt service	<u>11,197,456</u>	<u>10,668,687</u>	<u>-</u>
	<u>49,991,379</u>	<u>59,071,610</u>	<u>7,891,263</u>
Other Financing Sources (Uses):			
Bond proceeds	-	-	202,425,000
Discount	<u>-</u>	<u>-</u>	<u>(5,643,004)</u>
	<u>-</u>	<u>-</u>	<u>196,781,996</u>
Net Change in Fund Balances	\$ <u>(31,706,888)</u>	\$ <u>(48,329,147)</u>	\$ <u>193,671,821</u>

**GOVERNMENT OF GUAM
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Management's Discussion and Analysis
September 30, 2011 and 2010

In 2009, GovGuam issued Limited Obligation (Section 30) Bonds for the purpose of constructing a new landfill, closure of Ordot Dump, prepaying a bank loan and funding capitalized interest. As a result, net bond proceeds amounted to \$196,781,996.

Total revenues increased by \$5,961,375 (or 124%) from \$4,781,088 for 2009 to \$10,742,463 for 2010, and further increased by \$7,542,028 (or 70.2%) from \$10,742,463 for 2010 to \$18,284,491 for 2011. These increases were primarily the result of incremental increases in tipping and associated fee rates as follows: (1) for Commercial haulers (per ton) - \$128 from October 1, 2009 to June 30, 2010; \$156 from July 1, 2010 to June 30, 2011; and \$171 from July 1, 2011 to September 30, 2011; and (2) for Residential customers (per month) - \$10 from October 1, 2009 to June 30, 2010; \$17 from July 1, 2010 to December 31, 2010; \$24 from January 1, 2011 to June 30, 2011; and \$30 from July 1, 2011 through September 30, 2011. In addition, GovGuam funded a portion of the 2011 debt service through a transfer in from the General Fund of \$3,562,849 during the year ended September 30, 2011.

Total expenditures increased by \$51,180,347 (or 648%) from \$7,891,263 for 2009 to \$59,071,610 for 2010, and decreased by \$9,080,231 (or 15.4%) from \$59,071,610 for 2010 to \$49,991,379 for 2011. The increase in 2010 was the result of commencement of construction activities on the new Layon landfill and related Consent Decree projects as well as debt service on the Section 30 bond, which commenced on December 1, 2009. Construction activities continued in 2011 resulting in the closure of Ordot Dump on August 31, 2011 and the opening of the new Layon landfill on September 1, 2011.

The Solid Waste Operations Fund is the chief operating fund of GGSWOF. As of September 30, 2011, the Solid Waste Operations Fund has a fund balance of \$10,190,160 as compared with the prior year fund balance of \$4,884,909, an increase in performance of \$5,305,251 (or 108.6%). This current year operational surplus was primarily the result of the increase in tipping fee revenues of \$4,823,526.

Operating expenditures increased by \$838,152 in 2011 due mainly to costs associated with contractual services. Repairs and maintenance costs increased by \$258,437, rental expenditures increased by \$274,080 while other expenditures increased by \$176,053. Offsetting these expenditures was a decrease in professional fees of \$65,207. Supplies and materials primarily consist of fuel increased by \$113,464. Utilities increased by \$63,134 and miscellaneous expenditures increased by \$169,009.

4. Budgetary Highlights

On September 1, 2010, the Solid Waste Operations Fund adopted a 2011 budget projecting revenues at \$13,835,019. Actual 2011 revenues totaled \$13,855,171.

Operating expenditures totaled \$4,803,574 for fiscal year 2011. Budgeted expenditures for 2011 were \$6,211,816.

**GOVERNMENT OF GUAM
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Management's Discussion and Analysis
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5. Capital Assets and Long-Term Debt

Capital Assets

The Layon landfill opened on September 1, 2011. Construction costs incurred by GGSWOF on the Layon landfill during 2010 amounted to \$39.1 million with a further \$26.6 million incurred during 2011, resulting in a completed project cost of \$65.7 million. The Layon landfill is included as a capital asset in GovGuam's government-wide financial statements at a total cost of \$65,741,886. The new landfill consists of two cells with a capacity in excess of 15.8 million cubic yards and is expected to service the island of Guam for 50 years.

Long Term Debt

In June 2009, GovGuam issued Limited Obligation (Section 30) Series A Bonds in the amount of \$202.4 million, net of bond discount of \$5.6 million. Proceeds are primarily to be used for the purpose of constructing the new Layon landfill and other Consent Decree projects as well as funding closure and post-closure costs of Ordot Dump. The resultant long-term debt is included as a liability in GovGuam's government-wide financial statements. See note 6 to the accompanying financial statements for additional information relating to this long-term debt.

Ordot Dump

In accordance with the 2004 Consent Decree jointly filed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Justice, GovGuam was required to close Ordot Dump and open a new landfill. Due to delays in meeting stipulated deadlines under the Consent Decree, the U.S. District Court of Guam placed the Solid Waste Division of GovGuam's Department of Public Works in Receivership. The Receiver has been tasked by the U.S. District Court with bringing GovGuam into compliance with the Consent Decree, including environmental closure of Ordot Dump in compliance with the engineering standards and regulations required by the U.S. EPA. On August 31, 2011, Ordot Dump was finally closed to the public. The Receiver continues engineering design work to ensure that Ordot Dump is closed in a manner that protects both human and environmental health. GovGuam has reported an amount of \$45,011,196 as landfill closure and post closure care liability at September 30, 2011 within GovGuam's government-wide financial statements, representing the cumulative amount reported based on 100 percent capacity for Ordot Dump. This amount is based on what it would cost to perform all closure and post closure care in 2011. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Layon Landfill

On October 31, 2012, an order was issued for the payment of approximately \$25.1 million for the condemnation of land which encompasses the Layon landfill. As of September 30, 2011, \$3.4 million had been deposited to the Court for this purpose, and \$21.7 million plus interest at 6% calculated from January 24, 2008 has yet to be made. It is not possible to predict the ultimate impact of this matter on GGSWOF's financial statements.

6. Outlook, Challenges and Opportunities

GGSWOF has entered into a number of contractual arrangements to facility both the operations of the new Layon landfill and the closure of Ordot Dump. Herzog Environmental have been selected as the contractor to oversee the operations of the new Layon landfill with an initial term of seven years with an option for two 5-year extensions. GGSWOF is still negotiating with the military for the purpose of accepting their solid waste. In the event that a contract is finalized and approved, the service life of the new Layon landfill is expected to reduce to approximately 45 years.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis
September 30, 2011 and 2010

Brown and Caldwell have been contracted to perform the first phases of the investigatory work at Ordot Dump. This work will support the closure design and future long-term monitoring at the Ordot Dump site to assess the performance of the closure system, including leachate management, gas monitoring and remediation of the site.

The Receiver has developed three rate options for presentation to the Guam Public Utilities Commission. Each option would provide for adequate funding for GGSWOF for 2013 and thereafter. These options are outlined in the following table:

Customer Type	Current Rate*	Full Gov't Reimbursement Rate	Two Landfill Rate**
Commercial (per ton)	\$ 172	\$ 225	\$ 110
Residential (per month)	\$ 30	\$ 35	\$ 20
Residential Transfer Station	\$7.50 / \$ 15	\$7.50 / \$ 15	\$7.50 / \$ 15
Cost to GovGuam	\$ 7,483,397	\$ -	\$ 11,737,208

* The effective commercial rate per ton is \$156 per ton when haulers pay on time, electronically using ACH, and do not use Public Law 25-93.

** Assumes approval of a second landfill.

Based on the Receiver's determination, the Current Rate option is adequate to provide for the operation of GGSWOF through 2015. Because GovGuam had no history of paying full operating costs and debt service out of solid waste fees, GovGuam was required to pledge Section 30 revenue for the purpose of paying debt service. Commencing in December 2010, GGSWOF began reimbursing GovGuam in the amount of \$374,758 per month. Under this rate option, GovGuam will continue to be reimbursed this monthly amount (\$4,497,097 annually) but forgo an additional \$7,483,397 in annual reimbursement for the use of Section 30 revenue to pay debt service.

The Full Government Reimbursement Rate option is required if GovGuam is to be fully reimbursed for the use of Section 30 revenue. In 2013, full debt service payments begin thus requiring GGSWOF to increase the monthly reimbursement from \$374,758 to \$998,374, an increase of approximately \$7.5 million annually. Under this option, commercial rates would rise more than 30% and residential rates would rise to \$35 per month in 2013; \$40 per month in 2014; and \$45 per month in 2015, at which time reevaluation of the rates would need to be considered.

The Two Landfill option is required if GovGuam allows a second landfill on Guam. In the event that GovGuam approves a permit for a second landfill, rates that will allow GovGuam to be reimbursed for the use of Section 30 revenue to pay debt service may not be sustained if the second landfill permit holder undercuts GGSWOF's current rates. Under this scenario, GovGuam would forgo \$11,737,208 in annual reimbursement for the use of Section 30 revenue to pay debt service.

7. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GGSWOF's finances and to show the GGSWOF's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Katherine B. Kakigi, Financial Manager, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1169/1260, Facsimile: (671) 472-8483; Website address: www.admin.gov.gu/doa/.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Balance Sheets
September 30, 2011 and 2010

	2011				2010			
	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>								
Cash and cash equivalents	\$ 1,520,872	\$ 4,156,889	\$ -	\$ 5,677,761	\$ 989,895	\$ 1,481,257	\$ -	\$ 2,471,152
Restricted assets:								
Cash and cash equivalents	-	19,175,859	-	19,175,859	-	10,314,366	-	10,314,366
Investments	-	88,368,860	-	88,368,860	-	131,971,935	-	131,971,935
Tipping fees receivable	3,614,602	-	-	3,614,602	2,188,698	-	-	2,188,698
Due from General Fund	1,896,357	-	-	1,896,357	2,224,303	-	-	2,224,303
Due from other funds	3,695,344	-	-	3,695,344	-	-	-	-
Prepayments	-	-	-	-	-	323,661	-	323,661
Total assets	<u>\$ 10,727,175</u>	<u>\$ 111,701,608</u>	<u>\$ -</u>	<u>\$ 122,428,783</u>	<u>\$ 5,402,896</u>	<u>\$ 144,091,219</u>	<u>\$ -</u>	<u>\$ 149,494,115</u>
<u>LIABILITIES</u>								
Accounts payable	\$ -	\$ 580,595	\$ -	\$ 580,595	\$ -	\$ 111,642	\$ -	\$ 111,642
Contracts payable	-	1,204,942	-	1,204,942	-	7,064,507	-	7,064,507
Receiver fees payable	-	1,106,749	-	1,106,749	-	-	-	-
Retention payable	-	1,742,497	-	1,742,497	-	2,567,890	-	2,567,890
Accrued payroll and other	49,283	-	-	49,283	18,746	-	-	18,746
Deferred revenue	487,732	-	-	487,732	499,241	-	-	499,241
Due to General Fund	-	6,036,440	-	6,036,440	-	-	-	-
Due to other funds	-	3,695,344	-	3,695,344	-	-	-	-
Total liabilities	<u>537,015</u>	<u>14,366,567</u>	<u>-</u>	<u>14,903,582</u>	<u>517,987</u>	<u>9,744,039</u>	<u>-</u>	<u>10,262,026</u>
<u>FUND BALANCES</u>								
Fund balances:								
Non-spendable	-	-	-	-	-	323,661	-	323,661
Restricted for:								
Capital projects	-	75,524,289	-	75,524,289	-	108,900,802	-	108,900,802
Debt service	-	21,810,752	-	21,810,752	-	25,122,717	-	25,122,717
Committed for:								
Solid waste operations	9,922,258	-	-	9,922,258	4,769,920	-	-	4,769,920
Assigned to:								
Solid waste operations	267,902	-	-	267,902	114,989	-	-	114,989
Total fund balances	<u>10,190,160</u>	<u>97,335,041</u>	<u>-</u>	<u>107,525,201</u>	<u>4,884,909</u>	<u>134,347,180</u>	<u>-</u>	<u>139,232,089</u>
Total liabilities and fund balances	<u>\$ 10,727,175</u>	<u>\$ 111,701,608</u>	<u>\$ -</u>	<u>\$ 122,428,783</u>	<u>\$ 5,402,896</u>	<u>\$ 144,091,219</u>	<u>\$ -</u>	<u>\$ 149,494,115</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Statements of Revenues, Expenditures, and Changes in Fund Balances
Years Ended September 30, 2011 and 2010

	2011				2010			
	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:								
Tipping fees	\$ 13,855,171	\$ -	\$ -	\$ 13,855,171	\$ 9,031,645	\$ -	\$ -	\$ 9,031,645
Use of money and property	1,234	865,237	-	866,471	1,282	1,709,536	-	1,710,818
Transfer in from General Fund	-	175,410	3,387,439	3,562,849	-	-	-	-
Total revenues	<u>13,856,405</u>	<u>1,040,647</u>	<u>3,387,439</u>	<u>18,284,491</u>	<u>9,032,927</u>	<u>1,709,536</u>	<u>-</u>	<u>10,742,463</u>
Expenditures:								
Current:								
General government	414,633	2,811,271	-	3,225,904	134,765	2,805,902	-	2,940,667
Environmental protection	4,388,941	-	-	4,388,941	3,830,657	-	-	3,830,657
Capital projects	-	31,179,078	-	31,179,078	-	41,631,599	-	41,631,599
Debt service:								
Interest	-	-	11,197,456	11,197,456	-	-	10,668,687	10,668,687
Total expenditures	<u>4,803,574</u>	<u>33,990,349</u>	<u>11,197,456</u>	<u>49,991,379</u>	<u>3,965,422</u>	<u>44,437,501</u>	<u>10,668,687</u>	<u>59,071,610</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,052,831</u>	<u>(32,949,702)</u>	<u>(7,810,017)</u>	<u>(31,706,888)</u>	<u>5,067,505</u>	<u>(42,727,965)</u>	<u>(10,668,687)</u>	<u>(48,329,147)</u>
Other financing sources (uses):								
Operating transfers in	-	-	7,810,017	7,810,017	-	-	10,668,687	10,668,687
Operating transfers out	(3,747,580)	(4,062,437)	-	(7,810,017)	-	(10,668,687)	-	(10,668,687)
Total other financing sources (uses), net	<u>(3,747,580)</u>	<u>(4,062,437)</u>	<u>7,810,017</u>	<u>-</u>	<u>-</u>	<u>(10,668,687)</u>	<u>10,668,687</u>	<u>-</u>
Net change in fund balances	5,305,251	(37,012,139)	-	(31,706,888)	5,067,505	(53,396,652)	-	(48,329,147)
Fund balances at the beginning of the year	4,884,909	134,347,180	-	139,232,089	(182,596)	187,743,832	-	187,561,236
Fund balances at the end of the year	<u>\$ 10,190,160</u>	<u>\$ 97,335,041</u>	<u>\$ -</u>	<u>\$ 107,525,201</u>	<u>\$ 4,884,909</u>	<u>\$ 134,347,180</u>	<u>\$ -</u>	<u>\$ 139,232,089</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Solid Waste Operations Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Solid Waste Operations Fund was created by Public Law 24-272 to provide a financing source for GovGuam's costs directly related to the closure and post-closure of the solid waste landfill. Revenues are derived from tipping, user and other associated fees to be used solely for solid waste management practices. On June 18, 2009, Limited Obligation (Section 30) Bonds, 2009 Series A, were issued for the purpose of constructing a new landfill, closure of Ordot Dump, prepaying a bank loan and funding capitalized interest. The Capital Projects Fund is used to account for bond proceeds from the issuance of Limited Obligation (Section 30) Bonds, 2009 Series A. The Debt Service Fund is used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

On April 18, 2011, Public Law 31-20 was enacted which provided for the continuation of existence of the Solid Waste Management Division, a sub-entity of the GovGuam Department of Public Works, as an autonomous public corporation now referred to as the Guam Solid Waste Authority (GSWA). GSWA's transactions are accounted for under the GovGuam Solid Waste Operations Fund.

B. Fund Accounting

The accompanying financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The assets, liabilities and fund balances of the Solid Waste Operations Fund and funds related to the Limited Obligation (Section 30) Bonds, 2009 Series A, are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include tipping, user and associated fees. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Tipping and associated fees imposed are as follows:

Commercial

Commercial haulers are billed per tonnage of trash. The rates per tonnage effective during fiscal years 2011 and 2010 are as follows:

\$128.00 – October 2009 to June 2010
\$156.00 – July 2010 to June 2011
\$171.60 – July 2011 to September 2011

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rates effective during fiscal years 2011 and 2010 per one 96-gallon cart are as follows:

\$10 – October 2009 to June 2010
\$17 – July 2010 to December 2010
\$24 – January 2011 to June 2011
\$30 – July 2011 to September 2011

Further, effective July 2011, residential customers are billed \$15 per month for every additional 96-gallon cart.

Residential customers bringing their household trash to the transfer stations are assessed the following fees: (a) \$7.50 up to three cubic yards, and (b) \$15 from three up to a maximum of six cubic yards.

D. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the Territorial financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. Encumbrances outstanding at year end are reported within committed fund balance since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

E. Cash and Cash Equivalents

Cash and cash equivalents include short-term investments in U.S. Treasury obligations and commercial paper with maturity dates within three months of the date acquired.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies, Continued

F. 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 in a forced or liquidation sale and are primarily determined based on quoted market values.

G. Receivables

Receivables are due from commercial haulers, government agencies and individuals residing on the island of Guam and are uncollateralized and non-interest bearing.

H. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

I. Restricted Assets

The bond indenture relating to the Limited Obligation (Section 30) Bonds, 2009 Series A, requires amounts to be restricted for capital projects and set aside for debt service principal and interest. These amounts have been classified as restricted assets.

J. Fund Balance

During fiscal year 2011, GovGuam implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB Statement No. 54, governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies, Continued

J. Fund Balance, Continued

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

K. Management 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.

(2) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of GovGuam are governed by 5 GCA 21, Investments and Deposits, in conjunction with applicable bond indentures. The Director of Administration is responsible for the safekeeping of all monies paid into the Treasury of Guam. The Director of Administration invests any monies of GovGuam that are deemed not necessary for immediate use. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificate of deposit of, or bankers' acceptances issued by, any eligible institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

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

- | | |
|------------|---|
| Category 1 | Deposits that are federally insured or collateralized with securities held by the governmental entity or its agent in the entity's name; |
| Category 2 | Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; or |
| Category 3 | Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the entity's name and non-collateralized deposits. |

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(2) Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the entity'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.

As of September 30, 2011 and 2010, the carrying amount of cash and cash equivalents were \$24,853,620 and \$12,785,518, respectively, and the corresponding bank balances were \$24,853,620 and \$12,684,816, respectively. Of the bank balances, \$24,829,418 and \$12,653,242 as of September 30, 2011 and 2010, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining balances of \$24,202 and \$31,574 as of September 30, 2011 and 2010, respectively, represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2011 and 2010. As of September 30, 2011 and 2010, bank deposits in the amount of \$922,254 and \$719,624, respectively, were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2011 and 2010, cash and cash equivalents in the amount of \$19,175,859 and \$10,314,366, respectively, are restricted for capital projects.

(3) Investments

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

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

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

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

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(3) 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 GovGuam.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various health-related projects under a tobacco settlement agreement and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2011 and 2010.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GovGuam 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.

As of September 30, 2011 and 2010, investments at fair value are as follows:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 84,716,343	\$ 122,992,903
Cash management funds	<u>3,652,517</u>	<u>8,979,032</u>
	<u>\$ 88,368,860</u>	<u>\$ 131,971,935</u>

As of September 30, 2011 and 2010, investments in the amount of \$88,368,860 and \$131,971,935, respectively, are restricted for capital projects and future debt service requirements.

(4) Receivables

Receivables as of September 30, 2011 and 2010, including allowances for uncollectible accounts, are as follows:

	<u>2011</u>	<u>2010</u>
Commercial	\$ 3,337,183	\$ 3,290,500
Residential	1,270,208	414,354
Government:		
Guam Waterworks Authority	660,360	320,369
Other	<u>41,814</u>	<u>34,875</u>
	5,249,565	4,060,098
Allowance for uncollectible accounts	<u>(1,634,963)</u>	<u>(1,871,400)</u>
	<u>\$ 3,614,602</u>	<u>\$ 2,188,698</u>

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

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(5) Bonds Payable

Limited Obligation (Section 30) Bonds, 2009 Series A:

The 2009 Series A bonds are limited obligations of GovGuam payable entirely from a pledge of Section 30 revenues.

The Limited Obligation (Section 30) Bonds, 2009 Series A (original issue of \$202,425,000, dated June 3, 2009) have varying interest rates at 5% - 5.75% per annum, payable semiannually on June 1 and December 1, principal fund payments due in varying annual installments commencing with a payment of \$4,590,000 on June 30, 2013 and increasing to a final payment of \$15,235,000 on June 30, 2035. The bonds were issued for the purpose of constructing a new landfill, closure of the Ordot Dump, prepaying a bank loan and funding capitalized interest, and are backed by the full faith and credit of GovGuam, payable solely from and collateralized by a pledge of Section 30 federal income tax collections.

In accordance with the bond indenture, the depository has created the following trust accounts to be known as the "Bond Expense Fund", "Bond Fund" and "Reserve Fund". Amounts deposited therein are to be used to (1) pay costs associated with acquiring, constructing, improving and equipping a new municipal solid waste disposal facility in the Layon area near the Village of Inarajan (the "New Landfill") and with acquiring and constructing the closure of the Ordot Dump, (2) prepay a \$20.1 million loan incurred on January 2, 2009 to fund certain costs of the New Landfill; (3) make a deposit to the Bond Reserve Fund; (4) capitalize a portion of the interest on the 2009 Series A Bonds to and including June 1, 2012; and (5) pay the cost of bond issuance. The "Bond Expense Fund", "Bond Fund" and "Reserve Fund" accounts are accounted for within the General Fund.

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>
2012	\$ -	\$ 11,197,456	\$ 11,197,456
2013	4,590,000	11,082,706	15,672,706
2014	4,825,000	10,847,331	15,672,331
2015	5,070,000	10,599,956	15,669,956
2016	5,330,000	10,339,956	15,669,956
2017 – 2021	31,325,000	47,031,454	78,356,454
2022 – 2026	41,060,000	37,296,131	78,356,131
2027 – 2031	54,210,000	24,139,343	78,349,343
2032 – 2035	<u>56,015,000</u>	<u>6,672,119</u>	<u>62,687,119</u>
	\$ <u>202,425,000</u>	\$ <u>169,206,452</u>	\$ <u>371,631,452</u>

During the years ended September 30, 2011 and 2010, payments for debt service totaled \$11,197,456 and \$10,668,687, respectively, which solely represent payment on interest.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(5) Bonds Payable, Continued

Limited Obligation (Section 30) Bonds, 2009 Series A, Continued:

A portion of future General Fund Section 30 revenues have been pledged to repay the \$202,425,000 in limited obligation bonds issued in June 2009. This debt is payable solely from Section 30 revenues payable to GovGuam by the United States Government pursuant to Section 30 of the Organic Act, Title 48, U.S. Code, Section 41421(h). Total principal and interest remaining on this debt is approximately \$371,631,452 payable through June 2035. For the years ended September 30, 2011 and 2010, Section 30 revenues for the years ended September 30, 2011 and 2010 were \$46,357,373 and \$39,028,136, respectively.

At September 30, 2011 and 2010, \$21,810,752 and \$25,122,717, respectively, of the fund balance, in the Capital Projects Fund is restricted for debt service purposes.

At September 30, 2011 and 2010, GovGuam management is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(6) Interfund Transfer Activity

Interfund transfers from the Solid Waste Operations Fund and Capital Projects Fund to the Debt Service Fund represent the transfer of funds for payment of interest. Interfund transfer activity during the years ended September 30, 2011 and 2010, is summarized below:

	<u>2011</u>	<u>2010</u>
Transfers Out To:		
Debt Service Fund	\$ <u>7,810,017</u>	\$ <u>10,668,687</u>
Transfers In From:		
Solid Waste Operations Fund	\$ 3,747,580	\$ -
Capital Projects Fund	<u>4,062,437</u>	<u>10,668,687</u>
	<u>\$ 7,810,017</u>	<u>\$ 10,668,687</u>

(7) Commitments and Contingencies

A. Ordot Dump

On February 11, 2004, the U.S. Environmental Protection Agency and the U.S. Department of Justice filed a Consent Decree in the United States District Court of Guam. The consent decree included deadlines for the opening of a new landfill and implementing an Ordot Dump closure plan. Within a period of forty-five months, GovGuam was required to complete an environmental impact statement analyzing at least three potential new landfill locations; complete design, permitting, and construction for the selected landfill location; begin operations at the new landfill; and properly and permanently close the Ordot Dump. In the event that GovGuam failed to meet any of the stipulated deadlines under the consent decree, GovGuam would be liable for civil penalties.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(7) Commitments and Contingencies, Continued

A. Ordot Dump, Continued

On March 17, 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works (DPW) in Guam in Receivership. After receiving and reviewing qualifications information on firms presented by GovGuam and the U.S. Environmental Protection Agency, and conducting interviews and reference checks, the District Court Judge selected and appointed Gershman, Brickner & Bratton, Inc. (“the Receiver”) as receiver. The Receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of the Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW’s Solid Waste Division. For the years ended September 30, 2011 and 2010, recorded receiver fee expenditures were \$2,811,271 and \$2,805,902, respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2011 amounted to \$9,732,208. Of this amount, \$3,848,700 was funded by the General Fund and the remaining was funded from solid waste operations. Pursuant to the Court Order, the appointment of the Receiver shall be for the period necessary to achieve compliance with the consent decree unless: (a) the Receiver recommends termination of the Court Order as no longer necessary, or modification thereof, and said termination or modification is accepted by the court, (b) the Receiver requests to be relieved and such request is approved by the court, and (c) the Court Order is otherwise modified or terminated by the court.

On February 13, 2009, the United States District Court of Guam issued a Court Order associated with the DPW Solid Waste Division Receivership requiring GovGuam to provide for costs of the new landfill. On June 3, 2009, GovGuam issued \$202,425,000 in Limited Obligation Revenue Bonds for the purpose of financing facilities of the Solid Waste Management System of Guam.

The Ordot Dump was finally closed on August 31, 2011. The Consent Decree also stipulates that the Ordot Dump be environmentally closed in compliance with the engineering standards and regulations required by the U. S. Environmental Protection Agency. The Receiver continues engineering design work on the Ordot Dump so that plans can be drawn up and approved by regulatory agencies for the environmental closure of the Ordot Dump in a manner that protects both human and environmental health. Closure and post closure care costs reported as expenditures in the accompanying financial statements represents actual closure and post closure care costs incurred during fiscal year 2011. The estimated landfill closure and post closure care liability at September 30, 2011 and 2010 is not included in the accompanying fund financial statements. Instead, GovGuam has reported an amount of \$45,011,196 and \$46,053,500 as landfill closure and post closure care liability at September 30, 2011 and 2010, respectively, within GovGuam’s government-wide financial statements, representing the cumulative amount reported based on 100 percent capacity for Ordot Dump.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Notes to Financial Statements
September 30, 2011 and 2010

(7) Commitments and Contingencies, Continued

B. Layon Landfill

The Layon landfill opened on September 1, 2011 and consists of two cells. The Layon landfill has an estimated lifespan of 50 years and the two cells together have a projected life of 10 years. Total construction cost for the Layon landfill amounted to \$65,741,886, which has been capitalized and presented as a capital asset within GovGuam's government-wide financial statements. The estimated landfill closure and post closure cost liability at September 30, 2011 and 2010 is not included in the accompanying fund financial statements. Instead, the landfill closure and post closure care liability for the Layon landfill is reported within GovGuam's government-wide financial statements. As the landfill opened on September 1, 2011, no liability has been recorded as at September 30, 2011 as such was not considered material to the GovGuam financial statements.

C. Contract Commitments

GGSWOF have commitments under contracts at September 30, 2011 and 2010. As of September 30, 2011 and 2010, continuing appropriations associated with these contracts are as follows:

	<u>Solid Waste Operations Fund</u>		<u>Capital Projects Fund</u>		<u>Debt Service Fund</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Commitments	\$ <u>267,902</u>	\$ <u>114,989</u>	\$ <u>11,236,937</u>	\$ <u>23,693,183</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>11,504,839</u>	\$ <u>23,808,172</u>

(8) Major Customers

During the years ended September 30, 2011 and 2010, three commercial customers accounted for 57% and 73%, respectively, of total tipping fees revenues.

(9) Subsequent Event

On October 31, 2012, an order was issued for the payment of approximately \$25.1 million for the condemnation of land which encompasses the Layon landfill. As of September 30, 2011, \$3.4 million had been deposited to the Court for this purpose, and \$21.7 million plus interest at 6% calculated from January 24, 2008 has yet to be made. It is not possible to predict the ultimate impact of this matter on the accompanying financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Schedule of Expenditures by Object
Years Ended September 30, 2011 and 2010

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Personnel costs:								
Salaries and wages	\$ 1,446,080	\$ 1,554,024	\$ -	\$ -	\$ -	\$ -	\$ 1,446,080	\$ 1,554,024
Overtime	164,619	186,578	-	-	-	-	164,619	186,578
Fringe benefits	483,951	504,866	-	-	-	-	483,951	504,866
Total personnel costs	<u>2,094,650</u>	<u>2,245,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,094,650</u>	<u>2,245,468</u>
Receiver fees:								
Labor costs	-	-	2,389,980	2,434,283	-	-	2,389,980	2,434,283
Travel	-	-	172,174	174,729	-	-	172,174	174,729
Gross Receipts Tax equivalent	-	-	101,656	101,067	-	-	101,656	101,067
Other	-	-	147,461	95,823	-	-	147,461	95,823
Receiver fees	<u>-</u>	<u>-</u>	<u>2,811,271</u>	<u>2,805,902</u>	<u>-</u>	<u>-</u>	<u>2,811,271</u>	<u>2,805,902</u>
Contract services:								
Layon landfill	-	-	26,635,758	39,106,127	-	-	26,635,758	39,106,127
Roll out carts	-	-	1,723,426	1,201,116	-	-	1,723,426	1,201,116
Closure and post closure costs	-	-	1,042,304	-	-	-	1,042,304	-
Repairs and maintenance	849,964	591,527	-	-	-	-	849,964	591,527
Waste hauling services	-	-	207,724	-	-	-	207,724	-
Landfill operations	-	-	307,150	-	-	-	307,150	-
Security services	-	-	199,514	104,726	-	-	199,514	104,726
Other services	-	-	8,632	349,126	-	-	8,632	349,126
Personnel	-	-	520,098	426,907	-	-	520,098	426,907
Land appraiser fees	-	-	59,443	133,389	-	-	59,443	133,389
Legal services	-	-	319,289	84,174	-	-	319,289	84,174
Professional fees	62,188	127,395	77,829	12,331	-	-	140,017	139,726
Rental	511,624	237,544	-	-	-	-	511,624	237,544
Other	401,917	225,864	77,911	213,703	-	-	479,828	439,567
Total contract	<u>1,825,693</u>	<u>1,182,330</u>	<u>31,179,078</u>	<u>41,631,599</u>	<u>-</u>	<u>-</u>	<u>33,004,771</u>	<u>42,813,929</u>
Supplies and Materials:								
Fuel	469,816	412,858	-	-	-	-	469,816	412,858
Others	91,131	34,625	-	-	-	-	91,131	34,625
Total supplies and materials	<u>560,947</u>	<u>447,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,947</u>	<u>447,483</u>
Utilities	86,615	23,481	-	-	-	-	86,615	23,481
Interest	-	-	-	-	11,197,456	10,668,687	11,197,456	10,668,687
Miscellaneous	235,669	66,660	-	-	-	-	235,669	66,660
Total	<u>\$ 4,803,574</u>	<u>\$ 3,965,422</u>	<u>\$ 33,990,349</u>	<u>\$ 44,437,501</u>	<u>\$ 11,197,456</u>	<u>\$ 10,668,687</u>	<u>\$ 49,991,379</u>	<u>\$ 59,071,610</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND

Schedule of Employee and Other Data
September 30, 2011 and 2010

	2011	2010
<u>Full Time Employees:</u>		
Administrative Support	2	3
Residential Collection	23	36
Landfill	14	10
Convenience Center/Transfer Stations	6	5
Total employee count	45	54
Total personnel costs	\$ 2,094,650	\$ 2,245,468
<u>Contract services</u>		
Administrative Support	9	11
Landfill	1	-
Total employee count	10	11
Total personnel costs	\$ 520,098	\$ 426,907

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Schedule of Billings and Collections
Years Ended September 30, 2011 and 2010

	2011	2010
Billings:		
Commercial haulers	\$ 8,413,692	\$ 6,934,705
Residential	5,074,559	2,207,289
Government	404,981	314,117
Total billings	\$ 13,893,232	\$ 9,456,111
Collections:		
Commercial haulers	\$ 7,497,682	\$ 6,151,250
Residential	4,744,174	1,604,964
Government	37,471	28,234
Transfer stations	269,859	208,461
Other charges	65,344	750
Total collections	\$ 12,614,530	\$ 7,993,659

See accompanying independent auditors' report.