

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

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

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

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**YEAR ENDED SEPTEMBER 30, 2018**

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Year Ended September 30, 2018  
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## **INDEPENDENT AUDITORS' REPORT**

Honorable Lou Leon Guerrero  
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, 2016 Series A (the Funds), which comprise the balance sheet as of September 30, 2018, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A, as of September 30, 2018, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### *Reporting Entity*

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A and are not intended to present fairly the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

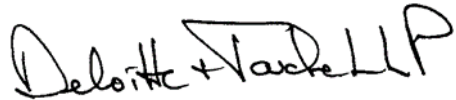
### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of the Funds' management. The 2018 information on pages 21 through 24 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the 2018 information on pages 21 through 24 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The 2017 information on pages 21 through 24 as well as the additional information on page 25 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2019, 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 solely 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 the effectiveness of the Funds' internal control over financial 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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

April 16, 2019

**GOVERNMENT OF GUAM  
SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis  
September 30, 2018 and 2017

Our discussion and analysis of the Government of Guam ("GovGuam") Solid Waste Operations Fund ("GGSWOF") financial performance provides an overview of the GGSWOF's financial activities for the fiscal years ended September 30, 2018 and 2017. Please read it in conjunction with the GGSWOF's financial statements, which follow this section.

**1. Financial Highlights**

- For the fiscal year ended September 30, 2018, total fund balance decreased by \$3,769,250 (or 11.1%) from a fund balance of \$33,883,849 in 2017 to a fund balance of \$30,114,599 in 2018.
- During the years ended September 30, 2018 and 2017, total combined expenditures for governmental fund operations were \$40,077,931 and \$34,325,267, respectively, including expenditures recorded or payments relating to capital projects of \$5,994,527 and \$8,350,132, respectively; debt service requirements of \$14,069,250 and \$10,907,876, respectively; and receiver fee expenditures of \$1,573,154 and \$1,602,172, respectively. These expenditures were funded, in part, by the generation of tipping fees revenues during the years ended September 30, 2018 and 2017 of \$19,324,305 and \$19,247,539, respectively; and a transfer from GovGuam's General Fund during the years ended September 30, 2018 and 2017 of \$16,913,240 and \$7,249,025, respectively, for debt service.
- Total combined expenditures increased by \$5,752,664 (or 16.8%) from 2017 to 2018 due, in part, to the \$3,161,374 increase in debt service payments. Total combined revenues increased by \$9,773,574 (or 36.8%) from 2017 to 2018 due primarily to the increase in transfers from the General Fund for debt service of \$9,664,215 (or 133%).
- During the years ended September 30, 2018 and 2017, the Solid Waste Operations Fund generated operating deficits of \$6,663,143 and \$3,595,058, respectively. Tipping fees revenues recorded by the Solid Waste Operations Fund were \$19,324,305 in 2018, an increase of \$76,766 (or 0.4%) compared to the previous year. Expenditures recorded by the Solid Waste Operations Fund were \$26,008,681 in 2018, an increase of \$3,136,213 (or 13.7%) compared to the previous year.
- During the years ended September 30, 2018 and 2017, receiver fees paid to Gershman, Brickner and Bratton (the Receiver) were \$1,573,154 and \$1,602,172, respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2018 total \$20,837,926.

**2. Overview of the Financial Statements**

The GGSWOF's financial statements include all of the activities of the Solid Waste Operations Fund and funds related to the Limited Obligation (Section 30) Bonds, 2016 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.

GGSWOF'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 GGSWOF financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measureable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

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SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis  
September 30, 2018 and 2017

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 GGSWOF's assets, liabilities and fund balance at year-end. A condensed summary of GGSWOF's balance sheet is shown below as of September 30, 2018 and 2017.

	2018	2017	Total Percentage Change 2018-2017
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 7,908,706	\$ 14,926,613	-47.0%
Tipping fees receivable	3,128,908	2,916,076	7.3%
Restricted assets	25,068,805	23,229,819	7.9%
<b>Total assets</b>	<b>\$ 36,106,419</b>	<b>\$ 41,072,508</b>	<b>-12.1%</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 572,502	\$ 260,033	120.2%
Contracts payable	2,595,137	3,961,300	-34.5%
Payable to receiver	703,485	732,524	-4.0%
Retention payable	316,496	982,275	-67.8%
Host Community benefits payable	91,301	88,500	3.2%
Accrued payroll and other	102,707	64,870	58.3%
Due to General Fund	1,610,192	1,099,157	46.5%
<b>Total liabilities</b>	<b>5,991,820</b>	<b>7,188,659</b>	<b>-16.6%</b>
<b>FUND BALANCES:</b>			
Restricted	25,047,009	22,704,748	10.3%
Committed	5,067,590	11,179,101	-54.7%
<b>Total fund balance</b>	<b>30,114,599</b>	<b>33,883,849</b>	<b>-11.1%</b>
	<b>\$ 36,106,419</b>	<b>\$ 41,072,508</b>	<b>-12.1%</b>

Total assets decreased by \$4,966,089 (or 12.1%) during 2018 from \$41,072,508 to \$36,106,419. Total liabilities decreased by \$1,196,839 (or 16.6%) during 2018 from \$7,188,659 to \$5,991,820.

Total fund balances decreased by \$3,769,250 (or 11.1%) during 2018 from \$33,883,849 to \$30,114,599. 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, 2016 Series A, wherein these funds are restricted for future debt service.

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenses and changes in fund balances shows the effect of revenues and expenditures on GGSWOF's fund balance for the year. GGSWOF's statements of revenues, expenses and changes in fund balances for the years ended September 30, 2018 and 2017 are summarized as follows.

**GOVERNMENT OF GUAM  
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Management's Discussion and Analysis  
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	2018	2017	Total Percentage Change 2018-2017
<b>REVENUES:</b>			
Tipping fees	\$ 19,324,305	\$ 19,247,539	0.4%
Use of money and property	71,136	38,479	84.9%
Net change in fair value of investments	-	64	-100.0%
Transfer in from General Fund	16,913,240	7,249,025	133.3%
<b>Total revenues</b>	<b>36,308,681</b>	<b>26,535,107</b>	<b>36.8%</b>
<b>EXPENDITURES:</b>			
Current:			
General government	1,675,985	1,691,791	-0.9%
Environmental protection	17,990,975	12,895,420	39.5%
Capital projects	5,994,527	8,350,132	-28.2%
Debt service	14,069,250	10,907,876	29.0%
Host Community premium benefits	347,194	480,048	-27.7%
<b>Total expenditures</b>	<b>40,077,931</b>	<b>34,325,267</b>	<b>16.8%</b>
<b>Net change in fund balance</b>	<b>\$ (3,769,250)</b>	<b>\$ (7,790,160)</b>	<b>-51.6%</b>

Total revenues increased by \$9,773,574 (or 36.8%) from \$26,535,107 for 2017 to \$36,308,681. This increase was primarily due to an increase of transfers in from the General Fund for debt service of \$9,664,215.

Total expenditures increased by \$5,752,664 (or 16.8%) from \$34,325,267 for 2017 to \$40,077,931 for 2018. The increase was, in part, the result of an increase in debt service expenditures of \$3,161,374 (or 29%) from \$10,907,876 in 2017 to \$14,069,250 in 2018 as well as an increase of operational costs of \$5,095,555 (or 39.5%) from \$12,895,420 in 2017 to \$17,990,975. This increase was due, in part, to the acquisition of 9 rear loaders at a cost of \$2,621,608 and a \$1,039,200 court settlement. On March 29, 2018, a stipulated judgment was entered ordering GSWA to pay property owners of a 43,000 square meter property taken through eminent domain a total amount of \$2,350,885 plus any interest accrued on the \$460,800 deposited in the court by GSWA. A total amount of \$1,039,200 was paid in cash on April 4, 2018. The balance of \$850,885 of the judgment was converted into tax credits to the property owners.

Long Term Debt

In August 2016, GovGuam issued Limited Obligation (Section 30) 2016 Series A Bonds in the amount of \$236,605,000. Proceeds are primarily to be used for: (1) to refund all the outstanding GovGuam Limited Obligation (Section 30) Bonds, Series 2009A; (2) refinancing all the outstanding Series 2013B Guam Education Financing Foundation II, Inc. Certificates of Participation (Okkodo High School Expansion Project); (3) financing certain capital costs for Guam Memorial Hospital Authority, refinancing of GMHA Bank of Guam Loan and paying vendor accounts payable for 2016 and 2017 and other bond expenses. The 2016A Bonds are to be paid solely from and secured by a pledge of Section 30 Revenues.

For additional information related to long-term debt, refer to note 5 to the financial statements.



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Management's Discussion and Analysis  
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**4. Outlook, Challenges and Opportunities**

Extension of the Federal Receivership

On December 26, 2018, Guam Solid Waste Authority (GSWA) filed a report with the U.S. District Court of Guam informing the Court that the Board had hired a new Controller and had made an offer of employment to a new General Manager who was expected to take up his position in mid February. The Court also ordered U.S. Environmental Protection Agency, GSWA Board, Guam Environmental Protection Agency and the Receivership to file certain reports by February 22, 2019.

On March 07, 2019, the Court held a Hearing which anticipated the termination of the Federal Receivership and the transfer of GSWA's operations and management from the Receivers to the Board. The Court scheduled a further Hearing on April 10, 2019.

Capital Projects

During the year ended September 30, 2018, the Receiver completed these capital projects which the Court had ordered should be finalized: Dero Road repair and refurbishment and the upgrade of the Malojloj and Agat Residential Transfers Stations together with the closure of the Dededo Transfer Station, which will be transferred back to the Chamorro Land Trust.

Contracts

The Receiver has recommended the engagement of a Trustee to regulate the contractor, engineer and funding associated with past closure activities for the Ordot Dump. The Court is assessing the need and composition of such a Trustee.

The Receiver developed two rate options for presentation to the Guam Public Utilities Commission. Each option provides for adequate funding for GGSWOF for 2013 and thereafter. These options are outlined in the following table:

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

\*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.

Based on the Receiver's determination, the Current Rate option is adequate to provide for the operation of GGSWOF through 2019. The current rate can be maintained beyond 2019 if GovGuam does not seek to obtain reimbursement from GSWA for the debt service paid from Federal Section 30 funds. If however, GovGuam seeks reimbursement from GSWA for that portion of the debt service of Section 30 funds, it will need to adopt the full government reimbursement rate. To date, no action has been taken to adopt a new rate for GSWA.

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SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis  
September 30, 2018 and 2017

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

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GGSWOF's finances and to show the GGSWOF's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Edward M. Birn, Director, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1101/1250, Facsimile: (671) 477-6788; Website address: [www.doa.guam.gov](http://www.doa.guam.gov).

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Balance Sheet  
September 30, 2018

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 7,908,706	\$ -	\$ -	\$ 7,908,706
Restricted assets:				
Cash and cash equivalents	8,076,806	-	84	8,076,890
Investments	-	22,096	16,969,819	16,991,915
Receivables:				
Tipping fees	3,128,908	-	-	3,128,908
Total assets	\$ 19,114,420	\$ 22,096	\$ 16,969,903	\$ 36,106,419
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 572,502	\$ -	\$ -	\$ 572,502
Contracts payable	2,595,137	-	-	2,595,137
Payable to receiver	703,485	-	-	703,485
Retention payable	316,496	-	-	316,496
Host Community Premium Benefits payable	91,301	-	-	91,301
Accrued payroll and other	102,707	-	-	102,707
Due to General Fund	1,588,396	21,796	-	1,610,192
Total liabilities	5,970,024	21,796	-	5,991,820
Commitments and contingencies				
<b><u>FUND BALANCES</u></b>				
Fund balances:				
Restricted for:				
Capital projects	8,076,806	300	-	8,077,106
Debt service	-	-	16,969,903	16,969,903
Committed for:				
Solid waste operations	5,067,590	-	-	5,067,590
Total fund balances	13,144,396	300	16,969,903	30,114,599
Total liabilities and fund balances	\$ 19,114,420	\$ 22,096	\$ 16,969,903	\$ 36,106,419

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended September 30, 2018

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Tipping fees	\$ 18,977,111	\$ -	\$ -	\$ 18,977,111
Host Community Premium Surcharge fees	347,194	-	-	347,194
Use of money and property	21,233	300	49,603	71,136
Transfer in from General Fund	-	-	16,913,240	16,913,240
Total revenues	19,345,538	300	16,962,843	36,308,681
Expenditures:				
Current:				
General government	1,675,985	-	-	1,675,985
Environmental protection	17,990,975	-	-	17,990,975
Capital projects	5,994,527	-	-	5,994,527
Debt service:				
Principal	-	-	2,380,000	2,380,000
Interest	-	-	11,689,250	11,689,250
Host Community Premium Benefits	347,194	-	-	347,194
Total expenditures	26,008,681	-	14,069,250	40,077,931
Net change in fund balances	(6,663,143)	300	2,893,593	(3,769,250)
Fund balances at the beginning of the year	19,807,539	-	14,076,310	33,883,849
Fund balances at the end of the year	\$ 13,144,396	\$ 300	\$ 16,969,903	\$ 30,114,599

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

The Government of Guam (GovGuam) Solid Waste Operations Fund, created by Public Law 24-272, was established 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. On August 17, 2016, the Limited Obligation (Section 30) Bonds, 2009 Series A were refunded through issuance of Limited Obligation (Section 30) Bonds, 2016 Series A. The Capital Projects Fund is used to account for the closure of the Ordot Dump and the construction of a new landfill from bond proceeds. 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, 2016 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 are generally 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  
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Notes to Financial Statements  
September 30, 2018

(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 is \$171.60.

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rate per one 96-gallon cart is \$30. Further, residential customers are billed \$15 per month for every additional 96-gallon cart. Residential customers bringing their household trash to the transfer stations are assessed the following fees: (a) \$7.50 up to three cubic yards, and (b) \$15 from three up to a maximum of six cubic yards.

Host Community Premium Surcharge

On July 16, 2010, the Guam Legislature passed Public Law 30-165, amended by Public Law 32-021 on April 11, 2013, which determined that a "Host Community Premium" be awarded for the villages of Inarajan and Ordot in the annual amount of \$150,000 each. Pursuant to Public Law 30-165, as amended by Public law 32-021, and an Order by the Guam Public Utilities Commission on July 30, 2012, as amended on July 30, 2013, GSWA was authorized to assess Host Community Premium Surcharge (HCPS) fees of \$3.57 per ton for commercial, including government customers, and \$0.38 per month for residential customers beginning October 1, 2012. The HCPS fees were to compensate the villages of Inarajan and Ordot where solid waste management facilities, such as sanitary landfills, are located. During the year ended September 30, 2018, HCPS revenues were \$347,194.

D. Budgetary Process

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

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

E. Cash and Cash Equivalents

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

**GOVERNMENT OF GUAM  
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Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

GovGuam categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

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, 2016 Series A, requires amounts to be restricted for capital projects and debt service. These amounts have been classified as restricted assets.

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

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

J. Fund Balance, Continued

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.

K. Encumbrances

Encumbrance accounting is utilized to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2018, significant encumbrances are summarized as follows:

Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
\$ <u>394,274</u>	\$ <u>                  -</u>	\$ <u>                  -</u>	\$ <u>394,274</u>

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. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A, for the year ended September 30, 2017 from which summarized information was derived.

(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.



**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(2) Deposits, Continued

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

As of September 30, 2018, the carrying amount of cash and cash equivalents was \$15,985,596 and the corresponding bank balances were \$15,985,535, of which \$15,850,612 was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018, bank deposits in the amount of \$621,638 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 the following purposes:

Operations, maintenance, renewal and replacement reserve fund	\$ 8,076,806
Debt service	<u>84</u>
	<u>\$ 8,076,890</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 the investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees in accordance with the bond indenture for the purpose of funding various capital projects and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2018.

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, 2018, investments measured at the NAV are as follows:

Mutual funds	\$ <u>16,991,915</u>
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Restricted investments consist of funds restricted for the following purposes:

Debt service	\$ 16,969,819
Capital projects	<u>22,096</u>
	<u>\$ 16,991,915</u>

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(4) Receivables

Receivables as of September 30, 2018, including allowances for uncollectible accounts, are as follows:

Commercial	\$ 1,775,196
Residential	2,256,949
Government:	
Guam Waterworks Authority (GWA)	369,276
Other	<u>55,599</u>
	4,457,020
Allowance for uncollectible accounts	<u>(1,328,112)</u>
	\$ <u>3,128,908</u>

(5) Bonds Payable

The Limited Obligation (Section 30) Bonds, 2016 Series A (original issue of \$236,605,000, dated August 17, 2016) have varying interest rates at 2% - 5% per annum, payable semiannually on June 1 and December 1, principal fund payments due in varying annual installments commencing with a payment of \$1,630,000 on December 1, 2016 and increasing to a final payment of \$4,435,000 on December 1, 2046. The bonds were issued for the purpose of refunding the 2009 Limited Obligation (Section 30) Bonds and to provide additional proceeds to fund non-landfill related costs of GovGuam, 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 2016 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, as amended and restated by an Amended and Restated Indenture dated August 1, 2016. Under the Indenture, GovGuam appointed a Trustee, Co-Trustee and Depositary for the Bonds and a Paying Agent and registrar for the Bonds. The Bonds are payable entirely from a first lien and pledge of Section 30 revenues. Section 30 revenues are amounts received by or on behalf of GovGuam or the Trustee from the United States as proceeds of custom duties, federal income taxes and any other taxes derived from Guam.

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.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(5) Bonds Payable, Continued

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

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

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

- 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.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(5) Bonds Payable, Continued

- . 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.

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>
2019	\$ 5,410,000	\$ 11,494,500	\$ 16,904,500
2020	9,860,000	11,112,750	20,972,750
2021	10,375,000	10,606,875	20,981,875
2022	10,915,000	10,074,625	20,989,625
2023	11,475,000	9,514,875	20,989,875
2024 - 2028	50,210,000	39,976,500	90,186,500
2029 - 2033	63,515,000	25,922,375	89,437,375
2034 - 2038	37,900,000	11,169,750	49,069,750
2039 - 2043	16,460,000	6,258,500	22,718,500
2044 - 2047	<u>16,475,000</u>	<u>1,699,125</u>	<u>18,174,125</u>
	<u>\$ 232,595,000</u>	<u>\$ 137,829,875</u>	<u>\$ 370,424,875</u>

During the year ended September 30, 2018, payments for debt service totaled \$14,069,250.

GovGuam has pledged a portion of future General Fund Section 30 revenues to repay \$236,605,000 in limited obligation bonds issued in August 2016. 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 \$370,424,875 payable through December 2046. For the year ended September 30, 2018, principal and interest paid and total Section 30 revenues were \$14,069,250 and \$77,795,541, respectively.

At September 30, 2018, fund balance of \$16,969,903 is restricted for debt service purposes.

At September 30, 2018, GovGuam management is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(6) Commitments and Contingencies

A. Receiver Appointment

On February 11, 2004, GovGuam and the U.S. Environmental Protection Agency 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, 2018, recorded receiver related expenditures were \$1,573,154 with accumulated receiver related expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2018 amount to \$20,837,926. Of this amount, \$3,848,700 was funded by the General Fund and the remaining was funded from solid waste operations. The District Court maintains a separate trust account from which Receiver fees are paid. Accordingly, timing differences occur between GovGuam records and the fees actually paid and payable to the Receiver by the District Court of Guam.

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

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

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Notes to Financial Statements  
September 30, 2018

(6) Commitments and Contingencies, Continued

B. Land Condemnation

On October 31, 2012, a Court Order was issued for the payment of approximately \$25,115,683 for the condemnation of land which encompasses the Layon landfill. A payment of \$3,410,000 was deposited to the Court and distributed to the landowners, with the remaining balance of \$21,705,683 plus interest at 6% per annum calculated from January 24, 2008 to be made. GovGuam negotiated long-term tax credit certificates with certain landowners. During the year ended September 30, 2018, tax credits in the amount of \$758,062 were redeemed in lieu of payments associated with this Court Order. As of September 30, 2018, the outstanding liability associated with these tax credits is \$3,639,101, and which is reported as a liability within GovGuam's government-wide financial statements.

C. Contract Commitments

GovGuam has commitments under certain significant contracts at September 30, 2018. As of September 30, 2018, encumbrances associated with these contracts total \$394,274.

D. Litigation

GSWA is party to various legal proceedings. Certain existing litigation as of September 30, 2018 have subsequently reached tentative settlements subject for approval.

(7) Major Customers

During the year ended September 30, 2018, one commercial customer accounted for approximately 28% of total tipping fees revenues.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Comparative Balance Sheets  
September 30, 2018 and 2017

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2018	2017	2018	2017	2018	2017
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 7,908,706	\$ 14,926,613	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	8,076,806	8,628,438	-	502,974	84	84
Investments	-	-	22,096	22,097	16,969,819	14,076,226
Receivables, net:						
Tipping fees	3,128,908	2,916,076	-	-	-	-
Total assets	<u>\$ 19,114,420</u>	<u>\$ 26,471,127</u>	<u>\$ 22,096</u>	<u>\$ 525,071</u>	<u>\$ 16,969,903</u>	<u>\$ 14,076,310</u>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 572,502	\$ 260,033	\$ -	\$ -	\$ -	\$ -
Contracts payable	2,595,137	3,961,300	-	-	-	-
Receiver fees payable	703,485	732,524	-	-	-	-
Retention payable	316,496	982,275	-	-	-	-
Host community premium benefits payable	91,301	88,500	-	-	-	-
Accrued payroll and other	102,707	64,870	-	-	-	-
Due to General Fund	1,588,396	574,086	21,796	525,071	-	-
Total liabilities	<u>5,970,024</u>	<u>6,663,588</u>	<u>21,796</u>	<u>525,071</u>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES</u></b>						
Fund balances:						
Restricted for:						
Capital projects	8,076,806	8,628,438	300	-	-	-
Debt service	-	-	-	-	16,969,903	14,076,310
Committed for:						
Solid waste operations	5,067,590	11,179,101	-	-	-	-
Total fund balances	<u>13,144,396</u>	<u>19,807,539</u>	<u>300</u>	<u>-</u>	<u>16,969,903</u>	<u>14,076,310</u>
Total liabilities and fund balances	<u>\$ 19,114,420</u>	<u>\$ 26,471,127</u>	<u>\$ 22,096</u>	<u>\$ 525,071</u>	<u>\$ 16,969,903</u>	<u>\$ 14,076,310</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balances  
Years Ended September 30, 2018 and 2017

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2018	2017	2018	2017	2018	2017
Revenues:						
Tipping fees	\$ 18,977,111	\$ 18,897,740	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	347,194	349,799	-	-	-	-
Use of money and property	21,233	29,871	300	1,284	49,603	7,324
Net change in fair value of investments	-	-	-	(40)	-	104
Transfer in from General Fund	-	-	-	-	16,913,240	7,249,025
Total revenues	<u>19,345,538</u>	<u>19,277,410</u>	<u>300</u>	<u>1,244</u>	<u>16,962,843</u>	<u>7,256,453</u>
Expenditures:						
Current:						
General government	1,675,985	1,270,678	-	421,113	-	-
Environmental protection	17,990,975	12,895,420	-	-	-	-
Capital projects	5,994,527	8,226,322	-	123,810	-	-
Debt service:						
Principal	-	-	-	-	2,380,000	1,630,000
Interest	-	-	-	-	11,689,250	9,277,876
Host Community Premium Benefits	347,194	480,048	-	-	-	-
Total expenditures	<u>26,008,681</u>	<u>22,872,468</u>	<u>-</u>	<u>544,923</u>	<u>14,069,250</u>	<u>10,907,876</u>
Net change in fund balances	(6,663,143)	(3,595,058)	300	(543,679)	2,893,593	(3,651,423)
Fund balances at the beginning of the year	<u>19,807,539</u>	<u>23,402,597</u>	<u>-</u>	<u>543,679</u>	<u>14,076,310</u>	<u>17,727,733</u>
Fund balances at the end of the year	<u>\$ 13,144,396</u>	<u>\$ 19,807,539</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 16,969,903</u>	<u>\$ 14,076,310</u>

See accompanying independent auditors' report.



**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balances  
Years Ended September 30, 2018 and 2017

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2018	2017	2018	2017	2018	2017
Revenues:						
Tipping fees	\$ 18,977,111	\$ 18,897,740	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	347,194	349,799	-	-	-	-
Use of money and property	21,233	29,871	300	1,284	49,603	7,324
Net change in fair value of investments	-	-	-	(40)	-	104
Transfer in from General Fund	-	-	-	-	16,913,240	7,249,025
Total revenues	19,345,538	19,277,410	300	1,244	16,962,843	7,256,453
Expenditures:						
Salaries and wages - regular	1,355,143	1,031,937	-	-	-	-
Salaries and wages - overtime	65,713	101,933	-	-	-	-
Fringe benefits	506,121	390,809	-	-	-	-
Contractual services	18,706,529	19,682,719	-	392,123	-	-
Supplies	652,348	420,550	-	-	-	-
Equipment	31,186	20,015	-	-	-	-
Utilities - power and water	158,493	77,195	-	-	-	-
Capital outlays	4,060,537	570,812	-	152,800	-	-
Principal retirement	-	-	-	-	2,380,000	1,630,000
Interest and fiscal charges	-	-	-	-	11,689,250	9,277,876
Host Community Premium Benefits	347,194	480,048	-	-	-	-
Miscellaneous	125,417	96,450	-	-	-	-
Total expenditures	26,008,681	22,872,468	-	544,923	14,069,250	10,907,876
Net change in fund balances	(6,663,143)	(3,595,058)	300	(543,679)	2,893,593	(3,651,423)
Fund balances at the beginning of the year	19,807,539	23,402,597	-	543,679	14,076,310	17,727,733
Fund balances at the end of the year	\$ 13,144,396	\$ 19,807,539	\$ 300	\$ -	\$ 16,969,903	\$ 14,076,310

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Comparative Schedule of Receivables, Revenues and Collections  
Years Ended September 30, 2018 and 2017

	2018	2017
Receivables:		
Commercial haulers	\$ 1,775,196	\$ 1,838,145
Residential	2,256,949	1,889,306
Government	<u>424,875</u>	<u>516,737</u>
	4,457,020	4,244,188
Allowance for uncollectible accounts	<u>(1,328,112)</u>	<u>(1,328,112)</u>
	<u>\$ 3,128,908</u>	<u>\$ 2,916,076</u>
Revenues:		
Commercial haulers	\$ 9,892,593	\$ 10,034,123
Residential	7,064,968	6,773,268
Government	1,610,955	1,759,153
Transfer stations	338,090	310,671
Other	<u>70,505</u>	<u>195,611</u>
	18,977,111	19,072,826
Bad debt expense	<u>-</u>	<u>(175,086)</u>
Total revenues	<u>\$ 18,977,111</u>	<u>\$ 18,897,740</u>
Collections:		
Commercial haulers	\$ 10,192,215	\$ 10,642,872
Residential	7,068,439	6,762,818
Government	1,697,976	1,575,909
Transfer stations	392,075	310,671
Other	<u>70,505</u>	<u>61,775</u>
Total collections	<u>\$ 19,421,210</u>	<u>\$ 19,354,045</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Comparative Schedule of Employees and Other Data  
Years Ended September 30, 2018 and 2017

	2018	2017
<u>Full Time Employees:</u>		
Employee count:		
Administrative Support	12	5
Residential Collection	22	18
Convenience Center/Transfer Stations	5	5
Total employee count	39	28
Personnel costs:		
Salaries and wages - regular	\$ 1,355,143	\$ 1,031,937
Salaries and wages - overtime	65,713	101,933
Fringe benefits	506,121	390,809
Total personnel costs	\$ 1,926,977	\$ 1,524,679
<u>Contract services:</u>		
Employee count:		
Administrative Support	7	7
Sanitation Workers	24	26
Total employee count	31	33
Total personnel costs	\$ 1,287,178	\$ 1,262,605

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 Lou Leon Guerrero  
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A (the "Funds") which comprise the balance sheet as of and for the year ended September 30, 2018, and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated April 16, 2019.

### **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.

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**

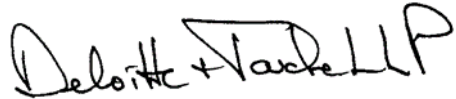
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2018-001.

## Solid Waste Operations Fund Response to Findings

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

### Purpose of this Report

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

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

April 16, 2019

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Findings and Responses  
Year Ended September 30, 2018

Finding No. 2018-001

Procurement

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

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

In addition, local procurement regulations Article 9 Subarticle A, Section 5425 (g) states that in the event of a timely protest under Subsection (a) of this Section or under Subsection (a) of § 5480 of this Chapter, the Territory shall not proceed further with the solicitation or with the award of the contract prior to final resolution of such protest, and any such further action is void, unless under specific circumstances provided in this Subsection (g).

Condition:

During the year ended September 30, 2018, local funds of \$1,287,178 were utilized for Solid Waste Management Division expenditures, which did not demonstrate competitive procurement (ie., sole source procurement) or which were procured through a possible inappropriate procurement method. A summary of these services is as follows:

Temporary staffing services for the Guam Solid Waste Authority	\$ 1,213,306
Independent contractor services as the Guam Solid Waste Authority Customer Service Supervisor	<u>73,872</u>
	\$ <u>1,287,178</u>

Cause: The lack of internal control policies to facilitate potential compliance with Guam procurement requirements.

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

Recommendation: We recommend that the department or agency responsible for procuring goods or services under the Solid Waste Operations Fund follow established procurement regulations consistently for all procurements. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

Prior Year Status: Lack of compliance with Guam procurement requirements was reported as a finding in prior audits as items 2013-1, 2014-001, 2015-001, 2016-001 and 2017-001.

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No. 2018-001, Continued

Auditee Response and Corrective Action Plan: With respect to the audit finding, if the Office of the Attorney General was of the opinion that the Receiver was in compliance with Guam and Federal laws in taking the procurement action it did, Department of Administration has no opinion on the finding. DOA, however, is concerned that any procurement decision taken under the original Court Order should continue to be covered by that Order when and if the Receivership has been terminated.

The Receiver continues to strongly disagree with this finding. Compliance should always be evaluated for compliance with the procedures authorized by the legal authority that exists at the time the issues subject to the finding actually occurred. Since March 17, 2008, when the United States District Court of Guam placed the Government of Guam's Solid Waste Program into receivership, the legal authority under which the program is governed was modified by the terms of the District Court's Order placing the program into receivership and the Court's subsequent orders to effectuate the receivership.

In its initial Order, the Court provided the Receiver with the following power and authority:

"IT IS ORDERED that the Receiver shall have full power and authority to enforce the terms of the Consent Decree, and assume all of the responsibilities, functions, duties, powers and authority of the Solid Waste Management Division of the Department of Public Works, and any and all departments, or other divisions of the Department of Public Works insofar as they affect the Government of Guam's compliance with the Consent Decree."

The Court further stated:

"IT IS FURTHER ORDERED that the Receiver shall have the authority required or necessary for the complete management and control of the Consent Decree projects, including but not limited to:..... The entering into future contracts deemed necessary. In awarding any future contracts, the Receiver shall follow the procedures required in Guam's statutes and regulations, unless, in the best judgment of the Receiver, such compliance would unreasonably delay the progress in meeting the mandates of the Consent Decree {emphasis added};"

Among the areas the Court specifically enumerated to which this authority applies include:

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

A copy of the District Court's Order appointing the Receiver is attached for your review.

It should be noted that the above authority granted to the Receiver by the District Court authorizes the Receiver to invoke this authority using its "best judgement" without the prior review or approval of the District Court. In a related procurement matter, the District Court recently sustained the Receiver's use of this authority and confirmed that it did not require the Court's prior approval or review" (see attached Order dated 1-27-2017).

**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No. 2018-001, Continued

Auditee Response and Corrective Action Plan, Continued:

With respect to the matters cited by the finding, we were advised to use this authority by the Office of the Attorney General of Guam. The letter from the Deputy Attorney General is attached and it concludes "If the Receiver deems it necessary to hire its own employees to handle Consent Decree matters or contract with other entities to handle Consent Decree matters, it can do so pursuant to and in compliance with Guam and federal laws." The District Court was fully informed of the actions we took in these contract matters and of our use of the above cited authority. The renewal of these agreements has also been accomplished through the Receiver's exercise of this authority. To have subjected these matters to periodic rebidding was simply not practical and would have clearly been disruptive to and unreasonably delayed compliance with the Consent Decree. The Receiver is clearly authorized to make such a determination under the explicit authority referenced above.

After an initial effort to procure vitally needed equipment was delayed by protest, the Receiver invoked its authority to depart from Guam's procedures, cancelling the procurement and issuing a new procurement under the Receiver's authority. In the new procurement, the Receiver's authority was clearly stated, and while protests were allowed, it was explicitly stated that the Receiver's decision on any protest was final. The Government of Guam did not challenge our actions but a vendor did protest. The protest was considered by the Receiver and dismissed by the Receiver. The procurement was then concluded.

After the procurement was concluded, the vendor filed an appeal with the Office of the Public Auditor. The Public Auditor was without authority to hear this appeal.

In a subsequent but related matter, the same issue was again presented by the by the same vendor in a procurement for new trucks. Given the persistence of the vendor and the Public Auditor, the Receiver decided to seek clarification through the District Court to ensure that the Receiver's actions were proper. After hearing arguments from all parties, including the vendor, the District Court issued a formal Order sustaining the Receiver's use of its authority and affirming that the Receiver needed no prior review or approval from the District Court to exercise this authority (see the aforementioned Order dated 1-27-2017).

The vendor appealed the District Court's ruling to the U.S. Ninth Circuit Court of Appeals and requested a stay to prevent the Receiver from going forward with the procurement. The Court of Appeals denied this request and allowed the Receiver to complete the procurement. It could not be clearer that the Receiver handled this procurement properly under the legal authority that was applicable at the time the procurement occurred. There is simply no basis for this finding.

It should also be noted that Guam Law has now been changed to allow these workers to continue to be employed by GSWA in the post-receivership. I am attaching a copy of Public Law 34-58 (see the highlighted portion).



**GOVERNMENT OF GUAM  
SOLID WASTE FUNDS**

Unresolved Prior Year Findings  
Year Ended September 30, 2018

Unresolved Prior Year Findings

As of September 30, 2018, the status of all audit findings included in the Schedule of Findings and Responses as of September 30, 2018 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2018-001.

Finding No. 2012-1 – Not corrected. See corrective action plan to Finding No. 2018-001.

Finding No. 2013-1 – Not corrected. See corrective action plan to Finding No. 2018-001.

Finding No. 2014-001 – Not corrected. See corrective action plan to Finding No. 2018-001.

Finding No. 2015-001 – Not corrected. See corrective action plan to Finding No. 2018-001.

Finding No. 2016-001 – Not corrected. See corrective action plan to Finding No. 2018-001.

Finding No. 2017-001 – Not corrected. See corrective action plan to Finding No. 2018-001.