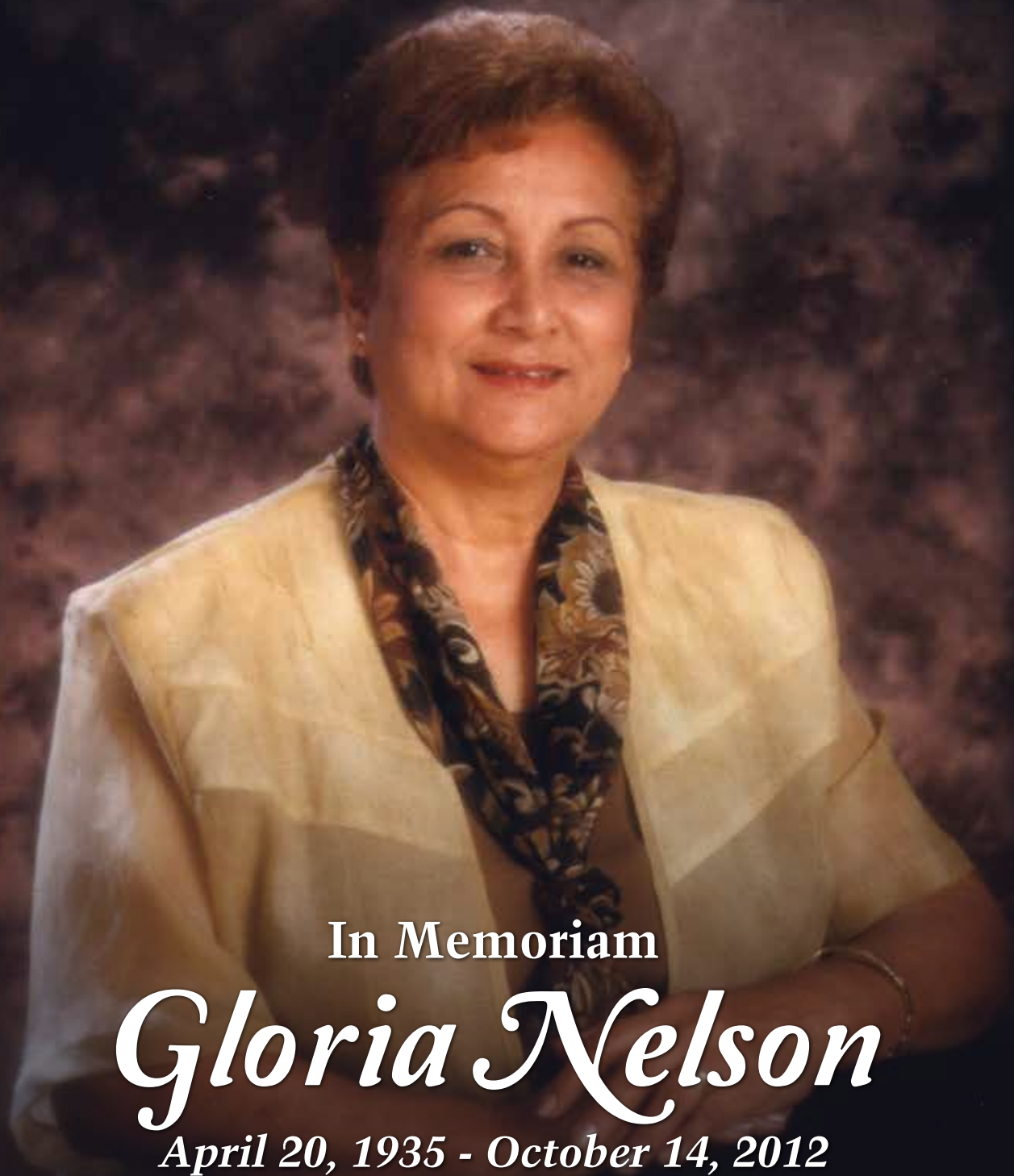


2012 ANNUAL REPORT



GUAM WATERWORKS AUTHORITY



In Memoriam

Gloria Nelson

April 20, 1935 - October 14, 2012

And of course, we all fondly remember and still mourn the recent loss of our “rose among the thorns” Gloria Nelson who always reminded us of our responsibility to serve the public fairly but compassionately... and to invest in educating, training and developing our employees to be the best utility professionals they can be.

The new Utility Center which will house GPA and GWA staff will be so named the Gloria B. Nelson Public Service Facility to remind us every day that we all are here to serve. Located in Mangilao, Auntie Lola’s village, we know her spirit will always be present.

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GUAM WATERWORKS AUTHORITY

Hafa Adai! Congratulations to the hardworking men and women of Guam Waterworks Authority on the completion of the 2012 Annual Report!

Guam set sail for success and progress and it's the people who steer the boat to help guide her. Propelled by a common goal and vision for the community, we see people move our community toward a future with opportunity and services that enhance the quality of life for all Guamanians. The hardworking GWA family are constantly working to improve services to our island and the overall sustainability for its future.

The men and women of GWA are providing efficient services and promoting growth in the community. Guam is definitely moving forward with the improvements, upgrades, and projects that GWA has lined up and completed. These projects enhance critical infrastructure for the people of Guam to live their daily lives.

With our collective and collaborative vision for an efficient, vibrant community, let's continue moving forward.

With our gratitude and support for a stronger Guam,


EDDIE BAZA CALVO


RAY TENORIO

Office of the Governor of Guam



Message from the Chair

COMMITTEE ON UTILITIES, TRANSPORTATION, PUBLIC WORKS AND VETERANS AFFAIRS



Hafa Adai,

2012 was another strong year for the Guam Waterworks Authority. We witnessed steady leadership in meeting and surpassing the requirements set forth by the Stipulated Order, clear vision in balancing the need for system-wide improvements with the impact rates have on our community, and a continued dedication to improving our water and wastewater services island-wide. The future is bright for the Authority.

I commend the leadership at GWA and the CCU, whose shared vision and dedication continues to guide the Authority to new heights. Most importantly, I applaud the tireless work of all the employees of GWA. Day-in and day-out, your commitment and expertise enables the Authority, and our island is fortunate to have a first-class workforce propelling GWA forward.

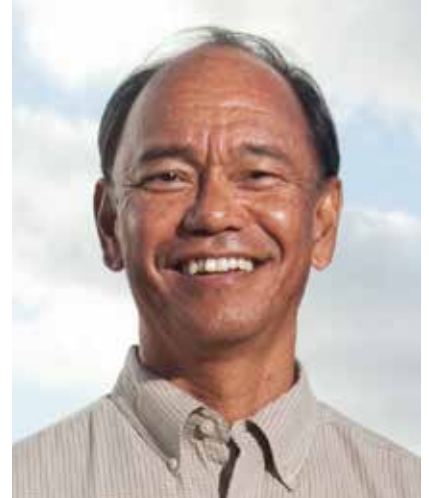
I am proud of the legacy being created at GWA, and am honored to serve as Chairman of the Committee on Infrastructure.

On behalf of all of us who make this island our home, Si Yu'os Ma'ase,

A handwritten signature in black ink, appearing to read 'T C Ada'.

Thomas C. Ada
Senator, 32nd Guam Legislature
Chairman, Committee on Infrastructure

Message from the **CCU CHAIRMAN**



Simon A. Sanchez II
CCU Chairman

Fiscal Year 2012 continued to be a year of progress for your Guam Waterworks Authority. GWA is set to embark on the next phase of our twenty year master plan to rebuild and modernize our infrastructure so our water always remains safe to drink and that we better protect our precious and priceless ocean.

\$300M will be invested over the next several years in the following:

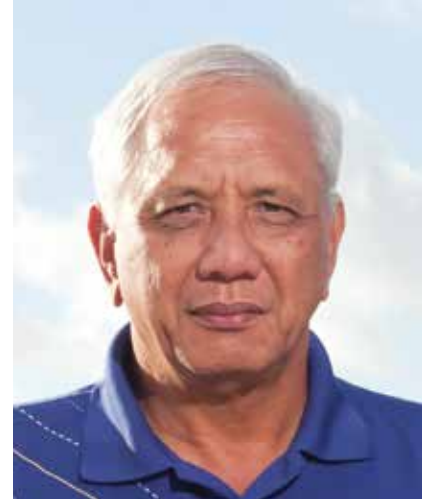
1. Build a new compliant wastewater system for our southern villages for \$130M to bring those plants finally into compliance by 2018;
2. By December 2012, complete the \$10 million upgrade to our largest wastewater plant in Dededo, the Northern Wastewater Treatment Plant (NWWTP). NWWTP is now in compliance for primary treatment for the first time in 25 years.
3. Complete our meter replacement program by mid-2014 so that everyone is properly billed for their consumption;
4. Re-build and rehabilitate GWA's major water storage tanks for \$130M to improve pressure and keep our water safe to drink;
5. Fix leaks and reduce unaccounted for water to industry standards by 2020. By addressing unaccounted for water, the costs to re-build the system can be lowered dramatically, saving ratepayers money;
6. Install reliable modern monitoring systems to better allow GWA to manage our water and wastewater in order to reduce operating costs and speed repairs;



Eloy P. Hara
CCU Commissioner



Benigno M. Palomo
CCU Commissioner



Pedro S.N. Guerrero
CCU Commissioner

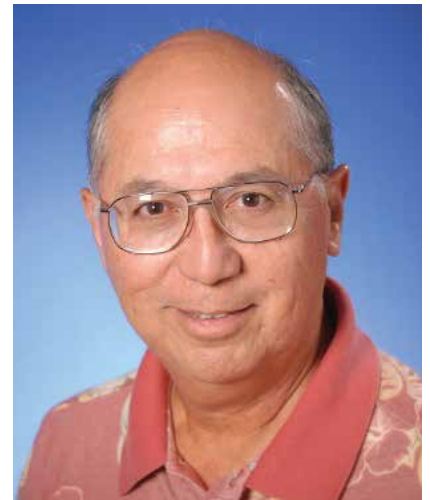
None of our progress to date and the completion of these projects could be possible without the hardworking employees of GWA who work hard every day to ensure our water and wastewater system serve you 24 hours a day seven days a week.

In closing I would like to recognize the great efforts of my fellow commissioners who tirelessly give countless hours to the task of governing the utilities. ---Joey Duenas, Eloy Hara, Pete Guerrero Benigno Palomo and I --- are honored to serve you. It is truly a privilege.

I also want to remember our dear former commissioner Mrs. Gloria Nelson for always reminding us to serve the public's interest by doing the right thing, even if it's not always popular. We continue to be inspired by her contributions.

Si Yu'os Ma'ase to all who have contributed over the year to making GWA a continued success for our island families. On behalf of the 300 plus employees of GWA and their families, we thank you for your continued support.

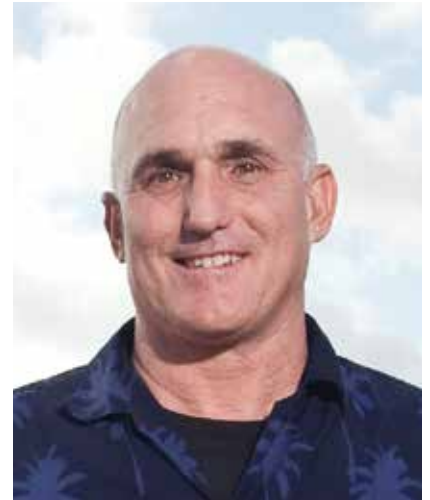
May God continue to bless you and your families and our island home of Guam.



Joseph "Joey" T. Duenas
CCU Chairman

Simon A. Sanchez II
CCU Chairman

Message from the **GENERAL MANAGER**



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

Instituted in 1997, GWA today delivers potable water and wastewater services to 160,000 Territory of Guam residents, U.S. Defense Installations and up to 136,000 international visitors in peak month. Guam's quality of life and economy depends on clean, efficient, and safe drinking water and wastewater infrastructure. We do our best to compassionately treat every customer like our grandparents. According to Guam traditions, we "Respetu i taotao i guma" which interpreted means we respect the people of the house.

During the past two years, we have successfully guided the utility through the most challenging time in its 15-year history, restoring consumer trust, stabilizing revenues and earning the confidence of the Environmental Protection Agency due to stellar compliance of court order deadlines.

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

Instituting sound resource management practices

We are proud of the newly created sustainable meter program, which includes the meter test bench. Since September 2012, 17,000 out dated meters were replaced improving the meter read rate by almost 25%. Revenue stabilization occurred when meters that had catastrophic failure were retired. We were also able to enhance customer service by providing consumers with accurate and real time information about their water usage, leaks and concerns. Our Water Loss Reduction Plan, strategic methodology, improvements in reporting via international standards and systems management has resulted in 35% unaccounted water reports down from 50%. In addition, we are now able to repair leaks in 6 days instead of 90 days.

Developing sound management foundations, planning, and financial systems.

With the support of the Consolidated Commission on Utilities (CCU), GWA has completed two plans over the last year that will set GWA on course for success: The Water Audit Program and Water Loss Control Plan – August 23, 2011 and the Comprehensive Management Plan for the Implementation of the Court Order – March 27, 2012 (CMP). The plans, combined with The Potable Water Enhancement Plan, the Capital Improvement Plan 2011-2015, the 2011 Court Order (CO), and the

2011 Public Utilities Commission (PUC) Stipulation, create a blue print for success over the next few years. These critical working documents will greatly enhance planning, direction, and revenue savings for the Authority. The plans will propel GWA to the next level as they include elements which will vastly improve GWA's business model. The foundational plans along with the 2011 CO and the 2011 PUC Stipulation will move GWA forward with vision and purpose. The management and tracking of the CMP will underscore how all the elements of the plans fit GWA's overall goals. GWA employees at all staff levels are trained and informed of these plans so that they are well versed in the Authority's vision, mission, goals and operations. Our governing board, The Consolidated Commission on Utilities (CCU) authorized GWA management to enter into a contract with Badger Meter for \$5,200,000. On April 20, 2012, the first twenty Badger Meters came in. With this new contract for these meters, GWA can move forward and the meters will help to bring in more revenue for the Authority.

Engaging consumers to provide them appropriate levels of service

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

Achieving long-term resource sustainability

We have effectively used the Water Resources Master Plan (WRMP 2007) to initiate, prioritize and monitor projects providing high quality, sustainable, drinking water, wastewater treatment and services to individual, public and industry consumers. Presently, approximately \$50Million worth of projects developed were encumbered in 2012 related to the delivery of sustainable, reliable and secure water and wastewater service in a manner that protects Guam's beautiful and unique environment.

Establishing a road map for full regulatory compliance

In 2012, Guam Waterworks Authority secured a \$6.7 million grant from the Environmental Protection Agency for system-wide asset inventories, sewer system evaluations and assessments, hydraulic model development and master planning activities to identify and prioritize projects. Because of these efforts, in January 2013, GWA's Northern District Wastewater Treatment Plant met or exceeded all environmental compliance with the Clean Water Act for the first time in the History of Guam. GWA has established a track record of success and meeting deadlines. We are extremely proud of the relationships and partnerships that were developed during this process. We are working to establish even stronger strategic alliances with EPA.

GWA's greatest assets are our employees. Therefore, investing in our employees through training and work force development has and will always be a top priority. As, GWA has some of the best employees in the country, with effective training opportunities, there is no limit to where we can take the utility together. Over the past year, GWA has implemented two internal training programs: one for all employees and one for supervisors and managers. Training includes all the elements of organization success; strategic planning, ethics, interview training, organizational ownership, and exam preparation classes for the EPA Operator's Certification Exam. Most of GWA's managers (25) have enrolled in the Certified Public Manager (CPM) courses and have completed a 12-week course taught by the University of Guam. An Arizona State University (ASU) instructor provided leadership training here on Guam. The next phase of the CPM course was taught via video conferencing in cooperation with ASU. 24 of the 25 managers graduated from the CPM program in December 2012.

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

June 2013 will mark the end of my second year as the General Manager for the Guam Waterworks Authority. The annual report is a time to reflect on the tremendous progress GWA's management team and the employees of GWA have made over the past year. The positive improvements GWA has seen in the last 12 months, with the planning foundation complete and GWA employees taking ownership over GWA, the future is bright. GWA is thankful for the support of the GWA familia, the CCU, and our community.

Martin L. Roush, MPA, P.E.
General Manager
Guam Waterworks Authority

ENGINEERING DIVISION



Tom Cruz
Chief Engineer

In 2012 the engineering department continued to see changes to the organizational structure with the promotion of Menglou Wang, P.E. as the Assistant Chief Engineer. In addition the department added John Davis and Julio Morias as Senior Engineer Supervisors for CIP Wastewater and New Area Development Sections respectively. Both Mr. Davis and Mr. Morias are licensed professional civil engineers from the state they came from and will be obtaining there Guam Professional Engineering license. Both gentlemen bring to GWA tremendous experience in water and wastewater utilities projects, as well as a wealth of federal regulatory knowledge.

ACCOMPLISHMENTS IN 2012

1. Construction on the Barrigada 2MG tank Project started with completion slated for July 2013.
2. The Northern District Wastewater Treatment Plant Primary Treatment Interim Upgrades project was substantially completed which resulted in the plant meeting NPDES permit limits.
3. Two engineering staff completed the Arizona State University Certified Public Manager program.
4. The Ugum Water Treatment Plant Upgrades was substantially completed.
5. The Leak Detection Project was substantially completed which identified nearly 500 leaks throughout the island.

6. Construction activities for the Waterline Replacement Project replaced nearly 3,000 linear feet of 2" diameter pipe to 6" diameter pipe.
7. Construction work started for the Baza Garden Wastewater Treatment Plant Structural Improvements project.
8. Updated the Capital Improvements Plan for 2012-2015 which included a 2010 Bond Fund reallocation which funded many court order projects.
9. Update work for the water hydraulic model started with the Program Management Office.
10. Completed preliminary design for the Hagatna Wastewater Treatment Plant Interim Improvements.
11. Construction activities for the Hagatna Wastewater Treatment Plant Interim Improvements started with completion slated for June 2013.

GOALS FOR 2013

1. Begin design for several of the water storage tanks which require replacement or major repair.
2. Complete the construction of the 0.5MG Chaot and 0.5MG Agana Height water storage tanks.
3. Initiate water and wastewater projects funded from the 2011-2012 State Revolving Fund Grant issue by the USEPA .
4. Update the wastewater hydraulic model to allow GWA to provide better customer services for new development.
5. Begin construction activities for the three new water production wells in the north.
6. Continue to prepare for the military build-up by working with NAVFAC.
7. Continue to strengthen and streamline the Permits and Inspection Section.
8. Update and finalize the GWA Development Guide Book.
9. Continue to work towards completing as-build information input into the GIS.
10. Continue to work towards initiating GIS enterprise for GWA to connect all users to the GIS.
11. Continue to work towards reducing the number of pending water leaks through the use of the leak repair project.
12. Continue to replace water lines that have numerous and reoccurring leaks through the line replacement project.
13. Begin the design services for the Umatac/Merizo Wastewater Treatment Plant Interim Improvements
14. Complete the Sanitary Sewer Evaluation Survey for the Southern Sewer Collection System.
15. Initiate engineering services for the I&I/SSS work in the Central and Northern sewer collection system.
16. Complete the Barrigada and Yigo Sewer Pump Station Improvements projects funded with federal grants.

HUMAN RESOURCES DIVISION

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

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

The GWA Human Resources Division is under the leadership of the General Manager, Martin L. Roush and consists of 3 Personnel Specialists (Julie C. Adams, Josephfa C. Evangelista and Julius G. Bermudez); and 1 Administrative Officer (Jennifer C. Diaz)

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

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

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

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

A very successful GWA's Apprenticeship Program was completed on May 2012 with a total of 24 (twenty four) Apprentices completing all requirements and graduated with Journeyman Certificates as Pump Services, Wastewater Plant Mechanics and Operators, Water Treatment Plant Operator, and Plant Instrument Technicians. Our Apprentices graduates have since become permanent employees of Guam Waterworks Authority in their respective fields. The Apprentices Program requires 3 (three) to 4 (four) years of on-the-job training and is offered through the partnership with U. S. Department of Labor, The Agency for Human Resources Development and the Guam Community College.

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

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

In all areas of work, the Human Resources Division firmly upholds the tenets of confidentiality, accountability and trust. GWA's Human Resources Division continues to improve the level of customer service to our internal and external customers increasing communications with accessible information.

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



COMPLIANCE & SAFETY

ACCOMPLISHMENTS IN 2012

- GWA continues to successfully meet almost all compliance dates in the 11/10/2011 Court Order. Northern District Waste Water Treatment Plant (which upgrade was the only late project so far) has been in full NPDES compliance since January 9, 2013.
- GWA is benefitting from the Program Management Office support of Brown and Caldwell.
- GWA Compliance Laboratory maintains Certification for EPA Compliance Monitoring.
- GWA continues primary safety training with Water M&O and Utilities Services and has added Advanced Safety (Specialized) Training.
- Ugum Surface Water Treatment Plant is not operating using Continuous Membrane Filtration (Submerged) processing and water quality exceeds all required standards.
- The GWA Sewer Hook-Up Revolving Loan Fund program continues to be available. (See <http://www.guamwaterworks.org/documents/SewerFactSheet05192010.pdf> on the GWA Web site for details.)

GOALS FOR 2013

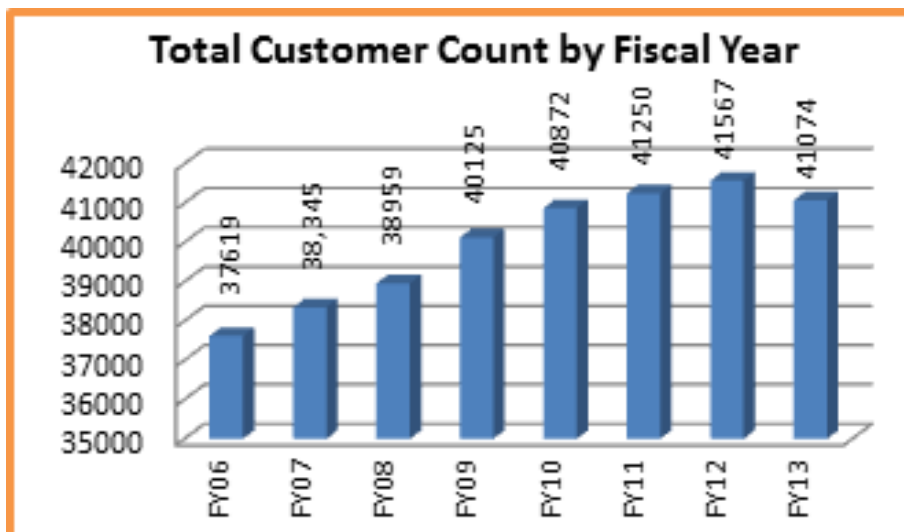
- Enhance the robustness of the three Drinking Water Systems by taking advantage of the EPA 11/01/2012 Significant Findings of [Potential] Deficiencies (water) report.
- Complete the design for the replacement of the GWA Dededo Compliance Laboratory.
- Continue to manage compliance with the 2011 Court Order.
- Manage compliance with all other SDWA, CAA, CWA and OSHA requirements on schedule.
- Expand the Advanced Safety (Specialized) Training Program.
- Establish an approved Back-Flow/Cross-Connection control program.
- Completion of the Ground Water Under Direct Influence of Surface Water (GWUDISW) study is scheduled for late April 2013. Data verifies that GWA water is not GWUDISW.

UTILITY SERVICES DIVISION

The Utility Services Division (USD) is comprised of six units:

- Customer Service Unit
- Disconnect/Reconnect Unit
- Meter Reading Unit
- Revenue Collections Unit
- Revenue Protection Unit/Meter Task Force
- Administrative Office

The total Customer Count for FY2012 was 41,567:



The following Units have increased in efficiency and productivity in FY2012:

CUSTOMER SERVICE UNIT

	MAIN OFC	JULALE CTR	CALL CTR	WEBMAIL	PROCESSED			YTD
January	1902	1276	2201		5379			5379
February	1926	1112	2773		5811			11190
March	2225	1722	3216		7163			18353
April	2009	1798	1869		5676			24029
May	2080	1845	2389		6314			30343
June	2294	1815	1746		5855			36198
July	2052	1433	1117		4602			40800
August	2144	1490	1639	460	5733			46533
September	1737	1384	2142	748	6011			52544
October	2042	1483	1436	868	5829			58373
November	1795	1587	2162	184	5728			64101
December	1848	1479	2092	468	5887			69988

DISCONNECT | RECONNECT UNIT

	SERVICE ORDERS PROCESSED	COMPLETION			UNIT COMPLETION RATE			YTD
January	1909	1801			94%			1801
February	1974	1675			85%			3476
March	1898	1791			94%			5267
April	2230	1744			78%			7011
May	3579	3086			81%			10097
June	3154	3181			101%			13278
July	2151	2092			97%			15370
August	2639	1896			72%			17266
September	1371	1074			78%			18340
October	1732	1508			87%			19848
November	1847	1382			75%			21230
December	1806	1778			98%			23008

METER READING UNIT

	METRON METER COUNT	SENSUS METER COUNT	BADGER METER COUNT	METRON READ %	BADGE READ %	TOTAL ELECTRONIC READS	TOTAL MANUAL READS	TOTAL METER COUNT
January	29706	11710		84%		24020	17396	41416
February	29738	11678		84%		23663	17753	41416
March	29767	11588		84%		23756	17599	41355
April	29809	11879		84%		24033	17655	41688
May	29832	11705		78%		23247	18290	41537
June	29688	11846		77%		22941	18593	41534
July	29665	13505	20	75%		28105	15085	43190
August	27919	13864	1531	72%		24693	18621	43314
September	25128	13836	4274	70%	95%	25453	17785	43238
October	24326	11893	5437	65%	94%	20784	20872	41656
November	21239	11473	8944	65%	94%	22154	19502	41656
December	18657	10561	11856	65%	97%	23516	17558	41074

REVENUE COLLECTIONS UNIT

	WALK IN	COURTESY CALLS	COLLECTIONS NOTES / PAYMENT PLAN	DISCONNECT FOR NON-PAYMENT	ASSIST INCOMING CALL	ATC	TOTAL	YTD
January	570	412	710	551	286	2216	4745	4745
February	788	507	909	620	286	3391	6501	11246
March	787	574	809	556	303	2868	5897	17143
April	770	241	952	1313	276	2670	6222	23365
May	934	74	730	2164	305		4207	27572
June	1065	86	806	2226	517		4700	32272
July	752	276	955	1066	259	1729	5037	37309
August	390	303	523	628	229	1710	3783	41092
September	354	370	356	25	232	1962	3299	44391
October	591	673	409	92	335	1959	2100	46491
November	527	278	426	234	271	2933	4669	51160
December	539	127	410	243	277	2576	4172	55332

REVENUE PROTECTION UNIT/METER TASK FORCE

	SERVICE ORDERS PROCESSED	COMPLETION	PENDING	ILLEGAL CONNECTION	INACTIVE STILL CONSUMING	PERCENTAGE OF COMPLETION	TOTAL	YTD
January	1171	1029	142	2	2	88%	1029	1029
February	1336	1576			6	118%	1576	2605
March	1318	819	499		8	62%	819	3424
April	1141	1082	59		1	95%	1082	4506
May	1968	643	102		8	33%	643	5149
June	1225	258	54		3	21%	258	5407
July	1085	279	806		6	26%	279	5686
August	943	1833	588		1	194%	1833	7519
September	5263	6213	365		6	118%	2690	10209
October	3212	2811	401		3	88%	2811	13020
November	2288	2189	99		0	96%	2189	15209
December	2249	1670	9		4	74%	1670	16879

METER REPLACEMENT PROJECT

	METERS PURCHASED	METERS REPLACED					YTD METER PURCHASES	YTD REPLACED
January								
February								
March								
April	6224							
May	20	20						20
June								20
July								20
August		1479						1499
September	6626	3032						4531
October		3391						7922
November		2711						10633
December	6010	1747						12380

UTILITY SERVICES DIVISION CUMMULATIVE ACTIVITY REPORT for FY2012

OVERALL DIVISION TOTAL	PROCESSED	COMPLETED	CANCELLED	PENDING	% OF COMPLETION
	54,972	51,709	3036	227	100%

GOALS FOR 2013

- Complete the 2012 Meter Replacement Program and meet meter change out requirements of the 2003 Stipulated Order
- Implement new programs to improve revenue recovery and protection from water theft and loss.
- Improve the quality of customer service delivery and efficiencies through increased training opportunities and the implementation of empowerment programs for all service deliverers.
- Reduce the number of manually read meters and maximize the AMR technology now available
- Maintain 98-100% successful electronic read percentage on all newly installed AMR meters
- Better serve our ratepayers by making useful consumption information immediately available via the improved AMR technology and by reducing the amount of time lost to manual field verifications
- Maximize the availability of GWA's new meter test bench and test facility to improve service for ratepayers

WATER MAINTENANCE & OPERATIONS

ACCOMPLISHMENTS IN 2012

1. GWA now maintains up-to-date information on the condition, location and disposition of all vehicles and heavy equipments. Data are accessible and used to support operations for preventative maintenance program, financial reports and budget planning purposes.
2. Completed repairs on the following chronic low water pressure areas:
 - a. Sgt Pedro LG Street, Barrigada
 - b. Chalan Kotda/Chalan Tronkon Niyok, Mataguac, Dededo
 - c. Maina, across Rosie's Tavern
 - d. Sabanan Magas Drive Mangilao
 - e. GS Borja Street, Sta Rita
 - f. Manuel Tenorio Street, Talofoto
 - g. Chalan Vicentico, Yigo
3. Developed a proactive approach in monitoring navy water usage vs customers consumption and fixing leaks significantly reducing our navy water purchases.
4. Established preventative and corrective maintenance of our booster pump stations electrical system.
5. Improved asset management
6. Improved inter-utility coordination due to emergency field work by establishing work planning and improvements in coordination process.

GOALS FOR 2013

1. Work for continued reduction in Navy water by 15%.
2. Improve water production by 10%.
3. Reduce chemical consumption by 5%.
4. Full asset management module implementation.

WASTEWATER DIVISION UPDATE

Raising the bar in Wastewater Division

Developing our People

2012 continues to build upon the previous year's training program. A total of Twenty four (24) formal classes were held during the year. Along with traditional classroom courses, Divisional training heavily focused on On-The-Job (OJT) instruction required for the start-up and commissioning of the Northern District Wastewater Treatment Plant, heavy equipment handling, and new inspection programs incorporated under the Court Order. Staff was also provided instruction in use of the JDE system for procurement and completed a number divisional safety refresher courses.

Additionally heavy focus was placed on successfully completing US EPA certification training for both plant operational staff and collection system personnel. By the end of 2012, 50 divisional personnel have successfully complete US EPA certification training. A number of these personnel are continuing to progress toward higher certification levels and advanced certification is now a requirement of supervisory promotion.

Some of the specific course work offered during 2012 included Fork Lift Operator certification, Confined Space Entry, LOTO refresher, Traffic Control, SCADA and PLC operation, CCTV inspection, Jetter and Roll Off Truck operation, work permit refresher and training on the Federal Court Order. Wastewater operations staff is continuously improving their skill sets as result of an extensive and relevant training program which is starting to realize benefits in improved operational performance.

Improving our performance

The year marked another step forward for the Wastewater Division as Northern District WWTP construction upgrades where completed and operational training and facility commissioning was completed. Divisional personnel were closely involved in the facility design and worked daily with the Contractor in order to execute facility start-up in a timely manner. Operator training on plant Standard Operational Procedures and facility routines continues to develop during 2013.

Collection system personnel received extensive training on a new CCTV Inspection Van and sewer cleaning jet truck. Both of these new units are now in routine use in an effort to ensure compliance with the Federal Court Order for cleaning and inspection and improved divisional response to sewer backups. Both the maintenance and collection system rover teams received additional training in the inspection and routine maintenance of new VFD controls installed in a number of lift stations and at the Northern District WWTP.

During 2012 the Wastewater Division met 100% of the Court Order requirements and continued to improve response to Sanitary Sewer Overflows (SSO).

Some of the Divisional performance highlights include:

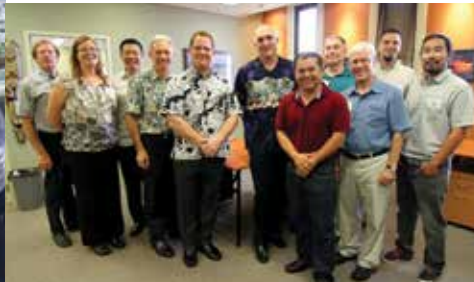
- Exceeding Court Order cleaning and inspection requirements by 12%. The Court Order requires a minimum of 55 miles of sewer cleaned and inspected each year. In 2012 the Collection System crews cleaned 62 miles of sewer and inspected 61.42 miles of sewer using closed circuit TV.
- Total number of SSO reported to US EPA dropped by 23% from 52 in 2011 to 42 in 2012.
- Capital construction of Chemically Enhanced Primary Treatment (CEPT) was fully implemented at Northern District WWTP.
- Sanitary Sewer By-passes dropped to Zero (0) at both the Agat and Hagatna WWTP in 2012.
- Maintenance staff completed 1938 work orders during 2012.
- A Sanitary Sewer Evaluation Study was completed in the Agat/Meritzo collection system as part of a Court Order directive.

Brown and Caldwell PROGRAM MANAGEMENT OFFICE

Brown and Caldwell, GWA's PMO, has been an effective and valuable tool allowing GWA to meet its court order and contractual requirements during 2012. More than 25% of all PMO work has gone to local engineering firms. The PMO has also hired local professional engineering staff.



- The PMO was critical in supporting GWA's ability to meet court order deadlines. Forty-eight out of forty-nine deadlines were met in 2012 that fully addressed EPA and GEPA concerns. The PMO provided technical staff augmentation to GWA through the preparation of technical memoranda, plans, reports, documents and responses to EPA comments. The PMO provided comprehensive support to court order stipulations. A wide array of projects has been supported, from planning through construction management, which included the Ugum WTP operations and construction inspection, Sinajana and Agana Heights water system improvements, Chaot and Agana Heights water storage tanks, Baza Gardens WWTP and Agat-Santa Rita WWTP upgrades, Southern Sewer Basins I&I studies, Umatac-Merizo Sewer overflow correction, hydraulic modeling, water storage tank modeling, NDWWTP construction management, Agana WWTP interim measures, chlorine monitoring plans, and completion of quarterly and annual reporting.
- Provided NPDES secondary treatment draft permit support to reduce operational expenses. Supported GWA in conducting technical discussions with USEPA and negotiated NPDES secondary permit draft provisions at the Northern District and Agana WWTP resulting in favorable mixing and dilution at the outfall, along with reduced monitoring, sampling, testing, and chemical addition.
- Supported the PUC stipulated order projects by providing technical guidance on the water system rehabilitation and replacement program through pipeline prioritization, water loss audits and energy-evaluations at the water booster pump stations.
- Improved water production, reduced operational repair costs and improved health of water system through groundwater well pump failure analyses that identified inadequate motor cooling as a root cause of failure, supported GWA in resolving NEIC findings of significant deficiencies in the water system, and scheduled prioritization of water storage tank repair or replacement.
- Improved quality control of work products. Revealed quality control issues in construction and engineering and held vendors accountable for meeting quality standards.
- The PMO promoted staff development by conducting personnel training and one-on-one mentoring, project management oversight, negotiations support and technical advice.
- The PMO assisted GWA in meeting compliance schedules, maximizing use of local engineering and contracting community and the GWA staff, and achieved a savings of more than \$1.5 million in project costs in 2012.



EMPLOYEES



Abay, Stuart Lee
Adams, Julie C.
Aguon, Anthony L.
Aguon, Benny T.
Aguon, Daniel A.
Aguon, Edward A
Aguon, Joseph Anthony C.
Aguon, Lester D.
Aguon, Peter F.
Aguon, Prudencio F.
Aguon, Steven T.
Alano, Efren M.
Alvarez Jr., Jose
Antonio, Glorilyn D.
Apiag, Severin Hilary A.
Apuron, Manuel P.
Apuya Jr., Elizardo C.
Aquiningoc, Kenneth J.
Aquiningoc, Rita
Arceo, Bryan J.
Arceo, Erik F.
Arceo, Peter J.
Arceo, Tommy J.
Arriola, Norma Marie I.
Asuncion, Raymond G.
Balajadia-Aguigui, Marcy
Barcenilla, Zachary J.
Barcinas, Benbenido M.
Baza, Raymond LG
Bell, Henry J.
Benavente II, Michael J.
Benavente, Elena P.
Benavente, Joseph M.
Benavente, Linda Frances
Bensan, Gloria P.
Bermudez, Julius
Blake Jr., Steven E.
Blas, Daniel G.
Blas, JayRyan T.
Blas, John K.T.
Blas, Kenneth Q.
Blas, Melchor M.
Borja, Ann D.
Borja, Jeffrey M.
Borja, Michael C.
Borja, Peter J.
Brown, Larry C.
Cabuhat Jr., Geronimo P.
Calvo, Jude G.
Camacho, TeresaMarie B.
Castelo, Loreta R.
Castro, Eddie P.
Castro, Keith J.
Castro, Peter B.
Cendana, John C.
Cesa, Cecille M.
Charfauros, Jonathan A.
Chargualaf JR, Anthony P
Chargualaf Jr., Benny E.
Chargualaf, Benny E.
Chargualaf, David B.
Chargualaf, Dean E.
Chargualaf, Frankie E.
Chargualaf, Roy R.
Claveria, Joseph P.
Crisostomo, Diane T.
Crisostomo, Jennifer M.
Cruz, Anthony F.
Cruz, Barbara Ann Camacho
Cruz, Bernie Antonitte V
Cruz, Branden A.
Cruz, Franklin F.
Cruz, Grace R
Cruz, Greg P
Cruz, Jesse Joseph Wusstig
Cruz, Jose B.
Cruz, Lola-Elaine W.
Cruz, Lucas C.
Cruz, Michelangelo Paul
Cruz, Patrick M.
Cruz, Peter T.
Cruz, Raymond AR
Cruz, Rose B.
Cruz, Thomas Franklin A.
Cruz, Yvonne M.
DaHill, Betty Liz
Dalisay, Teresita S.
Davis, John M.
Diaz, James N.
Diaz, Jeremiah Frank B.
Dizon, Eliseo Q.
Duenas Jr., Agustin B.
Duenas, James B.
Duenas, Jeralle JT
Duenas, Joseph A.
Duenas, Mark Anthony A.
Esguerra, Danilo I
Estrada, Rodney R.
Evangelista, Josephfa Castro
Evangelista, Josephine D.
Fletcher, David A.
Flores, George V.

Flores, Ricky H
Foster, Everard P.S.
Franquez, Paul A.
Gagan, Gary George P.
Garcia, Evelyn G.
Garrido, Joseph B.
Garrido, Robert G.
Gaza, Alicia C.
Gerardo Jr., Roger A.
Gozalo, Mary C.
Grape, Karen Cheryl O.
Guerrero, Doris A.
Guerrero, Eugene A.
Guerrero, Timothy C.
Guerrero, Ursula A.C.
Guerrero, Vincent Ed
Guile Jr., Gary Allen
Gumataotao, Anthony F.
Gumataotao, Elizabeth H.
Gutierrez, Arthur L
Gutierrez, N'tasha L.
Guzman, Peter A.
Hechanova, Yukari Barnes
Hecita, Theresa Epacta
Herrero, Frances C.
Herrero, Jonathan James
Hoover, Matthew E.
Huntington II, Clinton W
Ignacio, Roy R.
Ililau, Charlene
Jardel, Jose A.
Jardel, Victor A.
Kaneshiro, Derek H.
Kemp, Paul J

Leal, Jerry P.
Leon Guerrero, Jesse L.
Limtiaco, Anita K.
Lizama, Francis A.
Lizama, Lance D.
Lopez, Marc D.
Lotoc, Bernardo P.
Lujan, David F.
Lujan, Francis A.
Lujan, Jonathan J.
Lujan, Paul Q.
Lunod, Curtis Jerome I.
Macan, Craig A.
Mafnas, Donnie A.
Mafnas, Fred B.
Mafnas, Gilda M.
Manglona, Frankie B.
Manibusan, Denise M.
Mantanona, James C.
Mantanona, Lance JD
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Mendiola Jr., Victor Cab
Mendiola, Bryan R.
Mendiola, Melvin P.
Meno, Frankie R.
Meno, Johnny B.
Meno, Michael J.
Meno, Troy R.
Mercado, Roger P.
Mercado, Sylvia Y.
Mesa, Vincent J.
Mesngon, Ignacio C.
Mikel, Kathleen S.
Miller, Jacob P.

Miller, Mark G.
Mondina, Stephen P.
Morais, Julio Terencio Silva
Munoz, Randy M.
Nagal, Janice G.
Nangauta, James C.
Naputi, Raymond F.
Natuel, Orlando O.
Nauta, Franklin I.
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Orlino, Keith F.
Ortua, Marjorie I.
Pacheco, Dalisay D.
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Palomo, Emmanuel N.
Palomo, Lourdes C.
Pangelinan, Jackie RF
Pangelinan, Jason Gerard
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Pangelinan, Richard W.
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Paulino, Ken Jay
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Pegarido, Noli G.
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Portin, Christopher T.
Punzalan, Joseph A.
Quan, Nicole R.
Quenga, Louvina M.
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Quinata, Anthony A.
Quinata, Frankie T.
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Quintanilla, George S
Quintanilla, Michael P.M
Quintanilla, Raymond C
Quintanilla, Rose M.
Quintanilla, Sandra L.
Quitlong, Delfyn S.
Quitugua, Peter S.
Railey, Brett Eric
Ramos, Charles M.
Resurreccion, Clement C.
Reyes, Kathy MT.
Rios, Albert J.
Rivera, David F.
Robinson, Demetria G.
Roldan, Martin T.
Roush, Martin Louis
Sablan, Annie Therese H.
Sablan, Bernadette M.
Sablan, Felix D
Sablan, Francisco T.
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Sablan, Michael M.
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Salayon, Ma. Teogenesa Q
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San Nicolas, Joaquin M.
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San Nicolas, Joseph SA
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San Nicolas, Melvin D.
San Nicolas, Ronald D.
Sanchez, Francisco C.
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Sanchez, Lance T.
Sanchez, Lourdes S.
Sanchez, Zachery T.
Santos JR, Joseph M.
Santos, Glenn G.
Santos, Jose M.
Santos, Mancini Liam G.
Santos, Manz Lio G.
Saturnio, Brian JL
Schaible, Melissa B.
Scroggs, Steven Daniel M.
Scroggs, Richard Daniel
Selleck, Lauris Eldon
Sharma, Winnie S.
Sian-Denton, Carmen M.
Siguenza, Patrick A.F.
Sourgoose, Peter L.
Tabano, Ronald A.
Tadeo, Joseph A.
Taimanglo, Eddie T.
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Taisacan, Jacalyn M.
Taitague, Anthony Earl L

Taitague, Craig Joseph
Taitague, Frankie Q.
Taitague, Garrick L.G.
Taitague, Shane D
Taitano, Joey A.
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Tallada, Zambales R.
Taman, Bill
Tareg, Virginia P.
Tayama, Diane M.
Taylor, Samuel J
Techaira, Michael J.
Tedtaotao, Frankie D.
Tenorio, Wade T.
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Torres, Victor A.
Toves, Rodney A.
Tudela, Jason Henry S.
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Tyquiengco, Vincent Jon
Ulloa, Lavene C.
Unchangco, Leilani JC
Unchangco, Peter F.
Untalan, Paul C.
Uy, Melissa Marie T.
Vicente, Marietta P.
Villagomez, MaryDawn F.
Villagomez, Rodney J.
Wall, Jerald Lee
Wang, Menglou
White, Franklin K.
Wilson Jr., Carl
Yam, Cheuk Nam
Yeoh, Garrett K.A.
Young, Doris J.

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

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

**YEARS ENDED
SEPTEMBER 30, 2012 AND 2011**



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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

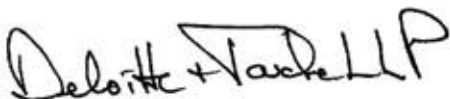
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2013, on our consideration of Guam Waterworks Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of certain operating and maintenance expenses, cash flows indicating financing method, construction work in progress, system development charge fund and operating revenues on pages 44 through 48 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. The 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, the schedules of equalization of net (income) loss, certain operating and maintenance expenses, cash flows indicating financing method, construction work in progress, system development charge fund and operating revenues are fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The schedule of equalization of net (income) loss on page 43 and schedule of employees and other data on page 49 are presented for the purpose of additional analyses and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

May 30, 2013

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

Management's Discussion and Analysis
September 30, 2012 and 2011

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, 2012. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 17.

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 22 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 43 of this report.

Financial Highlights

- Total assets of GWA exceeded total liabilities at the close of fiscal year 2012 by \$201.9 million (net assets).
- Change in net assets increased by \$3.4 million or a 117% change as compared to fiscal year 2011.
- Total net assets of GWA increased by \$0.5 million or .25% as compared to fiscal year 2011.
- Operating revenues increased by \$2.2 million as compared to fiscal year 2011.
- Capital assets net of accumulated depreciation at September 30, 2012 increased by \$20.6 million as compared to September 30, 2011.
- The cash collection ratio at year-end September 30, 2012 was 96.0%.
- Operating and maintenance expenses increased by \$0.6 million as compared to fiscal year 2011.
- GWA experienced operating income of \$5.3 million for the fiscal year ended September 30, 2012 as compared to prior year's operating income of \$3.7 million, a 43% change increase.

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

Management's Discussion and Analysis
September 30, 2012 and 2011

Financial Condition

The Authority's total net assets increased by \$0.5 million during the current fiscal year (see Table 1 below) due to increases in current assets and plant, property and equipment.

The net increase in current assets of about \$2.7 million is due primarily to increases in trade and other receivables.

The net increase in property, plant and equipment of \$20.6 million is due to the construction of water transmission lines, upgrade of a water spring and wastewater pump lift-station, and, acquisition of new fleet vehicles.

The Authority's investment in capital assets net of related debt represents 94% of total net assets. The amount invested in capital assets, net of debt, remained constant as in prior year.

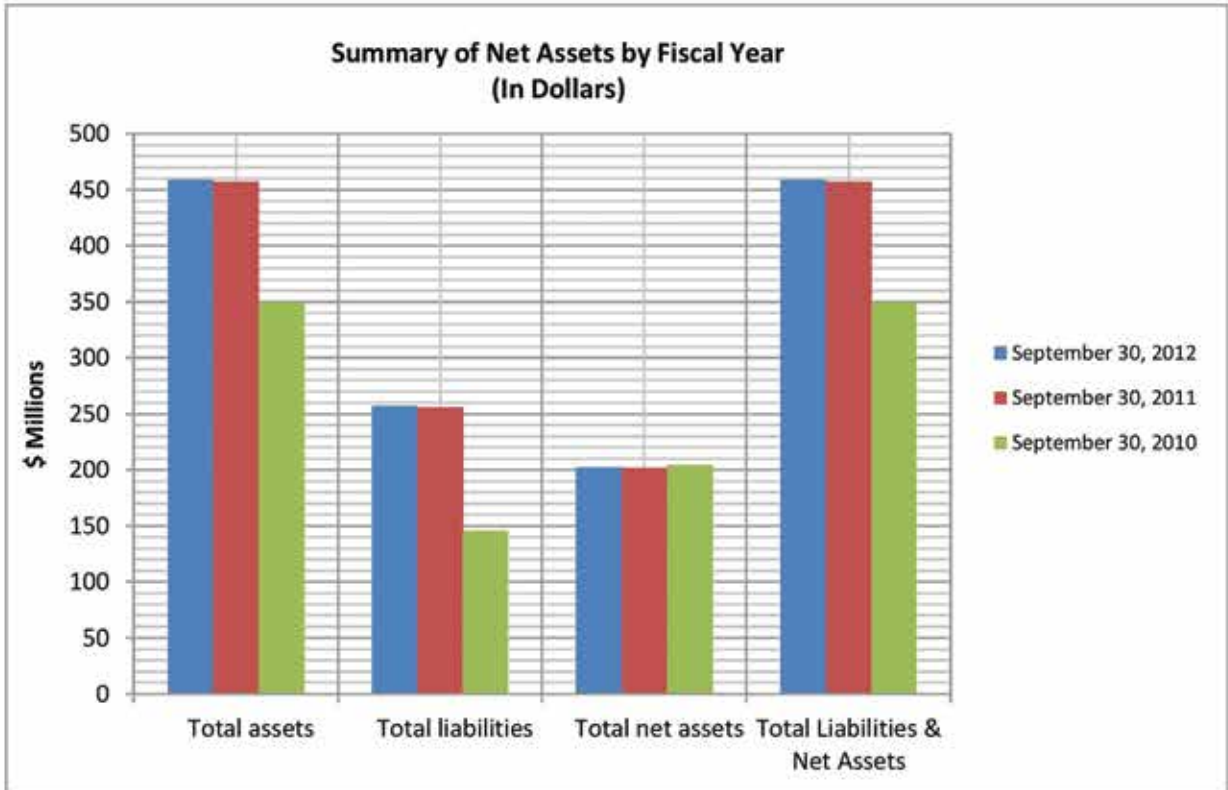
Table 1
Summary Statement of Net Assets

	September 30, 2012	September 30, 2011	September 30, 2010	2012 to 2011 Comparison	
				Increase/ (Decrease)	% Change
Current Assets	\$ 35,814,457	\$ 33,073,629	\$ 35,166,168	\$ 2,740,828	8.29%
Property, plant and equipment, net	304,802,292	284,212,877	281,605,229	20,589,415	7.24%
Other non-current assets	118,306,010	139,679,692	32,954,273	(21,373,682)	-15.30%
Total assets	\$ 458,922,759	\$ 456,966,198	\$ 349,725,670	\$ 1,956,561	0.43%
Current liabilities	\$ 26,315,344	\$ 19,405,499	\$ 19,023,902	\$ 6,909,845	35.61%
Long-term liabilities	230,748,403	236,213,430	126,424,281	(5,465,027)	-2.31%
Total liabilities	257,063,747	255,618,929	145,448,183	1,444,818	0.57%
Net Assets:					
Invested in capital assets, net of related debt	189,567,949	189,524,913	190,678,898	43,036	0.02%
Restricted	9,472,664	8,049,966	5,866,142	1,422,698	17.67%
Unrestricted	2,818,399	3,772,390	7,732,447	(953,991)	-25.29%
Total net assets	201,859,012	201,347,269	204,277,487	511,743	0.25%
Total Liabilities & Net Assets	\$ 458,922,759	\$ 456,966,198	\$ 349,725,670	\$ 1,956,561	

Management's Discussion and Analysis for the year ended September 30, 2011, is set forth in GWA's report on the audit of financial statements, which is dated April 5, 2012. That Discussion and Analysis explains in more detail major factors impacting the 2011 financial statements. A copy of that report can be obtained by contacting the CFO office at the contact details below.

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

Management's Discussion and Analysis
September 30, 2012 and 2011



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

Management's Discussion and Analysis
September 30, 2012 and 2011

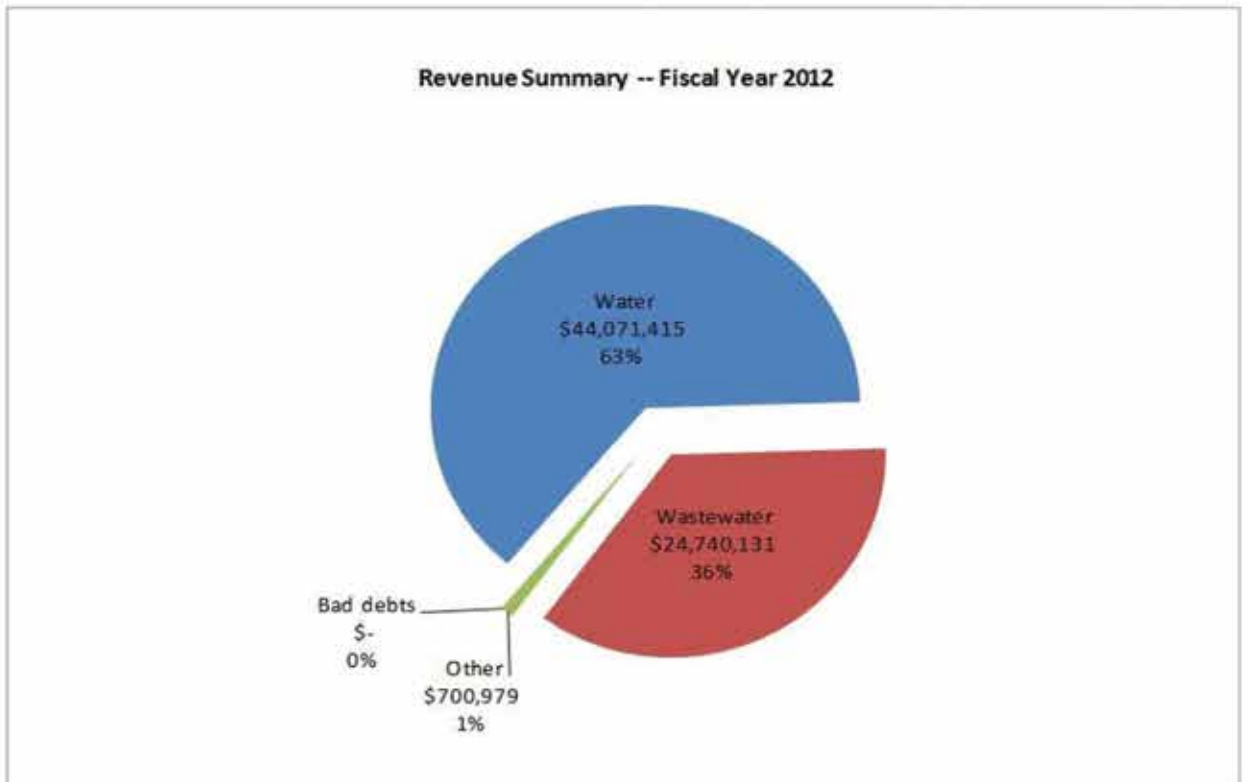
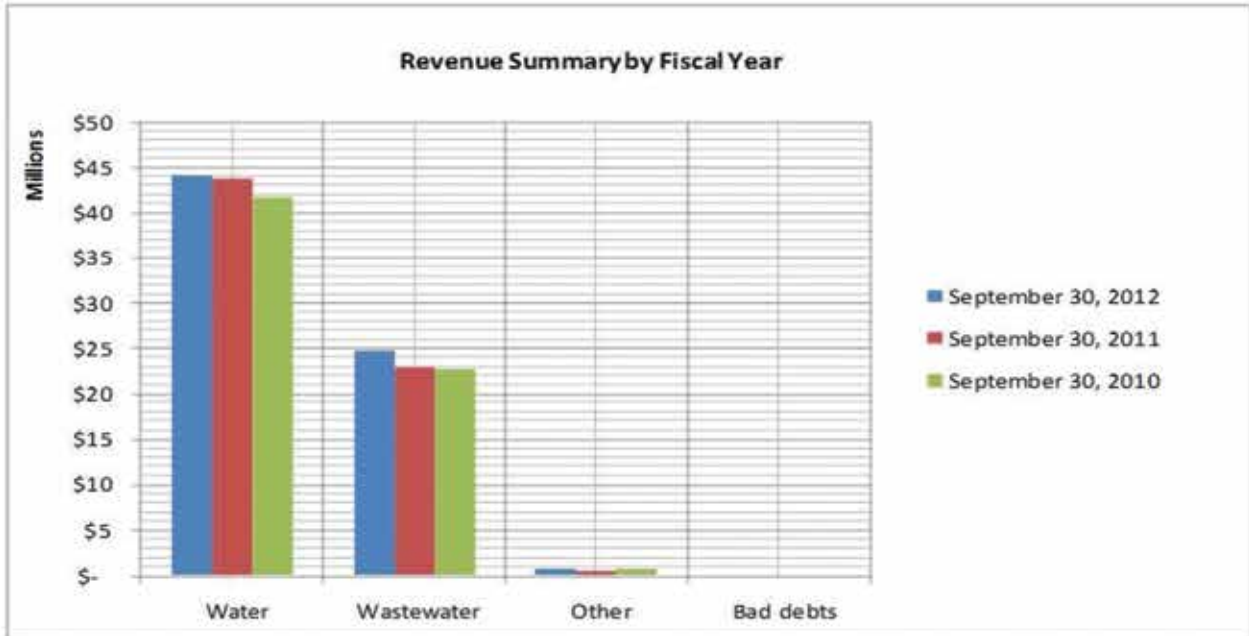
The total operating revenue of \$69.5 million increased by \$2.2 million or 3.3% for the current year and operating expenses of \$64.2 million increased by \$0.6 million or 0.9% resulting in net operating income of \$5.3 million or 43% increase when compared to the prior year (see Table 2).

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

	September 30, 2012	September 30, 2011	September 30, 2010	2012 to 2011 Comparison	
				Increase/ (Decrease)	% Change
Revenues:					
Water	\$ 44,071,415	\$ 43,747,618	\$ 41,678,275	\$ 323,797	0.74%
Wastewater	24,740,131	22,960,591	22,698,368	1,779,540	7.75%
Other	700,979	606,994	817,683	93,985	15.48%
Bad debts	-	-	4,138	-	
Total operating revenue	<u>69,512,525</u>	<u>67,315,203</u>	<u>65,198,464</u>	<u>2,197,322</u>	<u>3.26%</u>
Expenses:					
Power purchases	17,015,686	15,191,769	14,344,013	1,823,917	12.01%
Water purchases	5,263,128	6,283,246	6,669,120	(1,020,119)	-16.24%
Sludge (waste) disposal fees	275,938	305,469	294,175	(29,531)	-9.67%
Salaries, wages and benefits	18,891,270	18,499,114	18,085,703	392,157	2.12%
Depreciation	12,050,430	11,854,307	11,568,858	196,122	1.65%
Administrative and general	5,416,166	5,885,100	4,078,237	(468,934)	-7.97%
Contractual	3,068,764	3,355,465	3,381,182	(286,701)	-8.54%
Retiree healthcare costs and other benefits	2,262,583	2,244,032	1,897,530	18,552	0.83%
Total operating expenses	<u>64,243,965</u>	<u>63,618,502</u>	<u>60,318,818</u>	<u>625,464</u>	<u>0.98%</u>
Net operating income (loss)	<u>5,268,560</u>	<u>3,696,701</u>	<u>4,879,646</u>	<u>1,571,859</u>	<u>42.52%</u>
Non-operating revenue (expenses)	2,449,253	1,950,924	1,838,483	498,329	25.54%
Less: Interest Expense	(13,885,808)	(13,366,111)	(6,516,956)	(519,697)	-3.89%
Total non-operating revenues (expenses), net	<u>(11,436,555)</u>	<u>(11,415,187)</u>	<u>(4,678,473)</u>	<u>(21,368)</u>	<u>-0.19%</u>
Income (loss) before capital contributions	(6,167,995)	(7,718,486)	201,173	1,550,490	20%
Capital contributions	<u>6,679,738</u>	<u>4,788,268</u>	<u>5,888,510</u>	<u>1,891,470</u>	<u>39.50%</u>
Change in net assets	511,743	(2,930,218)	6,089,683	3,441,961	117.46%
Net assets - beginning year	<u>201,347,269</u>	<u>204,277,487</u>	<u>198,187,804</u>	<u>(2,930,218)</u>	<u>-1.43%</u>
Net assets - end of year	<u>\$ 201,859,012</u>	<u>\$ 201,347,269</u>	<u>\$ 204,277,487</u>	<u>\$ 511,743</u>	<u>0.25%</u>

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

Management's Discussion and Analysis
September 30, 2012 and 2011



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

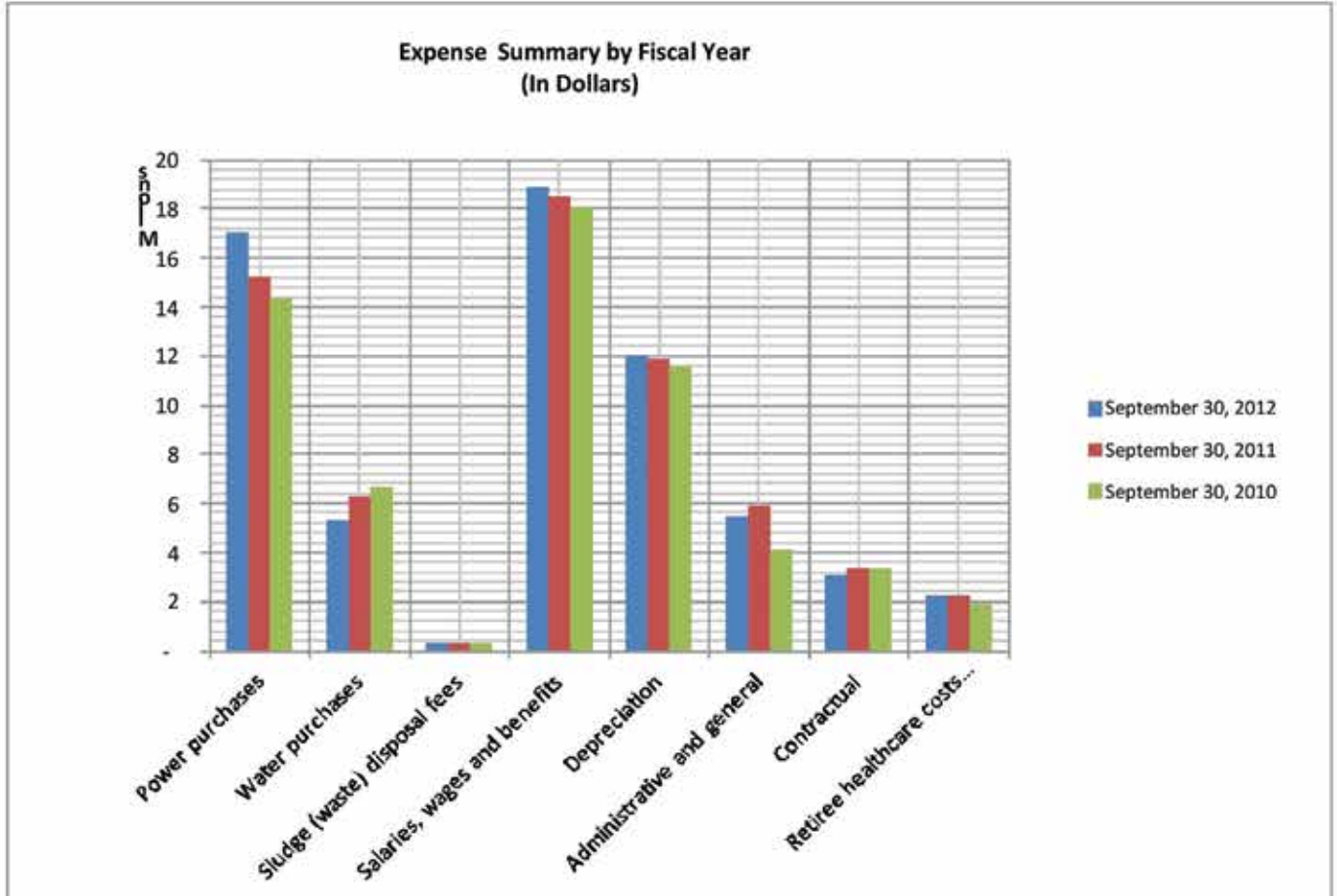
Management's Discussion and Analysis
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The major changes in net income from the prior year were from the following:

- Water revenues (total) increased by \$0.3 million over the prior fiscal year due in part to a 12.79% increase in water rates which affected the basic and non-life components. There was, however, a decrease in total consumption of 3% or 196 million gallons and a 1% increase (or 377) in the number of annual monthly average of water customers. There were revenue dollar increases in agricultural, government and hotel customer classes, and decreases in federal, golf course, residential and commercial customer classes. The basic (fixed) water charge is assessed monthly to all customer classes without regard to consumption. Please see Table 3.
- Wastewater revenues (total) increased by \$1.8 million or 8% over the prior fiscal year. A 12.79% rate increase in non-basic sewer charges was approved for the current year. There was an increase of 1% (or 261) in the number of annual monthly average of wastewater customers and a decrease in wastewater consumption of 3% or 116 million gallons as compared to prior year. There were revenue dollar increases in all customer classes, with commercial III, federal, government and hotel having double-digit percent changes. The basic (fixed) sewer charges are assessed monthly to residential customers without regard to consumption; however, all other customer classes are charged 80% of volumetric water consumption. Please see Table 4.
- Operating expenses increased by \$0.6 million or 1% over the prior fiscal year. The major contributing factors were increases in power purchases, salaries and wages, depreciation and retiree healthcare costs and other benefits. The increases in operating expenses were offset by decreases in water purchases, sludge disposal fees, contractual and, administrative and general.
- Non-operating expenses increased by \$21 thousand (net) or .19% over the prior fiscal year mainly due to increases in interest expense on long-term debt, federal expenditures, and the allowance for funds used during construction. Capital contributions were grants from the U.S. Government.
- Of the total water and wastewater revenue of \$44.1 million and \$24.7 million, system development charges (SDC) represented \$0.607 million and \$0.535 million, respectively. Thus the total SDC for the current fiscal year total is \$1.14 million. Please see Schedule 5 on page 47.

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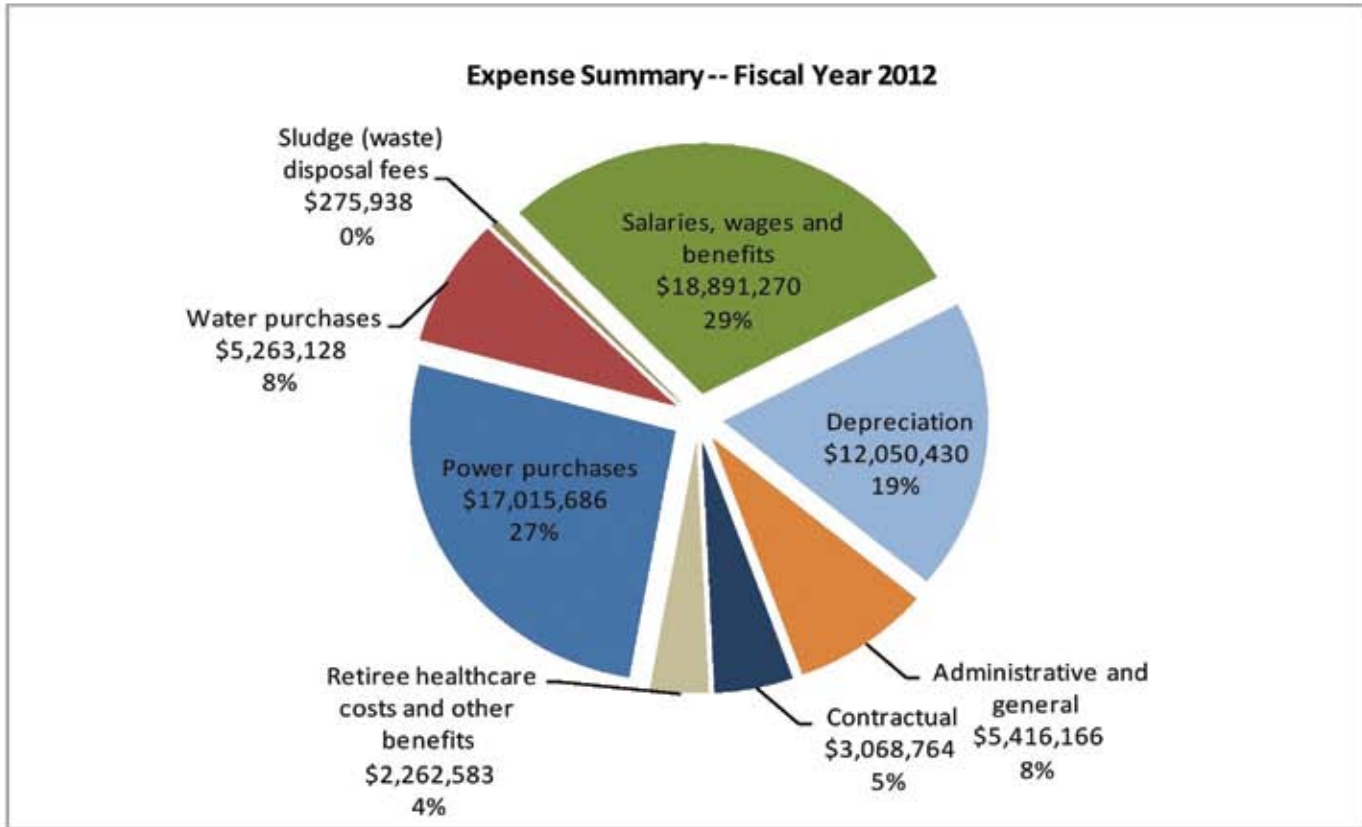
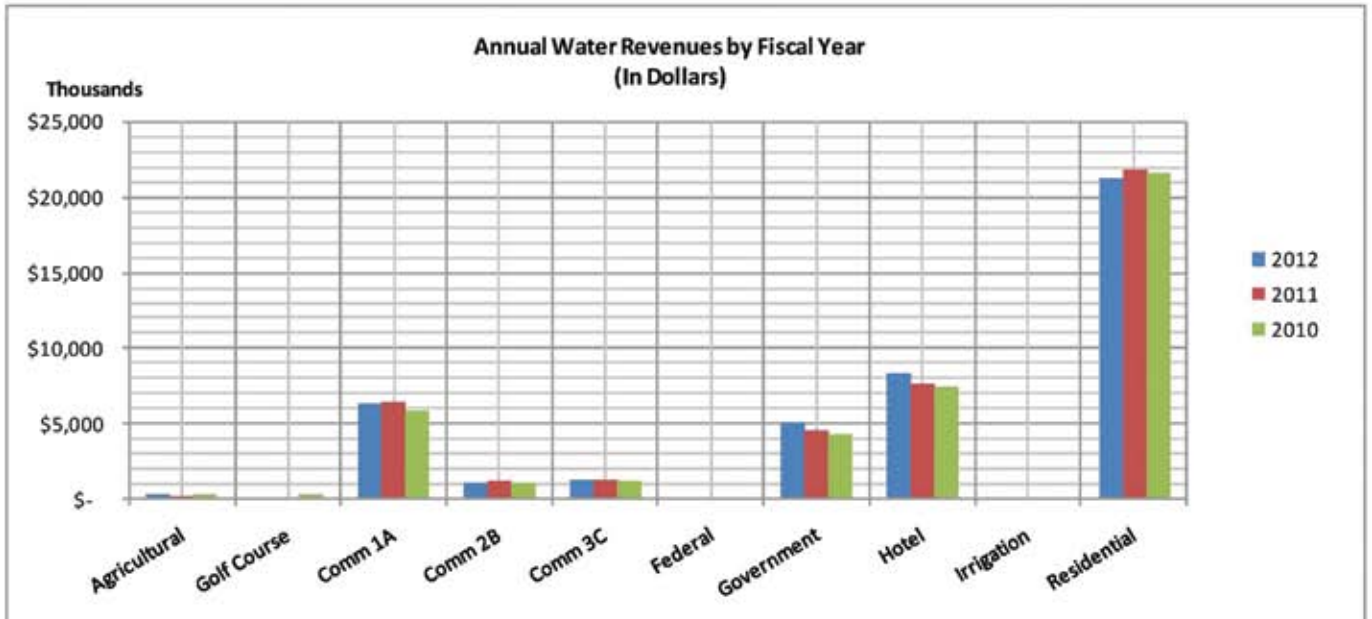


Table 3
Annual Water Revenues (Includes Surcharges and Excludes System Development Charges)
(In Dollars)

Class Type				% Change	2012 to 2011 Comparison	
	September 30, 2012	September 30, 2011	September 30, 2010		Increase	(Decrease)
Agricultural	\$ 255,061	\$ 178,081	\$ 227,349	43%	\$ 76,980	
Golf Course	62,791	73,247	194,241	-14%	(10,456)	
Comm 1 ^a	6,301,102	6,428,626	5,857,765	-2%	(127,524)	
Comm 2 ^b	1,005,031	1,136,049	1,006,082	-12%	(131,018)	
Comm 3 ^c	1,233,225	1,269,874	1,133,857	-3%	(36,649)	
Federal	9,472	26,184	13,320	-64%	(16,712)	
Government	5,025,237	4,437,617	4,266,392	13%	587,620	
Hotel	8,300,464	7,590,889	7,394,200	9%	709,575	
Irrigation	37,982	38,991	50,843	-3%	(1,009)	
Residential	21,234,055	21,722,871	21,539,987	-2%	(488,816)	
TOTAL	\$ 43,464,420	\$ 42,902,429	\$ 41,684,036	1%	\$ 561,981	

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Notes:

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

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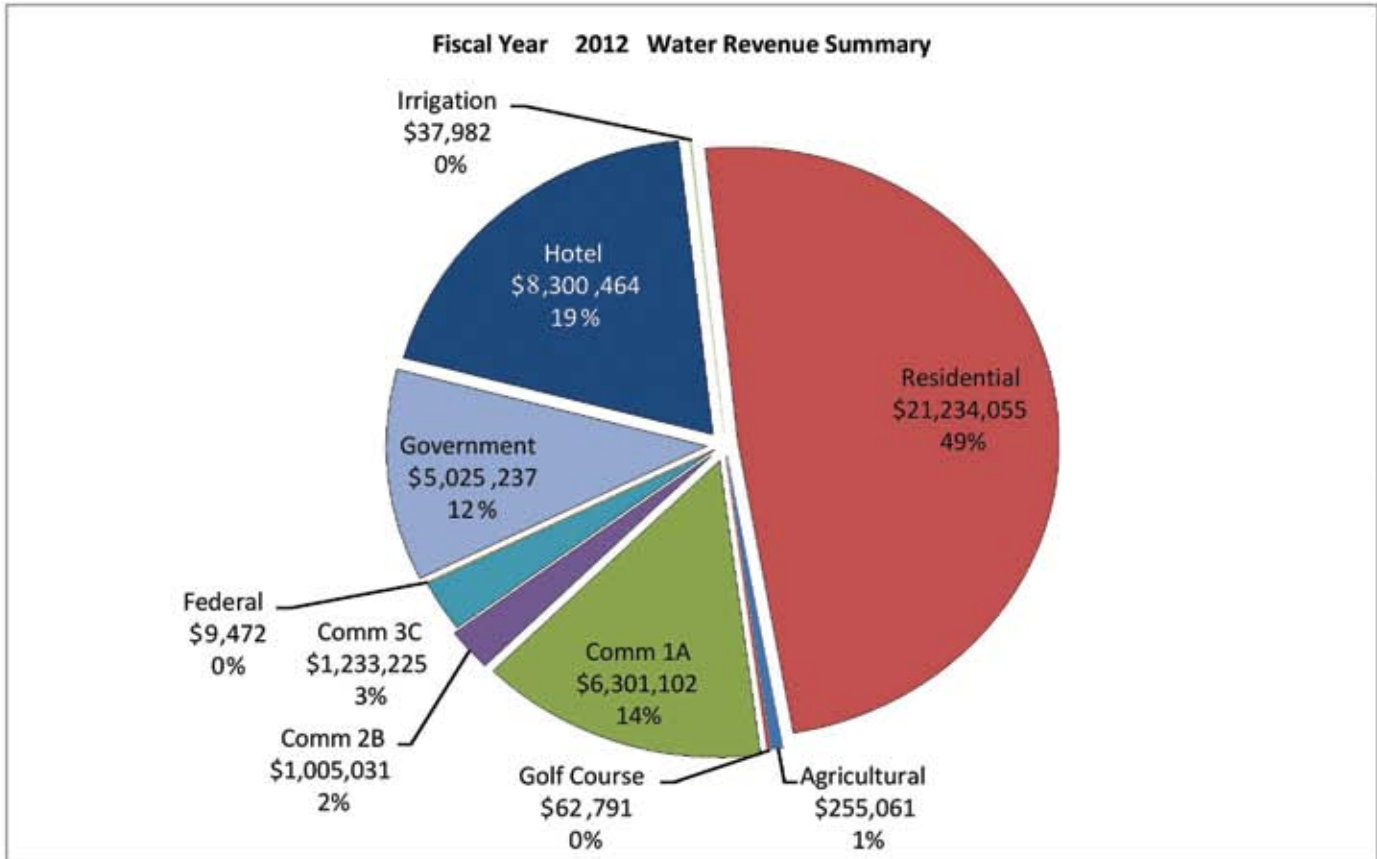
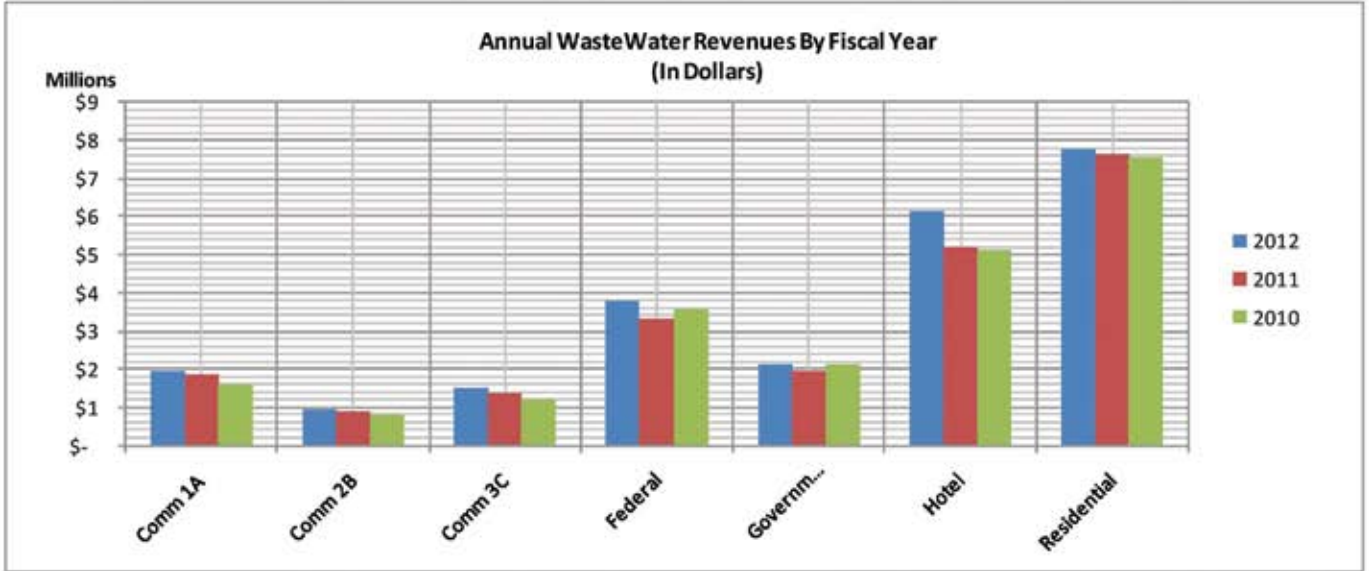


Table 4
Annual WasteWater Revenues (Includes Surcharges and Excludes System Development Charges)
(In Dollars)

Class Type	September 30, 2012	September 30, 2011	September 30, 2010	% Change	2012 to 2011	
					Increase	(Decrease)
Comm 1 ^a	\$ 1,937,198	\$ 1,872,934	\$ 1,577,487	3%	\$ 64,264	
Comm 2 ^b	936,600	875,021	777,998	7%	61,579	
Comm 3 ^c	1,485,478	1,350,252	1,198,821	10%	135,226	
Federal	3,798,233	3,319,549	3,553,164	14%	478,684	
Government	2,133,228	1,923,714	2,096,860	11%	209,514	
Hotel	6,136,602	5,209,326	5,135,234	18%	927,276	
Residential	7,777,762	7,628,105	7,558,916	2%	149,657	
TOTAL	\$24,205,101	\$ 22,178,901	\$ 21,898,481	9%	\$ 2,026,200	

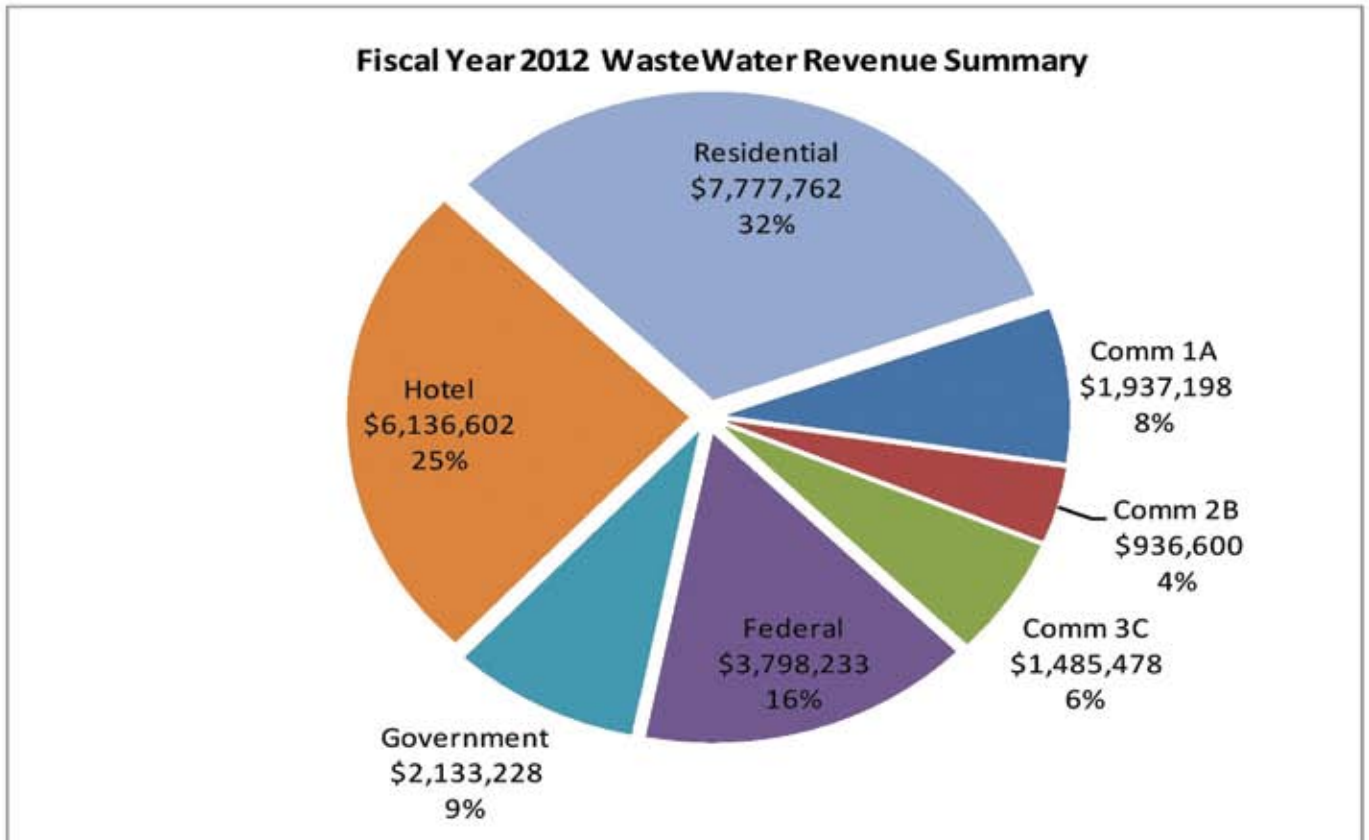
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Notes:

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



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Capital Assets

The Authority had \$304.8 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2012. The investment in capital assets includes buildings, improvements, water treatment plants, filter plants, water transmission and distribution mains, water storage facilities, pump stations, wastewater treatment facilities, machinery and equipment (see Table 5 below).

In the current fiscal year, capital assets increased by \$20.6 million (net) or 7% over the prior fiscal year. The increase is consistent with the Authority's implementation of a five-year (FY 12 to FY 16) capital improvement program.

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

This year's major capital additions included:

Water

Ugum Treatment Plant Rehabilitation	\$ 12,591,404
Sinajana Transmission Line	\$ 9,124,060
Meter Replacement Program	\$ 4,974,455
Leak Detection Program	\$ 1,532,020
Leak Repair Program	\$ 828,331
Mechanical/Electrical Equipment	\$ 560,315

Wastewater

System Upgrades and major repairs	\$ 3,707,394
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Table 5
Capital Assets, Net of Accumulated Depreciation

				<u>2012 to 2011 Comparison</u>	
	<u>September 30</u> <u>2012</u>	<u>September 30</u> <u>2011</u>	<u>September 30</u> <u>2010</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Plant, buildings and equipment, net	\$ 277,591,876	\$ 254,427,988	\$ 246,575,122	\$ 23,163,888	9.10%
Construction in progress	27,210,416	29,784,889	35,030,107	(2,574,473)	-8.64%
Total	<u>\$ 304,802,292</u>	<u>\$ 284,212,877</u>	<u>\$ 281,605,229</u>	<u>\$ 20,589,415</u>	<u>7.24%</u>

For additional information concerning capital assets, please refer to note 3 to the financial statements.

Debt

As of September 30, 2012, the Authority had total long-term debt outstanding of \$228.7 million, net of unamortized costs, which is a decrease of \$5.6 million or 2.4% over the prior year (see Table 6 below). The reason for the decrease in long-term debt is because of principal balance reduction in our 2005 Bond Series and Bank Notes.

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

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Management's Discussion and Analysis
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Table 6
Long Term Debt, Less Current Maturities

	September 30, 2012	September 30, 2011	September 30, 2010	2012 to 2011 Comparison	
				Increase/ (Decrease)	% Change
2005 Bond Series	\$ 91,268,492	\$ 93,768,643	\$ 96,158,794	\$ (2,500,151)	-2.67%
2010 Bond Series	116,554,074	116,473,393	-	80,681	100.00%
Bank Notes	20,851,436	23,915,460	26,759,633	(3,064,024)	-12.81%
United States Navy	-	75,676	1,817,057	(75,676)	-100.00%
Total	\$ 228,674,002	\$ 234,233,172	\$ 124,735,484	\$ (5,559,170)	-2.37%

For additional information concerning debt, please refer to note 5 to the financial statements.

Looking Forward

Outlook, Challenges, and Opportunities

Rehabilitations, upgrades, replacements and construction of new system infrastructure will continue to be the story for GWA over the next decade. Despite improved financial performance, GWA faces significant capital needs from a Federal Court order handed down in 2011 requiring an estimated \$350 million of infrastructure investments to bring GWA into compliance with Safe Drinking Water Act (SDWA) and Clean Water Act (CWA) standards. 2020 construction deadlines set by the Order placed unprecedented financial challenges over the next 5 to 10 years together with the everyday challenges of managing a Utility and balancing competing demands for limited resources under inflationary pressures.

In June 2013, GWA will be filing its second (2nd) Five Year Financial Rate Plan with the Public Utilities Commission. Similar to the first (1st) Plan in 2009, compliance with regulatory mandates and the 2011 Court Order constitutes the principal drivers of the Plan. Annual rate increases will be requested aggregating to 67% during the Rate Plan period. The increases are primarily associated with debt service for three (3) separate capital related financing slated to take place in CY2013, CY2015 & CY2017 in order to address project costs and meet construction deadlines associated with the Order.

The meter replacement program will continue to be one of the major focuses and commitment in the near term. Over 19,000 of GWA's 41,000 meters have been replaced since August 2012 and demand is trending upward which GWA believes is attributable to improved metering accuracy of consumption from the new meters. Another 9,000 meters are expected to be replaced with the new meters by the end of the year and thereafter the program is expected to decelerate and replacement based on normal wear and tear due to age.

GWA's leak detection and line repair program continues to make advances. Since inception in 2011, an aggregate of 489 leaks have been detected and repaired which is equivalent to 6 million gallons per day of losses prevented. The contractors are engaged in working closely with the Engineering and Water Operations departments to identify crucial areas with chronic leak problems. The program also includes service lateral upgrades and replacement of existing old and leaking GWA waterlines island wide that are beyond repair with new pipe ranging in size from 4-inch to 8-inch diameter to improve water services island wide.

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While there has been much discussion over the past years on the Department of Defense (DOD) relocation of troops from Japan, there is very little documentation available and uncertainties from DOD that outline the potential capital expenditures and timing and extent of the buildup. The DOD build-up is expected to ultimately increase the island's permanent population and will necessitate significant additional capital investment that currently is not included in GWA's CIP Plan. GWA and the DOD have been working together to identify system needs and funding resources to service this population influx, the latter could prove rather difficult in light of the nation's current budget sequestration.

In November 2011, GWA's request for an extension of its CWA 301(h) waiver was denied by the U.S. Environmental Protection Agency (USEPA) and GWA is faced the requirement to implement secondary treatment at its two largest plants, the Hagatna and Northern wastewater treatment plants. Discussions with USEPA are already underway on establishing the requirements for secondary treatment; however, implementation of a timeline to implement secondary treatment has not begun. GWA will be seeking from USEPA the same extended timelines granted to other communities to migrate to secondary treatment. The Plan does not address this issue although it could significantly impact GWA's finances.

Request for Information

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

GUAM WATERWORKS AUTHORITY
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Statements of Net Assets
September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 2,421,955	\$ 1,934,542
Restricted	19,434,692	19,212,946
Receivables, net	12,121,147	9,636,730
Materials and supplies inventory, net of an allowance for obsolescence of \$64,677 at September 30, 2012 and 2011	1,727,461	2,037,713
Prepaid expenses	109,202	251,698
Total current assets	<u>35,814,457</u>	<u>33,073,629</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	279,765,742	251,010,331
Wastewater system	227,270,443	223,236,826
Non-utility property	17,049,671	15,740,095
	<u>524,085,856</u>	<u>489,987,252</u>
Less accumulated depreciation	(246,558,268)	(235,623,552)
	277,527,588	254,363,700
Land	64,288	64,288
Construction work in progress	27,210,416	29,784,889
Property, plant and equipment, net	<u>304,802,292</u>	<u>284,212,877</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	96,060,028	117,233,610
Investments	17,200,405	17,201,280
Unamortized debt issuance costs	5,045,577	5,244,802
Total other noncurrent assets	<u>118,306,010</u>	<u>139,679,692</u>
	<u>\$ 458,922,759</u>	<u>\$ 456,966,198</u>

See accompanying notes to financial statements.

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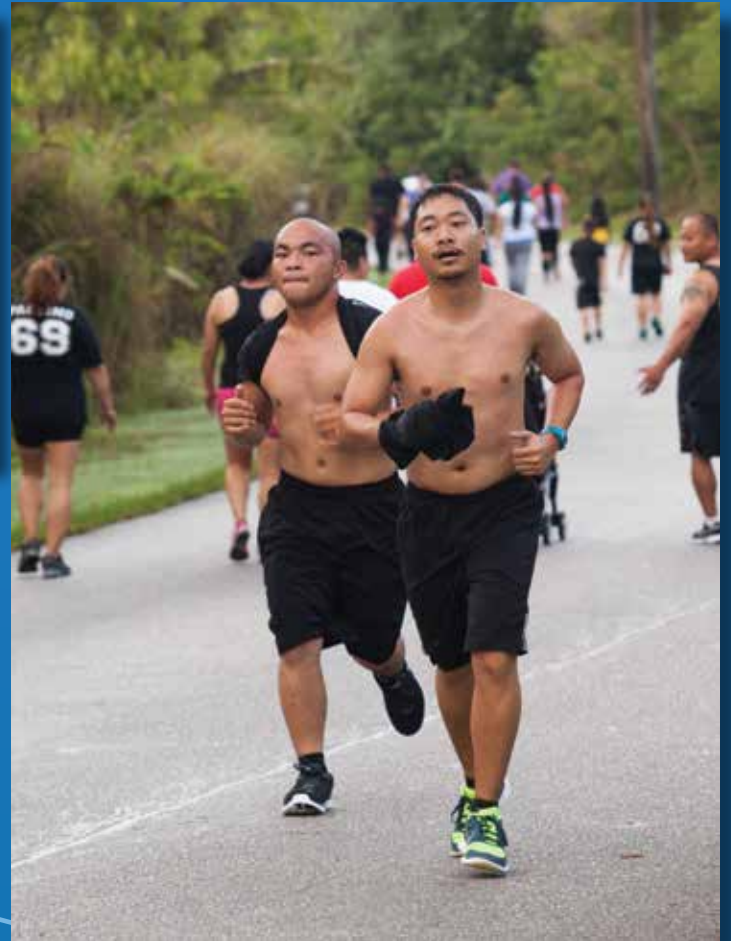
Statements of Net Assets, Continued
September 30, 2012 and 2011

<u>LIABILITIES AND NET ASSETS</u>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Current maturities of long-term debt	\$ 5,454,328	\$ 6,192,198
Accounts payable:		
United States Navy	404,726	549,977
Guam Power Authority	1,444,824	1,701,278
Trade	2,498,193	3,239,305
Accrued interest	2,960,173	3,015,548
Accrued payroll and employee benefits	439,086	385,664
Current portion of employee annual leave	469,631	446,877
Payable to contractors	9,698,587	1,420,395
Customer deposits	2,063,758	1,949,158
Other liabilities	882,038	505,099
Total current liabilities	26,315,344	19,405,499
Long-term debt, less current maturities:		
Revenue bonds payable	207,822,566	210,242,036
Notes payable	20,851,436	23,915,460
United States Navy	-	75,676
Employee annual leave, less current portion	855,513	879,905
DCRS sick leave liability	1,049,726	931,407
Advances for construction	169,162	168,946
Total liabilities	257,063,747	255,618,929
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	189,567,949	189,524,913
Restricted	9,472,664	8,049,966
Unrestricted	2,818,399	3,772,390
Total net assets	201,859,012	201,347,269
	\$ 458,922,759	\$ 456,966,198

See accompanying notes to financial statements.







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