

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

32-14-20298
Office of the Speaker
Judith T. Won Pat, Ed.D

Date: 9.9.14
Time: 8:15am
Received by: [Signature]

GUAM LEGISLATURE
CENTRAL FILES

September 5, 2014

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

ACKNOWLEDGEMENT RECEIPT
Received by: [Signature]
Date: 9-8-14

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Government of Guam Solid Waste Funds' Fiscal Year (FY) 2013 audited Financial Statements, Report on Compliance and Internal Controls, and Letter to Those Charged with Governance. Independent auditors Deloitte & Touche, LLP expressed an unmodified (clean) opinion for GGSWF's financial statements.

To recap FY 2013 Financial Highlights:

- The solid waste operations closed FY 2013 with an increase in fund balance (surplus) of \$2.7M and cumulative balance fund balance (retained earnings) of \$13.9M.
- In the Receiver's June 2014 report, future costs to build the remaining 9 cells is \$97.2M and closure of the 11 cells to \$30.3M, for a total future cost of \$127.5M.
- As of September 30, 2013, the total cost of the land encompassing the Layon Landfill amounted to \$32.5M for a total cost per square meter of \$23.53. The Government of Guam has already issued tax credits certificates to some landowners to satisfy this obligation.
- The current tipping fees are insufficient to pay the annual debt service of \$15.7M on the \$202M landfill bond. Debt service will continue to be borne by the General Fund should tipping rates not be raised to cover some of these costs.
- The new GSWA board has not yet been given the opportunity to transition to run Layon Landfill and various parties have not mutually agreed upon a transition plan to allow for an earlier transition.

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

Senseramente,

[Signature]
Doris Flores Brooks, CPA, CGFM
Public Auditor

RECEIPT ACKNOWLEDGED:
By: _____
Date: _____

2014 SEP -9 AM 9:55



Government of Guam Solid Waste Funds FY 2013 Financial Highlights

September 4, 2014

In its second full year of operations at the Layon Landfill, the solid waste operations closed FY 2013 with an increase in fund balance (surplus) of \$2.7 million (M) and cumulative fund balance (retained earnings) of \$13.9M. The current tipping rates are insufficient to meet full debt service on the \$202M bonds. The 2013 budget appropriation estimated reimbursement of \$12M for debt service, but only \$4.5M was reimbursed by the Receiver. In May 2014, the Receiver suspended the debt service reimbursement to the General Fund.

Future Layon Landfill Cost

To date, total cost of the Layon landfill is \$73.2M. The Layon landfill consists of 11 cells with a capacity in excess of 15.8 M cubic yards and an estimated life span of 50 years. From the \$73.2M, two cells were built and the infrastructure of the remaining cells. For future estimated Layon closure costs, a liability of \$1.9M has been recorded at the Government Wide level based on the estimated usage to date. The remaining estimated liability of \$106.7M will be recognized proportionally as the remaining capacity is used. Actual costs may be higher due to inflation, changes in technology, and regulations.

In the Receiver's June 2014 report, construction of a new cell at Layon is \$10.8M. Closure cost for cells 1 & 2 is \$5.5M. Future cost to build the remaining 9 cells is \$97.2M and closure of the 11 cells to \$30.3M for total future cost of \$127.5M.

Ordot Dump Closure and Post Closure Costs

The Receiver awarded a contract for closure and post closure preparation of \$7.7M. Another \$1.2M has been obligated for land acquisition. In December 2013, two contracts totaling \$47M were awarded for the main construction of the Ordot Dump closure (\$40.5M) and construction management services (\$6.5M). In the Receiver's May 2013 report, there is an additional post closure cost for Ordot Dump of \$14.3M.

Land Condemnation

In October 2012, a Superior Court Judge awarded \$25.1M for the condemnation of the land measuring approximately 1,382,428 square meters, which encompasses the Layon Landfill. As of September 30, 2013, total cost of the land amounted to \$32.5M, composed of the principal of \$25.1M plus interest of \$7.4M (computed at 6% per annum from January 24, 2008). The cost of the land is \$18.17 per square meter plus interest per square meter of \$5.36 for a total cost per square meter of \$23.53. This cost per square meter will continue to rise as interest accrues. The Government of Guam (GovGuam) has already issued tax credit certificates to some landowners to satisfy this obligation.

Current Tipping Rates Insufficient for Debt Service and Future Costs

The current tipping rates are insufficient to the pay annual debt service of \$15.7M on the \$202M landfill bonds. Debt service will continue to be borne by the General Fund should tipping rates not be raised to cover some of these costs. As previously mentioned in prior year highlights, the Receiver developed three rate options, which were presented to the Public Utilities Commission in June 2012. No further action on these rate proposals has been pursued.

Solid Waste Revenue & Expenses

Total revenues of \$18.8M increased slightly by \$1.4M or 8.1% from \$17.4M in FY2012. Tipping fees were \$18.7M, a \$2.3M increase from prior year. Two commercial haulers accounted for 42% of the total tipping fee revenues. Of the tipping fee billings, commercial haulers accounted for \$10.5M (60%), residential customers for \$6M (34%), and government customers for \$1.1M (6%). During FY 2013, the Layon Landfill

collected 94 thousand (K) tonnage of waste, a growth of 2K from FY 2012 of 92K. Residential and commercial accounts waste disposal declined, government accounts doubled, and Mayor's accounts grew by 11%.

Other revenues include interest on investment of \$479K, the new Host Community Premium Surcharge fees of \$314K, and decrease in the fair value of investment of \$653K. Host Community Premium Surcharge fees of \$314K is based on \$3.57 per ton of waste for commercial and government customers and \$0.38 per month for residential customers beginning October 1, 2012. These fees are given to the villages of Inarajan and Ordot annually pursuant to Public Law (PL) 30-165 and amended by PL 32-021.

Of the total FY 2013 expenditures of \$37.3M, \$15.7M was for debt service, \$12.5M for operations, \$8.8M for capital projects and \$314K for the host communities of Inarajan and Ordot. Of the total debt service payment of \$15.7M, \$11.2M came from the General Fund and \$4.5M from the operations fund controlled by the Receiver.

Since March 2008, a total of \$12.9M in receiver fees were paid, of which \$1.5M was paid in FY 2013. Of the \$12.9M, \$3.9M was funded by the General fund, while \$9.0M was funded by the operations fund controlled by the Receiver.

Receiver Control

The Receiver, pursuant to orders of the District Court of Guam, has total operation control. The complete turnover of control and authority to GovGuam will occur at the date ordered by the District Court Judge. Presently, all expenditures of the funds are authorized and controlled by the Receiver and are processed and posted under the Department of Administration's accounting system.

Transition Plan

Public Law 31-20 authorized the creation of the Guam Solid Waste Authority (GSWA) to run and manage the solid waste operations. The new board members have been meeting on a regular basis since March 2013. With the Receiver now in its third year of operation at the Layon Landfill, the new GSWA board has not yet been given the opportunity to transition to run Layon and the various parties have not mutually agreed upon a transition plan that would allow for an earlier transition.

Compliance Report and Letter to those Charged with Governance (SAS 122)

Independent auditors Deloitte and Touché, LLP identified one repeat compliance finding related to procurement, in which there was incomplete documentation to demonstrate full compliance with applicable procurement requirements. Audit Finding No. 2011-1 and No. 2012-1 remain uncorrected as of September 30, 2013. The Receiver disagreed with Audit Finding No. 2012-1.

The auditors also identified two repeat findings in a separate letter relative to formal policy on Allowance for Doubtful Accounts and encumbrances. The auditors recommended that a formal policy relative to the recognition of allowance for doubtful accounts be established. With regards to encumbrances, the audit stated that encumbrances under two fund accounts were understated by a net of \$9.8M either due to expired or invalid items. The auditors recommended reclassifications to correct the reserve, encumbrances be approved and reviewed for ongoing pertinence and reserves be recorded based on the contract amounts.

The auditors proposed nine audit adjustments resulting in an increase in fund balance of \$761K of which \$722K pertained to increased revenues. Additionally, there were six uncorrected misstatements, which would have decreased fund balance by \$4K and decreased revenues by \$48K.

For a more detailed discussion on Government of Guam Solid Waste Funds (GGSWF)'s operations, refer to the Management's Discussion and Analysis or view the reports in their entirety at our website at www.guamopa.org.



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Tamuning, GU 96913-3911
USA

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August 22, 2014

Honorable Eddie Baza Calvo
Governor of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds") as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon date August 22, 2014.

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 September 12, 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 year ended September 30, 2013 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 year ended September 30, 2013 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.

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

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. No significant accounting estimates are reflected in the Funds' 2013 financial statements.

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 Appendix A to Attachment I, 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.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Attachment II and are reflected in the 2013 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Funds' 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2013.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, 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.

**OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED,
OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Office of the Governor.

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 I, a copy of the representation letter we obtained from management.

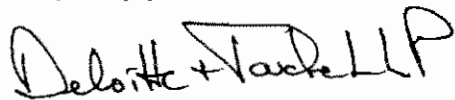
CONTROL-RELATED MATTERS

We have issued a separate report to you, dated August 22, 2014, on the Funds' internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have identified and included in Attachment III, certain deficiencies related to the Funds' internal control over financial reporting that we identified during our audit.

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,

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



Eddie Baza Calvo
Governor
Ray Tenorio
Lt. Governor

Government of Guam
(Gubetnomention Guahan)
Department of Administration
(Dipattamenton Atmenestration)
DIRECTOR'S OFFICE
(Ufisinan Direktot)

Post Office Box 884 Hagatña, Guam 96932



Benita A. Mangiona
Director
John A.B. Pangellnan
Deputy Director

August 22, 2014

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING GU, 96913

We are providing this letter in connection with your audits of the balance sheets of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds"), as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balances for the years ended September 30, 2013 and 2012, 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 sheets and the related statements 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 and implementation 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 American Institute of Certified Public Accountants disclosure checklist for State and Local Governments.

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 Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (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. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - f. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
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 Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A and for all funds administered by the Government of Guam relating to the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (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 Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (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 Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A.
4. We believe the effects of any uncorrected financial statement misstatements 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 has been attached as Appendix A.
5. The Government of Guam has not performed a risk assessment, including the assessment of the risk that the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (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 Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A are materially misstated as a result of fraud.
6. 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 Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A.
7. 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.

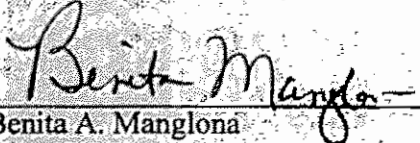
8. There are no unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Government Accounting Standards Board (GASB) Codification of Government Account and Financial Report Standards ("GASB Codification") Section C50, *Claims and Judgments*. We did not utilize the services of legal counsel with respect to litigation, claims or assessments through the date of this letter.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. 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.
11. We are responsible for the fair presentation of the additional information accompanying the basic financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (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 \$80,000 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 basic financial statements.

12. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
13. The Government of Guam has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
14. 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.
15. 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.

16. 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.
17. 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 GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 7 to the financial statements.
18. 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 except as disclosed in note 3 to the financial statements.
19. The Government of Guam has complied with all aspects of contractual agreements that may have an effect on the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A in the event of noncompliance.
20. No department or agency of the Government of Guam has reported a material instance of noncompliance to us.
21. Except as disclosed in note 9 to the financial statements, no events have occurred after September 30, 2013 but before August 22, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
22. 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 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.

23. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification 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 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. Management has disclosed whether, subsequent to September 30, 2013, 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.
25. 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, 2013 and before August 22, 2014, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
26. Management of the Funds believe that it is in compliance with all significant limitations and restrictions of the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A bond covenants as of September 30, 2013.
27. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
28. 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
 Director


 Kathrine B. Klakig
 Financial Manager

APPENDIX A

CURRENT YEAR UNCORRECTED MISSTATEMENTS				
Entry Description	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
SOLID WASTE OPERATIONS FUND:				
To correct understatement of interest income	60,190			(60,190)
To correct overstatement of allowance for doubtful debts	72,033			(72,033)
To correct overstatement of SWMA expenditures	39,814			(39,814)
To correct overstatement of tipping fees receivable	(108,498)			108,498
CAPITAL PROJECTS FUND:				
To correct understatement of retention payable		(30,897)		30,897
To correct understatement of other liabilities and accruals		(36,215)		36,215
Total Misstatements	63,539	(67,122)		3,573

Journal Entries - AJE

#	Name	Debit	Credit
1 AJE To take up Fund 254 adjustments			
125410701	LANDFILL SEC 30 CONSTRUCTION	-	49,481.82
325464101	INTEREST ON BANK DEPOSITS	132,815.35	-
125414100	DUE TO/FR GENERAL FUND	-	700,351.97
125410150	PREPAYMENTS	-	43,433.08
325450100	TRANSFER IN GF	-	13,600.00
325464103	GAIN (LOSS) ON INVESTMENT	109,251.77	-
5254D0910CDCE201230	LANDFILL CONSTRUCTION	438,342.98	-
254-290DSF	TRANSFERS OUT TO DEBT SERVICE FUND	128,556.57	-
		<u>808,766.67</u>	<u>808,766.67</u>
	To adjust BOG construction account to agree to investment statement.		
2 AJE To adjust receiver fees payable			
125421590	ACCRUED EXPENDITURES	335,246.47	-
5254D0910CDCE201230	LANDFILL CONSTRUCTION	-	335,246.47
		<u>335,246.47</u>	<u>335,246.47</u>
	To adjust receiver fees payable to agree to confirmation from Receiver.		
3 AJE To take up unrecorded payables			
5254D0910CDCE201230	LANDFILL CONSTRUCTION	197,924.00	-
125421110A	CONTRACTS PAYABLE	-	197,924.00
		<u>197,924.00</u>	<u>197,924.00</u>
	To accrue payable to Maeda Corporation: ref billing for Harmon Residential transfer station period:09/01/2013-09/30/2013.		
4 AJE To adjust receivable balance			
141612101	A/R - S.W. TIPPING FEES	177,565.81	-
141624315	DEFERRED REVENUE	901,656.05	-
DTT2	Revenue adjustments	-	1,079,221.86
		<u>1,079,221.86</u>	<u>1,079,221.86</u>
	To adjust receivables and deferred revenue per GL to agree to receivables and deferred revenue per subledger.		
5 AJE To adjust payable to Far East			
141621590	ACCRUED EXPENDITURES	521,323.62	-
5416D0910CDCE203240	SWMA OPERATIONS	-	521,323.62
		<u>521,323.62</u>	<u>521,323.62</u>
	To adjust payable to Far East Equipment.		
6 AJE To take up unrecorded cash account			
DTT2	Revenue adjustments	-	56,194.55
141610422DTT	BOG Solid Waste Tipping Fees (acct: xx7011)	56,194.55	-
		<u>56,194.55</u>	<u>56,194.55</u>
	To take up unrecorded Solid Waste Tipping fees cash account.		
7 AJE To record HCPS expenditures			
DTT5	Host Community Premium Benefits	313,561.94	-
DTT6	Host Community Premium Benefits payable	-	168,669.38
DTT7	Other Accrued expenses	-	146,892.56
		<u>313,561.94</u>	<u>313,561.94</u>
	To record Host Community Premium Surcharge benefits for FY 2013.		
8 AJE To adjust receiver fees payable			
141621110B	RECEIVER FEES PAYABLE	4,360.88	-
5416D0910CDCE203230	SWMA OPERATIONS	-	4,360.88
		<u>4,360.88</u>	<u>4,360.88</u>
	To adjust receiver fees payable under Operations Fund.		

ATTACHMENT II, CONTINUED

Journal Entries - AJE

#	Name	Debit	Credit
	\$ AJE To adjust DSF balances		
10000A	Transfers in from General Fund		15,672,706.00
20000B	Debt Service - Interest	11,062,706.28	
136314100	DUE TO/FR GENERAL FUND	195,655.09	
336350254	Transfers in From Landfill Capital Projects Fund		128,558.57
336554101	INTEREST ON BANK DEPOSITS		62,127.63
336354103	GAIN (LOSS) ON INVESTMENT	121,238.87	
136310704	LOB SEC 30 03A - DSF		1,442.97
136310213	LANDFILL SEC 30 09 BOND RES FD		124,764.85
20000A	Debt Service - Principal	4,590,000.00	
		<u>15,989,598.02</u>	<u>15,989,598.02</u>
	To adjust DSF GL balances to audited balances		

I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2013. The adjustments are the result of errors and are not the result of fraud or illegal acts.


 Kathrine B. Kakig
 Financial Manager

SECTION I – DEFICIENCIES

We identified, the following deficiencies involving the Solid Waste Funds' internal control over financial reporting for the year ended September 30, 2013 that we wish to bring to your attention at this time:

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.

2. Encumbrances

During tests of encumbrances, the following were noted:

- a. Of ten encumbrances aggregating \$13,607,494 tested under Fund 416, six items did not agree to audit expectations by \$1,393,643 either due to expired or invalid items. An audit reclassification was proposed to decrease the reserve.
- b. Encumbrances aggregating \$4,018,837 under Fund 254 as of September 30, 2013 were overstated by \$2,141,437 either due to expired or invalid items. An audit reclassification was proposed to correct the reserve.
- c. Encumbrances associated with two contracts were understated by \$13,307,276. An audit reclassification was proposed to correct the reserve.

<u>Contract#</u>	<u>Particulars</u>	<u>Understatement</u>
C110601722	Waste hauling services	\$ 4,510,506
C110601741	Landfill operations	<u>8,796,770</u>
		\$ <u>13,307,276</u>

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

SECTION II – DEFINITIONS

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.

The definition of a deficiency is as follows:

A deficiency in internal control over financial reporting 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.



**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, 2013 AND 2012

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Year Ended September 30, 2013
Table of Contents

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

INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the Funds), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A, as of September 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

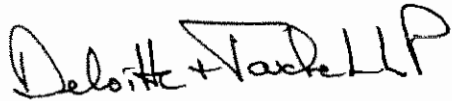
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The schedule of expenditures by object, schedule of billings and collections and schedule of capital projects and information on pages 23 through 25, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The schedule of employees and other data on page 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2014, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

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

August 22, 2014

GOVERNMENT OF GUAM SOLID WASTE FUNDS

Management's Discussion and Analysis September 30, 2013 and 2012

Our discussion and analysis of the Government of Guam ("GovGuam") Solid Waste Funds ("GGSWF") financial performance provides an overview of the GGSWF's financial activities for the fiscal years ended September 30, 2013 and 2012. 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, 2013, total fund balance decreased by \$7,240,360 (or 7.5%) from a fund balance of \$96,512,950 in 2012 to a fund balance of \$89,272,590 in 2013,
- During the years ended September 30, 2013 and 2012, total combined expenditures for governmental fund operations were \$41,764,850 and \$35,774,802, respectively, including expenditures recorded or payments relating to capital projects of \$8,811,400 and \$7,644,264, respectively; debt service requirements of \$15,672,706 and \$11,197,456, respectively; and receiver fee expenditures of \$1,494,431 and \$1,650,689, respectively. These expenditures were funded, in part, by the generation of tipping fees revenues during the years ended September 30, 2013 and 2012 of \$18,698,981 and \$16,398,446, respectively; investment earnings of \$478,575 and \$522,915 in 2013 and 2012, respectively, and a transfer from GovGuam's General Fund during the years ended September 30, 2013 and 2012 of \$15,672,706 of \$6,036,440, respectively for debt service.
- Total combined expenditures increased by \$5,990,048 (or 16.7%) from 2013 to 2012 due primarily to an increase in debt service requirements of \$4,475,250 and increase in capital projects expenditures of \$1,148,575. Total combined revenues increased by \$11,046,812 (or 47.1%) from 2013 to 2012 due primarily to an increase in tipping fees revenues of \$2,614,097 (or 15.9%) and an increase in transfers in from GovGuam's General Fund of \$9,636,266 (or 159.6%).
- Since debt service payments started back in fiscal year 2011, Solid Waste Operations Fund has shortchanged reimbursements to General Fund by \$19,265,884.
- During the years ended September 30, 2013 and 2012, the Solid Waste Operations Fund generated operating surplus of \$2,682,724 and \$445,402, respectively. Tipping fees revenues recorded by the Solid Waste Operations Fund were \$18,698,981 in 2013, an increase of \$2,300,535 (or 14.0%) compared to the previous year. Expenditures recorded by the Solid Waste Operations Fund were \$16,389,933 in 2013, an increase of \$366,283 (or 2.3%) compared to the previous year due primarily to payments to the Host Community Premium Benefits of \$313,562 to compensate the villages of Inarajan and Ordot where solid waste management facilities, such as sanitary landfills are located.
- During the years ended September 30, 2013 and 2012, receiver fees paid to Gershman, Brickner & Bratton (the "Receiver") were \$1,494,431 and \$1,650,689 respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2013 total \$12,893,557.

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 (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, 2013 and 2012

2. Overview of the Financial Statements, Continued

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's 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. 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, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Cash and cash equivalents	\$ 11,467,164	\$ 8,385,803	\$ 5,677,761
Receivables	3,933,617	4,482,013	3,614,602
Due from General Fund	-	861,379	2,896,335
Restricted assets	<u>95,204,440</u>	<u>103,532,436</u>	<u>107,544,719</u>
Total assets	<u>\$ 110,605,221</u>	<u>\$ 117,261,631</u>	<u>\$ 119,733,417</u>
Liabilities:			
Contracts payable	\$ 2,975,227	\$ 2,444,437	\$ 1,581,678
Retention payable	450,196	372,275	1,742,497
Host community premium benefits payable	313,562	-	-
Due to General Fund	16,493,737	15,672,706	6,036,440
Other liabilities	<u>1,099,909</u>	<u>2,259,263</u>	<u>1,562,728</u>
Total liabilities	<u>21,332,631</u>	<u>20,748,681</u>	<u>10,923,343</u>
Fund balances	<u>89,272,590</u>	<u>96,512,950</u>	<u>108,810,074</u>
Total liabilities and fund balances	<u>\$ 110,605,221</u>	<u>\$ 117,261,631</u>	<u>\$ 119,733,417</u>

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Management's Discussion and Analysis
September 30, 2013 and 2012

3. Financial Statement Analysis, Continued

Total assets decreased by \$6,656,410 (or 5.7%) from \$117,261,631 in 2012 to \$110,605,221 in 2013. Total liabilities increased by \$583,950 (or 2.8%) from \$20,748,681 in 2013 to \$21,332,631 in 2012. These increases were primarily the result of increases in contracts payable and host community premium benefits payable.

Total fund balances decreased by \$7,240,360 (or 7.5%) from \$96,512,950 in 2012 to \$89,272,590 in 2013. 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 Services. As of September 30, 2013 and 2012, fund balances are restricted in the amounts of \$77,003,740 and \$86,110,550, respectively.

Statement of Revenues, Expenditures and Changes in Fund Balances

The Statement of Revenues, Expenditures and Changes in Fund Balances shows 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, 2013 and 2012 are summarized as follows.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Tipping fees	\$ 18,698,981	\$ 16,398,446	\$ 13,855,171
Host community premium surcharge fee	313,562	-	-
Investment (losses) earnings	(174,259)	1,029,292	866,471
Transfers in from General Fund	<u>15,686,206</u>	<u>6,045,940</u>	<u>7,310,429</u>
	<u>34,524,490</u>	<u>23,477,678</u>	<u>22,032,071</u>
Expenditures:			
Current:			
General government	1,494,431	1,650,689	2,811,271
Environmental protection	10,975,654	10,785,296	6,052,192
Capital projects	8,811,400	7,644,264	29,930,460
Debt service	15,672,706	11,197,456	11,197,456
Host community premium benefits	313,562	-	-
Transfers out to General Fund	<u>4,497,097</u>	<u>4,497,097</u>	<u>3,747,580</u>
	<u>41,764,850</u>	<u>35,774,802</u>	<u>53,738,959</u>
Net change in fund balances	\$ <u>(7,240,360)</u>	\$ <u>(12,297,124)</u>	\$ <u>(31,706,888)</u>

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Management's Discussion and Analysis
September 30, 2013 and 2012

3. Financial Statement Analysis, Continued

In 2009, GovGuam issued Limited Obligation (Section 30) Bonds for the purpose of constructing a new landfill, closure of Ordot Dump, prepaying a bank loan and funding capitalized interest. As a result, net bond proceeds amounted to \$196,781,996.

Total revenues increased by \$11,046,812 (or 47.1%) from \$23,477,678 for 2012 to \$34,524,490 for 2013. These increases were primarily the result of General Fund's share for Debt Service of \$11,175,609 exceeded Budget Law amount of \$3,692,212 by \$7,473,397. In addition, GovGuam's share of debt service expects to increase in fiscal year 2014 as the Receiver suspended debt service reimbursements to the General Fund effective May 2014.

Total expenditures increased by \$5,990,048 (or 16.7%) from \$35,774,802 for 2012 to \$41,764,850 for 2013. The increase in 2013 was the result of increased debt service requirements from \$11,197,456 (interest only) in 2012 to \$15,672,706 (interest of \$11,082,706 and principal of \$4,590,000) in 2013.

The Solid Waste Operations Fund is the chief operating fund of GGSWF. As of September 30, 2013, the Solid Waste Operations Fund has a fund balance of \$13,895,746 as compared with the prior year fund balance of \$11,213,022, an increase in performance of \$2,682,724 (or 23.9%). This current year operational surplus was primarily the result of the increase in tipping fees revenues of \$2,614,097, which include \$313,562 Host Community Surcharge fees assessed by the Guam Solid Waste Authority (GSWA) beginning October 1, 2012 to compensate the villages of Inarajan and Ordot where solid waste management facilities are located.

Operating expenditures slightly increased by \$366,283 in 2013 due mainly to costs associated with the host community premium benefits.

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 \$73,241,693. The new landfill consists of up to eleven cells with a capacity in excess of 15.8 million cubic yards and is expected to service the island of Guam for 50 years.

Long Term Debt

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Management's Discussion and Analysis
September 30, 2013 and 2012

4. Capital Assets and Long-Term Debt, Continued

Ordot Dump

In accordance with the 2004 Consent Decree jointly filed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Justice, GovGuam was required to close Ordot Dump and open a new landfill. Due to delays in meeting stipulated deadlines under the Consent Decree, the U.S. District Court of Guam placed the Solid Waste Division of GovGuam's Department of Public Works in Receivership. The Receiver has been tasked by the U.S. District Court with bringing GovGuam into compliance with the Consent Decree, including environmental closure of Ordot Dump in compliance with the engineering standards and regulations required by the U.S. EPA. On August 31, 2011, Ordot Dump was finally closed to the public. The Receiver continues engineering design work to ensure that Ordot Dump is closed in a manner that protects both human and environmental health. GovGuam has reported an amount of \$51,574,121 as landfill closure and post closure care liability at September 30, 2013 within GovGuam's government-wide financial statements, representing the cumulative amount reported based on 100 percent capacity for Ordot Dump. This amount is based on what it would cost to perform all closure and post closure care in 2013. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

5. Outlook, Challenges and Opportunities

In December 2013, GGSWF has entered into a number of contractual arrangements to GHD Inc. for construction management services of the Ordot Dump Closure Construction project and to Black Construction Corporation for the Ordot Dump Closure and Dero Road Improvements.

The Receiver has developed three rate options for presentation to the Gnam 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	\$7.50 / \$ 15	\$7.50 / \$ 15	\$7.50 / \$ 15
Cost to GovGuam	\$ 7,483,397	\$ -	\$ 11,737,208

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

** Assumes approval of a second landfill.

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Management's Discussion and Analysis
September 30, 2013 and 2012

5. Outlook, Challenges and Opportunities, Continued

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 GGSWOF to increase the monthly reimbursement from \$374,758 to \$998,374, an increase of approximately \$7.5 million annually. Under this option, commercial rates would rise more than 30% and residential rates would rise to \$35 per month in 2013; \$40 per month in 2014; and \$45 per month in 2015, at which time reevaluation of the rates would need to be considered.

Instead GovGuam continues to receive the same monthly reimbursement of \$374,758 as opposed to the required \$998,374 for fiscal year 2013. In 2014, the situation worsens as GGSWF suspended monthly reimbursements to the General Fund effective May 2014. Accumulated total amounts due to the General Fund for debt service payment reimbursements for periods fiscal year 2011 to fiscal year 2013 total to \$19,265,884.

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.

The Receiver expects the Government of Guam to pay over \$200 million of expenditures outside the Consent Decree. Estimated unfunded projects through FY2025 of \$50 million were identified by the Receiver. These projects include post closure costs of Ordot Dump of \$14.3 million, new cells for the Layon Landfill of \$10.6 million, \$5.3 million to close two cells, and \$19.9 million for other related projects. Due to these unfunded projects, reimbursements to General Fund of \$150 million for debt service payments were suspended forcing the General Fund to pick up the tab. Additionally, General Fund is expected to assume \$29.1 million for the Layon Landfill Land, which continues to accrue interest. Altogether, the aggregate unfunded amounts to approximately \$229.3 million.

6. Contacting Government of Guam Financial Management

The Management's Discussion and Analysis report is intended to provide information concerning known facts and condition affecting GGSWF's operations. This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GGSWF's finances and to demonstrate GGSWF's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the years ended September 30, 2012 and 2011 is set forth in GGSWF's report on the audit of financial statements which is dated September 9, 2013. The Discussion and Analysis explains in more detail major factors impacting the 2012 and 2011 financial statements.

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, 2013 and 2012

	2013				2012			
	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	\$ 11,467,164	\$ -	\$ -	\$ 11,467,164	\$ 8,385,803	\$ -	\$ -	\$ 8,385,803
Restricted assets:								
Cash and cash equivalents	1,697,639	11,710,968	15,672,535	29,081,142	810,622	9,082,301	-	9,892,923
Investments	-	48,937,283	17,186,015	66,123,298	-	60,643,810	32,995,703	93,639,513
Receivables, net:								
Tipping fees	3,445,373	-	-	3,445,373	3,837,219	-	-	3,837,219
Note	488,244	-	-	488,244	644,794	-	-	644,794
Due from General Fund	-	-	-	-	861,379	-	-	861,379
Total assets	\$ 17,098,420	\$ 60,648,251	\$ 32,858,550	\$ 110,605,221	\$ 14,539,817	\$ 69,726,111	\$ 32,995,703	\$ 117,261,631
LIABILITIES								
Accounts payable	\$ 40,198	\$ 10,476	\$ -	\$ 50,674	\$ 203,932	\$ -	\$ -	\$ 203,932
Contracts payable	1,238,229	1,736,998	-	2,975,227	1,287,400	1,157,037	-	2,444,437
Receiver fees payable	179,655	259,956	-	439,611	179,210	219,868	-	399,078
Retention payable	-	450,196	-	450,196	-	372,275	-	372,275
Host community premium benefits payable	313,562	-	-	313,562	-	-	-	-
Accrued payroll and other	40,809	-	-	40,809	29,229	-	-	29,229
Unaccrued revenue	568,815	-	-	568,815	1,627,024	-	-	1,627,024
Due to General Fund	821,406	-	15,672,331	16,493,737	-	-	15,672,706	15,672,706
Total liabilities	\$ 3,202,674	\$ 2,457,626	\$ 15,672,331	\$ 21,332,631	\$ 3,326,795	\$ 1,749,180	\$ 15,672,706	\$ 20,748,681
FUND BALANCES								
Fund balances:								
Restricted for:								
Capital projects	1,626,896	58,190,625	-	59,817,521	810,622	67,976,931	-	68,787,553
Debt service	-	-	17,186,219	17,186,219	-	-	17,322,997	17,322,997
Committed for:								
Solid waste operations	12,268,850	-	-	12,268,850	10,402,400	-	-	10,402,400
Total fund balances	\$ 13,895,746	\$ 58,190,625	\$ 17,186,219	\$ 89,272,590	\$ 11,213,022	\$ 67,976,931	\$ 17,322,997	\$ 96,512,950
Total liabilities and fund balances	\$ 17,098,420	\$ 60,648,251	\$ 32,858,550	\$ 110,605,221	\$ 14,539,817	\$ 69,726,111	\$ 32,995,703	\$ 117,261,631

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, 2013 and 2012

	2013				2012			
	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	\$ 18,698,981	\$ -	\$ -	\$ 18,698,981	\$ 16,398,446	\$ -	\$ -	\$ 16,398,446
Host community premium surcharge fees	313,562	-	-	313,562	-	-	-	-
Use of money and property	60,114	228,887	189,574	478,575	70,606	419,263	33,046	522,915
Net change in fair value of investments	-	(197,925)	(454,909)	(652,834)	-	183,214	323,163	506,377
Transfer in from General Fund	-	13,500	15,672,706	15,686,206	-	13,500	6,036,440	6,049,940
Total revenues	19,072,657	44,462	15,407,371	34,524,490	16,469,052	615,977	6,392,649	23,477,678
Expenditures:								
Current:								
General government	603,620	890,811	-	1,494,431	741,257	909,432	-	1,650,689
Environmental protection	10,975,654	-	-	10,975,654	10,785,296	-	-	10,785,296
Capital projects	-	8,811,400	-	8,811,400	-	7,644,264	-	7,644,264
Debt service:								
Principal	-	-	4,590,000	4,590,000	-	-	-	-
Interest	-	-	11,082,706	11,082,706	-	-	11,197,456	11,197,456
Host community premium benefits	313,562	-	-	313,562	-	-	-	-
Transfers out to General Fund	4,497,097	-	-	4,497,097	4,497,097	-	-	4,497,097
Total expenditures	16,389,933	9,702,211	15,672,706	41,764,850	16,023,650	8,553,696	11,197,456	35,774,802
Excess (deficiency) of revenues over (under) expenditures	2,682,724	(9,657,749)	(265,335)	(7,240,360)	445,402	(7,937,719)	(4,804,807)	(12,297,124)
Other financing sources (uses):								
Operating transfers in	-	-	128,557	128,557	-	-	22,127,804	22,127,804
Operating transfers out	-	(128,557)	-	(128,557)	-	(22,127,804)	-	(22,127,804)
Total other financing sources (uses), net	-	(128,557)	128,557	-	-	(22,127,804)	22,127,804	-
Net change in fund balances	2,682,724	(9,786,306)	(136,778)	(7,240,360)	445,402	(30,065,523)	17,322,997	(12,297,124)
Fund balances at the beginning of the year	11,213,022	67,976,931	17,322,997	96,512,950	10,767,620	98,042,454	-	108,810,074
Fund balances at the end of the year	\$ 13,895,746	\$ 58,190,625	\$ 17,186,219	\$ 89,272,590	\$ 11,213,022	\$ 67,976,931	\$ 17,322,997	\$ 96,512,950

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(I) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Fund Accounting

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

C. Measurement Focus and Basis of Accounting

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Tipping and associated fees imposed are as follows:

Commercial

Commercial haulers are billed per tonnage of trash. The rate per tonnage effective during fiscal years 2013 and 2012 is \$171.60.

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rate effective during fiscal years 2013 and 2012 per one 96-gallon cart is \$30.

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

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

Host Community Premium Surcharge

On July 16, 2010, the Guam Legislature passed Public Law 30-165 and amended by Public Law 32-021 on April 11, 2013, which determined that a "Host Community Premium" be awarded for the villages of Inarajan and Ordot in the annual amount of \$150,000 each. Pursuant to Public Law 30-165, as amended by Public law 32-021, and an Order by the Guam Public Utilities Commission on July 30, 2012, as amended on July 30, 2013, GSWA was authorized to assess Host Community Premium Surcharge (HCPS) fees of \$3.57 per ton for commercial, including government customers, and \$0.38 per month for residential customers beginning October 1, 2012. The HCPS fees were to compensate the villages of Inarajan and Ordot where solid waste management facilities, such as sanitary landfills, are located. During the year ended September 30, 2013, HCPS revenues amounted to \$313,562.

D. Budgetary Process

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(I) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents

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

F. Investments

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

G. Receivables and Allowance for Uncollectible Accounts

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

H. Interfund Receivables/Payables

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

I. Restricted Assets

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

J. Unearned Revenues

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

K. Fund Balance

Governmental fund balances are classified as follows:

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance, Continued

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

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

A formal minimum fund balance policy has not been adopted.

L. 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 2012 financial statements have been reclassified to conform with the 2013 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, 2013 and 2012

(2) Deposits, Continued

As of September 30, 2013 and 2012, the carrying amount of cash and cash equivalents were \$40,548,306 and \$18,278,726, respectively, and the corresponding bank balances were \$40,548,306 and \$18,278,726, respectively. Of the bank balance amounts, \$24,743,470 and \$18,256,452, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining balances of \$15,804,836 and \$22,274, 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, 2013 and 2012. As of September 30, 2013 and 2012, bank deposits in the amount of \$875,723 and \$878,321, 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>2013</u>	<u>2012</u>
Debt service	\$ 15,672,535	\$ -
Capital projects	11,710,968	9,082,301
Operations, maintenance, renewal and replacement reserve fund	1,626,896	810,622
Host community premium benefits	<u>70,743</u>	<u>-</u>
	<u>\$ 29,081,142</u>	<u>\$ 9,892,923</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, 2013 and 2012.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012, investments at fair value are as follows:

	<u>2013</u>	<u>2012</u>
Mutual funds	\$ <u>66,123,298</u>	\$ <u>93,639,513</u>

As of September 30, 2013 and 2012, these investments are restricted and available for the following purposes:

	<u>2013</u>	<u>2012</u>
Capital projects	\$ 48,937,283	\$ 60,643,810
Debt service	<u>17,186,015</u>	<u>32,995,703</u>
	\$ <u>66,123,298</u>	\$ <u>93,639,513</u>

(4) Receivables

Receivables as of September 30, 2013 and 2012, including allowances for uncollectible accounts, are as follows:

	<u>2013</u>	<u>2012</u>
Commercial	\$ 1,920,760	\$ 1,709,483
Residential	1,466,650	1,399,503
Government:		
Guam Waterworks Authority (GWA)	156,850	854,498
Other	112,336	84,958
Note	<u>488,244</u>	<u>644,794</u>
	<u>4,144,840</u>	<u>4,693,236</u>
Allowance for uncollectible accounts:		
Commercial	(58,757)	(58,757)
Residential	(105,493)	(105,493)
Government	<u>(46,973)</u>	<u>(46,973)</u>
	<u>(211,223)</u>	<u>(211,223)</u>
	\$ <u>3,933,617</u>	\$ <u>4,482,013</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, 2013 and 2012, the balance was \$488,244 and \$644,794, respectively, with a corresponding amount recorded as unearned revenue.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012, the GWA receivable was \$156,850 and \$854,498, respectively, with a corresponding amount recorded as unearned revenue of \$0 and \$854,498, respectively.

(5) Bonds Payable

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

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

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

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

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

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012

(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>
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	5,915,000	9,756,913	15,671,913
2018 – 2023	34,905,000	43,452,131	78,357,131
2024 – 2028	45,825,000	32,527,759	78,352,759
2029 – 2033	60,740,000	17,616,257	78,356,257
2034 – 2035	<u>29,615,000</u>	<u>1,727,443</u>	<u>31,342,443</u>
	<u>\$ 197,835,000</u>	<u>\$ 146,927,190</u>	<u>\$ 344,762,190</u>

During the years ended September 30, 2013 and 2012, payments for debt service totaled \$15,672,706 and \$11,197,456, respectively.

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 \$344,762,190 payable through December 2034. For the years ended September 30, 2013 and 2012, Section 30 revenues were \$96,104,113 and \$53,125,949, respectively.

At September 30, 2013 and 2012, fund balance of \$17,186,219 and \$17,322,997, respectively, is restricted for debt service purposes.

At September 30, 2013 and 2012, 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, 2013 and 2012, is summarized below:

	<u>2013</u>	<u>2012</u>
Transfers Out To:		
Debt Service Fund for:		
Bond reserve, debt service and capitalized interest investment accounts	\$ 128,557	\$ 18,065,367
Interest payment	<u> -</u>	<u>4,062,437</u>
	<u>\$ 128,557</u>	<u>\$ 22,127,804</u>
Transfers In From:		
Capital Projects Fund	\$ <u>128,557</u>	\$ <u>22,127,804</u>

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(7) Commitments and Contingencies

A. Landfill Closure and Postclosure Costs

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

On March 17, 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works (DPW) in Guam in Receivership. After receiving and reviewing qualifications information on firms presented by GovGuam and the U.S. Environmental Protection Agency, and conducting interviews and reference checks, the District Court Judge selected and appointed a receiver. The Receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of the Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW's Solid Waste Division. For the year ended September 30, 2013, recorded receiver fee expenditures were \$1,494,431 with accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2013 amount to \$12,893,557. 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 4, 2009, GovGuam issued \$202,425,000 in Limited Obligation Revenue Bonds for the purpose of financing facilities of the Solid Waste Management System of Guam. On August 31, 2011, the Ordot Dump was finally closed and the Layon landfill opened on September 1, 2011.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2013 and 2012

(7) Commitments and Contingencies, Continued

A. Landfill Closure and Postclosure Costs, Continued

State and federal laws and regulations require GovGuam to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure and post closure care costs reported as expenditures in the accompanying financial statements represents actual closure and post closure care costs incurred during fiscal years 2013 and 2012. The estimated landfill closure and post closure care liability at September 30, 2013 and 2012 is not included in the accompanying fund financial statements. Instead, GovGuam has reported an amount of \$53,508,046 and \$41,115,275 as landfill closure and post closure care liability at September 30, 2013 and 2012, respectively, within GovGuam's government-wide financial statements based on 100% capacity for Ordot Dump and \$1,933,924 reported based on the use of 1.78% of the estimated capacity of Layon landfill. The Layon landfill consists of up to eleven cells and has an estimated lifespan of 50 years. Currently, GovGuam is projected to utilizing two cells that together have a projected life of 10 years. GovGuam will recognize the remaining estimated cost of closure and postclosure care of \$106,713,510 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2013. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

B. Land Condemnation

On October 31, 2012, a Court Order was issued for the payment of approximately \$25,115,683 for the condemnation of land which encompasses the Layon landfill. As of September 30, 2013, \$3,410,000 had been deposited to the Court and distributed to landowners, and \$21,705,683 plus interest at 6% per annum calculated from January 24, 2008 of \$7,407,287 has yet to be made. GovGuam has negotiated long-term tax credit certificates with the landowners.

C. Contract Commitments

GGSWF have commitments under contracts at September 30, 2013 and 2012. As of September 30, 2013 and 2012, encumbrances associated with these contracts are as follows:

	<u>2013</u>	<u>2012</u>
Solid Waste Operations Fund	\$ 26,204,047	\$ 32,722,923
Capital Projects Fund	<u>3,485,579</u>	<u>3,720,870</u>
	<u>\$ 29,689,626</u>	<u>\$ 36,443,793</u>

(8) Major Customers

During the years ended September 30, 2013 and 2012, two commercial customers accounted for 42% and 44%, respectively, of total tipping fees revenues.

(9) Subsequent Events

In December 2013, GGSWF entered into two contracts totaling \$47,010,908 for the construction of the environmental closure of the Ordot Dump and Dero Road Sewer Improvements, and associated construction management services.

GOVERNMENT OF GUAM
SOLID WASTE FUNDS
 Schedule of Expenditures by Object
 Years Ended September 30, 2013 and 2012

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund		Totals	
	2013	2012	2013	2012	2013	2012	2013	2012
Personnel costs:								
Salaries and wages	\$ 1,058,836	\$ 1,171,869	-	-	-	-	\$ 1,058,836	\$ 1,171,869
Overtime	50,284	58,803	-	-	-	-	50,284	58,803
Fringe benefits	400,080	411,461	-	-	-	-	400,080	411,461
Total personnel costs	1,509,200	1,642,133	-	-	-	-	1,509,200	1,642,133
Receiver fees:								
Labor costs	519,318	644,269	766,362	789,976	-	-	1,285,680	1,434,245
Other	84,302	96,988	124,449	119,456	-	-	208,751	216,444
Total receiver fees	603,620	741,257	890,811	909,432	-	-	1,494,431	1,650,689
Contract services:								
Landfill operations	3,491,178	3,139,355	-	-	-	-	3,491,178	3,139,355
Layon landfill	-	157,237	3,445,516	3,195,282	-	-	3,445,516	3,352,519
Waste hauling services	2,901,806	2,861,265	-	-	-	-	2,901,806	2,861,265
Closure and post closure costs	-	-	2,621,981	3,896,483	-	-	2,621,981	3,896,483
Transfer station	-	-	1,153,464	-	-	-	1,153,464	-
Personnel	863,923	866,728	-	-	-	-	863,923	866,728
Repairs and maintenance	775,588	956,034	-	-	-	-	775,588	956,034
Security services	89,504	176,169	171,993	111,573	-	-	261,497	287,742
Roll off containers	-	-	127,779	-	-	-	127,779	-
Professional fees	119,552	39,501	-	-	-	-	119,552	39,501
Other services	107,765	107,765	-	-	-	-	107,765	-
OrdDot Dump	25,298	38,968	-	-	-	-	25,298	38,968
Dump Closure Construction	-	-	19,604	24,807	-	-	19,604	24,807
Dump Closure Construction Management Ser.	-	-	3,000	240,057	-	-	3,000	240,057
Legal services	-	70,472	-	7,139	-	-	-	77,611
Other	254,773	183,669	69,833	55,465	-	-	324,606	239,134
Total contract services	8,629,387	8,489,398	7,613,170	7,530,806	-	-	16,242,557	16,020,204
Supplies and Materials:								
Fuel	302,786	310,748	-	-	-	-	302,786	310,748
Others	85,729	126,055	-	-	-	-	85,729	126,055
Total supplies and materials	388,515	436,803	-	-	-	-	388,515	436,803
Host community premium benefits	313,562	-	-	-	-	-	313,562	-
Capital outlay	239,468	-	1,198,230	113,458	-	-	1,437,698	113,458
Utilities	106,455	82,359	-	-	-	-	106,455	82,359
Principal	-	-	-	-	4,590,000	-	4,590,000	-
Interest	-	-	-	-	11,082,706	11,197,456	11,082,706	11,197,456
Miscellaneous	102,629	134,603	-	-	-	-	102,629	134,603
Transfers out to General Fund	4,497,097	4,497,097	-	-	-	-	4,497,097	4,497,097
Total	\$ 16,389,933	\$ 16,023,650	\$ 9,702,211	\$ 8,553,696	\$ 15,672,706	\$ 11,197,456	\$ 41,764,850	\$ 55,774,802

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Billings and Collections
Years Ended September 30, 2013 and 2012

	2013				2012
	Total	Host Community Premium Surcharge Fees	Net of Host Community Premium Surcharge Fees		
Billings:					
Commercial haulers	\$ 10,542,908	\$ 216,071	\$ 10,326,837	\$	10,665,428
Residential	5,985,792	75,148	5,910,644		6,045,842
Government	1,096,340	22,343	1,073,997		348,583
Total billings	<u>\$ 17,625,040</u>	<u>\$ 313,562</u>	<u>\$ 17,311,478</u>	<u>\$</u>	<u>17,059,853</u>
Collections:					
Commercial haulers	\$ 10,211,256	\$ 179,429	\$ 10,031,827	\$	10,551,306
Residential	6,079,768	60,381	6,019,387		5,972,841
Government	1,761,349	17,426	1,743,923		52,801
Transfer stations	298,279	-	298,279		352,865
Other charges	58,931	-	58,931		57,432
Total collections	<u>\$ 18,409,583</u>	<u>\$ 257,236</u>	<u>\$ 18,152,347</u>	<u>\$</u>	<u>16,987,245</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Capital Projects
Year Ended September 30, 2013

Project	Total Contract	Expenditures for the Year Ended September 30, 2013	Cumulative Expenditures as of September 30, 2013	Outstanding Encumbrances as of September 30, 2013
A. Capital Projects With Original Contract Date of September 30, 2013 and prior:				
Layout Landfill:				
Entrance Area Facilities and Cells 1 and 2 Construction	\$ 25,375,436	\$ 1,133,095	\$ 25,169,589	\$ 205,847
Access Road and Sewer System Construction	28,369,411	85,434	28,360,499	8,912
Groundwater Quality Monitoring Technical Assistance Services	2,572,102	673,144	2,262,585	309,517
Construction Management Services	6,375,284	1,044,022	6,809,817	(434,533)
Engineering Design Services	10,124,332	11,369	9,545,747	578,585
	<u>72,816,565</u>	<u>2,947,064</u>	<u>72,148,237</u>	<u>668,328</u>
Ordot Dump:				
Closure and Post-Closure Plans Preparation	7,691,828	3,043,118	6,906,090	785,738
Dump Closure - Land acquisition	1,198,230	1,198,230	1,198,230	-
	<u>8,890,058</u>	<u>4,241,348</u>	<u>8,104,320</u>	<u>785,738</u>
Other Capital Projects:				
Harmon Residential Transfer Station	2,410,000	378,488	378,488	2,031,512
Subtotal	<u>\$ 84,116,623</u>	<u>\$ 7,566,900</u>	<u>\$ 80,631,045</u>	<u>\$ 3,485,578</u>
B. Capital Projects With Original Contract Date after September 30, 2013:				
Ordot Dump:				
Dump Closure Construction	\$ 40,536,977	\$ -	\$ -	\$ -
Dump Closure Construction Management Services	6,473,931	-	-	-
Subtotal	<u>\$ 47,010,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 131,127,531</u>	<u>\$ 7,566,900</u>	<u>\$ 80,631,045</u>	<u>\$ 3,485,578</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Employees and Other Data
September 30, 2013 and 2012

	2013	2012
<u>Full Time Employees:</u>		
Administrative Support	3	4
Residential Collection	32	17
Convenience Center/Transfer Stations	2	15
Total employee count	37	36
Total personnel costs	\$ 1,509,200	\$ 1,642,133
<u>Contract services</u>		
Administrative Support	12	13
Sanitation Workers	8	9
Total employee count	20	22
Total personnel costs	\$ 863,923	\$ 866,728

See accompanying independent auditors' report.

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

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the "Funds") which comprise the balance sheet as of and for the year ended September 30, 2013, and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated August 22, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

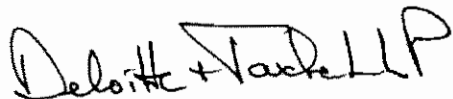
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2013-1.

The Funds' Response to Finding

The Funds' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Funds' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

August 22, 2014

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses
Years Ended September 30, 2013

Finding No. 2013-1 - 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.
- b. 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.
- c. Relevant documentation such as memos or equivalent indicating the history of procurement as well as rationale of the contractor/vendor selection for one item relating to contract services was not available.
- d. 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, 2013

Finding No. 2013-1 – 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 2012 and 2011.

Auditee Response and Corrective Action Plan:

As stated in prior audits, we concur 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.

With respect to the procurements for temporary personnel and technical services (i.e. Pacific Human Resource Services and EA Engineering, Science & Technology) these contracts were entered by the Receiver under the authority granted to the Receiver in the Court's Order dated March 17, 2008. These contracts have been vital to the work of the Receivership, were required to remain in effect in order to expedite the work of the Receivership. The Court authorized the Receiver to depart from adherence to Guam's procurement laws and regulations when, in the judgment of the Receiver, expeditious compliance with the Consent Decree required it.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Unresolved Prior Year Findings
Year Ended September 30, 2013

Unresolved Prior Year Findings

As of September 30, 2013, the status of all audit findings included in the Schedule of Findings and Responses as of September 30, 2012 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2013-1.

Finding No. 2012-1 – Not corrected. See corrective action plan to Finding No. 2013-1.