

OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

September 13, 2013
Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina'Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

32-13-784
COMPTROLLER
SEP 17 2013
8:05 am
Received by: [Signature]

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Government of Guam Solid Waste Operations Fund Fiscal Year 2012 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the report in its entirety at www.guamopa.org.

SEP 17 2013 8:28
[Signature]

Senseramente,

For Doris Flores Brooks, CPA, CGFM
Public Auditor

RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

GUAM LEGISLATURE
CENTRAL FILES

ACKNOWLEDGEMENT RECEIPT
Received by: [Signature]
Date: 9/16/13

784



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361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

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September 9, 2013

Honorable Eddie Baza Calvo
Governor of Guam

Dear Governor Calvo:

We have performed an audit of 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 (Solid Waste Funds or the Funds), as of and for the years ended September 30, 2012 and 2011, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon date September 9, 2013.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Funds is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated January 2, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Funds’ basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the years ended September 30, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Funds’ internal control over financial reporting and on their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the years ended September 30, 2012 and 2011 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

We considered the Funds' 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 do not express an opinion on the effectiveness of the Funds' internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Funds' 2012 and 2011 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience. During the years ended September 30, 2012 and 2011, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendices A and B to Attachment II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

AUDIT ADJUSTMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on the Funds' financial reporting process. Such adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2012 and 2011 financial statements. During the years ended September 30, 2012 and 2011, there were no significant changes in previously adopted accounting policies or their application.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of the Funds' financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We had no oral discussions with management regarding critical accounting policies and practices related to the years ended September 30, 2012 and 2011.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the years ended September 30, 2012 and 2011.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Funds' 2012 and 2011 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012 and 2011.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Funds' management and staff and had unrestricted access to the Funds' senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

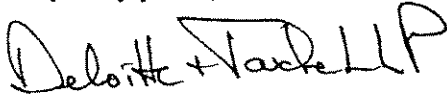
CONTROL-RELATED MATTERS

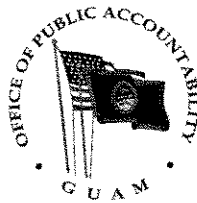
We have issued a separate report to you, also dated September 9, 2013, containing information regarding our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of law, regulations, contracts and grant agreements. Although we have included management's written responses to our comments contained in that report, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We also noted certain matters that we reported to management of the Funds' in a separate letter dated September 9, 2013.

This report is intended solely for the information and use of management, the Office of the Governor and the Office of Public Accountability of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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



Government of Guam Solid Waste Fund FY 2012 Financial Highlights

September 11, 2013

With the closure of the Ordot Dump in August 2011, fiscal year (FY) 2012 marked the Layon Landfill's first full year of operation. The Government of Guam Solid Waste Fund (GGSWF) received an unqualified "clean" opinion. The GGSWF is comprised of three funds: the Solid Waste Operations Fund (SWOF), the Capital Projects Fund (CPF), and the Debt Service Fund. Collectively, the GGSWF generated \$23.5 million (M) in revenues and paid \$35.8M in expenses. The FY 2011 financial statements were restated due to certain accounts not being recorded in the appropriate funds.

Land Condemnation

In October 2012, a Superior Court order was issued for the payment of approximately \$25.1M for the condemnation of the land which encompasses the Layon landfill. As of September 2012, \$3.4M has been deposited to the Court, and the \$21.7M plus calculated interest at 6% from January 24, 2008 has yet to be made because the funding source to pay this obligation has not been determined. Interest of more than \$110 thousand (K) per month is accruing on the judgment. The Government of Guam (GovGuam) General Fund may be further obligated to pay for the land condemnation judgment if other legally available options are not considered.

Proposal to Increase Tipping Fee Rates to Pay for Debt Service

The court-appointed Receiver developed three rate options, which were presented to the Public Utilities Commission in June 2012. If the Full Reimbursement Rate for tipping fees was enacted, it would cover 75.92% of the debt service contemplated by Gov Guam's 2009 Limited Obligation Section 30 Bond indenture. The annual debt service principal payments of \$15.7M will begin in FY 2013. Under this option, monthly commercial rates would increase from \$172 to \$225 and monthly residential rates would rise from \$30 to \$35 in 2013.

Solid Waste Expenses

The GGSWF received \$23.5M in revenues, of which \$16.4M was from Tipping Fees, \$1M in interest earned, and \$6M in transfers in from GovGuam. Tipping Fees were paid by the commercial haulers at a monthly fee of \$156 (October 2010 to June 2011) and \$172 (July 2011 to September 2012). Additionally, monthly Residential tipping fees were \$24 (January 2011 to June 2011) and \$30 (July 2011 to September 2012). Of the total billing for tipping fees amounting to \$17.1M, \$10.7M (63%) is from commercial haulers, \$6M (35%) from residential, and \$349K (2%) from the government.

There are two major contractors involved in Solid Waste operations, one for the Hauler-only Transfer Station and the other for the Layon Landfill. Of the total FY 2012 costs of \$35.8M, the SWOF paid \$16M and the CPF paid \$8.6M. The Debt Service Fund paid \$11.2M in interest on the bonds. The CPF paid for Ordot Dump closure and post closure costs of \$3.9M, Layon Landfill costs of \$3.2M, and building/facility improvements of \$0.2M. The SWOF paid for landfill operations of \$3.1M, waste hauling services of \$2.9M, repairs and maintenance of \$1M, and personnel costs for contracted employees of \$0.9M. Costs for 36 full-time government employees was \$1.6M, while personnel costs for 22 contracted employees was \$867K.

During FY 2012, the Layon Landfill collected 92K tonnage of waste, a growth of 11.2K or 13.9% from FY 2011 of 80.8K. The growth was mainly from the military, which was an additional customer in FY 2012, having 8.3K tonnage of waste. Fifty-four thousand tons of wastes were

collected from commercial customers (59%), 20K from residential customers (22%), 6K from residential transfer stations (6%), 2K from government customers (2%), 1K from the mayors (2%) and 0.1K from other category (.1%). The other category increased by 117% due to the addition of the Bulky Item Collection Program.

Federal Receiver Fees

In March 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works in Receivership. For FY 2012 and FY 2011, receiver fee expenditures were \$1.7M and \$2.8M, respectively. Of the \$1.7M spent in FY 2012, \$0.7M was paid from the SWOF and \$0.9M from CPF. Since the appointment of the Receiver in March 2008 through September 2012, total Receiver fee expenditures amounted to \$11.4M. Of this amount, \$3.9M was funded by the General fund, while \$7.5M was funded by the GGSWF.

Closure and Post Closure of Ordot Dump

Closure costs for Ordot Dump were \$3.9M in FY 2012. GovGuam estimates the Dump closure and post-closure costs at \$41.1M at September 2012. The Ordot Dump's closure design is now complete and the Receiver recently issued a Request for Bid for the closure of the dump.

Opening of Layon Landfill

The Layon Landfill opened in September 2011 and presently consists of two cells with capacity up to 11 cells, and has an estimated lifespan of 50 years. The two existing cells have an expected life span of 10 years. While the present tipping fees sets aside a portion of the funds for the eventual construction of additional cells as the existing cells become exhausted, these reserves may be inadequate if they are used to fund the closure of Ordot Dump or diverted to pay the former landowners. Total construction cost for the Layon Landfill infrastructure amounted to \$69M. With an average cell size of 11.2 acres, the Receiver estimated the closure costs for two cells at approximately \$4.6M and construction of new cells at \$10.4M each. The landfill closure and post closure care liabilities as of September 2012 amounted to \$974K, and are recorded in the General Fund.

Compliance Report, Management Letter, and Passed Adjustments

Independent auditors Deloitte and Touche, LLP identified a repeat compliance finding related to procurement, in which there was incomplete documentation to demonstrate full compliance with applicable procurement requirements. For example, one item awarded in 2004 had an original amount of \$1.3M, but was up to \$8.2M due to several amendments and change orders, and any periodic assessments made, if any, to support continuation of related services, were not evident. In another sample, the initial contract of \$0.9M increased to \$2.6M after two contract amendments, but there was no justification or analysis as to why no further procedures were necessary for the change orders. The Receiver disagrees with the finding.

A separate management letter identified four deficiencies, of which three were repeats from the prior year. The auditors made several recommendations, including: (1) encumbrances be approved and reviewed by DOA for ongoing pertinence; (2) other revenue related transactions be summarized and provided to DOA for recording to the general ledger; (3) establish formal policy relative to the recognition of allowance for doubtful accounts; and (4) approval of overtime work authorization be documented.

The auditors proposed journal entry adjustments with a net effect of increasing net assets by \$0.2M, which management posted subsequently in FY 2013. However, the Receiver disagreed with the postponement of the adjustments. For a more detailed discussion on GGSWOF's operations, refer to the Management's Discussion and Analysis or view the reports in its entirety at our website at www.guamopa.org.

ATTACHMENT I

GovGuam Solid Waste Operations - Landfill CIP Fund (Fund 284)
 Proposed Audit Adjustments
 September 30, 2012

#	Name	Debit	Credit
125410791 325454103	1 AJE To adjust BOG construction acct LANDFILL SEC 30 CONSTRUCTION GAIN (LOSS) ON INVESTMENT	183,213.87	183,213.87
	To take up unrealized gain on investments on the BOG Construction account.	<u>183,213.87</u>	<u>183,213.87</u>
325454101 125414109	2 AJE To adjust interest on capitalized interest INTEREST ON BANK DEPOSITS DUE TO/FR GENERAL FUND	343,852.04	343,852.04
	To transfer interest on the capitalized interest account to debt service fund.	<u>343,852.04</u>	<u>343,852.04</u>
125421590 5254D0910CDCE201230	3 AJE To adjust receiver fees and payable ACCRUED EXPENDITURES LANDFILL CONSTRUCTION	139,036.58	139,036.58
	To adjust receiver fees and receiver fees payable.	<u>139,036.58</u>	<u>139,036.58</u>
125421590 125414118	4 AJE To adjust payables relating to operations ACCRUED EXPENDITURES DUE TO/FR SOLID WASTE OPS FUND	1,795,075.88	1,795,075.88
	To transfer operations related payables to Fund 418.	<u>1,795,075.88</u>	<u>1,795,075.88</u>

We have reviewed the adjustments above and agree that they be recorded in the general ledger as of and for the year ended September 30, 2012. The above are not the results of fraud or illegal acts.


 Kathrine Kekigi
 Finance Manager

ATTACHMENT I, CONTINUED

GovGuam Solid Waste Fund - Operations Fund (Fund 416/417)
 Proposed Audit Adjustments
 September 30, 2012

	Name	Debit	Credit
	1 AJE To adjust tipping fee receivables		
141612101	ARR - S.W. TIPPING FEES		14,072,442.65
141612109	ALLOWANCE FOR BAD DEBTS - TFS	11,372,141.85	
141624315	DEFERRED REVENUE	1,537,047.08	
DTT2	Revenue adjustments	1,163,253.72	
		<u>14,072,442.65</u>	<u>14,072,442.65</u>
	To adjust receivables and deferred revenue per GL to agree to receivables per subledger.		
	2 AJE To record deferred revenue on Lagu's N/R		
141624315	DEFERRED REVENUE		644,794.19
DTT2	Revenue adjustments	644,794.19	
		<u>644,794.19</u>	<u>644,794.19</u>
	To record deferred revenue on remaining notes receivable balance from Lagu.		
	3 AJE To take up CY writeoffs		
141612109	ALLOWANCE FOR BAD DEBTS - TFS	498,829.94	
DTT2	Revenue adjustments		498,829.94
		<u>498,829.94</u>	<u>498,829.94</u>
	To adjust allowance for accounts written off during 2012.		
	4 AJE To adjust GWA&Lagu beginning allowance		
141612109	ALLOWANCE FOR BAD DEBTS - TFS	807,146.00	
DTT2	Revenue adjustments		807,146.00
		<u>807,146.00</u>	<u>807,146.00</u>
	To adjust beginning allowance on GWA and Lagu receivables.		
	5 AJE To record deferred revenues		
141624315	DEFERRED REVENUE		57,152.91
DTT2	Revenue adjustments	57,152.91	
		<u>57,152.91</u>	<u>57,152.91</u>
	To record deferred revenue for collections relating to FY 2012 revenues collected 90 days after year-end.		
	6 AJE To record deferred revenue on GWA receivables		
141624315	DEFERRED REVENUE		854,497.92
DTT2	Revenue adjustments	854,497.92	
		<u>854,497.92</u>	<u>854,497.92</u>
	To record corresponding deferred revenue on the receivables from GWA.		
	8 AJE To adjust payables		
141614254	DUE TO FR LANDFILL CIP FUND	1,795,075.88	
141621110	ACCOUNTS PAYABLE		203,932.38
141621110A	CONTRACTS PAYABLE		1,287,400.12
141621110B	RECEIVER FEES PAYABLE		303,743.38
		<u>1,795,075.88</u>	<u>1,795,075.88</u>
	To transfer operations related payables from Fund 254 to Fund 416.		
	9 AJE To adjust allowance at 9/30/12		

Gov/Guam Solid Waste Fund - Operations Fund (Fund 416417)
 Proposed Audit Adjustments
 September 30, 2012

#	Name	Debit	Credit
141612109 DTT2	ALLOWANCE FOR BAD DEBTS - TFS Revenue adjustments	117,764.01	117,764.01
	To adjust allowance to agree to audited balance at 9/30/12.	<u>117,764.01</u>	<u>117,764.01</u>

We have reviewed the adjustments above and agree that they be recorded in the general ledger as of and for the year ended September 30, 2012. The above are not the result of fraud or illegal acts.


 Katherine Kakigi
 Finance Manager

ATTACHMENT I, CONTINUED

GovGuam Solid Waste Operations - Debt Service Fund (Fund 363)
 Proposed Adjustments
 September 30, 2012

#	Name	Debit	Credit
	1 AJE To record investment gain/loss - bond reserve fund		
136310212	LANDFILL SEC 30 00 BOND RES FD	322,780.74	
336354103	GAIN (LOSS) ON INVESTMENT		322,780.74
		<u>322,780.74</u>	<u>322,780.74</u>
	To take up unrealized gain on investments on the BOG Bond Reserve Fund.		
	2 AJE To record investment gain/loss - Cap Int.		
136310703	LANDFILL SEC 30 00 SER CAP INT	381.86	
336354103	GAIN (LOSS) ON INVESTMENT		381.86
		<u>381.86</u>	<u>381.86</u>
	To take up unrealized gain on investments on the BOG Capitalized Interest account.		
	3 AJE To record interest income on Cap I account		
136314100	DUE TO/FR GENERAL FUND	343,852.04	
336354101	INTEREST ON BANK DEPOSITS		343,852.04
		<u>343,852.04</u>	<u>343,852.04</u>
	To record interest on the capitalized interest account to debt service fund.		

We have reviewed the adjustments above and agree that they be recorded in the general ledger as of and for the year ended September 30, 2012. The above are not the results of fraud or illegal acts.


 Katherine Nekigh
 Finance Manager



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

Government of Guam
(Gubetnomention Guahan)
Department of Administration
(Dipattamenton Atmanestration)
Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1101/1250 * Fax: (671) 477-6788



Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

September 9, 2013

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning GU, 96913

We are providing this letter in connection with your audit of the 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 (the Funds), as of September 30, 2012 and 2011, and the related statement of revenues, expenditures, and changes in fund balances for the years ended September 30, 2012 and 2011, which collectively comprise the Funds' basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Funds' in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the balance sheet and the related statement of revenues, expenditures, and changes in fund balances, in conformity with GAAP.
- b. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design, implementation and maintenance of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements present only the Solid Waste Operations Fund and of 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 GAAP.
 - b. The financial statements properly classify all funds and activities.
 - c. Deposits and investments are properly classified in the category of custodial credit risk.
 - d. Interfund, internal, and intra-government activity and balances have been appropriately classified and reported.
 - e. Required supplementary information is measured and presented within prescribed guidelines.
 - f. Applicable laws and regulations are followed in adopting, approving and amending budgets.
2. Management has provided to you all relevant information and access as agreed in the terms of the audit engagement letter, including:
 - a. Public Laws as enacted by the Guam Legislature.
 - b. Financial records and related data for all financial transactions of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A and for all funds administered by the Government of Guam relating to the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There has been no:
 - a. Action taken by the Government of Guam or management of the Funds that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect 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.
4. We believe the effects of any uncorrected financial statement misstatement aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements have been attached as Appendix A.
5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. The Government of Guam has not performed a risk assessment, including the assessment of the risk that 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 may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government of Guam and do not believe that 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 are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Government of Guam involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Funds' received in communications from employees, former employees, analysts, regulators, or others.

9. Except as disclosed in Note 7 of the financial statements, there are no unasserted claims or assessments that legal counsel has advised us are probable of assertion, and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
12. We are responsible for the fair presentation of the additional information accompanying the basic 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 that is presented for the purpose of additional analysis of the basic financial statements.

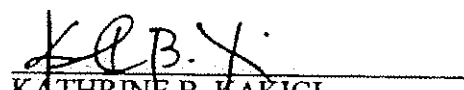
Except where otherwise stated below, matters less than \$93,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial 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.

13. Except as disclosed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
14. Management of the Funds has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which management of the Funds is contingently liable.
16. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.

17. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
18. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
19. The Government of Guam has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
20. The Government of Guam has complied with all aspects of contractual agreements that may have an effect 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 in the event of noncompliance.
21. No department or agency of the Government of Guam has reported a material instance of noncompliance to us.
22. No events have occurred after September 30, 2012 but before September 9, 2013, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
23. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

24. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
25. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
26. Management has disclosed whether, subsequent to September 30, 2012, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
27. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
 - b. The completeness and adequacy of the disclosures related to the fair values are in conformity with accounting principles generally accepted in the United States of America.
 - c. No events have occurred subsequent to September 30, 2012 and before September 9, 2013, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
28. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms
29. As disclosed in Note 9, we have restated the 2011 financial statements to correct a misstatement.
30. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.


 BENITA A. MANGLONA
 DOA Director


 KATHRINE B. KAKIGI
 DOA Financial Manager

GovGuam Solid Waste Operations Fund
 Summary of Uncorrected Misstatements - Current Year
 September 30, 2012

Known and Likely Misstatements	Assets	Liabilities	Balance Net	Change in
	Dr.(Cr)	Dr.(Cr)	Assets Beg of Year Dr.(Cr)	Net Assets Dr.(Cr)
1. To adjust unreconciled differences in receivable confirmation				
Dr. Receivables	127,486			
Cr. Revenues				(127,486)
2. To adjust extrapolated invalid encumbrance under Fund 416				
Dr. Reserve for encumbrance			152,208	
Cr. Encumbrance control			(152,208)	
3. To record PayPal cash balance at 9/30/12				
Dr. Cash	74,709			
Cr. Revenues				(74,709)
4. To record BOG cash balance at 9/30/12				
Dr. Cash	45,119			
Cr. Revenues				(45,119)
Total Known and Likely Misstatements	247,314	-	-	(247,314)

We have reviewed the uncorrected misstatements above as of September 30, 2012. The uncorrected misstatements are not material to the current fiscal year financial statements. Further, the above are not the results of fraud or illegal acts.


 KATHRINE B. KAKIGI, DOA Financial Manager

09-11-13
 Date

ATTACHMENT II, CONTINUED

Appendix B

GovGuam Solid Waste Operations Fund
 Summary of Uncorrected Misstatements Relating to Prior Year
 September 30, 2012

Known and Likely Misstatements	Assets	Liabilities	Balance, Net Assets Beg. of Year	Change in Net Assets
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. To adjust USPS Expenditures				
Dr. Beginning Fund Balance			30,731	
Cr. Expenditures				(30,731)
2. To adjust receiver fees payable at 9/30/12 and net effect of 9/30/11 receiver fees payable misstatement				
Dr. Beginning fund balance			19,858	
Cr Receiver fees payable		(19,858)		
3. To take up unrecorded BOG cash account as of 9/30/11				
Dr. Revenues				36,032
Cr. Beginning fund balance			(36,032)	
Total Known and Likely Misstatements		(19,858)	14,557	5,301

We have reviewed the uncorrected misstatements above as of September 30, 2012. The uncorrected misstatements are not material to the current fiscal year financial statements. Further, the above are not the results of fraud or illegal acts.


 KATHIRINE B. KAKIGI, DOA Financial Manager

09-11-13
 Date



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USA

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September 9, 2013

Ms. Benita Manglona
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Manglona:

In planning and performing our audit of the financial statements of the Solid Waste Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (Solid Waste Funds or the Funds) as of and for the year ended September 30, 2012 (on which we have issued our report dated September 9, 2013), 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, we considered the Funds' 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 do not express an opinion on the effectiveness of the Funds' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Funds' internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

The Funds' responses to the deficiencies identified in our audit are set forth in the attached Appendix I. We did not audit the Funds' responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Solid Waste Funds' management, others within the organization and the Office of Public Accountability – Guam, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Solid Waste Operations Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the Solid Waste Funds' internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1. Allowance for Doubtful Accounts

A formal policy for the recognition of the allowance for doubtful accounts is not currently in place.

We recommend that a formal policy relative to the recognition of an allowance for doubtful accounts be established.

Auditee Response: GSWA management concurs.

2. Encumbrances

During tests of encumbrances, the following were noted:

- a. Of five encumbrances aggregating \$938,669 tested under Fund 416, all were expired or invalid as of September 30, 2012. An audit reclassification was proposed to decrease the reserve.
- b. Twenty two encumbrances aggregating \$5,316,138 under the Capital Project Fund related to operations. An audit reclassification was proposed to transfer these encumbrances from Capital Projects Fund to Operations Fund.
- c. Of seven encumbrances aggregating \$9,363,903 under Fund 254 as of September 30, 2012, five items did not agree to audit expectations by \$2,536,616 either due to expired or invalid items. An audit reclassification was proposed to correct the reserve.
- d. Encumbrances associated with two contracts were understated by \$27,678,910. An audit reclassification was proposed to correct the reserve.

<u>Contract#</u>	<u>Particulars</u>	<u>Understatement</u>
C110601722	Waste hauling services	\$ 13,320,506
C110601741	Landfill operations	<u>14,358,404</u>
		\$ <u>27,678,910</u>

We recommend that encumbrances be approved and reviewed for ongoing pertinence. Further, we recommend that reserves be recorded based on contract amounts.

Auditee Response:

- a. DOA will coordinate with Guam Solid Waste Authority to identify which encumbrances are no longer active and will liquidate which will decrease reserve.
- b. DOA will de-encumber all encumbrances from Capital fund account and re-encumber accordingly to created accounts for all operation vendors.
- c. DOA will coordinate with Guam Solid Waste Authority and Receiver to submit all amendments on existing contracts or purchase orders timely to avoid direct recording of expenditures to appropriation account instead of encumbrances.

SECTION I – DEFICIENCIES, CONTINUED

2. Encumbrances, Continued

- d. Corrective measures are made for FY2013 to increase encumbrances for both waste hauling services and Landfill operation contracts for the duration of contract time.

3. Other Revenue Transactions

GSWA prepares a monthly report of billings and collections and provides that to the Department of Administration (DOA). During fiscal year 2012, DOA utilized this report to record revenue transactions. However, certain revenue related transactions (i.e. credits applied to customers' accounts, discounts, payment reversal and invoice reversals) posted to the billing system were not captured in the monthly revenue report, and as such were not recorded in the general ledger.

Since the billing system is currently not interfaced to the general ledger, we recommend that other revenue related transactions be summarized and provided to DOA for recording to the general ledger.

Auditee Response: GSWA management concurs. GSWA will begin incorporating credits, payment reversal and invoice reversals into the monthly revenue report.

4. Payroll Expenditures

Of five employees tested, the overtime work authorization for one employee (employee #3892 for overtime hours from 10/10/11 thru 10/14/11) was not signed by the Administrator.

We recommend that approval of overtime work authorization be documented.

Auditee Response: GSWA management concurs. It is the policy of GSWA to maintain the report. The report in question was misplaced. New procedures have been put into place to assure that these reports are properly maintained.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

Management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles used to prepare the financial statements. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with accounting principles used to prepare the financial statements).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

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

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.

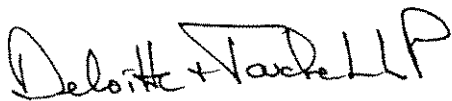
As discussed in Note 9 to the financial statements, the accompanying 2011 financial statements have been restated for the correction of an error.

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.



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.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

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)
Assets:			
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>
Total Assets	\$ <u>117,261,631</u>	\$ <u>119,733,417</u>	\$ <u>150,778,988</u>
Liabilities:			
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>
Total Liabilities	<u>20,748,681</u>	<u>10,923,343</u>	<u>10,262,026</u>
Fund Balances	<u>96,512,950</u>	<u>108,810,074</u>	<u>140,516,962</u>
Total Liabilities and Fund Balances	\$ <u>117,261,631</u>	\$ <u>119,733,417</u>	\$ <u>150,778,988</u>

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.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

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 Ordod 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.

Ordod 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 Ordod 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 Ordod Dump in compliance with the engineering standards and regulations required by the U.S. EPA. On August 31, 2011, Ordod Dump was finally closed to the public. The Receiver continues engineering design work to ensure that Ordod 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 Ordod 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.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

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 Ordod 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 Ordod Dump. This work will support the closure design and future long-term monitoring at the Ordod 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:

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

**GOVERNMENT OF GUAM
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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/.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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
ASSETS								
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	\$ 14,539,817	\$ 69,726,111	\$ 32,995,703	\$ 117,261,631	\$ 12,188,698	\$ 107,544,719	\$ -	\$ 119,733,417
LIABILITIES								
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	\$ 3,326,795	\$ 1,749,180	\$ 15,672,706	\$ 20,748,681	\$ 1,421,078	\$ 9,502,265	\$ -	\$ 10,923,343
FUND BALANCES								
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	\$ 11,213,022	\$ 67,976,931	\$ 17,322,997	\$ 96,512,950	\$ 10,767,620	\$ 98,042,454	\$ -	\$ 108,810,074
Total liabilities and fund balances	\$ 14,539,817	\$ 69,726,111	\$ 32,995,703	\$ 117,261,631	\$ 12,188,698	\$ 107,544,719	\$ -	\$ 119,733,417

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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
Total revenues	<u>16,469,052</u>	<u>615,977</u>	<u>6,392,649</u>	<u>23,477,678</u>	<u>14,069,556</u>	<u>827,496</u>	<u>7,135,019</u>	<u>22,032,071</u>
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
Total expenditures	<u>16,023,650</u>	<u>8,553,696</u>	<u>11,197,456</u>	<u>35,774,802</u>	<u>10,980,199</u>	<u>31,561,304</u>	<u>11,197,456</u>	<u>53,738,959</u>
Excess (deficiency) of revenues over (under) expenditures	<u>445,402</u>	<u>(7,937,719)</u>	<u>(4,804,807)</u>	<u>(12,297,124)</u>	<u>3,089,357</u>	<u>(30,733,808)</u>	<u>(4,062,437)</u>	<u>(31,706,888)</u>
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)
Total other financing sources (uses), net	<u>-</u>	<u>(22,127,804)</u>	<u>22,127,804</u>	<u>-</u>	<u>-</u>	<u>(4,062,437)</u>	<u>4,062,437</u>	<u>-</u>
Net change in fund balances	<u>445,402</u>	<u>(30,065,523)</u>	<u>17,322,997</u>	<u>(12,297,124)</u>	<u>3,089,357</u>	<u>(34,796,245)</u>	<u>-</u>	<u>(31,706,888)</u>
Fund balances at the beginning of the year, as restated	<u>10,767,620</u>	<u>98,042,454</u>	<u>-</u>	<u>108,810,074</u>	<u>7,678,263</u>	<u>132,838,699</u>	<u>-</u>	<u>140,516,962</u>
Fund balances at the end of the year	<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>

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 Ordot Dump, prepaying a bank loan and funding capitalized interest. The Capital Projects Fund is used to account for bond proceeds from the issuance of Limited Obligation (Section 30) Bonds, 2009 Series A. The Debt Service Fund is used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

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

B. Fund Accounting

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

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 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 Depository for the Bonds and a Paying Agent and registrar for the Bonds. The Bonds are payable entirely from a first lien and pledge of Section 30 revenues. Section 30 revenues are amounts received by or on behalf of GovGuam or the Trustee from the United States as proceeds of custom duties, federal income taxes and any other taxes derived from Guam. 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 Depository as a separate account within the Section 30 Revenue Fund. The Trustee shall be entitled to and shall collect and receive all of the Section 30 Revenues, and any Section 30 Revenues collected or received by GovGuam shall be deemed to be held, and to have been collected or received, by GovGuam as the agent of the Trustee and shall promptly be paid by GovGuam to the Trustee.

**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 Depositary, 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	1,642,133	2,094,650	-	-	-	-	1,642,133	2,094,650
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	741,257	1,180,427	909,432	1,630,844	-	-	1,650,689	2,811,271
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	8,489,398	3,074,311	7,530,806	29,930,460	-	-	16,020,204	33,004,771
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	436,803	560,947	-	-	-	-	436,803	560,947
Capital outlay								
Utilities	-	-	113,458	-	-	-	113,458	-
Interest	82,359	86,615	-	-	-	-	82,359	86,615
Miscellaneous	-	-	-	-	-	-	-	-
Total miscellaneous	134,603	235,669	-	-	11,197,456	11,197,456	11,197,456	11,197,456
Transfers out to General Fund	4,497,097	3,747,580	-	-	-	-	134,603	235,669
Total	\$ 16,023,650	\$ 10,980,199	\$ 8,553,696	\$ 31,563,304	\$ 11,197,456	\$ 11,197,456	\$ 35,774,802	\$ 53,738,959

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	6,192,198	3,896,483	4,938,225	1,253,973
	<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.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

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

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL**

YEAR ENDED SEPTEMBER 30, 2012



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

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited 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 (Solid Waste Funds or the Funds) as of and for the year ended September 30, 2012, and have issued our report thereon dated September 9, 2013. Our report includes explanatory paragraphs that the financial statements of the Funds are not intended to present the financial position and results of operations of the Government of Guam, a reference for the correction of an error, and a reference for a material uncertainty. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Funds is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Funds' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

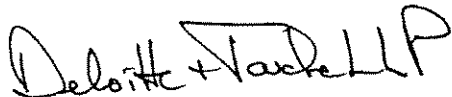
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2012-1.

We noted certain matters that we reported to management of the Funds in a separate letter dated September 9, 2013.

The Funds' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Funds' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Funds', the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is also a matter of public record.



September 9, 2013

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses
Years Ended September 30, 2012

Finding No. 2012-1 - Procurement

Criteria: A complete record of procurement actions and decisions should be maintained.

The Government of Guam Procurement Regulations specifically provide for the following:

- Chapter 3 Section 3119 (i)(2), provides the following relating to indefinite quantity contracts: “Generally, an approximate quantity is stated in the solicitation. The contract may provide a minimum quantity the territory is obligated to order and may also provide for a maximum quantity that limits the territory’s obligation to order. The rationale for using indefinite quantity contracts and the reasons why another contract form will not suffice should be indicated. Indefinite quantity contracts will be reviewed every six months for a determination of the continued need for such a contract.”

Condition: During tests of compliance with procurement regulations, the following were noted:

- a. One item (ref. #SWMD002-10) for repairs and maintenance services of heavy equipment and light vehicles was procured through an invitation for bid and was awarded in October 2010. The bid and/or the award did not provide a minimum or maximum amount for the services. Further, subsequent amendments to the original purchase order (PO) increased the original PO amount from \$100,000 to \$900,000 during fiscal year 2012.
- b. One item (ref. DPW-SW-2004 003) initially awarded in 2004 had an original contract amount of \$1.3 million. Several amendments and change orders were added onto the original contract bringing the total contract amount to \$8.2 million as of September 30, 2012. Periodic assessments made, if any, to support continuation of the related services without the need for additional procurement procedures were not evident.
- c. For one contract awarded in October 2009 related to temporary staffing, the relevant rationale/considerations supporting decision to obtain temporary staffing as against other possible options was not documented prior to the procurement of such services.
- d. Relevant documentation such as memos or equivalent indicating the history of procurement as well as rationale of the contractor/vendor selection for two items relating to contract services was not available.
- e. One item (ref. RECEIVER SW-09-05) awarded in December 2009 had an original contract amount of \$857,750. Two amendments for additional tasks were added onto the original contract bringing the contract total to \$2,572,102. Relevant justification or analyses why no further procurement procedures were necessary for the change orders were not available.

Cause: The cause of the above conditions is incomplete documentation to demonstrate full compliance with applicable procurement requirements.

Effect: The effect of the above condition is the potential negative perceptions associated with noncompliance with Guam procurement regulations.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Years Ended September 30, 2012

Finding No. 2012-1 – Procurement, Continued

Recommendation:

- a. We recommend that for indefinite quantity services, an estimated minimum and maximum amount for the services be included in the award/purchase order/contract. Further, we recommend that indefinite quantity contracts be evaluated periodically (i.e. every six months) and such evaluation be documented.
- b. We recommend that contracts spanning over an extended period be reviewed/evaluated periodically to determine if the services need to be subjected to additional procurement procedures. Further, we recommend that such review or evaluation be documented.
- c. We recommend that relevant considerations/rationale supporting procurement decisions be documented and such documentation be maintained in the procurement files.

Prior Year Status: Noncompliance with applicable procurement rules and regulations was reported as a finding in the audit of the Government of Guam Solid Waste Operations Fund for 2011.

Auditee Response and Corrective Action Plan:

- a. Management concurs that estimated minimum and maximums can be included in such procurements. However, such estimates should not be binding contractual provisions since these services are critical to the daily work of the Guam Solid Waste Authority (GSWA) and the need for the services is not always predictable.
- b. Management generally concurs that the practice recommended should be followed in most cases. However, this is the contract for design of the Layon Landfill. The initial design was completed before the Receivership was ordered. A design of this nature cannot legally be transferred to another contractor, therefore, the only options available to the Receiver were to continue to use the same contractor under this contract or abandon the design and all of the expense already incurred by the Government of Guam or continue it with the modification to the design needed to achieve compliance with the Consent Decree. In addition to the financial considerations involved, changing design firms would have caused a delay in opening the new landfill by 18 months to 2 years. This was simply not allowed under the Consent Decree or the practical limits of the capacity of the Ordot Dump.
- c. Management does not concur. These contracts for personnel are not GSWA Contracts. They are contracts between the Receiver and the contractor and are authorized under the authority granted to the Receiver in the Court's Order dated March 17, 2008.
- d. Management does not concur. These contracts for personnel are not GSWA Contracts. They are contracts between the Receiver and the contractor and are authorized under the authority granted to the Receiver in the Court's Order dated March 17, 2008.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Years Ended September 30, 2012

Finding No. 2012-1 – Procurement, Continued

Auditee Response and Corrective Action Plan: Continued

- e. Management does not concur. This procurement was for a highly qualified consultant to provided technical assistance services for groundwater quality monitoring activities for the Layon Municipal Solid Waste Landfil (Layon Landfill) in compliance with the Consent Decree (Federal Court Case CV02-0022). The contract calls for an initial two (2) – year period commencing from the date of Contract signing with an option to extend the Contract for up to two (2) additional two-year periods at the same terms and conditions. The option to renew will be based on the Receiver’s (on behalf of the Government need) future need for technical assistance, completion of Consent Decree tasks, and the evaluation of performance of the Consultant during the previous year (s) of service. Projects/tasks outside the primary responsibility of the Consultant may be added at the Government’s discretion upon written agreement (e.g., email of the Consultant to perform additional projects/tasks). The Consultant shall provide the service at the fees stated in the Cost Proposal, unless otherwise agreed in writing. The additional services were based on regulatory requirements as they evolved through the construction process and were documented in task orders properly executed as required by the contract.

Auditor Response: The Guam Procurement Law applies to every expenditure of public funds and requires that a complete record of procurement actions and decisions be maintained. With the absence of sufficient documentation supporting procurement decisions, it is difficult to assess whether the services were obtained economically, efficiently, effectively and in a manner in which the purchasing value of public funds is maximized to the fullest extent practicable.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Unresolved Prior Year Findings
Year Ended September 30, 2012

Unresolved Prior Year Findings

As of September 30, 2012, the status of all audit findings included in the Schedule of Findings and Responses as of September 30, 2011 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2012-1.