

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

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

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

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

**(AS RESTATED)**

## **INDEPENDENT AUDITORS' REPORT**

Honorable Eddie Baza Calvo  
Governor of Guam:

We have audited the accompanying balance sheets of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (Government of Guam Solid Waste Funds or the Funds), as of September 30, 2012 and 2011, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the Government of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, as of September 30, 2012 and 2011, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, the Government of Guam is involved in land condemnation proceedings relative to the Layon Landfill. The ultimate impact of this matter on the financial statements of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, has not been determined.

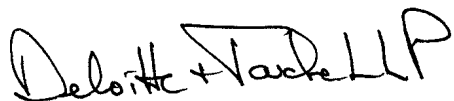
As discussed in Note 9 to the financial statements, the accompanying 2011 financial statements have been restated for the correction of an error.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 8, 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenditures by object, billings and collections, and capital projects on pages 23 through 25 are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the management of and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures by object, billings and collections, and capital projects, are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements. The schedule of employee and other data on page 26 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

September 9, 2013

# GOVERNMENT OF GUAM SOLID WASTE FUNDS

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

Our discussion and analysis of the Government of Guam ("GovGuam") Solid Waste Fund ("GGSWF") financial performance provides an overview of the GGSWF's financial activities for the fiscal years ended September 30, 2012 and 2011. Please read it in conjunction with the GGSWF's financial statements, which follow this section.

### 1. Financial Highlights

- For the fiscal year ended September 30, 2012, total fund balance decreased by \$12,297,124 (or 11.3%) from a fund balance of \$108,810,074 in 2011 to a fund balance of \$96,512,950 in 2012.
- During the years ended September 30, 2012 and 2011, total combined expenditures for governmental fund operations were \$35,774,802 and \$53,738,959, respectively, including expenditures recorded or payments relating to capital projects of \$7,644,264 and \$29,930,460, respectively; debt service requirements of \$11,197,456; and receiver fee expenditures of \$1,650,689 and \$2,811,271, respectively. These expenditures were funded, in part, by the generation of tipping fees revenues during the years ended September 30, 2012 and 2011 of \$16,398,446 and \$13,855,171, respectively; investment earnings of \$1,029,292 and \$866,471, respectively; and a transfer from GovGuam's General Fund during the years ended September 30, 2012 and 2011 of \$6,049,940 and \$7,310,429, respectively, substantially for debt service.
- Total combined expenditures decreased by \$17,964,157 (or 33.4%) from 2011 to 2012 due primarily to a reduction in capital project expenditures associated with the construction of the Layon landfill, which opened on September 1, 2011. Total combined revenues increased by \$1,445,607 (or 6.6%) from 2011 to 2012 due primarily to an increase in tipping fees revenues of \$2,543,275 (or 18.4%) and a decrease in transfers in from General Fund of \$1,260,489 (or 17.2%).
- During the years ended September 30, 2012 and 2011, the Solid Waste Operations Fund generated an operating surplus of \$445,402 and \$3,089,357, respectively. Tipping fees revenues recorded by the Solid Waste Operations Fund were \$16,398,446 in 2012, an increase of \$2,543,275 (or 18.4%) compared to the previous year. Expenditures recorded by the Solid Waste Operations Fund were \$16,023,650 in 2012, an increase of \$5,043,451 (or 45.9%) compared to the previous year due primarily to the increase in expenditures associated with the Layon landfill operations and waste hauling services and transfers out to the General Fund for interest reimbursements.
- During the years ended September 30, 2012 and 2011, receiver fees paid to Gershman, Brickner & Bratton (the Receiver) were \$1,650,689 and \$2,811,271, respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2012 total \$11,382,897.

### 2. Overview of the Financial Statements

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

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

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

**3. Financial Statement Analysis**

Balance Sheet

The balance sheet presents information on GGSWF's assets, liabilities and fund balance at year-end. A condensed summary of GGSWF's balance sheet is shown below as of September 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u> (As Restated)	<u>2010</u> (As Restated)
<b>Assets:</b>			
Cash and cash equivalents	\$ 8,385,803	\$ 5,677,761	\$ 2,471,152
Receivables	4,482,013	3,614,602	2,188,698
Prepayments	-	-	608,556
Due from General Fund	861,379	2,896,335	3,224,281
Restricted assets	<u>103,532,436</u>	<u>107,544,719</u>	<u>142,286,301</u>
<b>Total Assets</b>	<b>\$ <u>117,261,631</u></b>	<b>\$ <u>119,733,417</u></b>	<b>\$ <u>150,778,988</u></b>
<b>Liabilities:</b>			
Contracts payable	\$ 2,444,437	\$ 1,581,678	\$ 7,064,507
Retention payable	372,275	1,742,497	2,567,890
Due to General Fund	15,672,706	6,036,440	-
Other liabilities	<u>2,259,263</u>	<u>1,562,728</u>	<u>629,629</u>
<b>Total Liabilities</b>	<b><u>20,748,681</u></b>	<b><u>10,923,343</u></b>	<b><u>10,262,026</u></b>
<b>Fund Balances</b>	<b><u>96,512,950</u></b>	<b><u>108,810,074</u></b>	<b><u>140,516,962</u></b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ <u>117,261,631</u></b>	<b>\$ <u>119,733,417</u></b>	<b>\$ <u>150,778,988</u></b>

Total assets decreased by \$2,471,786 (or 2.1%) during 2012 from \$119,733,417 in 2011 to \$117,261,631 in 2012. Total liabilities increased by \$9,825,338 (or 89.9%) during 2012 from \$10,923,343 in 2011 to \$20,748,681 in 2012. These increases were primarily the result of an increase in Due to General Fund for Debt Service.

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Total fund balances decreased by \$12,297,124 (or 11.3%) during 2012 from \$108,810,074 to \$96,512,950. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation (Section 30) Bond issue wherein these funds are restricted for Consent Decree projects and Debt Service. As of September 30, 2012 and 2011, fund balances are restricted in the amounts of \$86,110,550 and \$98,042,454, respectively.

Statement of Revenues, Expenses and Changes in Fund Balances

The Statement of Revenues, Expenses and Changes in Fund Balance show the effect of revenues and expenditures on GGSWF's fund balance for the year. GGSWF's statements of revenues, expenses and changes in fund balances for the years ended September 30, 2012, 2011 and 2010 are summarized as follows.

	<u>2012</u>	<u>2011</u> (As Restated)	<u>2010</u> (As Restated)
Revenues:			
Tipping fees	\$ 16,398,446	\$ 13,855,171	\$ 9,031,645
Investment earnings	1,029,292	866,471	1,710,818
Transfer from General Fund	<u>6,049,940</u>	<u>7,310,429</u>	<u>-</u>
	<u>23,477,678</u>	<u>22,032,071</u>	<u>10,742,463</u>
Expenditures:			
Current:			
General government	1,650,689	2,811,271	2,940,667
Environmental protection	10,785,296	6,052,192	3,830,657
Capital projects	7,644,264	29,930,460	41,631,599
Debt service	11,197,456	11,197,456	10,668,687
Transfers to General Fund	<u>4,497,097</u>	<u>3,747,580</u>	<u>-</u>
	<u>35,774,802</u>	<u>53,738,959</u>	<u>59,071,610</u>
Net Change in Fund Balances	\$ <u>(12,297,124)</u>	\$ <u>(31,706,888)</u>	\$ <u>(48,329,147)</u>

Total revenues increased by \$1,445,607 (or 6.6%) from \$22,032,071 for 2011 to \$23,477,678 for 2012. These increases were primarily the result of incremental increases in tipping and associated fee rates as follows: (1) for Commercial haulers (per ton) - \$128 from October 1, 2009 to June 30, 2010; \$156 from July 1, 2010 to June 30, 2011; and \$172 from July 1, 2011 to September 30, 2012; and (2) for Residential customers (per month) - \$10 from October 1, 2009 to June 30, 2010; \$17 from July 1, 2010 to December 31, 2010; \$24 from January 1, 2011 to June 30, 2011; and \$30 from July 1, 2011 through September 30, 2012. In addition, GovGuam funded a portion of the debt service through a transfer in from the General Fund of \$6,036,440 and \$7,135,019 during the years ended September 30, 2012 and 2011, respectively.

Total expenditures decreased by \$17,964,157 (or 33.4%) from \$53,738,959 for 2011 to \$35,774,802 for 2012. The decrease in 2012 was the result of reduced construction activities on the new Layon landfill and related Consent Decree projects.

## **GOVERNMENT OF GUAM SOLID WASTE FUNDS**

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

The Solid Waste Operations Fund is the chief operating fund of GGSWF. As of September 30, 2012, the Solid Waste Operations Fund has a fund balance of \$11,213,022 as compared with the prior year fund balance of \$10,767,620 an increase in performance of \$445,402 (or 4.1%).

The Solid Waste Operations Fund's operating expenditures increased by \$5,043,451 in 2012 due mainly to costs associated with contractual services. Contractual services includes landfill operations, waste hauling services and receiver fees.

Management's Discussion and Analysis for the year ended September 30, 2011, is set forth in GGSWF's report on the audit of financial statements, which is dated November 28, 2012. That discussion and analysis explains the major factors impacting the 2011 financial statements and can be obtained from the contact information provided on page 8.

#### **4. Capital Assets and Long-Term Debt**

##### 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 \$69,022,365. The new landfill consists of up to eleven cells with a capacity in excess of 15.8 million cubic yards and is expected to service the island of Guam for 50 years.

##### Long Term Debt

In June 2009, GovGuam issued Limited Obligation (Section 30) Series A Bonds in the amount of \$202.4 million, net of bond discount of \$5.6 million. Proceeds are primarily to be used for the purpose of constructing the new Layon landfill and other Consent Decree projects as well as funding closure and post-closure costs of Ordot Dump. The resultant long-term debt is included as a liability in GovGuam's government-wide financial statements. See note 5 to the accompanying financial statements for additional information relating to this long-term debt.

##### Ordot Dump

In accordance with the 2004 Consent Decree jointly filed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Justice, GovGuam was required to close Ordot Dump and open a new landfill. Due to delays in meeting stipulated deadlines under the Consent Decree, the U.S. District Court of Guam placed the Solid Waste Division of GovGuam's Department of Public Works in Receivership. The Receiver has been tasked by the U.S. District Court with bringing GovGuam into compliance with the Consent Decree, including environmental closure of Ordot Dump in compliance with the engineering standards and regulations required by the U.S. EPA. On August 31, 2011, Ordot Dump was finally closed to the public. The Receiver continues engineering design work to ensure that Ordot Dump is closed in a manner that protects both human and environmental health. GovGuam has reported an amount of \$41,115,275 as landfill closure and post closure care liability at September 30, 2012 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 2012. The related work is presently being bid. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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**5. Outlook, Challenges and Opportunities**

GGSWF has entered into a number of contractual arrangements to facilitate both the operations of the new Layon landfill and the closure of Ordot Dump. Herzog Environmental have been selected as the contractor to oversee the operations of the new Layon landfill with an initial term of seven years with an option for two 5-year extensions.

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

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

<b>Customer Type</b>	<b>Current Rate*</b>	<b>Full Gov't Reimbursement Rate</b>	<b>Two Landfill Rate**</b>
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 GGSWF 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, GGSWF 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 GGSWF 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.



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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 GGSWF'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.

**6. Contacting Government of Guam Financial Management**

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

**GOVERNMENT OF GUAM  
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Balance Sheets  
September 30, 2012 and 2011

	2012				2011 (AS RESTATED)			
	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
<b>ASSETS</b>								
Cash and cash equivalents	\$ 8,385,803	\$ -	\$ -	\$ 8,385,803	\$ 5,677,761	\$ -	\$ -	\$ 5,677,761
Restricted assets:								
Cash and cash equivalents	810,622	9,082,301	-	9,892,923	-	19,175,859	-	19,175,859
Investments	-	60,643,810	32,995,703	93,639,513	-	88,368,860	-	88,368,860
Receivables, net:								
Tipping fees	3,837,219	-	-	3,837,219	3,614,602	-	-	3,614,602
Note	644,794	-	-	644,794	-	-	-	-
Due from General Fund	861,379	-	-	861,379	2,896,335	-	-	2,896,335
Total assets	<u>\$ 14,539,817</u>	<u>\$ 69,726,111</u>	<u>\$ 32,995,703</u>	<u>\$ 117,261,631</u>	<u>\$ 12,188,698</u>	<u>\$ 107,544,719</u>	<u>\$ -</u>	<u>\$ 119,733,417</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 203,932	\$ -	\$ -	\$ 203,932	\$ 30,115	\$ 35,606	\$ -	\$ 65,721
Contracts payable	1,287,400	1,157,037	-	2,444,437	429,402	1,152,276	-	1,581,678
Receiver fees payable	179,210	219,868	-	399,078	424,546	535,446	-	959,992
Retention payable	-	372,275	-	372,275	-	1,742,497	-	1,742,497
Accrued payroll and other	29,229	-	-	29,229	49,283	-	-	49,283
Deferred revenue	1,627,024	-	-	1,627,024	487,732	-	-	487,732
Due to General Fund	-	-	15,672,706	15,672,706	-	6,036,440	-	6,036,440
Total liabilities	<u>3,326,795</u>	<u>1,749,180</u>	<u>15,672,706</u>	<u>20,748,681</u>	<u>1,421,078</u>	<u>9,502,265</u>	<u>-</u>	<u>10,923,343</u>
<b>FUND BALANCES</b>								
Fund balances:								
Restricted for:								
Capital projects	810,622	67,976,931	-	68,787,553	-	76,231,702	-	76,231,702
Debt service	-	-	17,322,997	17,322,997	-	21,810,752	-	21,810,752
Committed for:								
Solid waste operations	10,402,400	-	-	10,402,400	10,767,620	-	-	10,767,620
Total fund balances	<u>11,213,022</u>	<u>67,976,931</u>	<u>17,322,997</u>	<u>96,512,950</u>	<u>10,767,620</u>	<u>98,042,454</u>	<u>-</u>	<u>108,810,074</u>
Total liabilities and fund balances	<u>\$ 14,539,817</u>	<u>\$ 69,726,111</u>	<u>\$ 32,995,703</u>	<u>\$ 117,261,631</u>	<u>\$ 12,188,698</u>	<u>\$ 107,544,719</u>	<u>\$ -</u>	<u>\$ 119,733,417</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
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Statements of Revenues, Expenditures, and Changes in Fund Balances  
Years Ended September 30, 2012 and 2011

	2012				2011 (AS RESTATED)			
	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:								
Tipping fees	\$ 16,398,446	\$ -	\$ -	\$ 16,398,446	\$ 13,855,171	\$ -	\$ -	\$ 13,855,171
Use of money and property	70,606	602,477	356,209	1,029,292	38,975	827,496	-	866,471
Transfer in from General Fund	-	13,500	6,036,440	6,049,940	175,410	-	7,135,019	7,310,429
<b>Total revenues</b>	<b>16,469,052</b>	<b>615,977</b>	<b>6,392,649</b>	<b>23,477,678</b>	<b>14,069,556</b>	<b>827,496</b>	<b>7,135,019</b>	<b>22,032,071</b>
Expenditures:								
Current:								
General government	741,257	909,432	-	1,650,689	1,180,427	1,630,844	-	2,811,271
Environmental protection	10,785,296	-	-	10,785,296	6,052,192	-	-	6,052,192
Capital projects	-	7,644,264	-	7,644,264	-	29,930,460	-	29,930,460
Debt service:								
Interest	-	-	11,197,456	11,197,456	-	-	11,197,456	11,197,456
Transfers out to General Fund	4,497,097	-	-	4,497,097	3,747,580	-	-	3,747,580
<b>Total expenditures</b>	<b>16,023,650</b>	<b>8,553,696</b>	<b>11,197,456</b>	<b>35,774,802</b>	<b>10,980,199</b>	<b>31,561,304</b>	<b>11,197,456</b>	<b>53,738,959</b>
Excess (deficiency) of revenues over (under) expenditures	445,402	(7,937,719)	(4,804,807)	(12,297,124)	3,089,357	(30,733,808)	(4,062,437)	(31,706,888)
Other financing sources (uses):								
Operating transfers in	-	-	22,127,804	22,127,804	-	-	4,062,437	4,062,437
Operating transfers out	-	(22,127,804)	-	(22,127,804)	-	(4,062,437)	-	(4,062,437)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(22,127,804)</b>	<b>22,127,804</b>	<b>-</b>	<b>-</b>	<b>(4,062,437)</b>	<b>4,062,437</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>445,402</b>	<b>(30,065,523)</b>	<b>17,322,997</b>	<b>(12,297,124)</b>	<b>3,089,357</b>	<b>(34,796,245)</b>	<b>-</b>	<b>(31,706,888)</b>
Fund balances at the beginning of the year, as restated	10,767,620	98,042,454	-	108,810,074	7,678,263	132,838,699	-	140,516,962
<b>Fund balances at the end of the year</b>	<b>\$ 11,213,022</b>	<b>\$ 67,976,931</b>	<b>\$ 17,322,997</b>	<b>\$ 96,512,950</b>	<b>\$ 10,767,620</b>	<b>\$ 98,042,454</b>	<b>\$ -</b>	<b>\$ 108,810,074</b>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

The Government of Guam (GovGuam) Solid Waste Operations Fund was created by Public Law 24-272 to provide 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 Ord 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 60 days of the end of the current fiscal period. Revenues susceptible to accrual include tipping, user and associated fees. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Tipping and associated fees imposed are as follows:

Commercial

Commercial haulers are billed per tonnage of trash. The rates per tonnage effective during fiscal years 2012 and 2011 are as follows:

\$156.00 – October 2010 to June 2011  
\$171.60 – July 2011 to September 2012

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rates effective during fiscal years 2012 and 2011 per one 96-gallon cart are as follows:

\$17 – October 2010 to December 2010  
\$24 – January 2011 to June 2011  
\$30 – July 2011 to September 2012

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

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

D. Budgetary Process

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

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. Encumbrances outstanding at year end are reported within 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 Legislature as representing in continuing appropriations.

E. Cash and Cash Equivalents

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

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(1) Summary of Significant Accounting Policies, Continued

F. Investments

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

G. Receivables 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. Deferred Revenues

Deferred 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:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance, Continued

- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

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

A formal minimum fund balance policy has not been adopted.

L. 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.

M. Reclassifications

Certain balances in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

(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.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(2) Deposits, Continued

As of September 30, 2012 and 2011, the carrying amount of cash and cash equivalents were \$18,278,726 and \$24,853,620, respectively, and the corresponding bank balances were \$18,278,726 and \$24,853,620, respectively. Of the bank balance amounts, \$18,256,452 and \$24,829,418, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining balances of \$22,274 and \$24,202, respectively, represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2012 and 2011. As of September 30, 2012 and 2011, bank deposits in the amount of \$878,321 and \$922,254, respectively, were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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

	<u>2012</u>	<u>2011</u>
Capital projects	\$ 9,082,301	\$ 19,175,859
Operations, maintenance, renewal and replacement reserve fund	<u>810,622</u>	<u>-</u>
	<u>\$ 9,892,923</u>	<u>\$ 19,175,859</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.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees in accordance with 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, 2012 and 2011.



**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(3) Investments, Continued

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, 2012 and 2011, investments at fair value are as follows:

	<u>2012</u>	<u>2011</u>
Mutual funds	\$ 93,639,513	\$ 84,716,343
Cash management funds	<u>-</u>	<u>3,652,517</u>
	<u>\$ 93,639,513</u>	<u>\$ 88,368,860</u>

As of September 30, 2012 and 2011, these investments are restricted and available for the following purposes:

	<u>2012</u>	<u>2011</u>
Capital projects	\$ 60,643,810	\$ 60,521,668
Debt service	<u>32,995,703</u>	<u>27,847,192</u>
	<u>\$ 93,639,513</u>	<u>\$ 88,368,860</u>

(4) Receivables

Receivables as of September 30, 2012 and 2011, including allowances for uncollectible accounts, are as follows:

	<u>2012</u>	<u>2011</u>
Commercial	\$ 1,709,483	\$ 3,337,183
Residential	1,399,503	1,270,208
Government:		
Guam Waterworks Authority (GWA)	854,498	600,360
Other	84,958	41,814
Note	<u>644,794</u>	<u>-</u>
	<u>4,693,236</u>	<u>5,249,565</u>
Allowance for uncollectible accounts:		
Commercial	(58,757)	(888,768)
Residential	(105,493)	(162,697)
Government	<u>(46,973)</u>	<u>(583,498)</u>
	<u>(211,223)</u>	<u>(1,634,963)</u>
	<u>\$ 4,482,013</u>	<u>\$ 3,614,602</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, 2012, the balance was \$644,794 with a corresponding amount recorded as deferred revenue.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(4) Receivables, Continued

In February 2013, the Guam Public Utilities Commission approved a GWA rate increase, which funds repayment of GWA's balance due to the Solid Waste Operations Fund. In March 2013, the Solid Waste Operations Fund started collecting \$125,000 per month from GWA. At September 30, 2012, the GWA receivable was \$854,498, with a corresponding amount recorded as deferred revenue.

(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 Depositary 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. In accordance with a subordination agreement, dated June 18, 2009, between GovGuam and a local bank, the local bank agreed to subordinate the pledges of Section 30 revenues securing the \$10,000,000 note payable to a pledge of Section 30 revenues to be provided as security solely for the 2009 Series A bonds until this note payable is both fully and completely repaid and discharged.

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 Depositary 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.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(5) Bonds Payable, Continued

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.

- 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, 2012 and 2011

(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>
2013	\$ 4,590,000	\$ 11,082,706	\$ 15,672,706
2014	4,825,000	10,847,331	15,672,331
2015	5,070,000	10,599,956	15,669,956
2016	5,330,000	10,339,956	15,669,956
2017	5,610,000	10,059,444	15,669,444
2018 – 2022	33,065,000	45,294,110	78,359,110
2023 – 2027	43,365,000	34,987,784	78,352,784
2028 – 2032	57,375,000	20,977,878	78,352,878
2033 – 2035	<u>43,195,000</u>	<u>3,820,731</u>	<u>47,015,731</u>
	\$ <u>202,425,000</u>	\$ <u>158,009,896</u>	\$ <u>360,434,896</u>

During the years ended September 30, 2012 and 2011, payments for debt service totaled \$11,197,456 for each year, which solely represent payment of interest.

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 \$360,434,896 payable through December 2034. For the years ended September 30, 2012 and 2011, Section 30 revenues were \$53,125,949 and \$46,357,373, respectively.

At September 30, 2012 and 2011, fund balance of \$17,322,997 and \$21,810,752, respectively, is restricted for debt service purposes.

At September 30, 2012 and 2011, GovGuam management is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(6) Interfund Transfer Activity

Interfund transfers from the Solid Waste Operations Fund and Capital Projects Fund to the Debt Service Fund represent the transfer of funds for payment of interest and transfer of the bond reserve investment account. Interfund transfer activity during the years ended September 30, 2012 and 2011, is summarized below:

	<u>2012</u>	<u>2011</u>
Transfers Out To:		
Debt Service Fund for:		
Interest payment	\$ 4,062,437	\$ 4,062,437
Bond reserve and capitalized interest investment accounts	<u>18,065,367</u>	<u>-</u>
	\$ <u>22,127,804</u>	\$ <u>4,062,437</u>
Transfers In From:		
Capital Projects Fund	\$ <u>22,127,804</u>	\$ <u>4,062,437</u>

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(7) Commitments and Contingencies

A. Ordot Dump

On February 11, 2004, the U.S. Environmental Protection Agency, the U.S. Department of Justice, and the Government of Guam entered into and jointly 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.

On March 17, 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works (DPW) in Guam in Receivership. After receiving and reviewing qualifications information on firms presented by GovGuam and the U.S. Environmental Protection Agency, and conducting interviews and reference checks, the District Court Judge selected and appointed Gershman, Brickner & Bratton, Inc. (“the Receiver”) as receiver. The Receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of the Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW’s Solid Waste Division. For the years ended September 30, 2012 and 2011, recorded receiver fee expenditures were \$1,650,689 and \$2,811,271, respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2012 amount to \$11,382,897. Of this amount, \$3,848,700 was funded by the General Fund and the remaining was funded from solid waste operations. Pursuant to the Court Order, the appointment of the Receiver shall be for the period necessary to achieve compliance with the consent decree unless: (a) the Receiver recommends termination of the Court Order as no longer necessary, or modification thereof, and said termination or modification is accepted by the court, (b) the Receiver requests to be relieved and such request is approved by the court, and (c) the Court Order is otherwise modified or terminated by the court.

On February 13, 2009, the United States District Court of Guam issued a Court Order associated with the DPW Solid Waste Division Receivership requiring GovGuam to provide for costs of the new landfill. On June 1, 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.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(7) Commitments and Contingencies, Continued

A. Ordot Dump, Continued

The Ordot Dump was finally closed on August 31, 2011. The Consent Decree also stipulates that the Ordot Dump be environmentally closed in compliance with the engineering standards and regulations required by the U. S. Environmental Protection Agency. The Receiver continues engineering design work on the Ordot Dump so that plans can be drawn up and approved by regulatory agencies for the environmental closure of the Ordot Dump in a manner that protects both human and environmental health. Closure and post closure care costs reported as expenditures in the accompanying financial statements represents actual closure and post closure care costs incurred during fiscal year 2011. The estimated landfill closure and post closure care liability at September 30, 2012 and 2011 is not included in the accompanying fund financial statements. Instead, GovGuam has reported an amount of \$41,115,275 and \$45,011,196 as landfill closure and post closure care liabilities at September 30, 2012 and 2011, respectively, within GovGuam's government-wide financial statements, representing the cumulative amount reported based on 100 percent capacity for Ordot Dump. Actual cost may be higher due to inflation changes in technology, or changes in regulations.

B. Layon Landfill

The Layon landfill opened on September 1, 2011 and consists of up to eleven cells. The Layon landfill has an estimated lifespan of 50 years and the two cells currently being utilized together have a projected life of 10 years. Total construction cost for the Layon landfill amounted to \$69,022,365, which has been capitalized and presented as a capital asset within GovGuam's government-wide financial statements. The estimated landfill closure and post closure cost liability at September 30, 2012 and 2011 is not included in the accompanying fund financial statements. Instead, landfill closure and post closure care liabilities of \$973,961 and \$0, respectively, for the Layon landfill are reported within GovGuam's government-wide financial statements, which is based on the use of 0.88% of the estimated capacity of Layon landfill. The remaining estimated cost of closure and post closure case of \$109,703,416 will be recognized by GovGuam as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure case in 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

C. 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, 2012, \$3,410,000 had been deposited to the Court for this purpose, and \$21,705,683 plus interest at 6% per annum calculated from January 24, 2008 has yet to be made. The funding source to pay the \$21,705,683 liability has not been determined as of September 30, 2012. It is not possible to predict the ultimate impact of this matter on the accompanying financial statements.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2012 and 2011

(7) Commitments and Contingencies, Continued

D. Contract Commitments

GGSWF have commitments under contracts at September 30, 2012 and 2011. As of September 30, 2012 and 2011, encumbrances associated with these contracts are as follows:

	<u>2012</u>	<u>2011</u>
Solid Waste Operations Fund	\$ 32,722,923	\$ 4,239,500
Capital Projects Fund	<u>3,720,870</u>	<u>7,265,339</u>
	<u>\$ 36,443,793</u>	<u>\$ 11,504,839</u>

(8) Major Customers

During the years ended September 30, 2012 and 2011, two and three commercial customers accounted for 44% and 57%, respectively, of total tipping fees revenues.

(9) Restatement

As of September 30, 2012, the GovGuam Solid Waste Funds' management determined that certain accounts as of and for the year ended September 30, 2011 were not recorded in the appropriate funds. Details are as follows:

	<u>Solid Waste Operations Fund</u>	
	<u>As Originally Stated</u>	<u>As Restated</u>
Cash and cash equivalents	\$ 1,520,872	\$ 5,677,761
Due from General Fund	\$ 1,896,357	\$ 2,896,335
Due from other funds	\$ 3,695,344	\$ -
Accounts payable	\$ -	\$ 30,115
Contracts payable	\$ -	\$ 429,902
Receiver fees payable	\$ -	\$ 424,546
Fund balance, beginning	\$ 4,844,909	\$ 7,678,263
Fund balance, ending	\$ 10,190,160	\$ 10,767,620
Revenues	\$ 13,856,405	\$ 14,069,556
Expenditures	\$ 4,803,574	\$ 10,980,199
Operating transfers out	\$ 3,747,580	\$ -

	<u>Capital Projects Fund</u>	
	<u>As Originally Stated</u>	<u>As Restated</u>
Cash and cash equivalents	\$ 4,159,889	\$ -
Accounts payable	\$ 580,595	\$ 35,606
Contracts payable	\$ 1,204,942	\$ 1,152,276
Receiver fees payable	\$ 1,106,749	\$ 535,446
Due to other funds	\$ 3,695,344	\$ -
Fund balance, beginning	\$ 134,347,180	\$ 132,838,699
Fund balance, ending	\$ 97,035,441	\$ 98,042,454
Revenues	\$ 1,040,647	\$ 827,496
Expenditures	\$ 33,990,349	\$ 31,561,304

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Expenditures by Object  
Years Ended September 30, 2012 and 2011

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund		Totals	
	2012	2011	2012	2011	2012	2011	2012	2011
Personnel costs:								
Salaries and wages	\$ 1,171,869	\$ 1,446,080	\$ -	\$ -	\$ -	\$ -	\$ 1,171,869	\$ 1,446,080
Overtime	58,803	164,619	-	-	-	-	58,803	164,619
Fringe benefits	411,461	483,951	-	-	-	-	411,461	483,951
Total personnel costs	<u>1,642,133</u>	<u>2,094,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,642,133</u>	<u>2,094,650</u>
Receiver fees:								
Labor costs	644,269	1,003,531	789,976	1,386,449	-	-	1,434,245	2,389,980
Other	96,988	176,896	119,456	244,395	-	-	216,444	421,291
Total receiver fees	<u>741,257</u>	<u>1,180,427</u>	<u>909,432</u>	<u>1,630,844</u>	<u>-</u>	<u>-</u>	<u>1,650,689</u>	<u>2,811,271</u>
Contract services:								
Closure and post closure costs	-	-	3,896,483	1,042,304	-	-	3,896,483	1,042,304
Layon landfill	157,237	-	3,195,282	26,716,086	-	-	3,352,519	26,716,086
Landfill operations	3,139,355	307,150	-	-	-	-	3,139,355	307,150
Waste hauling services	2,861,265	207,724	-	-	-	-	2,861,265	207,724
Repairs and maintenance	956,034	849,964	-	-	-	-	956,034	849,964
Personnel	866,728	520,098	-	-	-	-	866,728	520,098
Security services	176,169	172,046	111,573	-	-	-	287,742	172,046
Building/facility improvements	-	-	240,057	52,512	-	-	240,057	52,512
Legal services	70,472	10,687	7,139	259,742	-	-	77,611	270,429
Professional fees	39,501	82,938	-	85,578	-	-	39,501	168,516
Rental	38,968	511,624	-	-	-	-	38,968	511,624
Land appraiser fees	-	-	24,807	24,131	-	-	24,807	24,131
Roll out carts and trucks	-	-	-	1,724,229	-	-	-	1,724,229
Other	183,669	412,080	55,465	25,878	-	-	239,134	437,958
Total contract services	<u>8,489,398</u>	<u>3,074,311</u>	<u>7,530,806</u>	<u>29,930,460</u>	<u>-</u>	<u>-</u>	<u>16,020,204</u>	<u>33,004,771</u>
Supplies and Materials:								
Fuel	310,748	469,816	-	-	-	-	310,748	469,816
Others	126,055	91,131	-	-	-	-	126,055	91,131
Total supplies and materials	<u>436,803</u>	<u>560,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>436,803</u>	<u>560,947</u>
Capital outlay	-	-	113,458	-	-	-	113,458	-
Utilities	82,359	86,615	-	-	-	-	82,359	86,615
Interest	-	-	-	-	11,197,456	11,197,456	11,197,456	11,197,456
Miscellaneous	134,603	235,669	-	-	-	-	134,603	235,669
Transfers out to General Fund	4,497,097	3,747,580	-	-	-	-	4,497,097	3,747,580
Total	<u>\$ 16,023,650</u>	<u>\$ 10,980,199</u>	<u>\$ 8,553,696</u>	<u>\$ 31,561,304</u>	<u>\$ 11,197,456</u>	<u>\$ 11,197,456</u>	<u>\$ 35,774,802</u>	<u>\$ 53,738,959</u>

See accompanying independent auditors' report.



**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Billings and Collections  
Years Ended September 30, 2012 and 2011

	2012	2011
Billings:		
Commercial haulers	\$ 10,665,428	\$ 8,413,692
Residential	6,045,842	5,074,559
Government	348,583	404,981
Total billings	\$ 17,059,853	\$ 13,893,232
Collections:		
Commercial haulers	\$ 10,551,306	\$ 7,497,682
Residential	5,972,841	4,744,174
Government	52,801	37,471
Transfer stations	352,865	269,859
Other charges	57,432	65,344
Total collections	\$ 16,987,245	\$ 12,614,530

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Capital Projects  
Year Ended September 30, 2012

Project	Total Contract	Expenditures for the Year Ended September 30, 2012	Cumulative Expenditures as of September 30, 2012	Outstanding Encumbrances
Layon Landfill:				
Entrance Area Facilities and Cells 1 and 2 Construction	\$ 25,375,436	\$ 248,280	\$ 24,104,375	\$ 1,271,061
Access Road and Sewer System Construction	28,369,411	1,577,424	28,369,411	-
Groundwater Quality Monitoring				
Technical Assistance Services	2,572,102	550,880	1,828,453	743,649
Construction Management Services	6,375,284	699,521	5,923,097	452,187
Engineering Design Services	3,113,172	276,415	3,113,172	-
Subtotal	<u>65,805,405</u>	<u>3,352,520</u>	<u>63,338,508</u>	<u>2,466,897</u>
Ordot Dump:				
Closure and Post-Closure Plans Preparation	<u>6,192,198</u>	<u>3,896,483</u>	<u>4,938,225</u>	<u>1,253,973</u>
	<u>\$ 71,997,603</u>	<u>\$ 7,249,003</u>	<u>\$ 68,276,733</u>	<u>\$ 3,720,870</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Employee and Other Data  
September 30, 2012 and 2011

	2012	2011
<u>Full Time Employees:</u>		
Administrative Support	4	2
Residential Collection	17	23
Landfill	-	14
Convenience Center/Transfer Stations	15	6
Total employee count	36	45
Total personnel costs	\$ 1,642,133	\$ 2,094,650
<u>Contract services</u>		
Administrative Support	13	9
Sanitation Workers	9	-
Landfill	-	1
Total employee count	22	10
Total personnel costs	\$ 866,728	\$ 520,098

See accompanying independent auditors' report.