

GUAM WATERWORKS AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 1999 AND 1998



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Waterworks Authority:

We have audited the accompanying balance sheets of Guam Waterworks Authority (GWA) a component unit of the Government of Guam, as of September 30, 1999 and 1998, and the related statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of GWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated January 28, 1999, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support GWA's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin (TB) 98-1, "Disclosures about Year 2000 Issues." On February 25, 2000, the GASB rescinded the requirement to include disclosures about Year 2000 Issues in the financial statements of government entities. Accordingly, our present opinion on the 1998 financial statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2000, on our consideration of the Guam Waterworks Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

April 14, 2000, except as to note 13 for which the date is June 2, 2000

GUAM WATERWORKS AUTHORITY

Balance Sheets September 30, 1999 and 1998

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>
Property, plant and equipment:		
Utility plant in service	\$ 328,869,977	\$ 324,988,118
Non utility property	14,036,149	13,769,123
Construction work in progress	<u>22,486,511</u>	<u>18,505,986</u>
	365,392,637	357,263,227
Less accumulated depreciation	<u>(119,729,173)</u>	<u>(110,652,441)</u>
Total property, plant and equipment	<u>245,663,464</u>	<u>246,610,786</u>
Current assets:		
Cash (note 8):		
Unrestricted	853,032	1,099,413
Restricted (note 12)	3,114,114	3,474,098
Accounts receivable, net (note 2)	17,887,826	10,889,869
Materials and supplies inventory, net of allowance for obsolescence of \$85,075 and \$400,000 at September 30, 1999 and 1998, respectively (note 1)	<u>400,680</u>	<u>424,643</u>
Total current assets	<u>22,255,652</u>	<u>15,888,023</u>
	<u>\$ 267,919,116</u>	<u>\$ 262,498,809</u>

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Balance Sheets, Continued
September 30, 1999 and 1998

<u>CAPITALIZATION AND LIABILITIES</u>	<u>1999</u>	<u>1998</u>
Capitalization (note 10):		
Contributed capital:		
Grants by Government of Guam	\$ 122,065,084	\$ 124,798,617
Grants by U.S. Government	63,799,970	58,422,152
Contributions-in-aid of construction	59,345,237	59,885,171
Contributions from other agencies	1,239,277	1,211,924
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Total contributed capital	246,449,568	244,317,864
Deficit	(18,954,007)	(17,111,580)
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Total capitalization	227,495,561	227,206,284
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Current liabilities:		
Accounts payable:		
United States Navy	8,414,731	6,487,159
Guam Power Authority	7,583,885	4,030,669
Trade	5,652,439	4,873,500
Accrued payroll and employees' benefits	933,752	1,062,044
Current maturities of long-term debt (note 3)	584,275	302,341
Current portion of employees' annual leave	465,605	449,750
Contractor's payable	1,655,709	1,943,715
Customer deposits	1,214,038	1,127,140
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Total current liabilities	26,504,434	20,276,318
Long-term debt, less current maturities (note 3)	1,796,316	1,016,472
Employees' annual leave, less current portion	1,632,840	1,577,238
Retirement fund deferred contributions (note 4)	7,380,875	8,308,865
Advances for construction	3,086,853	3,446,813
Other liabilities (note 9a)	22,237	666,819
	<hr/>	<hr/>
Total liabilities	40,423,555	35,292,525
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Commitments and contingencies (notes 7 and 9)	\$ 267,919,116	\$ 262,498,809
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See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Statements of Operations and Deficit
Years Ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues (note 1):		
Water	\$ 23,688,030	\$ 24,610,501
Wastewater	12,199,025	12,991,528
Other (note 14)	4,626,160	39,613
	<u>40,513,215</u>	<u>37,641,642</u>
Operating and maintenance expenses:		
Water purchases	6,330,290	7,659,117
Power purchases	6,791,870	6,462,047
	<u>13,122,160</u>	<u>14,121,164</u>
Salaries and wages	14,930,255	17,127,218
Administrative and general	9,395,702	12,105,861
Depreciation	9,076,732	10,537,899
Contractual	3,857,695	4,210,094
	<u>50,382,544</u>	<u>58,102,236</u>
Total operating and maintenance expenses		
Operating loss	<u>(9,869,329)</u>	<u>(20,460,594)</u>
Other (expense) income:		
Interest expense	-	(196,452)
Interest income	115,454	67,378
Operating grants	85,369	-
	<u>200,823</u>	<u>(129,074)</u>
Net loss	<u>(9,668,506)</u>	<u>(20,589,668)</u>
Depreciation on fixed assets acquired with contributed capital (notes 1 and 11)	<u>7,826,079</u>	<u>7,831,563</u>
Net increase in deficit	(1,842,427)	(12,758,105)
Deficit at beginning of year:		
As previously stated	(17,111,580)	(96,197,463)
Adjustments (note 10)	-	91,843,988
	<u>(17,111,580)</u>	<u>(4,353,475)</u>
As restated		
Deficit at end of year	<u>\$ (18,954,007)</u>	<u>\$ (17,111,580)</u>

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 1999 and 1998

	1999	1998
<u>Increase (decrease) in cash</u>		
Cash flows from operating activities:		
Cash received from customers	\$ 32,625,125	\$ 31,083,088
Cash payments to suppliers for goods and services	(19,625,690)	(16,890,121)
Cash payments to employees for services	(14,987,091)	(17,061,974)
Net cash used in operating activities	(1,987,656)	(2,869,007)
Cash flows from capital and related financing activities:		
Interest expense paid	-	(196,452)
Contributed capital received	8,248,099	21,948,177
Acquisition of utility plant	(8,129,410)	(20,363,636)
Cash received on long-term debt acquired	1,061,780	1,318,813
Operating grants received	85,369	-
Net cash provided by capital and related financing activities	1,265,838	2,706,902
Cash flows from investing activities:		
Transfers from restricted fund (note 12)	359,984	699,248
Interest income received	115,453	67,378
Net cash provided by investing activities	475,437	766,626
Net (decrease) increase in cash	(246,381)	604,521
Unrestricted cash at beginning of year	1,099,413	494,892
Unrestricted cash at end of year	\$ 853,032	\$ 1,099,413

Noncash investing, capital and financing activities:

In 1998, a private consultant conducted appraisals of all of Guam Waterworks Authority's utility plant in service. The result was the recognition of \$147,067,406 of fixed assets at cost, and \$58,205,759 of related accumulated depreciation.

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Statements of Cash Flows, Continued Years Ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Reconciliation of operating loss to net cash used operating activities:		
Operating loss	\$ (9,869,329)	\$ (20,460,594)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	9,076,732	10,537,899
Bad debt expense	2,686,717	7,304,874
Other revenues	(4,282,966)	-
(Increase) decrease in assets:		
Accounts receivable	(3,692,022)	(7,042,514)
Materials and supplies inventory	23,962	589,404
Other assets	-	483,960
Increase (decrease) in liabilities:		
Accounts payable	5,971,719	7,336,046
Accrued payroll	(128,293)	136,790
Employees' annual leave	71,457	71,546
Customer deposits	86,898	155,151
Other liabilities	(644,582)	248,301
Advances for construction	(359,959)	(1,792,761)
Retirement fund deferred contributions	(927,990)	(437,109)
Net cash used in operating activities	<u>\$ (1,987,656)</u>	<u>\$ (2,869,007)</u>

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Notes to Financial Statements
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.

GUAM WATERWORKS AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(1) Organization Summary of Significant Accounting Policies, Continued

Change in Accounting Estimates, Continued

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.

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Notes to Financial Statements
September 30, 1999 and 1998

(2) Accounts Receivable

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

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

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:

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

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Notes to Financial Statements September 30, 1999 and 1998

(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 statutory rate of 18.6%.

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, 1998, 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 the GWA as a separate sponsor, the accrued unfunded liability at September 30, 1999 and 1998 and previously 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 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.

The cost to GWA for retirement contributions for the years ended September 30, 1999 and 1998 amounted to \$2,604,745 and \$2,657,297, respectively.

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Notes to Financial Statements
September 30, 1999 and 1998

(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, 1999 and 1998, 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, 1999 and 1998 are approximately \$6,330,000 and \$7,799,000, 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. 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 \$3.2 million at September 30, 1999.

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.

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Notes to Financial Statements
September 30, 1999 and 1998

(8) Cash and Cash Equivalents

Bank balances of demand and time deposit accounts held in the name of GWA totalled \$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 <u>Capital</u>	Accumulated Depreciation, Contributed <u>Assets</u>	<u>Deficit</u>	<u>Total</u>
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	<u>-</u>	<u>(7,831,563)</u>	<u>(12,758,105)</u>	<u>(20,589,668)</u>
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	<u>-</u>	<u>(7,826,079)</u>	<u>(1,842,427)</u>	<u>(9,668,506)</u>
Balance at September 30, 1999	\$ <u>354,956,598</u>	\$ <u>(108,507,030)</u>	\$ <u>(18,954,007)</u>	\$ <u>227,495,561</u>

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Notes to Financial Statements
September 30, 1999 and 1998

(10) Changes in Capitalization, Continued

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:

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

(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:

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

(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.

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Notes to Financial Statements
September 30, 1999 and 1998

(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:

	<u>1999</u>	<u>1998</u>
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	<u>343,194</u>	<u>39,613</u>
	\$ <u>4,626,160</u>	\$ <u>39,613</u>