

# GUAM WATERWORKS AUTHORITY

*Ginen i hanom na ta sodda' todu i lina'la*

## 2002 ANNUAL REPORT



[www.guamwaterworks.org](http://www.guamwaterworks.org)  
P.O. Box 3010, Hagatna, Guam 96932





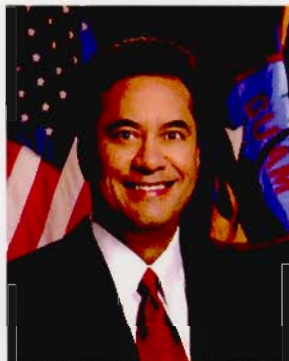
## Office of the Governor of Guam

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Felix Perez Camacho  
*Governor*

Kaleo Scott Moylan  
*Lieutenant Governor*



### A MESSAGE FROM THE GOVERNOR OF GUAM

Guam's citizens deserve nothing less than a safe and reliable water source. Though plagued by a lack of resources and other impediments to progress, the men and women of the Guam Waterworks Authority remain committed to delivering on this mission to the public. While previous years' mismanagement brought the utility to a critical juncture, the government, private sector and island community have taken corrective measures and are turning things around.

The first step was to restore ownership of our utilities to the people. In November of 2002, the people of Guam elected a five-member Consolidated Commission on Utilities. Thereafter, qualified management was sought and hired, efficiency and pragmatism in the decision-making processes was given priority and comprehensive planning to overhaul the island-wide infrastructure was put in place.

While we are improving our product, we are looking at long-term goals and the ability of our government to provide water and wastewater service efficiently, reliably and at the lowest possible cost to the consumer. In the best interests of meeting these goals as soon as possible, the Administration continues its aggressive commitment to privatization.

The government of Guam is also sincere in its obligation to complying with federal statutes and federally stipulated orders to bring our services up to date. More than that, we are working with the United States Environmental Protection Agency and other government entities to expediently redress concerns and grievances. Everything is being done to provide for the bottom line - providing safe and reliable water and wastewater service for generations of Guamanians to enjoy.

Sinsertu yan Magåhet,

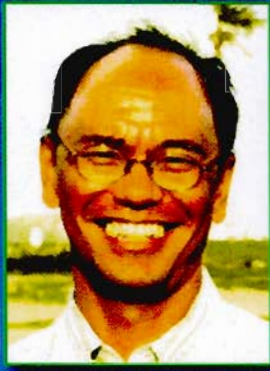
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**FELIX P. CAMACHO**

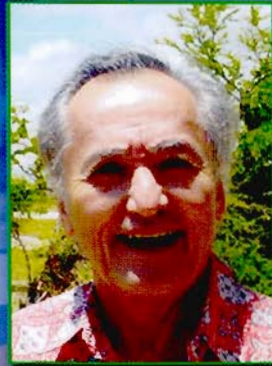
*I Maga\* Lahaen Guahan*  
Governor of Guam



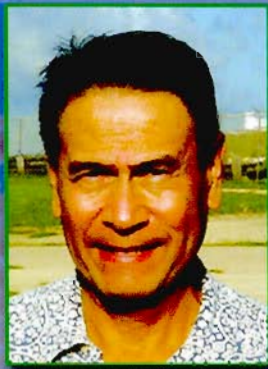
# Consolidated Commission on Utilities



SIMON SANCHEZ  
CCU Chairman



BENIGNO PALOMO  
Vice-Chairman  
(GWA)



FRANK SHIMIZU  
Vice-Chairman  
(GPA)



VINCE CAMACHO  
Treasurer



JUDITH GUTHERTZ  
Secretary

2003 was a time of great challenge and tribulation for the Consolidated Commission on Utilities and the Guam Waterworks Authority. The five elected commissioners took office on January 3, 2003 and were immediately faced with the need to restore safe water and wastewater services to the people of Guam, interrupted by one of the most powerful typhoons ever to hit the island.

The Commission also faced the challenge of no funds or parts to make recovery from the typhoon possible. But with a new interim general manager in place and the commitment of Waterworks personnel at all levels, GWA worked day and night to restore these critical services to our people.

Immediately upon assuming office, the Commission was also faced with two suits filed against the agency, one from the U.S. Navy over unpaid bills totaling about \$14 million and the other from the U.S. Environmental Protection Agency because of GWA's non-compliance with federal laws such as the Clean Water Act and Clean Drinking Water Act. The Commission was successful in negotiating a settlement regarding these two suits that allowed GWA to reduce its obligation to the Navy to \$9 million and to begin an aggressive rebuilding of Guam's water and wastewater system in compliance with a Stipulated Order with the federal court regarding the EPA suit.

Despite these and the many other challenges of 2003, new policies and a new budget were put in place by the Commission at the agency to stop unnecessary expenditures and refocus GWA on meeting the needs of our customers - the people of Guam.

There is much still to be done and it will take hard work and continued professional commitment from all of GWA to recover from the problems of the past.

The Commission, management and employees of GWA have set a new direction for the agency based on "Best Practices" established for the water and wastewater industry in the United States. GWA's customers will see the rebuilding of Guam's water and wastewater system. This won't be completed overnight, but the work has already begun.



***Greetings and Hafa Adai,***

I would like to express my sincere appreciation to the Consolidated Commission on Utilities for allowing me to serve as General Manager for the communities' water and wastewater systems.

I came from a similar job in Maui, Hawaii, but I am no stranger to Guam. I worked for Layne International, managed by my father and uncles, which drilled the first water wells supplying ground water on Guam and built the first water quality laboratory in Dededo. Layne began work in the mid 1960's and provided water until the mid seventies. Beginning with Layne I have been involved in the water industry for 37 years.

While accepting the job knowing challenges faced by the community, I know working together we can have a safe low cost water system while providing **"Good Water Always"**. With some operational changes, the employees that operate the system under the watch of the CCU, Guam Legislature, Administration and the community, Guam's water and sewer systems can and will be upgraded.

The federal EPA Stipulated Order agreement entered into by GovGuam and GWA mandates GWA make improvements costing about \$200 million over the next five years and prepare a Master Plan to prevent a return to current conditions while developing a road map for the next hundred years of water resource development. With a combination of rate increases to borrow money and cost reductions, Guam will see improvements start to take place in 2004.



**DAVID R. CRADDICK**  
General Manager

Attempts to collect on receivables, reduce unaccounted for water use and cut expenses have been the primary focus in 2003. The agency has seen a significant decrease in the number of personnel since FY02 from 330 to 255. The drop in personnel, overtime, equipment rental, stopping free line extensions, resulted in a cost savings of approximately \$4 million in FY03.

GWA is working to provide training so the remaining employees with proper tools and materials are able to do aggressive preventive maintenance for the first time in years. Time, effort and most of all focus of funds toward repairs and system replacement will ensure that corrective measures, once taken, will result in cleaner water and environment for Guam.

With continued support Guam Waterworks Authority stands committed to rebuild the water system for the community it serves  
***GINEN I HANOM NA TA SODDA' TODU I LINA'LA.***

A handwritten signature in black ink, appearing to read "David R. Craddick". The signature is fluid and cursive.

**David R. Craddick,**  
General Manager



# GUAM WATERWORKS AUTHORITY



**Office of the General Manager. (L-R) Patrick Lujan, Public Information Officer; David R. Craddick, General Manager; Doris Young, Administrative Assistant; and Paul Kemp, Compliance Officer.**

## HISTORY

The local public water responsibility predecessor for PUAG originated June 30, 1950 when the Congress of Guam passed Public Law 1-12, which gave the Department of Public Works the authority to administer all utility services. In response to increased water demand and a need to expand utility services, the 1st Guam Legislature passed Public Law 1-88 on June 6, 1952 that created a new entity called the Public Utility Agency of Guam. PUAG consisted of the telephone, power, water and wastewater utilities.

On July 31, 1996, Public Law 23-119 established the

Guam Waterworks Authority to be a semi autonomous, self-supporting agency. GWA officially obtained its status on February 1, 1997.

Public Law 26-76 changed the way the Guam Waterworks Authority is managed by creating an elected, non-partisan Consolidated Commission on Utilities (CCU) to oversee the operations of GWA and the GPA. The five-member commission assumed policy responsibility of the two utilities from the Guam Legislature.

The CCU was sworn into office on January 3, 2003 and was faced with more than \$25 million in debt and pending federal court lawsuits for numerous violations to the water and wastewater systems over the last few decades.

In the year 2003, GWA had a customer base of more than 38,000 for water and more than 24,000 for wastewater.

## ADMINISTRATION

### Office of the General Manager

The General Manager heads the entire GWA, overseeing day-to-day operations as well as future planning. PL 26-76 requires the CCU to hire a GM that has an engineering degree and a minimum of 10 years in managing a water utilities company.

The Public Information Office falls under the Office of the GM. The PIO heads all public relations programs for the agency. This office is responsible for all media relations, press releases, school visits, facility field trips and other programs related to public relations and the agency.

## Mission Statement

# Good Water Always





**GUAM WATERWORKS  
AUTHORITY**  
Overtime, Night  
Differential & Holiday Work  
Summary Report

	Wage Expenses
FY99	\$1,742,876.54
FY00	\$2,465,865.18
FY01	\$2,480,924.72
FY02	\$1,556,208.05

**Human Resources  
(Personnel)**

The Human Resources (HR) division serves as a link between management and employees. Providing specialized services to staff members, the department's goal is to foster positive relationships, to increase job satisfaction, and to make

sure all customer or client needs are met. Specific responsibilities include: administration, recruitment, compensation and benefits, training and development, health and safety, and employee relations.

**Customer Service**

Customer Service provides services to customers such as applications for water and sewer, re-connections, disconnection and entertains customer complaints.



**GUAM WATERWORKS  
AUTHORITY**  
Full Time Employees

1999	365
2000	362
2001	309
2002	316

**Revenue Protection  
(Collections)**

Revenue Protection handles active and non-active delinquent accounts. The collections section also addresses illegal hook-ups.

**Procurement & Supply**

P&S manages and administers procurement policies and procedures to ensure compliance with Guam Procurement Regulations. It provides and applies technical and administrative decisions regarding procurement, warehousing and distribution of supplies; directs the bidding of contracts and services; stores, maintains and issues materials, equipment and supplies; manages inventory of supplies.

**Data Processing**

Provides quality and efficient support services and develops future growth through technology. It plans, assigns, oversees and administers all technical activities for GWA; reviews, develops and maintains hardware and software requirements; provides and coordinates support services.

**Planning**

The planning division is responsible for administering real property assets; preparing impact studies; recommending policies, priorities, plans for strategies; assisting management in analyzing/identifying problems and subsequently recommending corrective action and/or improvements.

**Accounting**

Accounting records all financial transactions of the agency relative to account status, cash collections, payables, receivable adjusting entries, project expenditure status, operating expenditures, budgets, etc.

Billing is under the purview of the accounting section. Billing reviews and audits reading exception reports, coordinates with meter readers on reading activities, and makes necessary changes to bills such as backbilling, refunds, overbilling, etc.

**OPERATIONS**

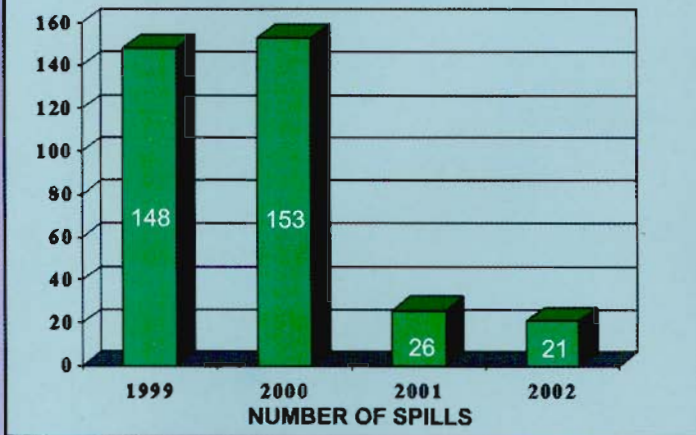
**Water Division**

1.) **Deep well:** The deep well section handles all maintenance and rehabilitation projects dealing with GWA's 110 water wells. That includes changeout of pipes, fittings, pumps, motors and valves.

Chlorine is under the purview of this section. This section is responsible for the chlorination system situated at 83 well sites and 3 booster pump stations. It monitors the systems, trouble-shoots vacuum regulators and ejector assemblies. This section also takes samples for chlorine residuals daily from 26 sites.



## WASTE WATER OVERFLOW CHART



2.) **Ugum Water Treatment Plant:** Ugum provides between 1.5 and 2.5 MGD to the southern customers of Talofofo, Inarajan, Merizo and Umatac. This surface water treatment plant goes through the filtering process of pre-treatment (chlorination), mixing, flocculation and coagulation, and filtration. Unlike water from the northern aquifer, water from Ugum is considered soft with no calcium contents.

3.) **Transmission and Distribution:** Ensures system redundancy by overhauling or replacing existing pumps and motors, addresses routine maintenance and maintains grounds at 62 sites monthly; Conducts scheduled inspections and preventive maintenance of system valves; responds to all water outages; secures valves during leak repair or other projects in need of isolation.

4.) **Meter Services:** Installation, relocation and disconnection of meters; repair and/or replace deep well water meters; meter reading and bench testing; identification and disconnection of illegal hookups.

## Wastewater Division

The wastewater division's primary function is to operate and maintain the islandwide sewer system by collecting, treating and disposing of the effluent discharge in accordance with local and USEPA Clean Water Act standards and the NPDS permit.

1.) **Northern District:** The northern unit maintains and operates the sewer system from Andersen Air Force Base down toward Tumon and parts of Tamuning. The system consists of 23 pump stations and a 12 million gallon capacity sewage treatment plant that normally accepts nine (9) MGD.

2.) **Central District:** The central unit maintains and operates the sewer system from Ypao, Barrigada, Mongmong-Toto-Maite, Mangilao, Yona, Hagatna and Piti. The system consists of 25 pump/lift stations and a 12 MGD capacity treatment plant in Hagatna that normally accepts 10 MGD. This system also handles a small treatment plant in Pago Bay servicing the immediate area.

3.) **Southern District:** The southern unit maintains and operates sewer system from Talofofo, Inarajan, Merizo, Umatac, Agat and Santa Rita. The system consists of 24 pump stations and four treatment plants (one aerated lagoon-type plant which includes a percolating terrace, two secondary treatment plants and a lift station from the Agat Treatment Plant that goes to the Tipalao Outfall shared with the U.S. Navy.)

4.) **Maintenance of Trunklines:** This unit maintains, repairs and constructs/installing sewer lines to all GWA customers. It is responsible in responding to an average of 200 reports on overflows, flushing and cleaning sewer lines and manholes.



*Ugum Treatment Plant  
(L-R) Ron Topasna, Plant  
Superintendent; Frank  
Sablan, Plant Operator;  
Ray Quintanilla, Plant  
Operator; and Raul  
Canales, Maintenance  
Worker.*





**Facilities Maintenance and Equipment Support (FMES)**

FMES consists of facilities, grounds & refrigeration, electrical and heavy equipment operations and mechanics. Electricians install and maintain electrical and mechanical systems at more than 250 sites throughout GWA; heavy equipment operations handle equipment such as dozers, backhoes, trenching machines, water tankers, trucks, cranes and forklifts; heavy equipment mechanics are responsible for maintaining and servicing 37 heavy equipment machinery, and 57 generators.

**Engineering**

This section consists of water and wastewater CIP, Permits & Inspection and Systems Analysis. The CIP sections are responsible for reviewing disaster response coordinating projects, serve as construction managers for some projects, design projects or procure design or construction services. The budget request covers administrative costs of their functions; permits & inspection is responsible for reviewing all water and sewer applications, building permit applications, occupancy clearances, provide utility clearances and conduct inspections on wastewater connections; systems analysis is responsible for developing and establishing GWA's Geographic Information System in coordination with other related agencies.

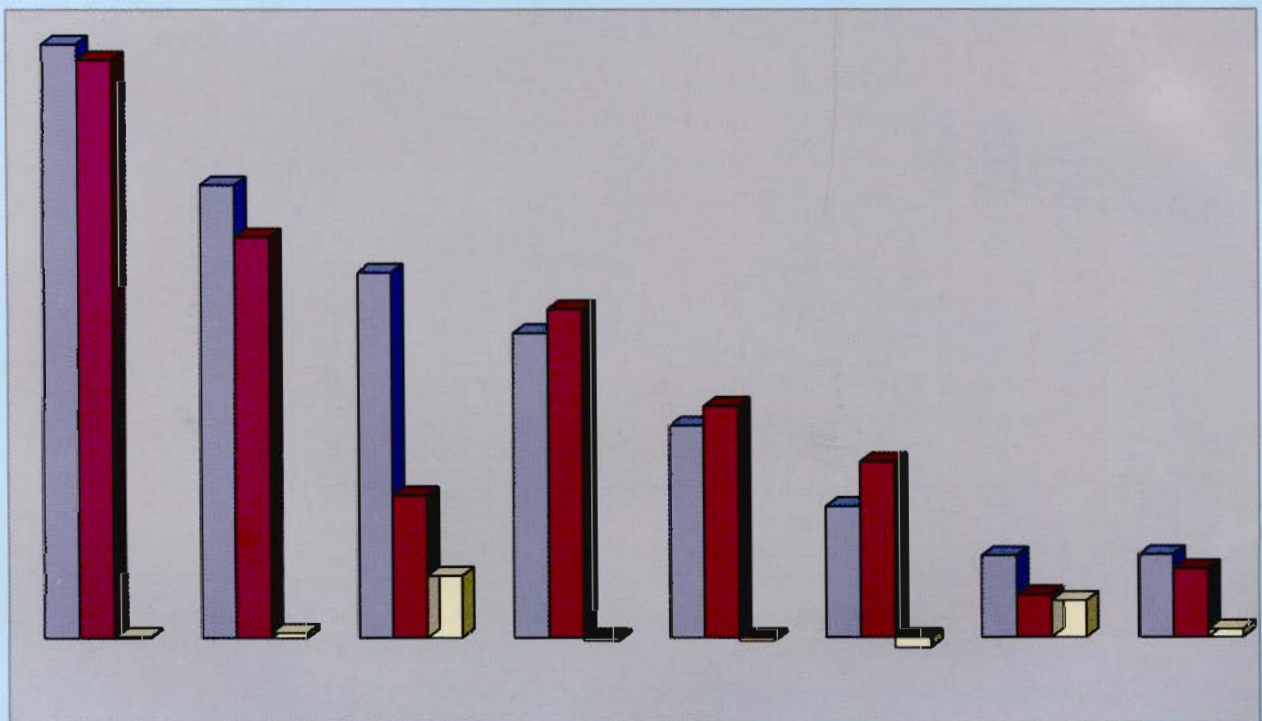
**LABORATORY**

The Laboratory Support Services Division operates various laboratory facilities to monitor the quality of potable water within the public water system and the safe discharge of wastewater effluent into the environment. The laboratory's various monitoring activities determine the agency's level of

**Analysis Performed by GWA Laboratory**

	1999	2000	2001	2002
<b>Potable Water</b>				
Bacteriological Analysis	2508	2849	3206	4905
Chemical Analysis	4077	4041	3924	5018
<b>Wastewater</b>				
Bacteriological Analysis	421	312	342	316
Chemical Analysis	3656	1244	2570	2882

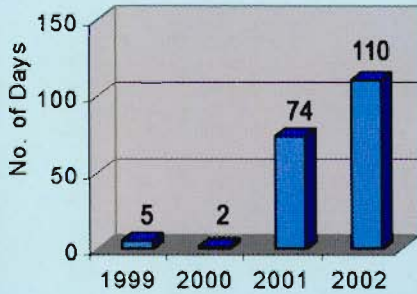
**O&M: FY02 vs FY01**



	Sal & Ben	Depreciation	Bad Debts	Power	Water	Contractual	Materials	others
■ FY02: \$56.05	\$14.96	\$11.41	\$9.21	\$7.68	\$5.34	\$3.31	\$2.06	\$2.08
■ FY01: \$49.61	\$14.56	\$10.10	\$3.59	\$8.28	\$5.84	\$4.44	\$1.07	\$1.73
□ % Incr(Decr)	2.75%	12.97%	156.65%	-7.25%	-8.56%	-25.45%	92.52%	20.23%



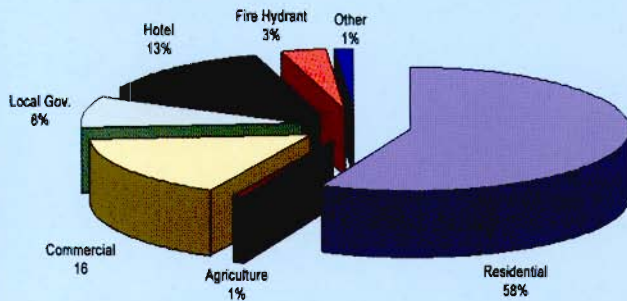
## BOIL WATER NOTICE



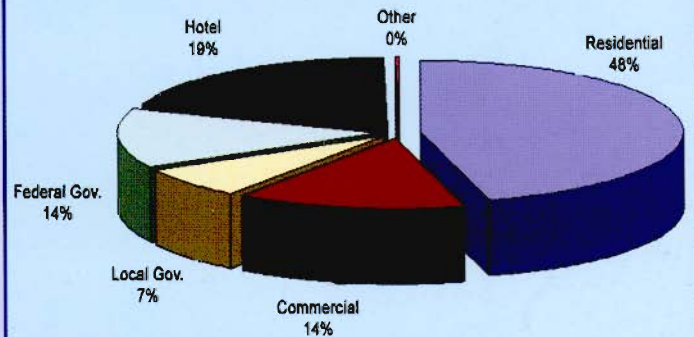
compliance with the provisions of federal and local statutes, which include the Federal Safe Drinking Water Act, the Clean Water Act, the Guam Primary Safe Drinking

Water Regulations and the Guam Water Quality Standards. These federal and local statutes require the monitoring of the water and wastewater operations by taking representative samples at pre-determined stages within the systems, performing laboratory analyses, and reporting the results on a regular and timely basis. The division operates under the direction of a Monitoring Laboratory Services Administrator and is organized into three sections. These include an Administrative Support Unit, the Dededo Water Laboratory Services and the Agana Wastewater Laboratory Services.

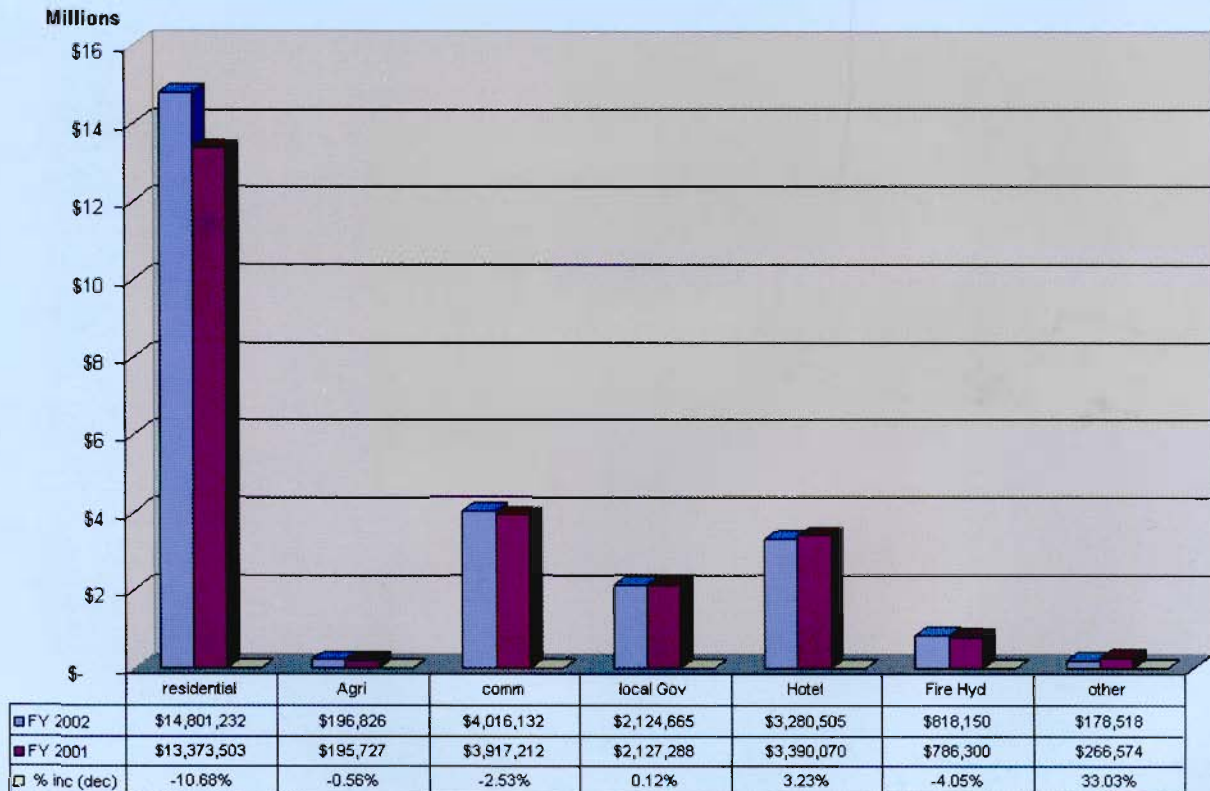
### Water Revenue by Customers



### Sewer Revenue by Customers



### Water Revenue FY 2002 vs. FY 2001





### Fiscal Year Active Customers Account

Rate Description	FY99 Customers	FY00 Customers	FY01 Customers	FY02 Customers
Agricultural	404	468	522	558
Golf Course	16	17	16	15
Commercial	2,479	2,419	2,407	2,407
Fire Hydrant	1	0	0	0
Federal	13	14	10	10
Government	780	734	706	682
Hotels	62	65	61	62
Irrigation	314	314	291	285
Residential	33,859	33,805	33,075	33,955
<b>Total</b>	<b>37,928</b>	<b>37,836</b>	<b>37,088</b>	<b>37,974</b>

### Ugum Water Treatment Plant Vital Statistics

2002 Month	Production Million Gal.	Aluminum Sulfate (lbs.)	Chlorine (lbs.)	Plant Secured	Filter Backwash (Million Gal.)
January	57.5	15,258	2,790	6	2.9
February	55.0	13,781	1,960	0	2.0
March	65.5	15,400	2,790	0	2.3
April	66.8	14,766	2,700	3	1.9
May	60.7	15,258	2,480	3	2.0
June	53.8	14,766	2,250	5	2.1
July	50.9	13,782	2,060	12	2.5
August	48.8	17,500	2,400	14	3.4
September	54.7	16,416	2,100	7	3.5
October	58.7	15,258	2,015	2	2.6
November	61.1	14,766	1,800	4	2.8
December	52.7	14,850	1,875	13	3.0
<b>Total:</b>	<b>686.2</b>	<b>181,801</b>	<b>27,220</b>	<b>69</b>	<b>31.0</b>

2001 Month	Production Million Gal.	Aluminum Sulfate (lbs.)	Chlorine (lbs.)	Plant Secured	Filter Backwash (Million Gal.)
January	59.3	15,258	1,980	2	2.0
February	61.6	13,782	2,156	2	2.0
March	69.6	15,258	2,126	1	2.0
April	48.4	14,766	2,670	0	1.7
May	62.0	14,766	2,970	1	1.8
June	59.4	14,766	2,505	0	1.5
July	44.5	14,836	1,970	13	2.3
August	42.0	12,550	1,800	15	2.5
September	50.3	13,778	2,600	8	2.7
October	60.9	14,889	2,948	4	3.0
November	47.2	13,325	2,090	14	2.9
December	60.8	14,747	2,788	5	2.7
<b>Total:</b>	<b>666.0</b>	<b>172,721</b>	<b>28,603</b>	<b>65</b>	<b>27.1</b>

2000 Month	Production Million Gal.	Aluminum Sulfate (lbs.)	Chlorine (lbs.)	Plant Secured	Filter Backwash (Million Gal.)
January	53.0	9,750	2,030	4	1.0
February	48.7	8,294	1,972	4	1.0
March	57.8	7,775	2,542	1	1.3
April	34.5	10,290	2,250	0	1.0
May	57.8	11,718	2,728	3	1.4
June	56.6	9,891	2,610	3	1.0
July	49.1	14,550	2,910	10	1.3
August	38.5	20,750	3,190	17	1.5
September	29.8	16,111	1,637	13	1.8
October	38.9	19,662	2,262	16	2.1
November	50.6	18,574	1,857	6	2.0
December	54.1	17,196	2,474	9	1.8
<b>Total:</b>	<b>569.4</b>	<b>164,561</b>	<b>28,462</b>	<b>70</b>	<b>17.2</b>



## Water & Wastewater Rates

### Agricultural (Irrigation & Watering of Livestock)

### Commercial II (Hotels, industrial laundries, etc.)

\$3.75/kgal

### Commercial III (bakeries, markets with garbage disposals, restaurants, etc.)

\$5.19/kgal

### Government

\$2.19/kgal

Meter Size	Basic Water Charge for first 1,000 gallons
3/4"	\$ 6
1"	\$ 7
1-1/2"	\$ 11
2"	\$ 14
3"	\$ 25
4"	\$ 35
6"	\$ 65
8"	\$ 95
10"	\$ 130
12"	\$ 155

\* \$1.00 / kgal thereafter

### Residential Water Rates

Meter Size	Basic Water Charge for first 1,000 gallons
3/4"	\$ 6
1"	\$ 7
1-1/2"	\$ 11
2"	\$ 14
3"	\$ 25
4"	\$ 35
6"	\$ 65
8"	\$ 95
10"	\$ 130
12"	\$ 155

\* \$2.40 / kgal thereafter

### Sewer Rates

\$22.00 / month

### Commercial & Government Water Rates

Meter Size	Basic Water Charge for first 1,000 gallons
3/4"	\$ 6
1"	\$ 7
1-1/2"	\$ 11
2"	\$ 14
3"	\$ 25
4"	\$ 35
6"	\$ 65
8"	\$ 95
10"	\$ 130
12"	\$ 155

\* \$3.00 / kgal thereafter

### Sewer Rates

Classification	Charges
<b>Commercial I</b> (retail stores, laundromats, professional offices, schools, carwashes, markets w/o garbage disposals, etc.)	\$1.53/kgal

### Miscellaneous Charges

#### A. Service Reconnection

3/4" to 1-1/2" meters	\$45.00
2" meter and larger	\$145.00

#### B. Special reading

\$15.00

#### C. Bill analysis

\$10.00

#### D. Verification time test

\$45.00

#### E. Bench test

First test within a year no charge.	
3/4" to 1-1/2" meters	\$65.00
2" meter and larger	\$175.00

#### F. Fire hydrant fee

\$25.00

#### G. Bulk water sales

\$3.00

#### H. Meter relocation

at cost

#### I. Return check charge

\$30.00

#### J. Sewer connection permit

Residential	\$50.00
Commercial	at cost
Government	at cost

#### K. Bulk sewage dumping

Permit Charge	\$200.00
Discharge (less than 5 kgals)	\$25.00
Discharge (over 5 kgals)	\$5.00

#### L. Meter Installation

at cost

#### M. Water Service Deposit

Meter Size	Deposit
3/4"	\$ 32.00
1"	\$ 37.00
1-1/2"	\$ 55.00
2"	\$ 73.00
3"	\$ 123.00
4"	\$ 178.00
6"	\$ 313.00
8"	\$ 378.00
10"	\$ 660.00
12"	\$ 773.00



<b>N. Sewer Service</b>		<b>Deposit</b>	<b>Q. Illegal Connection</b>	
Residential	\$	22.00	<b>Meter Size</b>	<b>Basic Charge</b>
Commercial I	\$	60.00	3/4"	\$ 2,500.00
Commercial II	\$	650.00	1"	\$ 5,000.00
Commercial III	\$	1,400.00	1-1/2"	\$ 7,500.00
Metered Industrial	\$	5,000.00	2"	\$ 10,000.00
			3"	\$ 12,500.00
<b>O. Pressure Reading</b>	\$	25.00	4"	\$ 15,000.00
			6"	\$ 17,500.00
<b>P. Direct Service</b>			8"	\$ 20,000.00
<b>Meter Size</b>		<b>Deposit</b>	10"	\$ 22,500.00
3/4"	\$	60.00	12"	\$ 25,000.00
1"	\$	60.00		
1-1/2"	\$	70.00	* Plus Estimated Water Consumption \$3.00 / kgal	
2"	\$	120.00	<b>R. Meter Tampering</b>	
3"	\$	180.00	Penalty	\$ 500.00
4"	\$	240.00	Estimated water loss	\$ 3.00/kgal
6"	\$	360.00		
8"	\$	480.00	<b>S. Illegal Sewage Dumping</b>	\$ 500.00
10"	\$	600.00		
12"	\$	720.00		

## 1999-2002 Water Capital Improvement Projects

PROJECT NAME	FUNDING SOURCE	TOTAL PROJECT COST	COMPLETION DATE
Barrigada/Mongmong/Toto/Maite Water Transmission Lines, Phase II	PL20-16/2 53M BOND	\$ 455,899.86	1/2/99
Tumon Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 6,490.00	1/31/99
Yona (Pulantat) Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 20,939.00	1/31/99
Merizo Booster Pump Station Restoration	FEMA (90%) GWA (10%)	\$ 22,500.00	4/28/99
Gayinero/Route 15 Booster Pump Station WBP No. 9 Restoration	FEMA (90%) GWA (10%)	\$ 5,601.00 \$ 8,249.00	5/7/99
Tumon Loop Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 11,800.00	5/7/99
Kaiser Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 9,250.00	5/13/99
Windward Hills BPS Renovation	PL 19-47 DSR 58813 DSR 58815 DSR 58829	\$ 201,529.47 \$ 48,670.00 \$ 12,796.00 \$ 41,500.00	5/14/99
Sinifa Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 48,670.00	5/14/99
Windward Hills Pump Station Station Repairs	FEMA ( 90%) GWA (10%)	\$ 12,796.00	5/14/99



<b>PROJECT NAME</b>	<b>FUNDING SOURCE</b>	<b>TOTAL PROJECT COST</b>	<b>COMPLETION DATE</b>
Talofof (Windward Hills) Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 41,500.00	5/14/99
GWA Main Office GWA Warehouse & FMES Buildings Repairs, Package I	FEMA (90%) GWA (10%)	\$ 5,699.00 \$ 1,247.00 \$ 10,754.00	5/31/99
GWA Laboratory Repairs	FEMA (90%) GWA (10%)	\$ 20,996.00 \$ 1,885.00 \$ 524.00	5/31/99
Agana Heights Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 8,200.00	5/31/99
Lower Nimitz Hills BPS: Agat Reservoir No. 2, Umatac Reservoir No. 1 abd BPS Restoration	FEMA (90%) GWA (10%)	\$ 3,230.00 \$ 6,660.00 \$ 6,020.00 \$ 8,000.00	5/31/99
Apra Hts. BPS 22, Lab Supplement	FEMA (90%) GWA (10%)	\$ 3,000.00 \$ 13,578.00 \$ 5,472.00	6/11/99
Santa Rita Reservoir & Inarajan Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 20,180.00	6/20/99
Dededo WBP No.11; Maina BPS; Sumay BPS Restoration (Typhoon Paka Project)	FEMA (90%) GWA (10%)	\$ 21,400.00	6/20/99
Santa Ana Agat Booster Pump Station Restoration	FEMA (90%) GWA (10%)	\$ 20,306.00 \$ 3,194.00	6/30/99
Merizo Reservoir and Malojloj BPS Restoration	FEMA (90%) GWA (10%)	\$ 8,438.00 \$ 9,426.00	6/30/99
Brigade Pump Station WBP No. 5 Repairs	FEMA (90%) GWA (10%)	\$ 3,000.00	6/30/99
Yona BPS WBP No. 18 and Mangilao Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 2,584.00 \$ 19,266.00	6/30/99
Umatac Merizo BPS WBP.5 and Manegon Hills Reservoir Restoration	FEMA (90%) GWA (10%)	\$ 4,260.00 \$ 1,710.00 \$ 15,600.00	6/30/99
Mataguac Water Dist. Line & BPS Phase II-B	FY 97 DOI	\$ 582,330.00	7/12/99
GWA Main Office; GWA Warehouse FMES Bldgs. Repair Pkg II	FEMA (90%) GWA (10%)	\$ 2,306.45 \$ 18,902.00	9/15/99
Chalan La Chanch Water Distribution Line, Yigo	FY97 DOI Grant	\$ 700,000.00	9/27/99
Yigo Reservoir & BPS Restoration, Package III, (Typhoon Paka Project)	FEMA (90%) GWA (10%)	\$ 19,950.00	9/28/99
Ugum Water Treatment Plant Building Repair, Package II	FEMA (90%) GWA (10%)	\$ 11,500.00	9/28/99



PROJECT NAME	FUNDING SOURCE	TOTAL PROJECT COST	COMPLETION DATE
Barrigada Hts, Piti & Chaot Reservoir Restoration	FEMA (90%)	\$ 10,837.00	9/28/99
	GWA (10%)	\$ 9,450.00	
		\$ 2,763.00	
Yigo Reservoir & Booster Pump Restoration, Pkg. I	FEMA (90%) GWA (10%)	\$ 18,150.00	9/28/99
Yigo Reservoir & Booster Pump Restoration, Pkg. II	FEMA (90%) GWA (10%)	\$ 18,980.00	9/28/99
Mataguac PBS 13; Upper Nimitz Hill BPS; Umatac Reservoir No. 2; Yona BPS and Adawag BPS Restoration	FEMA (90%)	\$ 3,005.00	10/4/99
	GWA (10%)	\$ 4,960.00	
		\$ 82,900.00	
Malojloj Reservoir, Booster Pump and Office Restoration	FEMA (90%) GWA (10%)	\$ 17,776.00	11/9/99
Mt. Sta. Rosa Reservoir Restoration Pkg. II (Typhoon Paka Project)	FEMA (90%)	\$2,440.00 (P. O. No. 1)	11/11/99
	GWA (10%)	\$4,212.00 (P. O. No.2)	
Dev. of New Deep well Y-23	PL 23-127 (DPW)	Incl. In \$5.8M	1/31/00
Dev. of New Deep well Y-17	PL 23-127 (DPW)	Incl. In \$5.8M	4/20/00
Dev. of New Deep well A-2	PL 23-137 (DPW)	Incl. In \$5.8M	5/22/00
Dev. of New Deep well M-23	PL 23-127 (DPW)	Incl. In \$5.8M	9/12/00
Dev. of New Deep well Y-16	PL 23-127 (DPW)	Incl. In \$5.8M	9/12/00
Dev. of New Deep well Y-21A	PL 23-127 (DPW)	Incl. In \$5.8M	9/12/00
Exploratory Drilling for Deep wells, Phase I-A, Pkg. E	PL 23-137 (DPW)	Incl. In \$5.8M	10/18/00
Ugum River Dam Emergency Restoration	FEMA (90%) GWA (10%)	\$ 240,520.00	10/26/00
Exploratory Drilling for Deep wells, Phase I-A, Pkg. F	PL 23-137 (DPW)	Incl. In \$5.8M	11/4/00
Windward Hills 12-Inch Waterline Replacement	DOI	\$ 700,000.00	1/25/01
Ugum River Dam Structure Emergency Restoration (Typhoon Paka Damages)	FEMA (90%) GWA (10%)	\$ 240,520.00	10/26/00
Ugum Water Treatment Plant Comprehensive Performance Evaluation Study	LOC	\$ 100,000.00	5/21/01
Design of Fifteen (15) Deep Wells	PL23-137 DPW	\$ 525,622.00	8/16/02
Tract 10432 & Tract 10433 Waterline, Yigo (Design/Build)	DOI	\$ 700,000.00	12/28/01
Tiyan Water & Sewer Infrastructure Improvements Phases 1, 2 & 3	EDA (75%) GWA (25%)	\$ 1,647,000.00	2/8/02 Design Only



## 1999-2002

# Wastewater Capital Improvement Projects

PROJECT NAME	FUNDING SOURCE	TOTAL PROJECT COST	COMPLETION DATE
Gun Beach/Faifai Wastewater System	Local	504,370.00	May-99
New Northern District Sewage Treatment Plant Effluent Line	PL 23-97	1,644,360.49	15-Dec-99
Restoration of Namo Falls Sewerline, Access Road and Retaining Wall	DPW	720,559.00	10-Jan-00
Ordot/Chalan Pago Sewer Collector, Phase 2A	DOI	2,092,169.56	23-Feb-00
Agana Sewer Treatment Plant Access Road	FEMA	357,373.00	15-Dec-00
Agat/Santa Rita Sewer System Phase IB \$53M Bond	USEPA Navy	9,793,973.39	Jan-01
Commercial Port Sewer Pump Station and Forecmain	USEPA Navy Local	2,259,897.85	12-Oct-01
Southern Link Trunk Sewer and Forecmain		3,439,851.73	30-Jun-02
Design/Construction of Wastewater Pumps and Motors, Phase I	FEMA	1,003,853.85	30-Jun-02
Design/Construction of Wastewater Pumps and Motors, Phase II	FEMA	1,466,997.00	30-Jun-02
Design/Construction of Wastewater Pumps and Motors Phase III	FEMA	478,454.27	30-Jun-02
Pump Replacement at Liguana Terrace		1,057,122.81	15-Jul-02
Comprehensive Performance Evaluation	Local	181,460.00	15-Oct-02
<b>Various PAKA Projects</b>			
Restoration of Dairy Road Pump Station	FEMA	6,000.00	16-Sep-99
Restoration of Mangilao Wastewater Pump Station	FEMA	8,500.00	16-Sep-99
Restoration of Tai, Mangilao Wastewater Pump Station	FEMA	6,700.00	31-Jul-99
Restoration of Route 16 Wastewater Pump Station	FEMA	9,000.00	31-Jul-99
Restoration of Agat Wastewater Treatment Plant	FEMA	11,000.00	31-Jul-99
Restoration of Latte Heights Wastewater Pump Station	FEMA	3,080.00	21-May-99
Restoration of Barrigada Pump Station	FEMA	9,300.00	31-Jul-99
Restoration of Baza Garden Wastewater Treatment Plant	FEMA	19,280.00	31-Jul-99
Restoration of Inarajan Wastewater Treatment Plant	FEMA	15,000.00	31-Jul-99
Restoration of Commercial Port Wastewater Treatment Plant	FEMA	2,830.00	16-Jan-99
Restoration of Chaot Wastewater Pump Station	FEMA	6,600.00	31-Jul-99



PROJECT NAME	FUNDING SOURCE	TOTAL PROJECT COST	COMPLETION DATE
<b>Various PAKA Projects (continued)</b>			
Restoration of Cabras Wastewater Pump Station	FEMA	6,500.00	31-Jul-99
Restoration of Piti Wastewater Pump Station	FEMA	4,750.00	5-Mar-99
Restoration of Agana Wastewater Pump Station	FEMA	23,500.00	31-Jul-99
Restoration of Bayside Wastewater Pump station	FEMA	2,400.00	5-Mar-99
Restoration of Paseo De Oro Wastewater Pump Station	FEMA	2,000.00	5-Mar-99
Restoration of Yigo Wastewater Pump Station	FEMA	7,700.00	31-Jul-99
Restoration of Mamajanao Wastewater Pump Station	FEMA	9,950.00	31-Jul-99
Restoration of Urnatac Wastewater Pump Station	FEMA	2,700.00	16-Jun-99
Restoration of Pagachao Wastewater Pump Station	FEMA	1,700.00	16-Jun-99
Restoration of Fujita Wastewater Pump Station	FEMA	2,650.00	10-May-99
Restoration of Agana Wastewater Pump Station	FEMA	15,340.00	31-Jul-99
Restoration of Ypao Wastewater Pump Station	FEMA	10,965.00	31-Jul-99
Agana Sewage Treatment Plant Repair	FEMA	4,500.00	31-Jul-99

## GUAM WATERWORKS RETIREES

1999			
Aguon, Benny R	Meter Reader Supv	Santos, David F	Pump Stn Opr II
Aguon, Michael A	WW Maint Supt	Santos, David M	Sewer Plt Ldr
Alcazaren, Renato B	Engr Supv	Santos, Edward LG	WC Maint Supt
Artero, Lourdes R	Board Secretary	Santos, Francisco M	WS Maint Ldr
Asanoma, David M	WS Maint Wkr II	Santos, Jacqueline B	Mgmt Analyst III
Benevente, John A	Pump Stn Opr II	Santos, Norbert M	Pump Stn Opr I
Blás, Gabriel S	Const Insp III	Taimanglo, Bennie SN	WS Maint Wkr II
Calvo, Vito K	Const Insp III	Talvo, Carlos F	WS Maint Wkr II
Camacho, Joseph SA	Sewer Plt Ldr	Tertaje, Baldovino A	WW Maint Mech II
Carriaga, Frankie Q	Pump Stn Opr II	Torres, Fred A	WW Const Main Supt
Chargualaf, Ray P	Safety Insp II		
Cruz, Edward R	Pump Stn Supv		2000
Cruz, Joseph G	Mtr Rdr Repr	Aguon, Paul SN	WW Manager
Cruz, Juan C	Wtr Const Maint Supt	Basbas, Quirino	Ch Engr
Damian, Justo S	Bldg/Maint Equip Mgr	Bascon, James A	WS Maint Ldr
Duenas, Joaquin M	Const Insp III	Cruz, Peter L.	Wtr Mtr Repr
Espiritu, Ernesto T	WW Maint Mech II	Mesa, Benjamin	WW Main Mech Ldr
Fejarang, David A	WW Maint Mech Ldr	Toves, John C	Cust Svc Rep
Fernandez, Anthony M	WW Maint Mech II	Tydingco, Francesca S	Mgmt Analyst IV
Fernandez, Mariana C	Personnel Asst I		2001
Hautea, Luisito H Jr	Engr Supv	Aguon, Alfred A.	Sewer Plant Supv
Hernandez, Patricia O	Acctng Tech III	Aguon, Joseph Q.	Pump Stn Opr II
Jaleco, Sigfredo L	Engr Supv	Mesa, Anna M	Cust Svc Rep
Mafnas, Cecilia D	Accountant II	Sablan, Julie J.	Sp Proj Coord
Meno, Juan G	Pump Stn Opr II	San Nicolas, Andrew G	WW Main Mech Ldr
Mesa, David SN	Pump Stn Opr II		2002
Paulino, John T	Pump Stn Opr II		
Quidachay, Vicente A	Const Insp III		
Quinata, Vicente C	WS Maint Leader	Cepeda, Gregorio T	Sewer Plt Supv
Quintanilla, Anthony C	Pump Stn Ldr	Meno, Joseph C	WS Main Supv
Quintanilla, Richard A	Chief Officer		
Quintanilla, Zusima EB	Acctng Tech III		
Respicio, Roman D	Lab Tech Supv		



# GUAM WATERWORKS AUTHORITY

## Balance Sheets September 30, 2002 and 2001

ASSETS	2002	2001 As restated
Property, plant and equipment:		
Utility plant in service:		
Water system	\$ 192,213,194	\$ 190,081,683
Wastewater system	170,512,495	158,170,889
Non utility property	18,234,201	18,395,306
Construction work in progress	5,466,467	17,880,453
	386,426,357	384,528,331
Less accumulated depreciation	(149,323,509)	(139,061,037)
Property, plant and equipment, net	237,102,848	245,467,294
Long-term receivables	-	123,842
Current Assets:		
Cash:		
Unrestricted	2,438,223	1,414,866
Restricted	245,390	242,110
Accounts receivable, net	7,398,557	13,752,691
Materials and supplies inventory, net of allowance for obsolescence of \$85,075 at September 30, 2002 and 2001	1,431,442	1,330,323
<b>Total current assets</b>	<b>11,513,612</b>	<b>16,739,990</b>
	<b>\$ 248,616,460</b>	<b>\$ 262,331,126</b>

*See accompanying notes to financial statements.*



# GUAM WATERWORKS AUTHORITY

## Balance Sheets Continued September 30, 2002 and 2001

LIABILITIES AND NET ASSETS	2002	2001 As restated
Current Liabilities:		
Current maturities of long-term debt	\$ 1,143,940	\$ 2,032,907
Accounts Payable:		
United States Navy	70,250	8,381,347
Guam Power Authority	18,125,218	17,094,704
Trade	3,452,258	5,490,174
Accrued payroll and employee benefits	472,936	310,029
Current portion of employee annual leave	413,806	486,819
Accrued supplemental/COLA annuities	905,848	-
Payable to contractors	1,584,138	1,533,773
Customer deposits	1,590,009	1,046,503
<b>Total current liabilities</b>	<b>27,758,403</b>	<b>36,376,256</b>
Long-term debt, less current maturities	9,484,129	-
Employee annual leave, less current portion	1,385,352	1,170,594
Retirement fund deferred contributions	1,213,162	1,290,651
Advances for construction	230,996	242,110
Other liabilities	120,120	114,330
<b>Total liabilities</b>	<b>40,192,162</b>	<b>39,193,941</b>
Net assets:		
Invested in capital assets, net of related debt	235,474,779	243,434,387
Restricted	245,390	242,110
Unrestricted	(27,295,871)	(20,539,312)
<b>Total net assets</b>	<b>208,424,298</b>	<b>223,137,185</b>
	<b>\$ 248,616,460</b>	<b>\$ 262,331,126</b>

*See accompanying notes to financial statements.*



# GUAM WATERWORKS AUTHORITY

## Statements of Operations and Changes in Net Assets Years Ended September 30, 2002 and 2001

	2002	2001 As restated
<b>Operating revenues:</b>		
Water:		
Private	\$ 23,273,926	\$ 21,929,385
Government	2,142,101	2,127,288
	25,416,027	24,056,673
Wastewater		
Private	10,760,920	11,302,742
Government	2,711,560	2,180,883
	13,472,480	13,483,625
Other	150,710	584,037
<b>Total operating revenues</b>	<b>39,039,217</b>	<b>38,124,335</b>
<b>Operating and maintenance expenses:</b>		
Water purchases	5,340,209	5,844,188
Power purchases	7,679,851	8,279,903
	13,020,060	14,124,091
Salaries and wages	14,962,764	14,558,325
Administrative and general	13,337,896	6,392,380
Depreciation	11,415,601	10,362,850
Contractual	3,315,768	4,437,380
<b>Total operating     and maintenance expenses</b>	<b>56,052,089</b>	<b>49,875,026</b>
<b>Operating loss</b>	<b>(17,012,872)</b>	<b>(11,750,691)</b>
<b>Other income (expense):</b>		
Grants from U.S. Government	515,527	4,448,823
Other contributions	3,953,965	3,421,984
Grants from Government of Guam	562,196	411,330
Contributions from other agencies	-	332,019
Interest Income	20,493	42,092
Interest expense	(572,050)	-
Other expense	-	(31,269)
Other income	16,609	-
Write-off discontinued projects	(1,309,701)	(313,709)
Supplemental/COLA annuities	(905,848)	-
	2,299,985	11,111,658
<b>Net decrease in net assets</b>	<b>(14,712,887)</b>	<b>(639,033)</b>
<b>Net assets at beginning of year</b>	<b>223,137,185</b>	<b>223,776,218</b>
<b>Net assets at end of year</b>	<b>\$ 208,424,298</b>	<b>\$ 223,137,185</b>

*See accompanying notes to financial statements.*



# GUAM WATERWORKS AUTHORITY

## Balance Sheets September 30, 2000 and 1999

ASSETS	2000	1999
Property, plant and equipment:		
Utility plant in service	\$ 330,243,882	\$ 328,869,977
Non utility property	14,600,033	14,036,149
Construction work in progress	<u>25,619,367</u>	<u>22,486,511</u>
	370,463,282	365,392,637
Less accumulated depreciation	<u>(128,788,174)</u>	<u>(119,729,173)</u>
Total property, plant and equipment	<u>241,675,108</u>	<u>245,663,464</u>
Long-term receivables	<u>172,057</u>	<u>179,136</u>
Current assets:		
Cash:		
Unrestricted	1,673,663	853,032
Restricted	3,207,675	3,114,114
Accounts receivable, net	19,410,226	17,708,690
Materials and supplies inventory, net of allowance for obsolescence of \$85,075 at September 30, 2000 and 1999	<u>721,441</u>	<u>400,680</u>
<b>Total current assets</b>	<b><u>\$ 25,013,005</u></b>	<b><u>\$ 22,076,516</u></b>
	<b><u><u>\$ 266,860,170</u></u></b>	<b><u><u>\$ 267,919,116</u></u></b>

*See accompanying notes to financial statements.*



# GUAM WATERWORKS AUTHORITY

## Balance Sheets Continued September 30, 2000 and 1999

CAPITALIZATION AND LIABILITIES	2000	1999
Capitalization		
Contributed capital:		
Grants by Government of Guam	\$ 117,558,773	\$ 122,065,084
Grants by U.S. Government	64,359,494	63,799,970
Contributions-in-aid of construction	58,532,694	59,345,237
Contributions from other agencies	1,268,408	1,239,277
Total contributed capital	<u>241,719,369</u>	<u>246,449,568</u>
Deficit	<u>(24,242,214)</u>	<u>(19,041,904)</u>
<b>Total capitalization</b>	<b><u>217,477,155</u></b>	<b><u>227,407,664</u></b>
Current Liabilities:		
Current maturities of long-term debt	767,309	584,275
Accounts Payable:		
United States Navy	8,586,517	8,414,731
Guam Power Authority	15,821,451	7,583,885
Trade	6,565,896	5,652,439
Accrued payroll and employee benefits	1,086,944	933,752
Current portion of employee annual leave	413,806	465,605
Payable to contractors	874,214	1,655,709
Customer deposits	<u>1,550,797</u>	<u>1,214,038</u>
<b>Total current liabilities</b>	<b>35,666,934</b>	<b>26,504,434</b>
Long-term debt, less current maturities	1,535,244	1,796,316
Employee annual leave, less current portion	1,385,352	1,632,840
Retirement fund deferred contributions	7,536,774	7,380,875
Advances for construction	3,205,007	3,174,750
Other liabilities	<u>53,704</u>	<u>22,237</u>
<b>Total liabilities</b>	<b><u>49,383,015</u></b>	<b><u>40,511,452</u></b>
<b>Commitments and contingencies</b>	<b><u>\$ 266,860,170</u></b>	<b><u>\$ 267,919,116</u></b>

*See accompanying notes to financial statements.*



# GUAM WATERWORKS AUTHORITY

## Statements of Operations and Deficit Years Ended September 30, 2000 and 1999

	2000	1999
<b>Operating revenues:</b>		
Water		
Private	\$ 22,639,562	\$ 21,126,400
Government	2,551,547	2,561,630
	25,191,109	23,688,030
Wastewater		
Private	10,920,954	9,983,039
Government	2,465,748	2,215,986
	13,386,702	12,199,025
Other	569,375	4,626,160
	<b>39,147,186</b>	<b>40,513,215</b>
<b>Operating and maintenance expenses:</b>		
Water purchases	6,618,266	6,330,290
Power purchases	8,244,320	6,719,870
	14,862,586	13,122,160
Salaries and wages	13,159,125	14,930,255
Administrative and general	7,987,480	9,395,702
Depreciation	9,059,001	9,076,732
Contractual	6,138,934	3,857,695
	<b>51,207,126</b>	<b>50,382,544</b>
	<b>(12,059,940)</b>	<b>(9,869,329)</b>
<b>Other income:</b>		
Interest income	30,874	27,557
Operating grants	29,631	85,369
	60,505	112,926
	<b>(11,999,435)</b>	<b>(9,756,403)</b>
<b>Depreciation on property, plant and equipment with contributed capital</b>	<b>6,799,125</b>	<b>7,826,079</b>
	<b>(5,200,310)</b>	<b>(1,930,324)</b>
<b>Net assets at beginning of year</b>	<b>(19,041,904)</b>	<b>(17,111,580)</b>
<b>Net assets at end of year</b>	<b>\$ (24,242,214)</b>	<b>\$ (19,041,904)</b>

See accompanying notes to financial statements.



GUAM WATERWORKS AUTHORITY

FINANCIAL STATEMENTS AND  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2002 AND 2001

(1) Organization Summary of Significant Accounting Policies

Organization

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

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

Basis of Accounting

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

Net Assets

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

Estimates

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

Materials and Supplies Inventories

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

Property, Plant and Equipment

Plant in service amounting to \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 50 years for plant assets).

Accrued Annual Leave

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

Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$22 per month for residential accounts and 80% of current water consumption for commercial and government accounts.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, however, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. GWA is currently pursuing the matter of billing such service with the PUC. Fire hydrant revenue was \$818,150 and \$786,300 for the years ended September 30, 2002 and 2001, respectively.

Grants and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions as defined by GASB Statement No. 33. Approved capital grants not yet received amounted to approximately \$370,000 and \$2 million at September 30, 2002 and 2001, respectively.

Reclassifications

Certain account balances in the 2001 financial statements have been reclassified to correspond with the 2002 financial statement presentation.

(2) Property, Plant and Equipment

	Beginning Balance October 1, 2001	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2002
Utility Plant in				
Service - Water	\$ 190,081,683	\$ 2,504,922	\$ (373,411)	\$ 192,213,194
Utility Plant in				
Service - Wastewater	158,170,889	12,341,606	-	170,512,495
General Fixed Assets	18,395,306	153,699	(314,804)	18,234,201
Accumulated Depreciation	(139,061,037)	(11,415,601)	1,153,129	(149,323,509)
Construction Work in				



Progress	17,880,453	3,075,799	(15,489,785)	5,466,467
	\$ 245,467,294	\$ 6,660,425	\$(15,024,871)	\$237,102,848
	Beginning Balance October 1,	Transfers and Additions	Transfers and Deletions	Ending Balance September 30,
	2000			2001
Utility Plant in Service - Water	\$ 183,131,528	\$ 7,060,980	\$ (110,825)	\$ 190,081,683
Utility Plant in Service - Wastewater	147,112,354	11,254,548	(196,013)	158,170,889
General Fixed Assets	14,600,033	3,782,453	12,820	18,395,306
Accumulated Depreciation	(128,788,174)	(10,362,850)	89,987	(139,061,037)
Construction Work in Progress	25,619,367	10,601,572	(18,340,486)	17,880,453
	\$ 241,675,108	\$ 22,336,703	\$ (18,544,517)	\$ 245,467,294

### (3) Accounts Receivable

Accounts receivable at September 30, 2002 and 2001, are as follows:

Customers:	2002	2001
Private	\$ 16,292,471	\$16,701,686
Government	7,891,593	6,683,257
	24,184,064	23,384,943
Federal agencies	608,364	2,191,365
GPA	242,836	184,903
	25,035,264	25,761,211
Less allowance for doubtful receivables:		
Private	(10,008,832)	(6,903,807)
Government	(7,627,875)	(5,104,713)
	(17,636,207)	(12,008,520)
	\$ 7,398,557	\$ 13,752,691

Substantially all of GWA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

GWA has obtained non-interest bearing commitments from private customers that require minimum monthly payments on account.

Long-term accounts receivable at September 30, 2002 and 2001 are as follows:

	2002	2001
Receivable from promissory notes	\$ 752,593	\$ 123,842
Allowance for doubtful receivables	(752,593)	-
	\$ -	\$ 123,842

### (4) Long-Term Debt

Long-term debt at September 30, 2002 and 2001 is as follows:

	2002	2001
Note payable to IBM, interest at 21.90%, due in monthly installments of principal and interest of \$42,170 through October 2004 (see below)	\$ 1,628,069	\$ 2,032,907
Note payable to the U.S. Navy, interest at 1.25%, due in monthly installments of principal and interest of \$45,833 through March 2009, \$132,545 through March 2011, and \$264,853 through June 2012 (see note 14).	9,000,000	-

Total long-term debt	10,628,069	2,032,907
Less current portion	(1,143,940)	(2,032,907)
	\$ 9,484,129	\$ -

As of September 30, 2002, future maturities of long-term debt are as follows:

	Principal	Interest	Total Debt Service
Year ending September 30,			
2003	\$ 1,143,940	\$ 126,432	\$ 1,270,372
2004	816,121	239,916	1,056,037
2005	422,358	169,808	592,166
2006	388,633	161,363	549,996
2007	396,477	153,519	549,996
2008 through 2012	7,460,540	484,487	7,945,027
	\$ 10,628,069	\$ 1,335,525	\$ 11,963,594

Long-term debt includes invoices financed by IBM Credit Corporation (ICC) under a \$3.5 million line of credit. The purpose of the credit line is for the preapproved purchase, installation and upgrades of GWA's accounting and operating software and hardware systems, technical training and support of such systems, and related expenses. As of September 30, 2002, GWA had used \$2,302,553 of its credit line. On June 4, 2001, ICC restructured 100% of the outstanding balance of credit line due to nonpayment under existing terms. GWA adhered to the restructured plan until January 2002. On June 21, 2002, GWA was officially in default on its line of credit agreement. Accordingly, all unpaid principal at September 30, 2001 is classified as current in the accompanying balance sheet. Beginning March 2003 to May 2003, GWA made payments to ICC based on the June 2001 restructured terms. In May 2003, ICC restructured 100% of the remaining balance. Accordingly, all unpaid principal at September 30, 2002 less amount due in 2004 based on the new restructured plan, is classified as current in the accompanying balance sheet.

### (5) Employees' Retirement Plan

Employees of GWA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise, they remained under the old plan.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GWA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2002, a minimum combined employer and employee contribution rate of 41.27% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 19.675%, respectively, for the year ended September 30, 2002. The effect of GWA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 31.77% to an effective rate of 28.26% for the year ended September 30, 2002. In recognition of the above, an accrual increase of 8.585% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 28.26% and the employer's statutory rate of 19.675%. The effective employer accrual rate for the year ended September 30, 2001 was 20.05%.

The plan utilized the actuarial cost method termed "entry age normal" with

an assumed rate of return of 7.5% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2001, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GWA as a separate sponsor, the accrued unfunded liability at September 30, 2002 and 2001, may be materially different than that recorded in the accompanying financial statements.

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

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.675% is contributed towards the unfunded liability of the defined benefit plan.

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

In 2002, the Government of Guam, as a whole, adopted the provisions of Government Accounting Standards Board Statement No. 27, Accounting for Pensions by State and Local Government Employees. The effect of this change, which was retroactively applied, is as follows:

	As originally stated in 2001	As restated in 2001
Unfunded pension liability	\$ 7,583,198	\$ 1,290,651
Personnel services expense	\$ 11,465,867	\$ 11,459,351
Retained earnings at beginning of year	\$ 217,454,533	\$ 223,747,080

(6) Real Estate Properties Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate properties under GWA's administration. As of September 30, 2002 and 2001, the properties have not been recognized in the financial statements pending completion of formal transfer proceedings.

(7) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the United States Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2002 and 2001 are \$3,556,253 and \$3,834,100, respectively.

(8) Commitments and Contingencies Claims

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

Self Insurance

GWA has adopted a policy of self-insuring potential risks relative to its property, plant and equipment. GWA has not purchased insurance relative to its property, plant and equipment, and no other risks are insured.

GWA is of the opinion that it has suffered no material losses in the past three years related to damages to its utility plant-in-service.

Contract Commitments

Contract commitments in connection with projects currently in construction amount to approximately \$2.13 million at September 30, 2002.

Medicare

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

(9) Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less.

Bank balances of demand and time deposit accounts held in the name of GWA totaled \$2,683,613 and \$1,624,108 as of September 30, 2002 and 2001, respectively, of which \$447,050 and \$315,234 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. In addition, \$32,868 was held on hand for the exchange fund and petty cash as of September 30, 2002 and 2001.

(10) Other Matters

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

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

On May 9, 2002, the Guam Legislature passed Public Law 26-81. The Law established a one-year moratorium of the 11.5% surcharge, wherein GWA is prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order for GWA to pay its debt to GPA, the law appropriated \$2.75 million to GWA from a bond re-financing. The surcharge is scheduled to continue in May 2003 with monthly payments to be made to GPA and effective October 2003, also to the U.S. Navy.

(11) Adoption of New Accounting Principle

Effective October 1, 2001, GWA adopted GASB Statement No. 34, Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments. GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required



supplementary information to the basic financial statements, and the presentation of net assets and changes in net assets in comparative financial statements. The provisions of GASB No. 34 were applied to all periods presented; accordingly, the balance sheet and statement of revenues, expenses and net changes for 2001 have been restated. Implementation of GASB No. 34 had no impact on the statement of cash flows.

Statement No. 34 requires as supplementary information, Management's Discussion and Analysis, which includes an analytical overview of the Authority's financial activities. Adoption also requires the classification of "current assets" and "current liabilities" from all other assets and liabilities on the balance sheet. Finally, reporting by major fund in the financial statements is required. A major fund is defined in the statement as any fund comprising more than 5% of the combined entity's total assets, liabilities, revenue or expenses, as well as any fiduciary fund, regardless of size. All fund comprising less than 5% are required to be aggregated into a single, "All Other" fund group.

As discussed in note 5, GWA changed its method of accounting for pension costs in 2002 with retroactive effect.

(12) System Development Fund

Public Law 19-47 created the Water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time from any property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirements for water and/or sewer services and installation of infrastructure to be done by the builder.

The Fund shall be expended only for expanding, upgrading or repairing water and wastewater facilities on Guam. Such restricted cash is placed in various savings and time certificate of deposit accounts. In 2002 and 2001, the net change in restricted cash equaled \$3,280 and \$2,965,565, respectively. The changes represent transfers to and transfers from the unrestricted fund, respectively, for the purposes previously mentioned in this note.

(13) Contributions Received

Contributions received by GWA during the years ended September 30, 2002 and 2001, are as follows:

	2002	2001
Grants from U.S. Government:		
Received from the Department of the Interior	\$ -	\$ 3,158,020
Received from the Environmental Protection Agency	-	1,015,345
Received from the Federal Emergency Management Agency	515,527	226,027
Received from the Economic Development Administration	-	49,431
	\$ 515,527	\$ 4,448,823
Other contributions:		
Received from Tumon Area Water and Sewer Association members, and used for the Southern Link Sewer project	\$ 229,323	\$ 3,421,984
Received from the Department of the Interior	537,724	-
Received from the Environmental Protection Agency	346,188	-
Received from the Department of Public Works	90,730	-
Proceeds received through refinancing of Water Bond, and used to pay		

GWA's obligations to GPA.	2,750,000	-
	\$ 3,953,965	\$ 3,421,984
Grants from Government of Guam:		
Received for Deepwell projects undertaken in conjunction with Department of Public Works	\$ 18,794	\$ 2,800,388
Contributions from other agencies:		
Proceeds received through refinancing of Water Bond, and used for emergency repairs to the Fujita Sewer Pump Station	\$ -	\$ 332,019

(14) Prior Period Adjustment

During fiscal year ended September 30, 2002, GWA corrected certain errors in its CIP accounts as of September 30, 2001. This error was corrected by restating its accounts at September 30, 2001. The effects of this restatement on GWA's net assets at September 30, 2001 is as follows:

Balance previously reported as of September 30, 2001	\$ 223,747,080
Adjustment to CIP	(609,895)
Balance as reported in the accompanying financial statements	\$ 223,137,185

(15) Accrued Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by 26-49, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits paid to retirees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(16) Subsequent Events

On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. Estimates of the damage to GWA's property, plant and equipment resulting from the typhoon, have not been determined. GWA's intends to seek reimbursement from federal sources in compensation for its losses.

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

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

On January 2, 2003, a five-member publicly elected Consolidated Commission on Utilities (CCU) officially convened pursuant to Guam Public Law 26-76. The CCU replaced and assumed the duties and responsibilities of the previous seven-member Board of Directors.

GUAM WATERWORKS AUTHORITY

FINANCIAL STATEMENTS AND  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

(1) Organization Summary of Significant Accounting Policies

Organization

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

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

Basis of Accounting

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

Estimates

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

Materials and Supplies Inventories

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

(1) Organization Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment

Plant in service amounting to \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 50 years for plant assets).

Accrued Annual Leave

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fis-

cal year is accrued and is included in current liabilities. Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with GWA. Accumulation of such vacation credits is normally limited to 480 hours at fiscal year end; however, management has exercised its authority in certain conditions to allow accumulation of up to 720 hours. All such vacation credit is convertible to pay upon termination of employment.

Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$20 per month for residential accounts and 80% of current water consumption for commercial and government accounts.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, however, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. GWA is currently pursuing the matter of billing such service with the PUC. Fire hydrant revenue was \$786,300 and \$788,300 for the years ended September 30, 2001 and 2000, respectively.

Grant and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions as defined by GASB Statement No. 33. Approved capital grants not yet received amounted to approximately \$2 million and \$4.1 million at September 30, 2001 and 2000, respectively.

Reclassifications

Certain account balances in the 2000 financial statements have been reclassified to correspond with the 2001 financial statement presentation.

(2) Accounts Receivable

Accounts receivable at September 30, 2001 and 2000, are as follows:

Customers:	2001	2000
Private	\$ 16,701,686	\$ 15,245,717
Government	6,683,257	6,668,939
	23,384,943	21,914,656
Federal agencies	2,191,365	4,779,990
GPA	184,903	309,206
	25,761,211	27,003,852
Less allowance for doubtful receivables:		
Private	(6,903,807)	(5,084,995)
Government	(5,104,713)	(2,508,631)
	(12,008,520)	(7,593,626)
	\$ 13,752,691	\$ 19,410,226

Substantially all of GWA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

GWA has obtained signed commitments from private customers that require making specified minimum monthly payments on account until account balances are paid in full. Payment terms do not include interest. At September 30, 2001, minimum future cash flows are as follows:

2002	\$ 61,921
2003	24,768
2004	18,576
2005	12,384
2006	6,193
	\$ 123,842

(3) Long-Term Debt

Long-term debt represents invoices financed by IBM Credit Corporation (ICC) under a \$3.5 million line of credit. The purpose of the credit line is for the preapproved purchase, installation and upgrades of GWA's accounting and operating software and hardware systems, techni-



cal training and support of such systems, and related expenses. As of September 30, 2000, GWA had used \$2,302,553 of its credit line.

On June 4, 2001, ICC restructured 100% of the outstanding balance of the credit line due to nonpayment under existing terms. The new terms required GWA to pay the outstanding principal balance of \$2,185,325 in monthly installments of \$51,996 through October 2001, changing to \$103,996 through November 2002, and a balloon payment of \$554,336 on December 1, 2002. All payments include interest at a fixed rate of 7.07%.

GWA adhered to the restructured plan until January 2002, but made no payments thereafter. On June 21, 2002, ICC sent to GWA an official notice of default of the line of credit agreement. Accordingly, all unpaid principal at September 30, 2001 is classified as current in the accompanying balance sheet.

(4) Employees' Retirement Plan

Employees of GWA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise, they remained under the old plan.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GWA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 2000, it has been determined that for the year ended September 30, 2001, a minimum combined employer and employee contribution rate of 34.64% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 19.675%, respectively, for the year ended September 30, 2001. The effect of GWA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 25.14% to an effective rate of 20.05% for the year ended September 30, 2001. In recognition of the above, an accrual increase of 0.375% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 20.05% and the employer's statutory rate of 19.675%. The effective employer accrual rate for the year ended September 30, 2000 was 19.74%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2000, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GWA as a separate sponsor, the accrued unfunded liability at September 30, 2001 and 2000, may be materially different than that recorded in the accompanying financial statements.

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

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.675% is contributed towards the unfunded liability of the defined benefit plan.

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

Retirement expense for the years ended September 30, 2001 and 2000 is as follows:

	2001	2000
Cash contributions	\$ 3,039,518	\$ 3,083,741
Adjustment of accrued unfunded liability	46,424	155,899
	\$ 3,085,942	\$ 3,239,640

(5) Real Estate Properties Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate properties under GWA's administration. As of September 30, 2001 and 2000, the properties have not been recognized in the financial statements pending completion of formal transfer proceedings.

(6) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the United States Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2001 and 2000 are \$3,834,100 and \$4,516,915, respectively.

(7) Commitments and Contingencies

Claims

The U.S. Navy is suing for recovery of payment for water provided by the U.S. Navy to the former Public Utility Agency of Guam and to GWA from the Fena reservoir. Furthermore, due to the nature of its operations, GWA is subject to various claims by private and governmental customers and vendors for various alleged losses. Because an estimate of the amount or range of potential loss cannot be determined at this time, no provision for any liability that may result from such claims has been made in the financial statements.

Self Insurance

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

Contract Commitments

Contract commitments in connection with projects currently in construction amount to approximately \$1.19 million at September 30, 2001.

Medicare

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

(8) Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less.

Bank balances of demand and time deposit accounts held in the name of GWA totalled \$1,624,108 and \$4,848,471 as of September 30, 2001 and 2000, respectively, of which \$315,234 and \$160,052 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. In addition, \$32,868 was held on hand for the exchange fund and petty cash as of September 30, 2001 and 2000.

(9) Other Matters

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

(10) Adoption of New Accounting Principle

Effective October 1, 2000, GWA adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented; and accordingly, the statement of operations for 2000 has been restated to reflect capital grants of \$2,068,926 and depreciation expense of \$6,799,125 on property, plant and equipment acquired with contributed capital. Implementation of GASB No. 33 had no impact on the balance sheets and statements of cash flows.

(11) System Development Fund

Public Law 19-47 created the Water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time from any property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirements for water and/or sewer services and installation of infrastructure to be done by the builder.

The Fund shall be expended only for expanding, upgrading or repairing water and wastewater facilities on Guam. Such restricted cash is placed in various savings and time certificate of deposit accounts. In 2001 and 2000, the net change in restricted cash equaled \$2,965,565 and \$93,561, respectively. The changes represent transfers to and transfers from the unrestricted fund, respectively, for the purposes previously mentioned in this note.

(12) Contributions Received

Contributions received by GWA during the years ended September 30, 2001 and 2000 is as follows:

	2001	2000
Grants from U.S. Government:		
Received from the Department of the Interior	\$ 3,158,020	\$2,098,557
Received from the Environmental Protection Agency	1,015,345	-
Received from the Federal Emergency Management Agency	226,027	-
Received from the Economic Development Administration	49,431	-
	\$ 4,448,823	\$ 2,098,557
Contributions in aid of construction:		
Received from Tumon Area Water and Sewer Association members, and used for the Southern Link Sewer project	\$ 3,421,984	\$ -

Grants from Government of Guam:

Received for Deepwell projects undertaken in conjunction with Department of Public Works	\$ 2,800,388	\$ -
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Contributions from other agencies:

Proceeds received through refinancing of Water Bond, and used for emergency repairs to the Fujita Sewer Pump Station	\$ 332,019	\$ -
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(13) Subsequent Events

On October 13, 2001, an earthquake with a magnitude of 7.0 on the Richter scale struck Guam. Damage to GWA's property, plant and equipment, as a direct result of the earthquake, have not been determined. GWA's management expects to absorb a portion of the final loss amount through its self-insurance, and intends to seek reimbursement from federal sources for the remainder.

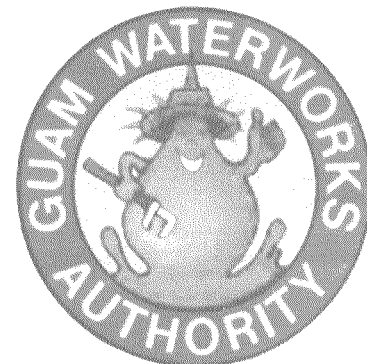
On July 5, 2002, Typhoon Chata'an struck Guam with destructive winds of approximately 110 miles per hour. Estimates of the damage to GWA's property, plant and equipment, as a direct result of the typhoon have not been determined. GWA's management expects to absorb a portion of the final loss amount through its self-insurance, and intends to seek reimbursement from federal sources for the remainder.

On December 8, 2002, Supertyphoon Pongsonga struck Guam with destructive winds of approximately 180 miles per hour. Estimates of the damage to GWA's property, plant and equipment resulting from the typhoon, have not been determined. GWA's intends to seek reimbursement from federal sources in compensation for its losses.

On or about December 2002, the United States Government filed a complaint against the Guam Waterworks Authority and the Government of Guam for alleged violations under the Federal Clean Water Act and the Safe Drinking Water Act. Because of the Authority's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. Both the Authority and the U.S. Government of Justice, Environment and Natural Resources Division are currently moving together towards the finalization of a mutual agreement in the form of Stipulated Order to resolve the violation issues. Because of the uncertainty surrounding the amount and range of potential penalties and compliance costs, no provision for any liability that may result from such alleged violations has been made in the financial statements.

On January 2, 2003, a five-member publicly elected Consolidated Commission on Utilities (CCU) officially convened pursuant to Guam Public Law 26-76. The CCU replaced and assumed the duties and responsibilities of the previous seven-member Board of Directors.

In April 2003, pursuant to a settlement agreement with the U.S. Navy, the CCU has approved a resolution to pay \$9 million to the U.S. Navy for past due water billings.





GUAM WATERWORKS AUTHORITY

FINANCIAL STATEMENTS AND  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2000 AND 1999

(1) Organization Summary of Significant Accounting Policies

Organization

The Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Public Utility Commission of Guam (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119 and derives its revenues mainly from its water and wastewater system. The water system is engaged in the collection, transmission, and distribution of water to villages and communities of Guam. The wastewater system is engaged in the interception and treatment of wastewater from residences and industries in the villages of Guam. GWA is governed by seven-member Board of Directors appointed by the Governor of Guam which determines such matters as rates and charges for services, approval of contracts and GWA policies.

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

Basis of Accounting

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

Estimates

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

Materials and Supplies Inventories

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

Change in Accounting Estimates

Management changed its estimate of the amount of obsolete materials and supplies inventory at September 30, 1999. The effect of the change was a reduction of net loss of \$314,925.

Management changed its estimate of the amount of uncollectible accounts receivable at September 30, 1999. The effect of the change was a reduction of net loss of \$3,812,918.

Property, Plant and Equipment

Plant in service amounting to \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 50 years for plant assets).

Accrued Annual Leave

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

Contributed Capital

Government funded projects are recorded as contributed capital as the cost of the projects are incurred. Approved capital grants not yet received amounted to approximately \$4.1 million and \$4.9 million at September 30, 2000 and 1999, respectively.

Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$20 per month for residential accounts and 80% of current water consumption for commercial and government accounts.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, however, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. GWA is currently pursuing the matter of billing such service with the PUC. Fire hydrant revenue was \$786,300 and \$401,000 for the years ended September 30, 2000 and 1999, respectively.

Reclassifications

Several of the 1999 balances have been reclassified to conform to the 2000 financial statement presentation.

(2) Accounts Receivable

Accounts receivable at September 30, 2000 and 1999, are as follows:

Customers:	2000	1999
Private	\$ 15,245,717	\$ 11,653,385
Government	6,668,939	6,771,527
	21,914,656	18,424,912
Federal agencies	4,779,990	5,001,086
GPA	309,206	288,421
Others	-	12,564
	27,003,852	23,726,983
Less allowance for doubtful receivables:		
Private	(5,084,995)	(4,274,975)
Government	(2,508,631)	(1,743,318)
	(7,593,626)	(6,018,293)
	\$ 19,410,226	\$ 17,708,690

Substantially all of GWA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

GWA has obtained a signed commitment from a private customer that requires making specified minimum monthly payments on account until the account balance is paid in full. Payment terms do not include interest. At September 30, 2000, minimum future cash flows are as follows:

2001	\$ 9,600
2002	9,600
2003	8,855
2004	6,000
2005	6,000
Thereafter	141,602
	\$ 181,657

### (3) Long-Term Debt

Long-term debt represents invoices financed by IBM relating to the installation of GWA's accounting and operating systems, payable in equal monthly installments of \$72,000 until 2003, including interest ranging from 5.25% to 7.62%. GWA has a \$3.5 million credit line with IBM Credit Corporation. The purpose is for the preapproved purchase of software and hardware systems, technical training and support of such systems, and related expenses. As of September 30, 2000 and 1999, GWA has used \$2,302,553 and \$2,380,591, respectively, of its credit line.

Minimum future long-term debt payments through the year 2006 are as follows:

	Principal	Interest
2001	\$ 767,309	\$ 131,897
2002	790,865	80,723
2003	602,727	25,950
2004	66,946	7,242
2005	69,319	2,764
Thereafter	5,387	28
	\$ 2,302,553	\$ 248,604

### (4) Employees' Retirement Plan

Employees of GWA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise, they remained under the old plan.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GWA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 1999, it has been determined that for the year ended September 30, 2000, a minimum combined employer and employee contribution rate of 33.41% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 2000. The effect of GWA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 23.91% to an effective rate of 19.74% for the year ended September 30, 2000. In recognition of the above, an accrual increase of 1.14% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 19.74% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1999 was 12.41%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase

of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 1999, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GWA as a separate sponsor, the accrued unfunded liability at September 30, 2000 and 1999, may be materially different than that recorded in the accompanying financial statements.

The Guam Legislature enacted legislation during the year ended September 30, 2000 which offered retirement incentives for employees to retire or voluntarily separate from service with the Government of Guam and also required the Retirement Fund to incur the costs of providing certain supplemental retiree benefits. This legislation resulted in a significant increase in the Retirement Fund's unfunded accrued liability and is the primary reason for the increase in the employer's contribution rate for the year ended September 30, 2000.

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

Retirement expense for the years ended September 30, 2000 and 1999 is as follows:

	2000	1999
Cash contributions	\$ 3,083,741	\$ 3,433,332
Adjustment of accrued unfunded liability	155,899	(927,990)
	\$ 3,239,640	\$ 2,505,342

### (5) Real Estate Properties Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate properties under GWA's administration. As of September 30, 2000 and 1999, the properties have not been recognized in the financial statements pending completion of formal transfer proceedings.

### (6) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the United States Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the United States Navy for the years ended September 30, 2000 and 1999 are \$4,516,915 and \$4,979,719, respectively.

### (7) Commitments and Contingencies

#### Claims

The United States Navy is suing for recovery of payment for water provided by the U.S. Navy to the former Public Utility Agency of Guam and to GWA from the Fena reservoir. GWA is counter suing the U.S. Navy for relief for the improper and unlawful taking of property including the Fena reservoir. Furthermore, due to the nature of its operations, GWA is subject to various claims by private and governmental customers and vendors for various alleged



losses. Because an estimate of the amount or range of potential loss cannot be determined at this time, no provision for any liability that may result from such claims has been made in the financial statements.

**Self Insurance**

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

**Contract Commitments**

Contract commitments in connection with projects currently in construction amount to approximately \$3.87 million at September 30, 2000.

**Medicare**

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

**(8) Cash and Cash Equivalents**

For purposes of the balance sheets and the statements of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less.

Bank balances of demand and time deposit accounts held in the name of GWA totalled \$4,848,471 and \$3,934,526 as of September 30, 2000 and 1999, respectively, of which \$160,052 and \$225,498 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. In addition, \$32,868 and \$31,120, respectively, were held on hand for the exchange fund and petty cash as of September 30, 2000 and 1999.

**(9) Other Matters**

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

**(10) Changes in Capitalization**

Changes in capitalization during the years ended September 30, 2000 and 1999, are as follows:

	Contributed Capital	Accumulated Depreciation, Contributed Assets	Deficit	Total
Balance at September 30, 1998	\$ 344,998,815	\$ (100,680,951)	\$ (17,111,580)	\$ 227,206,284
Contributed capital received	9,957,783	-	-	9,957,783
Net loss for year ended September 30, 1999	-	(7,826,079)	(1,930,324)	(9,756,403)

Balance at September 30, 1999	354,956,598	(108,507,030)	(19,041,904)	227,407,664
Contributed capital received	2,068,926	-	-	2,068,926
Net loss for year ended September 30, 2000	-	(6,799,125)	(5,200,310)	(11,999,435)
Balance at September 30, 2000	\$ 357,025,524	\$ (115,306,155)	\$ (24,242,214)	\$ 217,477,155

Components of contributions are as follows:

	2000	1999
Government of Guam	\$ -	\$ 2,156,624
U.S. Government	2,039,795	7410,698
Contributions in aid of construction	-	363,107
Other agencies	29,131	27,354
	\$ 2,068,926	\$ 9,957,783

**(11) Depreciation on Contributed Assets**

Depreciation on fixed assets financed with contributions is closed to the appropriate contributions account at the end of the year. Depreciation on contributed assets for the years ended September 30, 2000 and 1999 is as follows:

	2000	1999
Government of Guam	\$ 4,506,312	\$ 4,890,158
U.S. Government	1,500,221	2,032,880

Contributions-in-aid of construction (private entities)	792,592	903,041
	\$ 6,799,125	\$ 7,826,079

**(12) System Development Fund**

Public Law 19-47 created the Water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time from any property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirements for water and/or sewer services and installation of infrastructure to be done by the builder.

The Fund shall be expended only for expanding, upgrading or repairing water and wastewater facilities on Guam. Such restricted cash is placed in various savings and time certificate of deposit accounts. In 2000 and 1999, the net change in restricted cash equaled \$93,561 and \$(359,984), respectively. The changes represent transfers from and transfers to the unrestricted fund, respectively, for the purposes previously mentioned in this note.

**(13) Other Revenues**

Other operating revenues for the years ended September 30, 2000 and 1999 are as follows:

	2000	1999
Change in accounting estimate	\$ -	\$ 3,812,918
Incorrectly reported payables from prior years	-	279,417
Reversal of stale dated checks from prior years	-	190,631
Miscellaneous revenues	569,375	343,194
	\$ 569,375	\$ 4,626,160

**GUAM WATERWORKS AUTHORITY**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

(1) Organization Summary of Significant Accounting Policies

Organization

The Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Public Utility Commission of Guam (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119 and derives its revenues mainly from its water and wastewater system. The water system is engaged in the collection, transmission, and distribution of water to villages and communities of Guam. The wastewater system is engaged in the interception and treatment of wastewater from residences and industries in the villages of Guam. GWA is governed by seven-member Board of Directors appointed by the Governor of Guam which determines such matters as rates and charges for services, approval of contracts and GWA policies.

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

Basis of Accounting

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

Estimates

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

Materials and Supplies Inventories

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

Change in Accounting Estimates

Management changed its estimate of the amount of obsolete materials and supplies inventory at September 30, 1999. The effect of the change was a reduction of net loss of \$314,925.

Management changed its estimate of the amount of uncollectible accounts receivable at September 30, 1999. The effect of the change was a reduction of net loss of \$3,812,918.

Property, Plant and Equipment

Plant in service amounting to \$324,988,118 at September 30, 1998 is stated at estimated historical cost determined by an independent engineering consultant. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 50 years for plant assets).

During the year ended September 30, 1998, GWA changed its estimate of the depreciable lives of certain non-utility property to more closely approximate their economic useful lives. The change had the effect of increasing net loss by \$1,739,284 for the year ended September 30, 1998.

During the year ended September 30, 1998, GWA also adjusted the policy of charging depreciation expense on assets acquired with contributed capital to the respective capital account (note 11).

Accrued Annual Leave

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

Contributed Capital

Government funded projects are recorded as contributed capital as the cost of the projects are incurred. Approved capital grants not yet received amounted to approximately \$4.9 million and \$2.8 million at September 30, 1999 and 1998, respectively.

Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$20 per month for residential accounts and 80% of current water consumption for commercial and government accounts.

Reclassifications

Several of the 1998 balances have been reclassified to conform to the 1999 financial statement presentation.

(2) Accounts Receivable

Accounts receivable at September 30, 1999 and 1998, are as follows:

	1999	1998
Customers:		
Private	\$ 11,832,521	\$ 12,098,273
Government	6,771,527	5,259,829
	18,604,048	17,358,102
Federal agencies	5,001,086	2,408,854
GPA	288,421	378,250
Others	12,564	68,889
	23,906,119	20,214,095
Less allowance for doubtful receivables:		
Private	(4,274,975)	(5,932,423)
Government	(1,743,318)	(3,391,803)
	(6,018,293)	(9,324,226)
	\$ 17,887,826	\$ 10,889,869



Substantially all of GWA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

(3) Long-Term Debt

Long-term debt represents invoices financed by IBM relating to the installation of GWA's accounting and operating systems, payable in equal monthly installments of \$49,425 until 2003, including interest ranging from 5.25% to 7.62%. GWA has a \$3.5 million credit line with IBM Credit Corporation. The purpose is for the preapproved purchase of software and hardware systems, technical training and support of such systems, and related expenses. As of September 30, 1999 and 1998, GWA has used \$2,380,591 and \$1,318,813, respectively, of its credit line.

Minimum future long-term debt payments through the year 2003 are as follows:

	Principal	Interest
2000	\$ 584,275	\$ 151,301
2001	626,178	106,452
2002	671,111	56,556
2003	499,027	9,114
	\$ 2,380,591	\$ 323,423

(4) Employees' Retirement Plan

Employees of GWA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until 1998, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GWA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 1998, it has been determined that for the year ended September 30, 1999, a minimum combined employer and employee contribution rate of 25.87% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1999. The effect of GWA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 16.37% to an effective rate of 12.41% for the year ended September 30, 1999. In recognition of the above, at December 31, 1999, an accrual reduction of 6.19% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 12.41% and the employer's statu-

Medicare

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

(8) Cash and Cash Equivalents

Bank balances of demand and time deposit accounts held in the name of GWA totaled \$3,934,526 and \$4,540,890 as of September 30, 1999 and 1998, respectively, of which \$225,498 and \$200,000 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. In addition, \$31,120 and \$1,500, respectively, were held on hand for the exchange fund and petty cash as of September 30, 1999 and 1998.

(9) Other Matters

a. In December 1997, a major typhoon struck Guam resulting in damages to GWA's plant assets of approximately \$10 million. The Federal Emergency Agency (FEMA) has initially determined damages amounting to approximately \$4.6 million to be eligible for FEMA reimbursement at a rate of 90%. Final FEMA recoveries may differ materially from the amount initially determined. Due to this uncertainty, the estimated loss from typhoon damages of approximately \$5.86 million has not been accrued by GWA.

During 1999, approximately \$466,000, representing funds received from FEMA in 1998 for Typhoon Paka relief, was capitalized as contributed capital-grants by U.S. Government.

b. On December 31, 1989, the Government of Guam issued general obligation Water System Revenue Bonds, Series 1989 in the amount of \$49,190,000. The bonds have been issued for the purpose of expanding and improving the existing water system of the Government operated by GWA. The bond obligation is currently recognized by the Government of Guam.

(10) Changes in Capitalization

Changes in capitalization during the years ended September 30, 1999 and 1998, are as follows:

	Contributed Capital	Accumulated Depreciation, Contributed Assets	Deficit	Total
Balance at September 30, 1997	\$ 344,998,815	\$ -	\$ (96,197,463)	\$ 248,801,352
Net prior period adjustments	-	(92,849,388)	91,843,988	(1,005,400)
Net loss for year ended September 30, 1998	-	(7,831,563)	(12,758,105)	(20,589,668)
Balance at September 30, 1998	344,998,815	(100,680,951)	(17,111,580)	227,206,284
Contributed capital received	9,957,783	-	-	9,957,783
Net loss for year ended September 30, 1999	-	(7,826,079)	(1,842,427)	(9,668,506)
Balance at September 30, 1999	\$ 354,956,598	\$ (108,507,030)	\$ (18,954,007)	\$ 227,495,561

For the year ended September 30, 1998, prior period adjustments principally represent correction of overstatement of capital contributions

from the Government of Guam, Federal agencies and private developers, due to the non-recognition of accumulated depreciation on contributed assets (note 11) in prior years. Other adjustments principally represent the recording of assets at estimated historical cost as discussed in note 1.

Components of contributions are as follows:

	1999
Government of Guam	\$ 2,156,624
U.S. Government	7,410,698
Contributions in aid of construction	363,107
Other agencies	27,354
	<b>\$ 9,957,783</b>

(11) Depreciation on Contributed Assets

Depreciation on fixed assets financed with contributions is closed to the appropriate contributions account at the end of the year. Depreciation on contributed assets for the years ended September 30, 1999 and 1998 are as follows:

	1999	1998
Government of Guam	\$ 4,890,158	\$ 4,807,409
Federal government	2,032,880	2,109,442
Contributions-in-aid of construction (private entities)	903,041	914,712
	<b>\$ 7,826,079</b>	<b>\$ 7,831,563</b>

(12) System Development Fund

Public Law 19-47 created the Water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time on any certain property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirements for water and/or sewer services and installation of infrastructure to be done by the builder.

The fund shall be expended only for expanding, upgrading or repairing water and wastewater facilities on Guam. Such restricted cash is placed in various savings and time certificate of deposit accounts. In 1999 and 1998, the net decrease in restricted cash equaled \$359,984 and \$699,248, respectively. The decrease represents transfers to the unrestricted fund for the purposes previously mentioned in this note.

(13) Subsequent Events

Navy Settlement

On May 21, 2000, the Government of Guam and the U.S. Navy signed an agreement settling claims between the two parties. (These claims stand apart from the claims discussed in note 7). The U.S. Navy claimed for recovery of payment for water allegedly provided by the U.S. Navy to the former Public Utility Agency of Guam and to GWA. GWA alleged the U.S. Navy owed GWA for sewer services provided. In signing the agreement, each side dropped its claim against the other. GWA's loss in the settlement is limited to the excess of its sewer billings to the U.S. Navy over the recorded billings for the aforementioned water from the U.S. Navy to GWA, which is approximately \$1,770,000 at September 30, 1999.

Water Rate Increase

On February 25, 2000, the Public Utilities Commission of Guam

(PUC) awarded to GWA a rate increase of 18.6% and 16.38% for water and wastewater, respectively. Additionally, a residential lifeline for water was established at the current rate of \$2.40 per thousand gallons per customer. This rate relief was effective for all meters read on and after March 1, 2000. The increase is intended to have the effect of increasing GWA's annual water and wastewater revenues by a total of approximately \$4.2 million.

Sewer Rate Increase

On June 2, 2000, the PUC approved an increase in sewer rates of \$2 per month per customer. The adoption of a residential lifeline rate for wastewater was deferred pending a cost of service study on the residential sewer charge.

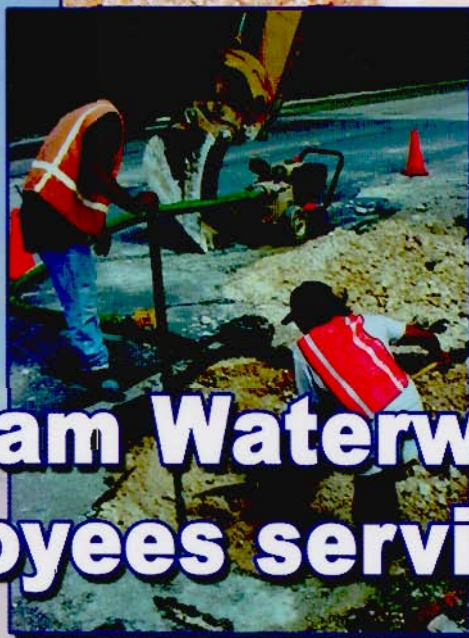
(14) Other Revenues

Other operating revenues for the years ended September 30, 1999 and 1998 are as follows:

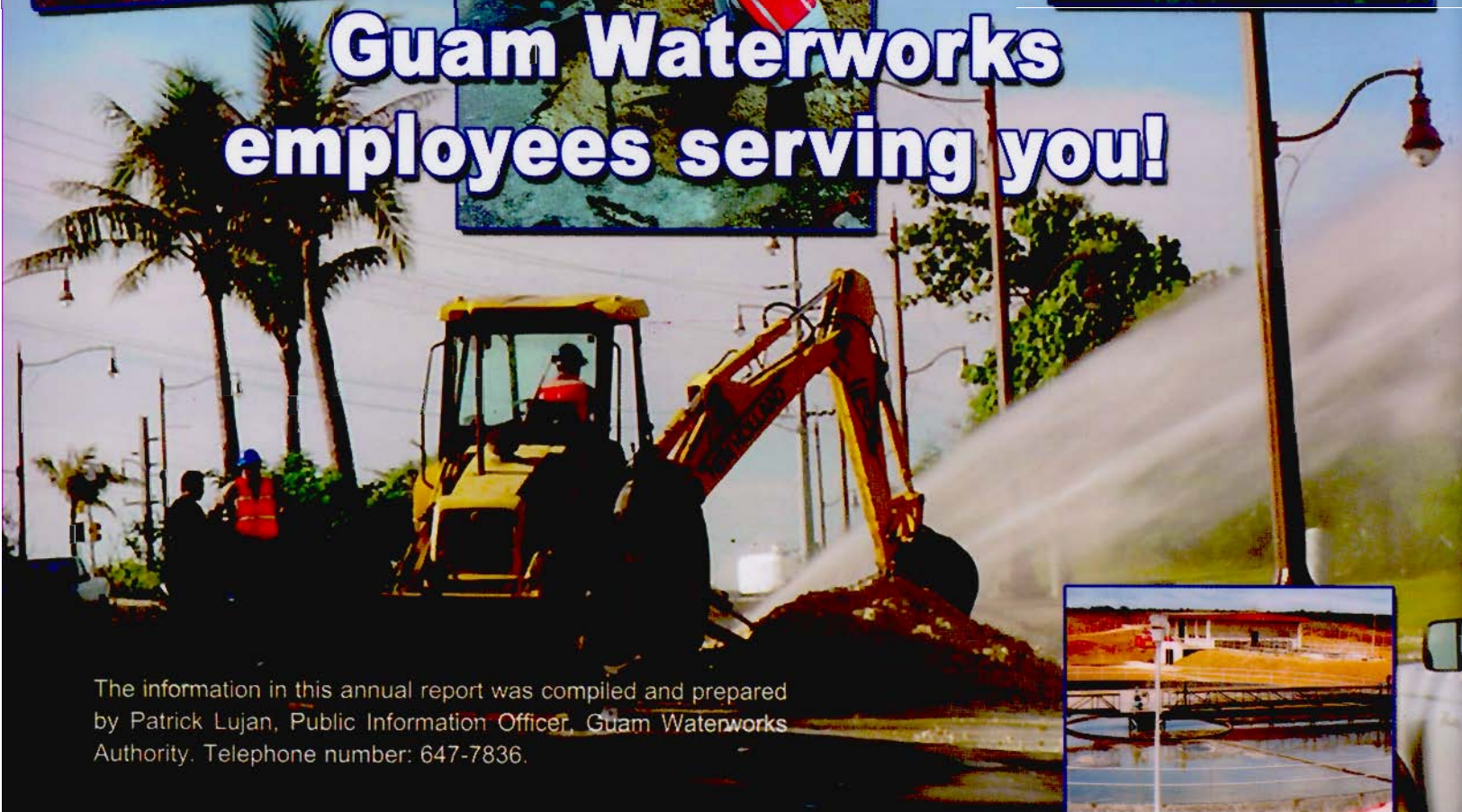
	1999	1998
Change in accounting estimate	\$ 3,812,918	\$ -
Incorrectly reported payables from prior years	279,417	-
Reversal of stale dated checks from prior years	190,631	-
Miscellaneous revenues	343,194	39,613
	<b>\$ 4,626,160</b>	<b>\$ 39,613</b>







# Guam Waterworks employees serving you!



The information in this annual report was compiled and prepared by Patrick Lujan, Public Information Officer, Guam Waterworks Authority. Telephone number: 647-7836.