

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS
(GOVERNMENTAL FUNDS OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2014

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Year Ended September 30, 2014
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. FINANCIAL STATEMENTS:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Notes to Financial Statements	12
IV. OTHER SUPPLEMENTARY INFORMATION:	
Comparative Balance Sheets	23
Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balance	24
Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balance	25
Comparative Schedule of Receivables, Billings and Collections	26
Schedule of Consent Decree Contracts	27
Comparative Schedule of Employees and Other Data	28
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Schedule of Findings and Responses	31
Unresolved Prior Year Findings	35



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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the Funds), which comprise the balance sheet as of September 30, 2014, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, as of September 30, 2014, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

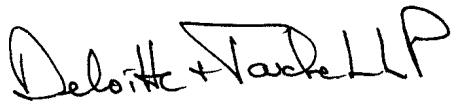
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The comparative financial statement information on pages 23 through 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative financial statement information is the responsibility of the Funds' management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial statement information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of consent decree contracts on page 27 and the comparative schedule of employees and other data on page 28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

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

June 18, 2015

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

Our discussion and analysis of the Government of Guam's ("GovGuam") Solid Waste Operations Fund financial performance and those funds related to the GovGuam Limited Obligation (Section 30) Bonds, 2009 Series A, provides an overview of financial activities for the fiscal years ended September 30, 2014 and 2013. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2014, total fund balance decreased by \$26,883,926 (or 30.1%) from an ending fund balance of \$89,272,590 in 2013 to \$62,388,664 in 2014.
- During the years ended September 30, 2014 and 2013, total combined expenditures for governmental fund operations were \$60,259,435 and \$41,764,850, respectively, including expenditures associated with solid waste operations of \$13,023,987 and \$10,873,420, respectively; capital-related expenditures of \$27,396,528 and \$8,797,900, respectively; debt service requirements of \$15,672,331 and \$15,672,706, respectively; and payments to GovGuam's General Fund of \$2,248,549 and \$4,497,097, respectively. These expenditures were funded, in part, by tipping fee revenue collections (inclusive of host community premium surcharge fees) during the years ended September 30, 2014 and 2013 of \$17,348,685 and \$19,012,543, respectively; transfers in from GovGuam's General Fund of \$15,685,831 and \$15,686,206, respectively; and with the remainder funded by bond proceeds.
- Total combined expenditures increased by \$18,494,585 (or 44.3%) from 2013 to 2014 due primarily to an increase in capital-related expenditures in 2014 associated with Consent decree projects of \$18,598,628. Total combined revenues decreased by \$1,148,981 (or 3.3%) from \$34,524,490 in 2013 to \$33,375,509 in 2014 due primarily to decreases in tipping fee revenue collections.
- During the years ended September 30, 2014 and 2013, the Solid Waste Operations Fund generated operating surpluses before transfers out to GovGuam's General Fund of \$3,295,335 and \$7,179,821, respectively.

2. Overview of the Financial Statements

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

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

In addition to the basic financial statements and accompanying notes, this report also presents certain other financial information to further assist the reader in understanding the financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on assets, liabilities and fund balance at year-end. A condensed summary of the balance sheets is shown below as of September 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents	\$ 12,136,155	\$ 11,467,164
Tipping fees receivable	3,648,910	3,933,617
Restricted assets:		
Cash and cash equivalents	30,923,118	29,081,142
Investments	<u>41,324,470</u>	<u>66,123,298</u>
Total Assets	<u>\$ 88,032,553</u>	<u>\$ 110,605,221</u>
Liabilities:		
Accounts payable and other	\$ 8,848,736	\$ 4,838,894
Due to General Fund	<u>16,795,153</u>	<u>16,493,737</u>
Total Liabilities	<u>25,643,889</u>	<u>21,332,631</u>
Fund Balances:		
Restricted	49,960,606	77,003,740
Committed	<u>12,428,058</u>	<u>12,268,850</u>
Total Fund Balances	<u>62,388,664</u>	<u>89,272,590</u>
Total Liabilities and Fund Balances	<u>\$ 88,032,553</u>	<u>\$ 110,605,221</u>

Total assets decreased by \$22,572,668 (or 20.4%) from \$110,605,221 in 2013 to \$88,032,553 in 2014. This decrease was primarily the result of a decrease in restricted assets of \$22,956,852 for capital-related expenditures.

Total liabilities increased by \$4,311,258 (or 20.2%) from \$21,332,631 in 2013 to \$25,643,889 in 2014. This increase was primarily the result of an increase in accounts payable of \$4,009,842, which includes amounts payable to contractors for expenditures associated with Consent decree projects.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

Total fund balances decreased by \$26,883,926 (or 30.1%) during 2014 from \$89,272,590 to \$62,388,664. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation (Section 30) Bonds, 2009 Series A, wherein these funds are restricted for (i) capital projects associated with Consent decree projects, and (ii) future debt service.

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balance show the effect of revenues and expenditures on fund balance for the year. The statements of revenues, expenses and changes in fund balances for the years ended September 30, 2014 and 2013 are summarized as follows.

	<u>2014</u>	<u>2013</u>
Revenues:		
Tipping fees	\$ 17,348,685	\$ 19,012,543
Use of money and property	340,993	(174,259)
Transfer in from General Fund	<u>15,685,831</u>	<u>15,686,206</u>
Total Revenues	<u>33,375,509</u>	<u>34,524,490</u>
Expenditures:		
Current:		
General government	1,596,370	1,610,165
Environmental protection	13,023,987	10,873,420
Host Community Premium Benefits	321,670	313,562
Transfers out to General Fund	2,248,549	4,497,097
Capital projects	27,396,528	8,797,900
Debt service	<u>15,672,331</u>	<u>15,672,706</u>
Total Expenditures	<u>60,259,435</u>	<u>41,764,850</u>
Net Change in Fund Balances	\$ <u>(26,883,926)</u>	\$ <u>(7,240,360)</u>

Total revenues collected from tipping fees decreased by \$1,663,858 (or 8.7%) from \$19,012,543 in 2013 to \$17,348,685 in 2014. The decrease was primarily due to the recognition of delinquent tipping fees collected in 2013.

Total expenditures increased by \$18,494,585 (or 44.3%) from \$41,764,850 in 2013 to \$60,259,435 in 2014. The increase was primarily due to an increase in expenditures associated with solid waste operations, an increase in capital-related expenditures associated with Consent decree projects, and a decrease in transfers out to GovGuam's General Fund.

4. Capital Assets

The Layon landfill opened on September 1, 2011. The Layon landfill is included as a capital asset in GovGuam's government-wide financial statements at a total cost of \$106,009,133. The new landfill consists of two cells with a capacity in excess of 15.8 million cubic yards and is expected to service the island of Guam for 50 years.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

The estimated consumption based on total landfill capacity as at September 30, 2014 amounts to 434,004 cubic yards or 2.75% of total landfill capacity of 15,808,794 cubic yards. Total waste disposed at the Layon landfill during 2014 showed a modest increase of 1% compared with 2013. A summary of the change in waste (tons) disposed by customer group is as follows:

<u>Customer</u>	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Residential	18,632	19,577	-4.8%
Commercial	53,357	53,017	0.6%
Military	7,612	7,923	-3.9%
Government	8,868	6,162	43.9%
Mayors	1,478	1,565	-5.5%
Transfer Stations	4,798	5,591	-14.2%
Other	<u>114</u>	<u>107</u>	6.4%
	<u>94,859</u>	<u>93,942</u>	1.0%

5. Long-Term Debt

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

In accordance with the 2004 Consent Decree jointly filed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Justice, GovGuam was required to close Ordot Dump and open a new landfill. Due to delays in meeting stipulated deadlines under the Consent Decree, the U.S. District Court of Guam placed the Solid Waste Division of GovGuam's Department of Public Works in Receivership. The Receiver has been tasked by the U.S. District Court with bringing GovGuam into compliance with the Consent Decree, including environmental closure of Ordot Dump in compliance with the engineering standards and regulations required by the U.S. EPA. On August 31, 2011, Ordot Dump was finally closed to the public. The Receiver continues engineering design work to ensure that Ordot Dump is closed in a manner that protects both human and environmental health. GovGuam has reported an amount of \$22,589,630 as landfill closure and post closure care liability at September 30, 2014 within GovGuam's government-wide financial statements, representing the cumulative amount reported based on 100 percent capacity for Ordot Dump. This amount is based on what it would cost to perform all closure and post closure care in 2014. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

6. Outlook, Challenges and Opportunities

On November 08, 2013, GovGuam through the Solid Waste Operations Fund has entered into a number of contractual arrangements to GHD Inc. for construction management services of the Ordot Closure Construction project and to Black Construction Corporation for the Ordot Dump Closure and Dero Road Improvements.

The Receiver has developed three rate options for presentation to the Guam Public Utilities Commission. Each option would provide for adequate funding for the Solid Waste Operations Fund for 2014 and thereafter. These options are outlined in the following table:

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

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

** Assumes approval of a second landfill.

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

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

Instead GovGuam continues to receive the same monthly reimbursement of \$374,758 as opposed to the required \$998,374 for FY13. In 2014, the situation worsens as the Solid Waste Operations Fund suspended monthly reimbursements to General Fund effective May 2014.

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

7. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the finances of the Solid Waste Operations Fund and related funds and to demonstrate accountability for money received and expended. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Kathrine B. Kakigi, Financial Manager, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1211, Facsimile: (671) 472-8483; Website address: www.admin.gov.gu/da/.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Balance Sheet
September 30, 2014

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 12,136,155	\$ -	\$ -	\$ 12,136,155
Restricted assets:				
Cash and cash equivalents	2,514,474	12,680,525	15,728,119	30,923,118
Investments	-	23,833,979	17,490,391	41,324,370
Receivables:				
Tipping fees	3,648,910	-	-	3,648,910
Total assets	\$ 18,299,539	\$ 36,514,504	\$ 33,218,510	\$ 88,032,553
<u>LIABILITIES</u>				
Accounts payable	\$ 128,925	\$ -	\$ -	\$ 128,925
Contracts payable	1,345,703	3,388,201	-	4,733,904
Payable to receiver	416,415	350,452	-	766,867
Retention payable	9,668	2,670,913	-	2,680,581
Host Community Premium Benefits payable	79,065	-	-	79,065
Accrued payroll and other	47,172	-	-	47,172
Unearned revenue	412,222	-	-	412,222
Due to General Fund	917,837	34,270	15,843,046	16,795,153
	3,357,007	6,443,836	15,843,046	25,643,889
Commitments and contingencies				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	2,514,474	30,070,668	-	32,585,142
Debt service	-	-	17,375,464	17,375,464
Committed for:				
Solid waste operations	12,428,058	-	-	12,428,058
Total fund balances	14,942,532	30,070,668	17,375,464	62,388,664
Total liabilities and fund balances	\$ 18,299,539	\$ 36,514,504	\$ 33,218,510	\$ 88,032,553

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2014

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Tipping fees	\$ 17,021,640	\$ -	\$ -	\$ 17,021,640
Host Community Premium Surcharge fees	327,045	-	-	327,045
Use of money and property	59,070	123,098	243,893	426,061
Net change in fair value of investments	-	37,997	(123,065)	(85,068)
Transfers in from General Fund	-	13,500	15,672,331	15,685,831
Total revenues	17,407,755	174,595	15,793,159	33,375,509
Expenditures:				
Current:				
General government	766,763	829,607	-	1,596,370
Environmental protection	13,023,987	-	-	13,023,987
Capital projects	-	27,396,528	-	27,396,528
Debt service:				
Principal	-	-	4,825,000	4,825,000
Interest	-	-	10,847,331	10,847,331
Host Community Premium Benefits	321,670	-	-	321,670
Transfers out to General Fund	2,248,549	-	-	2,248,549
Total expenditures	16,360,969	28,226,135	15,672,331	60,259,435
Excess (deficiency) of revenues over (under) expenditures	1,046,786	(28,051,540)	120,828	(26,883,926)
Other financing sources (uses):				
Operating transfers in	-	-	68,417	68,417
Operating transfers out	-	(68,417)	-	(68,417)
Total other financing sources (uses)	-	(68,417)	68,417	-
Net change in fund balances	1,046,786	(28,119,957)	189,245	(26,883,926)
Fund balances at the beginning of the year	13,895,746	58,190,625	17,186,219	89,272,590
Fund balances at the end of the year	\$ 14,942,532	\$ 30,070,668	\$ 17,375,464	\$ 62,388,664

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Fund Accounting

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

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 90 days of the end of the current fiscal period. Revenues susceptible to accrual include tipping, user and associated fees. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Tipping and associated fees imposed are as follows:

Commercial

Commercial haulers are billed per tonnage of trash. The rate per tonnage effective during fiscal year 2014 is \$171.60.

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rate effective during fiscal year 2014 per one 96-gallon cart is \$30.

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

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

Host Community Premium Surcharge

On July 16, 2010, the Guam Legislature passed Public Law 30-165, amended by Public Law 32-021 on April 11, 2013, which determined that a "Host Community Premium" be awarded for the villages of Inarajan and Ordot in the annual amount of \$150,000 each. Pursuant to Public Law 30-165, as amended by Public law 32-021, and an Order by the Guam Public Utilities Commission on July 30, 2012, as amended on July 30, 2013, GSWA was authorized to assess Host Community Premium Surcharge (HCPS) fees of \$3.57 per ton for commercial, including government customers, and \$0.38 per month for residential customers beginning October 1, 2012. The HCPS fees were to compensate the villages of Inarajan and Ordot where solid waste management facilities, such as sanitary landfills, are located. During the year ended September 30, 2014, HCPS revenues were \$327,045.

D. Budgetary Process

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents

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

F. Investments

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

G. Receivables and Allowance for Uncollectible Accounts

Receivables are due from commercial haulers, government agencies and individuals residing on the island of Guam, are uncollateralized and are stated net of estimated allowances for uncollectible accounts. The allowance for uncollectible accounts is based on the evaluation of the collectability of current accounts and historical trends.

H. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered. These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

I. Restricted Assets

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

J. Unearned Revenues

Unearned revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

K. Fund Balance

Governmental fund balances are classified as follows:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this.

A formal minimum fund balance policy has not been adopted.

L. Encumbrances

Encumbrance accounting is utilized to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, significant encumbrances are summarized as follows:

Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
\$ 6,121,158	\$ 22,432,713	\$ _____ -	\$ 28,553,871

M. Management Estimates

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

N. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, for the year ended September 30, 2013 from which summarized information was derived.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(2) Deposits

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

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

As of September 30, 2014, the carrying amount of cash and cash equivalents was \$43,059,273 and the corresponding bank balances were \$43,059,273, of which \$27,225,466 was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining balances of \$15,833,807 represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2014. As of September 30, 2014, bank deposits in the amount of \$624,260 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents consist of funds restricted for capital projects and for bond indenture related accounts. Details are as follows:

Restricted cash and cash equivalents:	
Debt service	\$ 15,728,119
Capital projects	12,680,525
Operations, maintenance, renewal and replacement reserve fund	<u>2,514,474</u>
	\$ <u>30,923,118</u>

(3) Investments

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(3) Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees in accordance with the bond indenture for the purpose of funding various capital projects and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2014.

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

As of September 30, 2014, investments at fair value are as follows:

Mutual funds	\$ <u>41,324,370</u>
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As of September 30, 2014, these investments are restricted and available for the following purposes:

Restricted investments:	
Capital projects	\$ 23,833,979
Debt service	<u>17,490,391</u>
	\$ <u>41,324,370</u>

(4) Receivables

Receivables as of September 30, 2014, including allowances for uncollectible accounts, are as follows:

Commercial	\$ 1,815,667
Residential	1,751,214
Government:	
Guam Waterworks Authority (GWA)	391,436
Other	132,801
Note	<u>412,222</u>
	4,503,340
Allowance for uncollectible accounts	<u>(854,430)</u>
	\$ <u>3,648,910</u>

On March 2, 2012, the Solid Waste Operations Fund entered into a \$750,000 promissory note with a commercial customer for past due tipping fees. The note, due in monthly installments of principal and interest of \$19,022 beginning February 29, 2012, bears interest at 10% per annum and matures in January 2016. At September 30, 2014, the balance was \$412,222 with a corresponding amount recorded as unearned revenue.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(5) Bonds Payable

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

The 2009 Series A Section 30 Bonds are limited obligations of GovGuam and are authorized to be issued pursuant to Public Law 30-7 and an Indenture dated June 1, 2009. Under the Indenture, GovGuam appointed a Trustee, Co-Trustee and Depository for the Bonds and a Paying Agent and registrar for the Bonds. The Bonds are payable entirely from a first lien and pledge of Section 30 revenues. Section 30 revenues are amounts received by or on behalf of GovGuam or the Trustee from the United States as proceeds of custom duties, federal income taxes and any other taxes derived from Guam.

As defined by the terms of the bond indenture, these revenues include the following: (1) all amounts received by GovGuam as proceeds of Federal income taxes derived from Guam ("Section 30" monies); (2) customs duties collected by GovGuam derived from Guam; (3) the proceeds of all taxes collected under the Internal Revenue laws of the United States on articles produced in Guam and transported to the United States, its Territories or possessions, or consumed in Guam; and (4) the proceeds of any other taxes which may be levied by Congress on the inhabitants of Guam. "Revenue" further includes all interest, profits or other income derived from investments in any fund or account created pursuant to the bond indenture.

In accordance with the Indenture, the following funds are established:

- Section 30 Revenue Fund - GovGuam shall deposit or cause to be deposited all Section 30 Revenues upon receipt into the Section 30 Revenue Fund which the Trustee shall maintain and hold in trust, except that all interest and other profit from the investment of moneys in the Rebate Fund will be retained therein, all interest and other profit from the investment of moneys in the Construction Fund will be transferred to the Capitalized Interest Account, which shall be established, maintained and held in trust by the Depository as a separate account within the Section 30 Revenue Fund. The Trustee shall be entitled to and shall collect and receive all of the Section 30 Revenues, and any Section 30 Revenues collected or received by GovGuam shall be deemed to be held, and to have been collected or received, by GovGuam as the agent of the Trustee and shall promptly be paid by GovGuam to the Trustee.

On the fifth day of each calendar month, the Trustee shall transfer from the Section 30 Revenue Fund (to the Co-Trustee or Depository, as necessary), for deposit into one or more separate funds, amounts in the order of priority as required under the Indenture, the requirements of each such fund or account (including the making up of any deficiencies in any such fund or account resulting from lack of Section 30 Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any transfer is made to any account subsequent in priority: (A) the Debt Service Fund; (B) the Bond Reserve Fund; (C) the Rebate Fund; (D) the Bond Expense Fund; and (E) the Section 30 Surplus Fund.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(5) Bonds Payable, Continued

- Debt Service Fund - The Debt Service Fund shall initially be held by the Trustee, and the Trustee shall apply moneys on deposit in the Debt Service Fund in the amounts and at the times required by the Indenture solely to (1) pay interest on the Bonds as it becomes due and payable, (2) pay principal of Bonds when due and payable and (3) purchase or redeem or pay at maturity Term Bonds as provided in the Indenture.
- Bond Reserve Fund - The Indenture requires the Trustee to establish and maintain the Bond Reserve Fund and to deposit with respect to any series of Bonds an amount equal to the Bond Reserve Fund Requirement to be held by the Trustee. The Bond Reserve Fund Requirement means, as of any date of calculation and with respect to any Bonds, an amount equal to (i) the least of (A) Maximum Annual Debt Service, calculated on all such Bonds Outstanding as of such date, (B) one hundred twenty-five percent (125%) of average annual debt service on all such Bonds Outstanding as of such date, or (C) such amount as may be calculated in connection with the issuance of an Additional Series of Bonds by adding not more than ten percent (10%) of the original principal amount of such Additional Series of Bonds to the Bond Reserve Fund Requirement immediately before such issuance, or (ii) such larger amount as may be established as the Bond Reserve Fund Requirement by any Supplemental Indenture and which, in the opinion of Bond Counsel, may be funded from Bond proceeds and invested at an unlimited yield consistent with the Internal Revenue Code.
- Construction Fund - At closing, there shall be deposited in the Series 2009A Construction Account within the Construction Fund a portion of the proceeds of the 2009A Bonds. Moneys on deposit therein will be disbursed to fund the 2009A Bonds Project, which consists of the acquisition, construction, improving and equipping the New Landfill and the acquisition and construction of the closure of the Ordot Dump.
- Bond Expense Fund - All amounts in the Bond Expense Fund shall be used and withdrawn by the Trustee upon receipt of a Requisition of GovGuam, solely for the purpose of paying (i) fees and expenses of the Fiduciaries, as such term is defined in the Indenture, (ii) fees and expenses with respect to any Credit Facility, as such term is defined in the Indenture, and (iii) any other costs or expenses designated as payable from the Bond Expense Fund by a Supplemental Indenture.

The "Section 30 Revenue Fund" is accounted for within the General Fund. The "Capitalized Interest Account", "Debt Service Fund", "Bond Reserve Fund" and "Bond Expense Fund" accounts are accounted for within the Debt Service Fund. The "Construction Fund" account is accounted for within the Capital Projects Fund.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(5) Bonds Payable, Continued

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

<u>Year ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,070,000	\$ 10,599,956	\$ 15,669,956
2016	5,330,000	10,339,956	15,669,956
2017	5,610,000	10,059,444	15,669,444
2018	5,915,000	9,756,913	15,671,913
2019	6,240,000	9,430,044	15,670,044
2020 - 2024	36,850,000	41,507,353	78,357,353
2025 - 2029	48,445,000	29,906,215	78,351,215
2030 - 2034	64,315,000	14,041,972	78,356,972
2035	<u>15,235,000</u>	<u>438,006</u>	<u>15,673,006</u>
	<u>\$ 193,010,000</u>	<u>\$ 136,079,859</u>	<u>\$ 329,089,859</u>

During the year ended September 30, 2014, payments for debt service totaled \$15,672,331.

GovGuam has pledged a portion of future General Fund Section 30 revenues to repay the \$202,425,000 in limited obligation bonds. This debt is payable solely from Section 30 revenues payable to GovGuam by the United States Government pursuant to Section 30 of the Organic Act, Title 48, U.S. Code, Section 41421(h). Total principal and interest remaining on this debt is approximately \$329,089,859 payable through December 2034. For the year ended September 30, 2014, Section 30 revenues were \$87,998,215.

At September 30, 2014, fund balance of \$17,375,464 is restricted for debt service purposes.

At September 30, 2014, GovGuam management is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(6) Commitments and Contingencies

A. Landfill Closure and Postclosure Costs

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(6) Commitments and Contingencies, Continued

A. Landfill Closure and Postclosure Costs, Continued

On March 17, 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works (DPW) in Guam in Receivership. After receiving and reviewing qualifications information on firms presented by GovGuam and the U.S. Environmental Protection Agency, and conducting interviews and reference checks, the District Court Judge selected and appointed a receiver. The Receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of the Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW's Solid Waste Division. For the year ended September 30, 2014, recorded receiver related expenditures were \$1,534,060 with accumulated receiver related expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2014 amount to \$14,427,618. Of this amount, \$3,848,700 was funded by the General Fund and the remaining was funded from solid waste operations. The District Court maintains a separate trust account from which Receiver fees are paid. Accordingly, timing differences occur between GovGuam records and the fees actually paid and payable to the Receiver by the District Court of Guam.

Pursuant to the Court Order, the appointment of the Receiver shall be for the period necessary to achieve compliance with the consent decree unless: (a) the Receiver recommends termination of the Court Order as no longer necessary, or modification thereof, and said termination or modification is accepted by the court, (b) the Receiver requests to be relieved and such request is approved by the court, and (c) the Court Order is otherwise modified or terminated by the court.

On February 13, 2009, the United States District Court of Guam issued a Court Order associated with the DPW Solid Waste Division Receivership requiring GovGuam to provide for costs of the new landfill. On June 4, 2009, GovGuam issued \$202,425,000 in Limited Obligation Revenue Bonds for the purpose of financing facilities of the Solid Waste Management System of Guam. On August 31, 2011, the Ordot Dump was finally closed and the Layon landfill opened on September 1, 2011.

State and federal laws and regulations require GovGuam to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure and post closure care costs reported as expenditures in the accompanying financial statements represent actual closure and post closure care costs incurred during fiscal year 2014. The estimated landfill closure and post closure care liability at September 30, 2014 is not included in the accompanying fund financial statements. Instead, GovGuam has reported an amount of \$22,589,630 as landfill closure and post closure care liability at September 30, 2014 within GovGuam's government-wide financial statements based on 100% capacity for Ordot Dump and \$3,004,579 reported based on the use of 2.75% of the estimated capacity of Layon landfill. The Layon landfill consists of up to eleven cells and has an estimated lifespan of 50 years. Currently, GovGuam has projected utilizing two cells that together have a projected life of 10 years. GovGuam will recognize the remaining estimated cost of closure and post closure care of \$106,252,855 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2014

(6) Commitments and Contingencies, Continued

B. Land Condemnation

On October 31, 2012, a Court Order was issued for the payment of approximately \$25,115,683 for the condemnation of land which encompasses the Layon landfill. As of September 30, 2014, \$3,410,000 had been deposited to the Court and distributed to the landowners, and payment of \$21,705,683 plus interest at 6% per annum calculated from January 24, 2008 of \$8,574,564 has yet to be made. GovGuam has negotiated long-term tax credit certificates with certain landowners. During the year ended September 30, 2014, tax credits in the amount of \$10,970,863 were redeemed in lieu of payments associated with this Court Order.

C. Contract Commitments

GovGuam has commitments under certain significant contracts at September 30, 2014. As of September 30, 2014, encumbrances associated with these contracts are as follows:

Solid Waste Operations Fund	\$ 22,402,373
Capital Projects Fund	<u>5,591,432</u>
	\$ <u>27,993,805</u>

(7) Major Customers

During the year ended September 30, 2014, two commercial customers accounted for approximately 27% and 10%, respectively, of total tipping fees revenues.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Balance Sheets
September 30, 2014 and 2013

	<u>Solid Waste Operations Fund</u>		<u>Capital Projects Fund</u>		<u>Debt Service Fund</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
ASSETS						
Cash and cash equivalents	\$ 12,136,155	\$ 11,467,164	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	2,514,474	1,697,639	12,680,525	11,710,968	15,728,119	15,672,535
Investments	-	-	23,833,979	48,937,283	17,490,391	17,186,015
Receivables, net:						
Tipping fees	3,648,910	3,933,617	-	-	-	-
Total assets	<u>\$ 18,299,539</u>	<u>\$ 17,098,420</u>	<u>\$ 36,514,504</u>	<u>\$ 60,648,251</u>	<u>\$ 33,218,510</u>	<u>\$ 32,858,550</u>
LIABILITIES						
Accounts payable	\$ 128,925	\$ 40,198	\$ -	\$ 10,476	\$ -	\$ -
Contracts payable	1,345,703	1,238,229	3,388,201	1,736,998	-	-
Receiver fees payable	416,415	179,655	350,452	259,956	-	-
Retention payable	9,668	-	2,670,913	450,196	-	-
Host community premium benefits payable	79,065	313,562	-	-	-	-
Accrued payroll and other	47,172	40,809	-	-	-	-
Unearned revenue	412,222	568,815	-	-	-	-
Due to General Fund	917,837	821,406	34,270	-	15,843,046	15,672,331
Total liabilities	<u>3,357,007</u>	<u>3,202,674</u>	<u>6,443,836</u>	<u>2,457,626</u>	<u>15,843,046</u>	<u>15,672,331</u>
FUND BALANCES						
Fund balances:						
Restricted for:						
Capital projects	2,514,474	1,697,639	30,070,668	58,190,625	-	-
Debt service	-	-	-	-	17,375,464	17,186,219
Committed for:						
Solid waste operations	12,428,058	12,198,107	-	-	-	-
Total fund balances	<u>14,942,532</u>	<u>13,895,746</u>	<u>30,070,668</u>	<u>58,190,625</u>	<u>17,375,464</u>	<u>17,186,219</u>
Total liabilities and fund balances	<u>\$ 18,299,539</u>	<u>\$ 17,098,420</u>	<u>\$ 36,514,504</u>	<u>\$ 60,648,251</u>	<u>\$ 33,218,510</u>	<u>\$ 32,858,550</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2014 and 2013

	<u>Solid Waste Operations Fund</u>		<u>Capital Projects Fund</u>		<u>Debt Service Fund</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Tipping fees	\$ 17,021,640	\$ 18,698,981	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	327,045	313,562	-	-	-	-
Use of money and property	59,070	60,114	123,098	228,887	243,893	189,574
Net change in fair value of investments	-	-	37,997	(197,925)	(123,065)	(454,909)
Transfers in from General Fund	-	-	13,500	13,500	15,672,331	15,672,706
Total revenues	<u>17,407,755</u>	<u>19,072,657</u>	<u>174,595</u>	<u>44,462</u>	<u>15,793,159</u>	<u>15,407,371</u>
Expenditures:						
Current:						
General government	766,763	705,854	829,607	904,311	-	-
Environmental protection	13,023,987	10,873,420	-	-	-	-
Capital projects	-	-	27,396,528	8,797,900	-	-
Debt service:						
Principal	-	-	-	-	4,825,000	4,590,000
Interest	-	-	-	-	10,847,331	11,082,706
Host Community Premium Benefits	321,670	313,562	-	-	-	-
Transfers out to General Fund	2,248,549	4,497,097	-	-	-	-
Total expenditures	<u>16,360,969</u>	<u>16,389,933</u>	<u>28,226,135</u>	<u>9,702,211</u>	<u>15,672,331</u>	<u>15,672,706</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,046,786</u>	<u>2,682,724</u>	<u>(28,051,540)</u>	<u>(9,657,749)</u>	<u>120,828</u>	<u>(265,335)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	68,417	128,557
Operating transfers out	-	-	(68,417)	(128,557)	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>(68,417)</u>	<u>(128,557)</u>	<u>68,417</u>	<u>128,557</u>
Net change in fund balances	1,046,786	2,682,724	(28,119,957)	(9,786,306)	189,245	(136,778)
Fund balances at the beginning of the year	<u>13,895,746</u>	<u>11,213,022</u>	<u>58,190,625</u>	<u>67,976,931</u>	<u>17,186,219</u>	<u>17,322,997</u>
Fund balances at the end of the year	<u>\$ 14,942,532</u>	<u>\$ 13,895,746</u>	<u>\$ 30,070,668</u>	<u>\$ 58,190,625</u>	<u>\$ 17,375,464</u>	<u>\$ 17,186,219</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2014 and 2013

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2014	2013	2014	2013	2014	2013
Revenues:						
Tipping fees	\$ 17,021,640	\$ 18,698,981	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	327,045	313,562	-	-	-	-
Use of money and property	59,070	60,114	123,098	228,887	243,893	189,574
Net change in fair value of investments	-	-	37,997	(197,925)	(123,065)	(454,909)
Transfers in from General Fund	-	-	13,500	13,500	15,672,331	15,672,706
Total revenues	17,407,755	19,072,657	174,595	44,462	15,793,159	15,407,371
Expenditures:						
Salaries and wages - regular	1,036,595	1,058,836	-	-	-	-
Salaries and wages - overtime	165,331	50,284	-	-	-	-
Fringe benefits	403,064	400,080	-	-	-	-
Travel	1,596	-	-	-	-	-
Contractual services	10,223,067	9,233,006	28,134,090	8,490,481	-	-
Supplies	514,144	388,516	-	-	-	-
Equipment	6,144	12,552	-	-	-	-
Utilities - power and water	70,428	106,455	-	-	-	-
Capital outlays	1,318,663	226,916	78,458	1,198,230	-	-
Principal retirement	-	-	-	-	4,825,000	4,590,000
Interest and fiscal charges	48,723	102,234	13,587	13,500	10,847,331	11,082,706
Host Community Premium Benefits	321,670	313,562	-	-	-	-
Transfers out to General Fund	2,248,548	4,497,097	-	-	-	-
Miscellaneous	2,996	395	-	-	-	-
Total expenditures	16,360,969	16,389,933	28,226,135	9,702,211	15,672,331	15,672,706
Excess (deficiency) of revenues over (under) expenditures	1,046,786	2,682,724	(28,051,540)	(9,657,749)	120,828	(265,335)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	68,417	128,557
Operating transfers out	-	-	(68,417)	(128,557)	-	-
Total other financing sources (uses), net	-	-	(68,417)	(128,557)	68,417	128,557
Net change in fund balances	1,046,786	2,682,724	(28,119,957)	(9,786,306)	189,245	(136,778)
Fund balances at the beginning of the year	13,895,746	11,213,022	58,190,625	67,976,931	17,186,219	17,322,997
Fund balances at the end of the year	\$ 14,942,532	\$ 13,895,746	\$ 30,070,668	\$ 58,190,625	\$ 17,375,464	\$ 17,186,219

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
SOLID WASTE FUNDS

Comparative Schedule of Receivables, Billings and Collections
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Receivables:		
Commercial haulers	\$ 2,227,889	\$ 2,409,004
Residential	1,751,214	1,466,650
Government	<u>524,237</u>	<u>269,186</u>
	4,503,340	4,144,840
Allowance for uncollectible accounts	<u>(854,430)</u>	<u>(211,223)</u>
	\$ <u>3,648,910</u>	\$ <u>3,933,617</u>
Billings:		
Commercial haulers	\$ 9,871,720	\$ 10,542,908
Residential	6,186,299	5,985,792
Government	<u>1,553,520</u>	<u>1,096,340</u>
Total billings	\$ <u>17,611,539</u>	\$ <u>17,625,040</u>
Collections:		
Commercial haulers	\$ 9,913,720	\$ 10,211,256
Residential	6,137,064	6,079,768
Government	1,288,647	1,761,349
Transfer stations	335,379	298,279
Other	<u>48,621</u>	<u>58,931</u>
Total collections	\$ <u>17,723,431</u>	\$ <u>18,409,583</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Consent Decree Contracts
Year Ended September 30, 2014

Purpose of Contract	Total Purchase Order/Contract Amount	Cumulative Expenditures as of September 30, 2014	Remaining Amount	Work Status
Customer Service Software	\$ 500,000	\$ 356,225	\$ 143,775	On-going
Emergency Repairs at Transfer Stations	\$ 33,378	33,378	-	Closed
Provider of Online and Paperless Residential Account Services	Indefinite	15,999	-	On-going
Layon Landfill - Construction of Entrance Facilities and Cells 1 and 2	\$ 25,277,787	25,277,787	-	Closed
Environmental Closure of the Ordot Dump	\$ 40,467,759	16,328,648	24,139,111	On-going
Planning Environmental Monitoring for Final Closure of Ordot Dump	\$ 8,329,055	7,794,159	534,896	On-going
Layon Landfill - Construction of Access Road and and Utility Improvements for Community	\$ 28,369,411	28,360,499	8,912	Closed
Groundwater Quality Monitoring Services	\$ 3,072,102	2,931,289	140,813	On-going
Improvements of GSWA Building	\$ 129,801	129,801	-	Closed
	GovGuam			
New Trucks, Roll-off Containers and Trash Carts	Purchase Orders	5,162,249	-	On-going
	GovGuam			
Crane Qualification and Rigging Course	Purchase Orders	24,983	-	Closed
Security Services for the Solid Waste Compound	\$ 16,904	16,904	-	Closed
Construction Management Services for Layon Landfill and related projects	\$ 7,377,488	7,377,488	-	On-going
Construction Management Services for Ordot Dump Closure and Other Consent Decree Projects	\$ 6,473,931	3,003,337	3,470,594	On-going
Hauler-only Transfer Station	\$ 8,097,655	8,097,655	-	On-going
New Trucks	\$ 191,916	191,916	-	Closed
	Monthly Charge Plus Per Ton			
Operation of Layon Landfill	Excess Charge	9,737,922	-	On-going
GSWA Power Service Separation	\$ 113,256	113,256	-	Closed
Layon Landfill - Construction of Landfill Operations Road and Mass Grading for Cells 1 and 2	\$ 10,045,245	10,045,245	-	Closed
Construction of Harmon Residential Transfer Station and Household Hazardous Waste Facility	\$ 2,410,000	2,015,901	394,099	On-going
	GovGuam			
Roll-off Containers and Equipment Rental	Purchase Orders	129,369	-	Closed
Safety Improvements for Dero Road	\$ 19,134	19,134	-	Closed
	GovGuam			
New Computers and Software for GSWA Administration	Purchase Orders	39,583	-	Closed
Temporary Staffing Services for the Solid Waste Management Division	Indefinite	3,031,125	-	On-going
Security Services for the Solid Waste Compound	Indefinite	878,858	-	On-going
	GovGuam			
Water Truck Rental for Fire Suppression	Purchase Orders	14,900	-	Closed
Technical Assistance	\$ 305,347	305,347	-	Closed
Layon Landfill - Design and Engineering Services	\$ 10,124,332	3,337,558	6,786,774	Closed
	GovGuam			
New Trucks	Purchase Orders	91,700	-	Closed
		<u>\$ 134,862,215</u>	<u>\$ 35,618,974</u>	

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Schedule of Employees and Other Data
Years Ended September 30, 2014 and 2013

	2014	2013
<u>Full Time Employees:</u>		
Employee count:		
Administrative Support	3	3
Residential Collection	21	32
Convenience Center/Transfer Stations	8	2
Total employee count	32	37
Personnel costs:		
Salaries and wages - regular	\$ 1,036,595	\$ 1,058,836
Salaries and wages - overtime	165,331	50,284
Fringe benefits	403,064	400,080
Total personnel costs	\$ 1,604,990	\$ 1,509,200
<u>Contract services:</u>		
Employee count:		
Administrative Support	11	12
Sanitation Workers	27	8
Total employee count	38	20
Total personnel costs	\$ 1,148,522	\$ 863,923

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds") which comprise the balance sheet as of and for the year ended September 30, 2014, and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated June 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

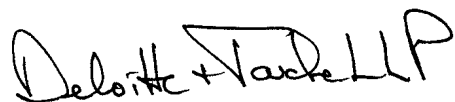
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2014-001 and 2014-002.

Solid Waste Operations Fund Response to Findings

The Funds' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Funds' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 18, 2015

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-001

Procurement

Criteria: In accordance with applicable procurement requirements, procurement transactions shall be conducted in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Local procurement regulations state that any procurement not exceeding the amount established by regulation, between \$500 and \$15,000 may be made in accordance with small purchase procedures. If these methods are not used, the other methods of source selection provided in 5 GCA §5210 (Methods of Source Selection) of the Guam Procurement Act and these Regulations shall apply.

Condition: During the year ended September 30, 2014, local funds totaling \$1,300,939 were utilized for Solid Waste Management Division expenditures, which demonstrated no competitive procurement (i.e., sole source procurement) or which were procured through an inappropriate procurement method. A summary of these services are as follows:

Temporary staffing services for the Solid Waste Management Division	\$ 1,148,522
Independent contractor services as the Solid Waste Management Division Services Administrator	96,600
Independent contractor services as the Solid Waste Management Division Customer Service Supervisor	<u>55,817</u>
	<u>\$ 1,300,939</u>

Cause: The lack of enforcing internal control over compliance with Guam procurement requirements.

Effect: The Solid Waste Operations Fund is in noncompliance with applicable procurement regulations.

Recommendation: We recommended that the department or agency responsible for procuring goods or services under the Solid Waste Operations Fund enforce established procurement regulations consistently for all procurement, and maintain records sufficient to detail the significant history of procurement. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

Prior Year Status: Lack of compliance with Guam procurement requirements was reported as a finding in prior audits as item 2013-1.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No. 2014-001, Continued

Procurement

Auditee Response and Corrective Action Plan: The Receiver does not concur with Finding No. 2014-001. While the Receivership is required to comply with Guam law and regulation there are certain exceptions and the issue addressed by this finding is such an exception. While the finding correctly cites Guam procurement regulations, it fails to take into consideration the authority granted to the Receiver in its appointment order from the United States District Court of Guam. In relevant part, the Order confers the following authority:

“The hiring of all such consultants, professionals, contractors, engineering firms or counsel which the Receiver deems necessary for the performance of administrative, financial advisory, legal, accounting, engineering, construction, and operations services;

The Order also provides that GovGuam:

“... shall be responsible for compensation and expenses of the Receiver and of any and all persons or entities employed or contracted by the Receiver in carrying out the provisions of this Order.

In addition, the Court’s Order also confers upon the Receiver the following discretion in procurement matters:

“In awarding any future contracts, the Receiver shall follow the procedures required in Guam’s statutes and regulations, unless, in the best judgment of the Receiver, such compliance would unreasonably delay the progress in meeting the mandates of the Consent Decree;”

Early in the work of the Receivership, the Receiver sought to build within GSWA (then known as the Solid Waste Management Division) the capacity to properly manage the affairs of the agency, a critical need without which compliance with the Consent Decree would have been impossible. Financial management and customer service were key elements of the ability to properly manage the affairs of GSWA and our early effort was to build on the best of the employees already working there.

After identifying an individual within the organization with the skills necessary to work with us on the financial management side of the agency, we sought to bring that person’s compensation and job responsibilities in line with this need through the GovGuam personnel system. Despite a significant effort, we were not successful in our work to accomplish the needed changes through the GovGuam personnel system.

We subsequently explored a number of other options for acquiring these personnel services, initially settling on a plan to supplement the salaries of some existing GovGuam employees to achieve the needed changes. However, after consulting with the Office of the Attorney General of Guam and understanding their objections to our initial plan in this area, we decided to pursue a different approach based on the authority cited above. This decision was based on the advice we received from the Office of the Attorney General.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No. 2014-001, Continued

Procurement

Auditee Response and Corrective Action Plan, Continued: Attached is a letter from Deputy Attorney General Patrick Mason which is the basis for the approach we adopted after much discussion and review. The letter contains a discussion of the Attorney General's objection to one approach we were considering and concludes with the following comment:

"If the Receiver deems it necessary to hire its own employees to handle Consent Decree matters or contract with other entities to handle Consent Decree matters, it can do so pursuant to and in compliance with Guam and federal law."

Based on our respect for the Attorney General's opinion, this was the course of action we decided to follow and we believe it to be consistent with the Orders of the District Court and Guam and federal law.

The contracts with Pacific Human Resource Services, Inc., and our direct contracts with contract employees, are the vehicles the Receiver has used to address the issues outlined above. These personnel have been key to the success of the Receivership and were carefully selected based on their experience and performance while actually working for the Receiver as either GovGuam employees or through the contract with Pacific Human Resources Services. There was simply no other practical way to accomplish this result which has proven results clearly validating the judgement of the Receiver in this matter.

For these reasons, the audit finding is wrong. The contracts that are the subject of this finding were acquired in a manner that is both lawful and fully authorized based on the Orders of the District Court and the advice of the Office of the Attorney General of Guam. Auditors have cited no legal authority for their contrary opinion.

Auditor Response: We acknowledge the Receiver's response; however, we recommend compliance with applicable procurement requirements for the matters outlined above.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No. 2014-002

Encumbrances

Criteria: Public Law 27-78 stipulates an encumbrance against any type of appropriation shall be automatically returned to the Fund against which it was encumbered nine (9) months after fiscal year end in which the encumbrance was originally recorded, unless the encumbrance falls under requirements imposed by United States law governing United States Federal awards. All capital improvement, or capital outlay project encumbrances shall be exempted from this requirement.

Condition: As of September 30, 2014, the Solid Waste Operations Fund recorded encumbrances of \$2,072,424 that originated in fiscal year 2013 and prior. In addition, the Capital Projects Fund recorded encumbrances of \$429,995 for contracts that were closed. As these amounts were considered material to the financial statements, an audit adjustment was proposed to reduce recorded encumbrances.

Cause: The cause of the above condition is the lack of adequate internal control procedures requiring the periodic review of encumbrance ledgers.

Effect: The effect of the above condition is noncompliance with Public Law 27-78.

Recommendation: We recommend that encumbrances be approved and reviewed for ongoing pertinence.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendations contained above. The Department of Administration will ensure that encumbrances are reviewed and liquidated on a timely basis in accordance with Public Law 27-78.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Unresolved Prior Year Findings
Year Ended September 30, 2014

Unresolved Prior Year Findings

As of September 30, 2014, the status of all audit findings included in the Schedule of Findings and Responses as of September 30, 2014 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2014-001.

Finding No. 2012-1 – Not corrected. See corrective action plan to Finding No. 2014-001.

Finding No. 2013-1 – Not corrected. See corrective action plan to Finding No. 2014-001.