

*Financial Statements, Required Supplementary
Information, and Supplementary and Other Information*

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

*Year ended September 30, 2022
with Report of Independent Auditors*



Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Financial Statements, Required Supplementary Information,
and Supplementary and Other Information

Year ended September 30, 2022

Contents

Report of Independent Auditors	1
Management’s Discussion and Analysis	5
Audited Basic Financial Statements	
Statement of Net Position	23
Statement of Revenues, Expenses and Changes in Net Position	25
Statement of Cash Flows	27
Notes to Financial Statements	29
Required Supplementary Information	
Schedule 1 – Schedule of Proportionate Share of the Net Pension Liability – Defined Benefit Plan	66
Schedule 2 – Schedule of Proportionate Share of the Net Pension Liability – Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees	67
Schedule 3 – Schedule of Proportionate Share of the Net Pension Liability – Ad Hoc COLA Plan for DCRS Retirees	68
Schedule 4 – Schedule of Pension Contributions	69
Schedule 5 – Schedule of Proportionate Share of the Total OPEB Liability	70
Schedule 6 – Schedule of OPEB Contributions	71
Schedule 7 – Notes to Required Supplementary Information	72
Supplementary and Other Information	
Schedule 8 – Schedule of Certain Operating and Maintenance Expenses	73
Schedule 9 – Schedule of Construction Work in Progress	74
Schedule 10 – System Development Charge Fund Schedules of Net Position, Revenue, Expenses and Changes in Net Position	75
Schedule 11 – Schedule of Operating Revenues	76
Schedule 12 – Schedule of Employee and Other Data	77



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Report of Independent Auditors

Commissioners
Consolidated Commission on Utilities

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Guam Waterworks Authority (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority at September 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 22 as well as the Schedules of Proportionate Share of the Net Pension Liability on pages 66 through 68, the Schedule of Pension Contributions on page 69, the Schedule of Proportionate Share of the Total OPEB Liability on page 70, the Schedule of OPEB Contributions on page 71, and the Notes to Required Supplementary Information on page 72 be presented to supplement the financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Certain Operating and Maintenance Expenses, the Schedule of Construction Work in Progress, the Schedules of Net Position, Revenue, Expenses and Changes in Net Position for the System Development Charge Fund, and the Schedule of Operating Revenues on pages 73 through 76 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 standards generally accepted in the United States of America. In our opinion, the Schedule of Certain Operating and Maintenance Expenses, the Schedule of Construction Work in Progress, the Schedules of Net Position, Revenue, Expenses and Changes in Net Position for the System Development Charge Fund, and the Schedule of Operating Revenues are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the Schedule of Employee and Other Data on page 77 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2023, on our consideration of the Authority's 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 Authority's 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 Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

August 18, 2023

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis

Years Ended September 30, 2022 and 2021

As management of the Guam Waterworks Authority (GWA), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ending September 30, 2022. This discussion has been prepared by GWA management to provide an overview of the Authority's financial activities for the fiscal year (FY) ending September 30, 2022. It is based on the financial statements provided in the annual audit report. Selected comparable financial data from the prior year may also be provided.

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with GWA's basic financial statements and related notes to enhance understanding of the Authority's financial performance.

Introduction

Guam Waterworks Authority (GWA) provides water and wastewater services to the majority of Guam's civilian population and some military facilities. In 2002, pursuant to Public Law 26-76, the Authority was converted from a government agency to a Guam public corporation governed by the Consolidated Commission on Utilities (CCU).

The CCU is an elected non-partisan body with five staggered positions. The five-member commission assumed policy responsibility and decision-making authority over GWA operations. Their roles include the development of operating and financial budgets and overall management strategy and direction. Two seats will be up for election on November 8, 2024. The CCU hires the General Manager, the Legal Counsel, and the Chief Financial Officer for GWA. The CCU also oversees the Guam Power Authority (GPA).

GWA's main offices are co-located with GPA at the Gloria B. Nelson Public Service Building in Fadian, Mangilao. Satellite offices in Hagåtña and Upper Tumon serve both GWA and GPA customers. Operations and Maintenance personnel also work out of water and wastewater treatment plants as well as field offices in various locations. At the end of FY2022, GWA had a staff of 366 full-time equivalent (FTE) employees.

GWA owns and operates a variety of facilities that provide water and wastewater services. These facilities represent a significant investment of ratepayer funds and include substantial visible and underground infrastructure assets. The condition and performance of GWA's existing utility system assets were reviewed in the 2018 Water Resources Master Plan Update; the next update to the Master Plan is scheduled to be completed in FY2023.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Introduction, continued

Water sources on the island of Guam include groundwater, surface water, and springs. Groundwater supplies about 90 percent of the drinking water for Guam's residents and visitors. Deep wells are used to extract groundwater for use. GWA owns 120 wells, of which 95 were operational (though all were not in use) on September 30, 2022. GWA's water system includes a network of transmission and distribution pipelines, booster pump stations, pressure regulating valve stations, reservoirs, tanks, and fire hydrants, all supporting the agency's effort to provide more efficient and reliable service to its customers while meeting regulatory requirements. At the end of FY2022, GWA had over 43,400 water customers.

GWA provides wastewater services for Guam's general population, Andersen Air Force Base, and other military installations in Northern Guam. At the end of FY2022, GWA had more than 30,600 wastewater customers. The wastewater system is separated into seven wastewater basins, served by six wastewater treatment plants, and an extensive collection system. The GWA wastewater collection systems are comprised of gravity sewer pipes, manholes, pump stations, ejector stations, force mains, and siphons.

GWA has undergone a significant transformation over the last several years by working to improve its management and operations through streamlining expenditures, decreasing leak repair times, implementing a meter replacement program, launching a computerized maintenance management system that includes mobile capabilities, and upgrading its financial management system. These efforts have all contributed to significantly improved operating results despite the need for cost containment and deferred maintenance given the effect of the COVID pandemic on the economy.

Regulatory Oversight

The Guam Public Utilities Commission (PUC) has the responsibility and authority to regulate rates set by GWA as well as approve all revenue-funded contracts over \$1 million. The PUC is governed by seven commissioners who serve six-year terms under appointment by the Governor and confirmation by the legislature.

On July 6, 2019, GWA petitioned the PUC for approval of the Five-Year Financial Plan and rate relief spanning FY2020 through FY2024. The PUC approved GWA Docket 19-08 on February 27, 2020, approving 5% rate increases effective March 1, 2020, and October 1, 2020, substantially less than the requested rate relief. Additionally, GWA was required to provide a comprehensive review and update of the financial plan for FY2022 -FY2024 along with an updated rate model on or before May 1, 2021. The PUC also required that the update be informed by a number of analytical studies. The studies, due on March 31, 2021, included demand forecasting, water loss reduction, cost-of-service, rate design, affordability, capital financing alternatives, capitalized labor, and cesspool and septic tank elimination.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Regulatory Oversight, continued

The studies, updated financial plan, and rate model were filed as required; the impact of the COVID-19 pandemic on customer demand and revenues was also taken into consideration in the update of the financial plan. However, PUC action on the requested rate increases did not take place until September 2022 resulting in no rate increases for FY2022 and 5.5% rate increases effective October 1, 2022, and October 1, 2023; the FY2024 increase is subject to a true-up projection which was provided, as required, on June 1, 2023. The requested change in rate design was not authorized in the rate order and the proposed Customer Assistance Program was deferred. GWA advised the PUC at the time of their action that the approved FY2024 increase would not likely be sufficient and a greater increase would be sought.

GWA must adhere to Guam and federal regulations for both water and wastewater treatment and services. Water standards are based on the requirements established by the Safe Drinking Water Act (SDWA), while wastewater treatment and disposal are governed by the Clean Water Act (CWA). The US Environmental Protection Agency (USEPA) issues NPDES (National Pollutant Discharge Elimination System) permits for GWA facilities when required and is responsible for monitoring its compliance. The Guam Environmental Protection Agency is the territorial agency in charge of monitoring GWA water system operations as well as SDWA compliance.

GWA is currently under a 2011 Court Order to address USEPA complaints and has completed all but one element, which involves repairing or replacing potable water reservoirs. In January 2021, the District Court approved a request to extend the deadline for completion of the projects to June 30, 2023. Because of the impacts to the construction capabilities on Guam resulting from the pandemic, global supply chain issues and related inflationary pressures, GWA has filed and was granted a request to extend the deadline to December 31, 2025.

In further regulatory enforcement efforts, over the last five years, GWA has been negotiating with USEPA on a consent decree to address its wastewater collection and conveyance systems; GWA believes these negotiations will conclude sometime in 2023.

Debt Service Coverage and Financing

As part of the PUC Docket 19-08, GWA agreed to work to harmonize the debt service coverage (DSC) policy requirements set by the CCU and the PUC and align the DSC calculation with bond covenants. GWA Resolution 17-FY2020 adopted a debt service coverage target of 1.4X for FY2021 and a near-term goal of 1.5X beginning in FY2022 calculated on the same basis as is called for in the GWA Revenue Bond Indenture and dissolved the Working Capital Reserves for Debt Services. However, in response to financial pressures created by the impacts of the global pandemic on Guam's economy, the PUC authorized a debt service coverage ratio of 1.3X for the remainder of the Five-year Financial Plan, i.e., through FY2024, in its September 2022 rate order.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Debt Service Coverage and Financing, continued

The PUC-mandated Capital Financing Alternatives Study recommended a Tax-Exempt Commercial Paper (TECP) Program to be used during initial construction periods to reduce interest expense. GWA has worked with bond counsel to propose legislation to establish a TECP Program. Additionally, the proposed legislation seeks to increase GWA's debt authorization in anticipation of issuance of a long-term, take-out bond to retire the short-term TECP. Additional financing will be required to address the consent decree requirements that have been proposed. GWA will work to get these pieces of legislation introduced and approved in the 37th Guam Legislature.

Rate Stabilization Fund

CCU Resolution 11-FY2021 authorized the establishment of a Rate Stabilization Fund to address the financial risk associated with utility operations and capital financing. A transfer in September 2021 of \$11.4 million previously in the dissolved Working Capital Reserves for Debt Services, was made to the Rate Stabilization Fund. Transfers of \$5.75 million from the Rate Stabilization Fund were made into the Operating Fund in FY2022 due to PUC inaction on GWA's requested rate increase as well as COVID-related impacts to revenues and inflationary effects on expenses.

Federal Assistance

US Department of Defense

GWA received \$173.2 million in grants from the U.S. Department of Defense Office of Economic Adjustment, renamed Office of Local Defense Community Cooperation (OLDCC), to make water and wastewater system improvements related to the Marine relocation from Okinawa to Guam. In FY2022, there were \$27.9 million in OLDCC grant-related expenditures. The projects funded include:

- Route 9/3 sewer collection main rehabilitation stretching from Andersen AFB to Northern District Wastewater Treatment Plant
- Northern District Wastewater Treatment Plant Upgrade to secondary treatment
- Monitoring wells construction and rehabilitation which will be used to gauge the health of the Northern Aquifer

U.S. Environmental Protection Agency (USEPA)

The USEPA provides \$9.9 million annually through the State Revolving Fund (SRF). Funds must be obligated within three years and are used for a number of water and wastewater capital projects including sewer line upgrades, sewer force main improvements, and water distribution system pressure zone realignments. USEPA SRF expenditures totaled \$7.8 million in FY2022.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Federal Assistance, continued

Federal Emergency Management Agency (FEMA)

GWA received \$87,000 in FEMA grants to reimburse expenditures resulting from 2018 damages related to Typhoon Mangkhut.

Department of Interior (DOI)

GWA was awarded grants through the DOI Office of Insular Affairs through the Maintenance Assistance Program (MAP) to fund \$248,000 in operator training and equipment and the Technical Assistance Program (TAP) to fund \$124,000 in financial management training and operational capacity building for finance, water, and wastewater personnel. The DOI Energizing Insular Communities Grant provided \$438,000 for the purchase of electric vehicles. Additionally, \$1 million of DOI funds were provided through the Governor's Office to fund retrofitting of wells affected by PFOS (perfluorooctane sulfuric acid). No expenditures were made in FY2022.

Ratepayer Assistance Programs

The Guam Emergency Rental Assistance Program (GERAP), funded through the second federal relief act, is administered by the Guam Department of Administration, and is targeted at renters. Total GERAP payments received in FY2022 to assist ratepayers with water and wastewater billings were approximately \$893,000. Additionally, GWA received approximately \$350,000 from eligible homeowners as part of the Guam Homeowners Assistance Fund (GHAFF), as well as approximately \$75,000 in payments from eligible Low Income Household Water Assistance Program (LIHWAP) in FY2022.

COVID-19 Public Health Emergency

Although schools and businesses stayed open, Governor Lourdes Leon Guerrero kept Guam in a Public Health State of Emergency throughout FY2022 due to the Novel Coronavirus (COVID-19) pandemic. Guam began the fiscal year with 90% of the eligible population fully vaccinated against the virus. Additional vaccines and boosters along with COVID tests were made available to the community at various locations throughout the island free of charge.

All essential services provided by GWA continued to be performed through the pandemic emergency. Supply chains for the most part have continued the provision of needed supplies to ensure sustained water and wastewater operations, with only marginal delays in the supply of wastewater treatment chemicals. Service disconnections suspended through most of this emergency period, resumed in June 2021. The COVID pandemic continued to affect FY2022 revenues with demand beginning to rebound in the last quarter of the fiscal year.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

COVID-19 Public Health Emergency, continued

Revenues were continuously monitored, the cost containment plan remained in effect, and management made course corrections to ensure continuity of services to our customers while keeping the safety of our staff at the highest priority. GWA also worked to maintain the timely execution of on-going CIP projects to enhance critical water and wastewater infrastructure systems, and to sustain economic activity related to these significant construction projects.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the GWA's basic financial statements. GWA's basic financial statements are for a single proprietary fund and include the financial statements, notes to those financial statements, and other supplementary and statistical information.

Proprietary Fund Financial Statements

GWA's operations are accounted for as a single proprietary fund using the full accrual basis of accounting. In this regard, GWA operations are accounted for in a manner similar to a private enterprise. Within this one proprietary fund, GWA segregates revenues and expenses for various purposes such as operations, debt service, and capital improvements, but that segregation does not create separate proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 29 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary and statistical information can be found beginning on page 65 of this report.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Financial Condition and Results

The Authority's total net position increased by \$12.5 million during the fiscal year primarily due to the \$35.8 million in capital contributions (see table below).

Summary Statement of Net Position

	September 30, 2022	September 30, 2021	<u>2022 to 2021 Comparison</u>	
			Increase (Decrease)	% Change
Current and other assets	\$ 327,050,310	\$ 367,169,585	\$(40,119,275)	-10.9%
Property, plant and equipment, net	813,964,616	767,223,631	46,740,985	6.1%
Deferred outflows of resources	<u>80,679,601</u>	<u>94,965,533</u>	<u>(14,285,932)</u>	-15.0%
Total assets and deferred outflows	<u>\$1,221,694,527</u>	<u>\$1,229,358,749</u>	<u>\$(7,664,222)</u>	-0.6%
Current and other liabilities	\$ 205,224,088	\$ 206,642,888	\$(1,418,800)	-0.7%
Long-term debt	662,573,147	674,194,335	(11,621,188)	-1.7%
Deferred inflows of resources	<u>31,668,558</u>	<u>38,804,923</u>	<u>(7,136,365)</u>	-18.4%
Total liabilities and deferred inflows	<u>899,465,793</u>	<u>919,642,146</u>	<u>(20,176,353)</u>	-2.2%
Net Position:				
Net investment in capital assets	322,499,972	286,341,746	36,158,226	12.6%
Restricted	99,393,423	28,019,130	71,374,293	254.7%
Unrestricted	<u>(99,664,661)</u>	<u>(4,644,273)</u>	<u>(95,020,388)</u>	2,046.0%
Total net position	<u>322,228,734</u>	<u>309,716,603</u>	<u>12,512,131</u>	4.0%
Total liabilities, deferred inflows and net position	<u>\$1,221,694,527</u>	<u>\$1,229,358,749</u>	<u>\$(7,664,222)</u>	-0.6%

The net increase in property, plant, and equipment of \$46.7 million is due primarily to completed and on-going construction projects related to wastewater treatment plant upgrades, sewer line rehabilitation/replacements transmission lines, reservoir replacements, deep well rehabilitations, fire hydrant replacements, meters, acquisition of mechanical and electrical equipment and general plant improvements.

The Authority's net investment in capital assets represents 100.1% of total net position. The net amount invested in capital assets increased by \$36.2 million compared to the previous year.

Operating revenues for FY2022 increased over the prior fiscal year by 1.5% or \$1.5 million. Wastewater was the biggest driver, reflecting a 6.2% increase or \$2.1 million. Operating expenses increased by 4.0% or \$3.7 million over FY2021 with power purchases increasing by nearly 50% or \$6.1 million due to increasing power rates. Decreases in other expense categories helped to defray any negative impacts including reductions to salaries, wages, and benefits by -8.5% or \$2.0 million, retiree health costs by -8.7% or \$800,000, water purchases by -14.5% or \$1 million and sludge disposal fees by -53.5% or \$800,000.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Financial Condition and Results, continued

Overall, operating income decreased over the prior fiscal year by -31.5% or \$2.3 million. Despite the continued implementation of cost containment measures to reduce operating expenses in order to mitigate the financial impacts of the increased power costs, GWA had to rely on Rate Stabilization Funding policies to stabilize the revenue shortfalls to cover these unforeseen increases. About \$5.8 million of rate stabilization funds were utilized in FY2022.

Net non-operating expenses increased by \$2.9 million and interest expense decreased by \$900,000.

A comparative analysis of Revenues, Expenses, and Changes in Net Position for FY2022 and FY2021, are illustrated in the Table below:

Results of Operations / Statement of Revenues, Expenses and Changes in Net Position

	September 30, <u>2022</u>	September 30, <u>2021</u>	<u>2022 to 2021 Comparison</u>	
			Increase (Decrease)	% Change
Revenues:				
Water	\$ 67,271,841	\$ 67,797,404	\$(525,563)	-0.8%
Wastewater	35,434,169	33,364,098	2,070,071	6.2%
Other	464,488	502,315	(37,827)	-7.5%
Bad debts	(2,028,510)	(1,991,300)	(37,210)	1.9%
Total operating revenue	<u>101,141,988</u>	<u>99,672,517</u>	<u>1,469,471</u>	1.5%
Expenses:				
Power purchases	18,577,440	12,507,537	6,069,903	48.5%
Water purchases	5,656,471	6,615,983	(959,512)	-14.5%
Sludge (waste) disposal fees	658,813	1,415,293	(756,480)	-53.5%
Salaries, wages and benefits	22,191,629	24,240,266	(2,048,637)	-8.5%
Depreciation	28,462,573	26,869,495	1,593,078	5.9%
Administrative and general	7,297,610	6,861,923	435,687	6.3%
Contractual	4,492,845	4,247,073	245,772	5.8%
Retiree healthcare costs and other benefits	<u>8,864,985</u>	<u>9,707,749</u>	<u>(842,764)</u>	-8.7%
Total operating expenses	<u>96,202,366</u>	<u>92,465,319</u>	<u>3,737,047</u>	4.0%
Net operating income	4,939,622	7,207,198	(2,267,576)	-31.5%
Non-operating revenue (expenses)	941,435	4,731,813	(3,790,378)	-80.1%
Less: Interest expense	(29,175,309)	(30,075,496)	<u>900,187</u>	-3.0%
Total non-operating revenues (expenses), net	<u>(28,233,874)</u>	<u>(25,343,683)</u>	<u>(2,890,191)</u>	11.4%
Loss before capital contributions	(23,294,252)	(18,136,485)	(5,157,767)	28.4%
Capital contributions	<u>35,806,383</u>	<u>64,592,719</u>	<u>(28,786,336)</u>	-44.6%
Change in net position	12,512,131	46,456,234	(33,944,103)	-73.1%
Net position – beginning year	<u>309,716,603</u>	<u>263,260,369</u>	<u>46,456,234</u>	17.6%
Net position – end of year	<u>\$322,228,734</u>	<u>\$309,716,603</u>	<u>\$12,512,131</u>	4.0%

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Financial Condition and Results, continued

In FY2022, water revenues (excluding System Development Charges) decreased by \$300,000 or -0.5% over the prior fiscal year. A shift in consumption behavior occurred in the various customer classes between FY2022 and FY2021 as the pandemic conditions improved. The residential sector dropped -5.3% or \$2.1 million which was offset by increases in the government sector by 18.2% or \$1.2 million, the commercial sector by 3.5% or \$500,000, and the hotel sector by 2.3% or \$200,000. This indicates the move from home use slowly back to normal working and business conditions due to the lifting of quarantine protocols. Because non-residential wastewater revenues are driven by water consumption, wastewater revenues showed similar improvements over FY2021 in the government, commercial, and hotel sectors.

The tables below illustrate the distribution of water and wastewater revenues, as well as water demand and wastewater flow among major customer classes:

Annual Water Revenues (Excluding System Development Charges)

<u>Class Type</u>	<u>FY22</u>	<u>FY21</u>	<u>2022 to 2021 Comparison</u>	
			<u>Increase (Decrease)</u>	<u>% Change</u>
Agricultural	\$ 431,070	\$ 444,892	\$ (13,822)	(3.1%)
Golf Course	70,280	56,152	14,128	25.2%
Commercial	13,720,269	13,251,332	468,937	3.5%
Federal	28,145	38,596	(10,451)	(27.1%)
Government	7,611,024	6,437,468	1,173,556	18.2%
Hotel	7,125,401	6,968,351	157,050	2.3%
Irrigation	39,113	43,360	(4,247)	(9.8%)
Residential	<u>37,709,793</u>	<u>39,816,286</u>	<u>(2,106,493)</u>	<u>(5.3%)</u>
Total	<u>\$66,735,095</u>	<u>\$67,056,437</u>	<u>\$ (321,342)</u>	<u>(0.5%)</u>

Annual Wastewater Revenues (Excluding System Development Charges)

<u>Class Type</u>	<u>FY22</u>	<u>FY21</u>	<u>2022 to 2021 Comparison</u>	
			<u>Increase (Decrease)</u>	<u>% Change</u>
Commercial	\$ 8,373,667	\$ 7,760,006	\$ 613,661	7.9%
Federal	6,110,211	5,944,514	165,697	2.8%
Government	4,391,010	3,617,134	773,876	21.4%
Hotel	6,523,248	6,091,381	431,867	7.1%
Residential	<u>9,327,418</u>	<u>9,095,570</u>	<u>231,848</u>	<u>2.5%</u>
Total	<u>\$34,725,554</u>	<u>\$32,508,605</u>	<u>\$2,216,949</u>	<u>6.8%</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Financial Condition and Results, continued

Water Demand by Rate Class
(in '000 gallons)

<u>Class Type</u>	<u>FY22</u>	<u>FY21</u>	<u>2022 to 2021 Comparison</u>	
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>
Agricultural	65,719	68,805	(3,086)	(4.5%)
Golf Course	3,796	2,855	941	33.0%
Commercial	818,460	786,157	32,303	4.1%
Federal	1,389	2,069	(680)	(32.9%)
Government	471,943	404,026	67,917	16.8%
Hotel	462,757	448,034	14,723	3.3%
Irrigation	4,888	5,404	(516)	(9.5%)
Residential	<u>3,450,574</u>	<u>3,622,514</u>	<u>(171,940)</u>	<u>(4.7%)</u>
Total	<u>5,279,526</u>	<u>5,339,864</u>	<u>(60,338)</u>	<u>(1.1%)</u>

Wastewater Flow by Rate Class
(in '000 gallons)

<u>Class Type</u>	<u>FY22</u>	<u>FY21</u>	<u>2022 to 2021 Comparison</u>	
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>
Commercial	585,512	566,044	19,468	3.4%
Federal	508,438	493,841	14,597	3.0%
Government	365,856	303,587	62,269	20.5%
Hotel	318,491	297,738	20,753	7.08%
Residential	<u>2,051,330</u>	<u>2,150,617</u>	<u>(99,287)</u>	<u>(4.6%)</u>
Total	<u>3,829,627</u>	<u>3,811,827</u>	<u>17,800</u>	<u>0.5%</u>

Capital Assets

The Authority had \$814.0 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2022. The table below highlights the various categories where these investments in capital assets were made.

In the current fiscal year 2022, capital assets increased by \$46.7 million (net) or 6.1% over the prior fiscal year. The increase is attributable to ongoing major capital improvement projects associated with a 2011 Federal Court Order, the Authority's 5-year Capital Improvement Program, and the Water Resources Master Plan Update, August 2018.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Capital Assets, continued

The Authority's revenue, long-term debt, and grants-in-aid are used to finance capital investments. This year's major capital additions included:

<u>Wastewater</u>	
Sewer lines	\$ 963,034
Treatment plants	<u>61,909,060</u>
	62,872,094
 <u>Water</u>	
Deepwells	744,723
Fire Hydrants	896,657
Water lines	1,829,573
Meters	1,051,680
Reservoirs	<u>1,180,660</u>
	5,703,293
General Plant Improvements	<u>1,119,429</u>
Total	<u>\$69,694,816</u>

Capital Assets, Net of Accumulated Depreciation

	September 30, <u>2022</u>	September 30, <u>2021</u>	<u>2022 to 2021 Comparison</u>	
			Increase (Decrease)	% Change
Plant, buildings and equipment, net	\$635,401,060	\$594,394,314	\$41,006,746	6.9%
Land	5,287,305	5,240,187	47,118	0.9%
Construction in progress	<u>173,276,251</u>	<u>167,589,130</u>	<u>5,687,121</u>	<u>3.4%</u>
Total	<u>\$813,964,616</u>	<u>\$767,223,631</u>	<u>\$46,740,985</u>	<u>6.1%</u>

Beginning in the fall of 2016, the Department of Defense (DoD) through the Office of Local Defense Community Cooperation (OLDCC), formerly the Office of Economic Adjustment, provided GWA with over \$173 million in grant funding for various water/wastewater system upgrades to support the DoD realignment of forces in the Pacific. This included grant funding for the ocean outfall diffuser serving the Northern District Wastewater Treatment Plant (NDWWTP) and the upgrade of the NDWWTP to secondary treatment. As of March 18, 2022, the new secondary treatment processes at the upgraded NDWWTP have been initiated. Substantial completion of construction activities occurred by the end of FY2022.

For additional information concerning capital assets, please refer to Note 5 to the financial statements.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Debt

As of September 30, 2022, the Authority had total long-term debt outstanding of \$623.8 million, which is a decrease of \$9.8 million or -1.5% over the prior year.

Long-Term Debt

	September 30, <u>2022</u>	September 30, <u>2021</u>	<u>2022 to 2021 Comparison</u>	
			Increase <u>(Decrease)</u>	% <u>Change</u>
2013 Bond Series	\$ 21,510,000	\$ 24,500,000	\$(2,990,000)	(12.2%)
2014 Refunding Bond Series	64,055,000	64,610,000	(555,000)	(0.9%)
2016 Bond Series	134,975,000	139,030,000	(4,055,000)	(2.9%)
2017 Refunding Bond Series	103,180,000	105,325,000	(2,145,000)	(2.0%)
2020A Bond Series	134,000,000	134,000,000	---	---
2020B Refunding Bond Series	<u>166,075,000</u>	<u>166,075,000</u>	<u>---</u>	<u>---</u>
 Total	 <u>\$623,795,000</u>	 <u>\$633,540,000</u>	 <u>\$(9,745,000)</u>	 <u>(1.5%)</u>

Bond covenants require that GWA maintain its principal, interest, and reserve funds for outstanding bond issues. In addition, the Authority is required to set rates and charges to yield earnings equal to at least 125% of the current annual debt service requirements of the outstanding 2013, 2016, and 2020A revenue bond series and 2014, 2017, and 2020B refunding bond series.

As of the end of FY2022, Moody’s Investor Services and Standard & Poor’s maintained their existing GWA bond rating of Baa2, and A-, respectively. The ratings are important benchmarks of an issuer’s ability to meet its financial obligation. Each rating agency incorporates a rating scale indicating the credit quality of the issuer. The scales are comprised of alphabetical symbols such as “AAA”, “AA”, “A”, “BBB”, “BB”, and “B.” For example, categorical ratings in the “AAA,” “AA” and “A” ranges denote high credit quality meaning the issuer has a high capacity to meet its financial commitments whereas categorical ratings in the “BBB,” “BB” and “B” ranges denote average credit quality. The lower the number of alpha characters assigned indicates the issuer is more susceptible to adverse effects or changes in circumstances and economic conditions than those with a higher number of alpha characters.

For more information concerning debt, please refer to Note 6 to the financial statements.

Please refer to the MD&A in the FY2021 GWA Financial Audit for additional information related to FY2021. A copy of the audit is posted on the GWA website at www.guamwaterworks.org/finance/ or can be obtained by contacting the Chief Financial Officer.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Looking Forward

Outlook, Challenges, and Opportunities

On May 24, 2023, Guam was hit by Typhoon Mawar, one of the strongest storms to hit Guam in decades. GWA is working as swiftly and as safely as possible to restore water services to our customers and is collaborating with the Guam Power Authority (GPA) to energize water wells and pump stations as well as wastewater lift stations, including repairing generators or deploying FEMA-provided generators where necessary. President Biden issued an emergency declaration prior to the Typhoon, triggering federal assistance to aid in recovery efforts. While there appears to be minimal damage to GWA facilities, assessments are ongoing.

GWA's outlook for the coming year was cautiously optimistic as pandemic-induced impacts have lessened and COVID-related restrictions in Guam and the surrounding region are being gradually lifted. Business was beginning to rebound as tourists return to Guam, but Typhoon Mawar will slow the return to pre-pandemic levels. While progress in meeting regulatory compliance priorities remains a focused and achievable goal, the pace of capital project implementation for necessary system improvements may continue to be impacted by regulatory and permitting delays and the recent storm. Additionally, the ongoing military buildup will affect the availability of companies bidding on construction contracts and resultant costs.

Similarly, operational maintenance activities may be hampered by the persistence of needed cost-containment measures, resulting in deferred maintenance expenses in order to ensure financial performance does not endanger debt service coverage metrics. Despite a continuing increase in construction spending that bolsters the local economy, GWA revenues will continue to be impacted by the pace of recovery in the tourism market and operating expense increases for oil-related expenditures (fuel and power), both of which are expected to put pressure on containing operations and maintenance costs. GWA plans to counter these pressures through the judicious use of American Rescue Plan Act (ARPA) funds made available by the Office of the Governor to offset revenue losses and mitigate rate increases granted by the PUC.

Challenges persist in GWA's efforts to resolve various legal and administrative matters that affect our financial and operational planning and execution. A decision on the *Comprehensive Review & Update to GWA's FY2020 – FY-2024 5-Year Financial Plan* (CR&U), submitted on May 1, 2021, was not made until September 2022, resulting in a full year without needed rate relief to fund revenue requirements. The FY2024 True-Up Projection was submitted as required on June 1, 2023, but is unknown whether the PUC will act to adjust rates prior to the beginning of FY2024. GWA also seeks resolution in a quiet-title action for its NDWWTP, which is still in litigation in the Superior Court of Guam. The on-going litigation against Badger Meter over the performance of meters sold to GWA was finally settled in July 2023. Additionally, with the election of a new Attorney General, questions on the designation of GWA's legal counsel as a Special Assistant to the Attorney General for procurement matters may adversely affect timelines related to procurements over \$500,000.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Looking Forward, continued

Outlook, Challenges, and Opportunities, continued

GWA will also be challenged by the anticipated promulgation of proposed federal rules relating to per- and polyfluoroalkyl substances (PFAS) as a regulated contaminant. If promulgated, the rules will have an impact on GWA's water production and treatment operations, potentially requiring significant additional capital investment in transmission lines and centralized treatment systems, and subsequent on-going operation and maintenance costs.

Despite these challenges, GWA continues to make improvements in customer service levels through the implementation of process improvements resulting from the recent upgrades in its enterprise resource planning / financial management system. GWA is also advancing needed capital improvement projects with funding from grants and GWA's successful Series 2020A revenue bonds, which will enhance both water and wastewater service levels for our customers. In the coming year, GWA will continue to work on its water distribution system to improve pressures and reduce losses through the implementation of District Metered Areas, an increase in its leak detection capabilities, additional work under its pressure zone realignment program, and expansion of production well meter enhancements.

Court Order Compliance

The 2011 U.S. District Court Order deadline was extended from June 30, 2023, to December 31, 2025. The 2011 Court Order established deadlines for completing outstanding projects that were identified in a previous Stipulated Order originally issued in 2003 and subsequently amended in 2004 and 2006. The last remaining compliance requirement involves the repair, rehabilitation, and replacement of water storage tanks. GWA has several tanks currently under construction, and several more in the process of repair and rehabilitation. Funding for the completion of all remaining work in the 2011 Court Order is in place, and GWA will work diligently to complete all work by the extended deadline despite the challenges from impacts on the construction market caused by the on-going military buildup.

Secondary Treatment

USEPA issued new NPDES permits for the Northern District, Hagåtña, Agat-Santa Rita, and Umatac-Merizo WWTPs that became effective on January 1, 2020. The new NPDES permits include secondary treatment standards, some of which the Hagåtña WWTP is unable to meet until a secondary treatment process is implemented at the facility.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Looking Forward, continued

Secondary Treatment, continued

The Hagåtña WWTP is currently meeting the requirements of the Court Order with chemically enhanced primary treatment but is not in compliance with the secondary treatment standards and will require significant upgrades to comply with the permit. GWA has executed a pilot study for interim disinfection as part of on-going Consent Decree discussions with EPA. While such discussions were stalled by uncertainties created by COVID-19 and PUC inaction on GWA's CR&U, negotiations have resumed and GWA continues to move forward with planning and design for capital replacement for major equipment and process upgrades to achieve improved treatment performance until Secondary Treatment can be implemented.

Capital Project Risk

In 2018, GWA completed a comprehensive update to its 20-year master planning document. The *2018 Water Resources Master Plan* was adopted by the CCU and subsequently formed the basis of GWA's third and current 5-year Capital Improvement Plan for FY2020-FY2024. Since 2006, GWA has demonstrated improved performance in planning and implementation of capital projects for system improvements required by the 2011 Court Order and more recent regulatory priorities resulting from on-going negotiations with USEPA. The current update of the plan should be completed in 2023.

The pace of implementation of GWA's CIP projects has been affected by the increased construction demand created by the DoD's buildup on Guam and the persistence of pandemic-induced backlogs in regulatory review and permitting activities, particularly with respect to reviews and approvals by the State Historic Preservation Office (SHPO). Although federal limitations on H-2B visa for construction labor were recently lifted, continued affects to GWA construction projects persist, leading to decreased bid participation, schedule delays, and increased costs. It is anticipated that these impacts will continue in the future until well beyond the peak in DoD construction activity.

Water Loss Control

In March of 2021, GWA completed its analytical study on water loss control and issued a *Water Loss Control Program Development Final Report*. The recommendations in the final report included the implementation of permanent District Metered Areas (DMAs) to monitor the supply and demand within discrete, defined areas across GWA's entire distribution system, as well as expanding GWA's in-house leak detection capabilities to provide complete inspections of the entire distribution system three times per year. The report also included a revision to GWA's water loss control metrics to align with changes within the industry away from % water loss. GWA is in year two (through August 2023) of a three-year implementation of island-wide DMAs. As of FY2022, 18 of 36 DMAs have been established. GWA has deployed two dedicated leak detection teams and is actively engaged in detection and repairs within the established DMAs to curb water losses.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Looking Forward, continued

Water Loss Control, continued

To complement the Water Loss Control Program, GWA has included pipe replacement programs in its 5-Year CIP. As the completion of Court Order projects proceeds, resources will be adjusted to advance these programs so that regular, annual investments are made to renew piping infrastructure on an on-going basis, in addition to targeted capacity-related pipe upgrades. GWA has several line replacement projects currently under construction and nearing completion. GWA has also initiated procurements and awarded multiple contracts for engineering design services to execute additional projects under the pipe replacement programs identified in the 5-Year (FY2020-FY2024) CIP.

In addition, GWA continues to maintain performance in prompt leak repair to address surface leaks and main breaks, those instances where losses are easy to detect and report. GWA also continues to make progress in the completion of its Pressure Zone Realignment project to address background leaks, those instances where losses occur at pipe joints and other locations in quantities/flow rates which do not surface and are therefore not visually detectable or reported. The re-alignment of pressure zones within GWA’s water system will employ piping and pressure-control valve installations in distinct zones across the water distribution network to reduce background water losses. Construction of Phase 1 of the Pressure Zone Realignment project is 77% complete, and Construction Management services for Phase 2 have been procured. Phase 2 will be issued for bid within the next few weeks.

Five-Year Financial Plan

The PUC in its September 2022 order deferred acting on proposed changes in rate design which included going from two tiers of residential consumption to three tiers and changing residential wastewater billing from a flat fee to one based on consumption derived from water use. GWA has resubmitted its request for these rate design changes to be used in the next five-year financial plan, FY2025 through FY2029, which will be filed in 2024.

Financial Management System

In FY2023, GWA will start Phase 2 of its Financial Management System upgrade. The overall objective of the project is to support the efficient execution of CIP projects, including digitizing procurement, CIP planning, and engineering document management. The project goals are to deliver:

- Operational Efficiency through reduced negotiation cycle times and workflow automation to reduce processing costs.
- Cost Management by reducing the cost of supply with digital go to market and contracting, negotiated agreements for preferred suppliers and accurate CIP forecasting.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Looking Forward, continued

Financial Management System, continued

- Contractor Collaboration to share accurate documentation and online collaboration services for each step in the procurement lifecycle.
- Governance and Control through improved risk management by enforcing CIP procurement policies and segregation of duties. The system will also improve visibility to data, auditable spend record for capital projects and manage supplier qualifications and performance.

GWA will continue to leverage Oracle's Content and Experience Cloud (CEC) to assist with document storage, management, and collaboration. The CEC will be more widely implemented in the next year.

Salary Study

A salary survey is being conducted which may result in recommendations to adjust compensation in the near term to meet market conditions. Additionally, the implementation of a 22% pay adjustment in the Government of Guam's General Pay Plan may influence these recommendations.

COVID-19

As a result of Guam's high vaccination rate and low number of new COVID cases, Governor Leon Guerrero ended the COVID-related Public Health Emergency in January 2023. Additionally, COVID-related travel protocols in the region have been relaxed, making it easier for tourists to travel to Guam.

The pace of economic recovery of Guam's tourism sector will affect the Authority's sales and revenues within related rate classes. Residential consumption has decreased as schools and businesses opened but increases in hotel and commercial consumption have not been enough to offset the reduction in residential consumption. Accordingly, GWA continues its strategy to contain costs, reduce production and improve water loss control while monitoring the effect of the economic rebound on its revenues.

Sewer Loan Revolving Fund

The FY2023 Budget Act, Public Law 36-107, appropriated \$2 Million to the GWA Sewer Loan Revolving Fund for loans to residents to connect to the public wastewater system. CCU Resolution 08-FY2023 approved the update of the Rules and Regulations for this program to encourage more customers to obtain a loan. GWA will follow the Administrative Adjudication procedures to amend the Rules and Regulations as required.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Looking Forward, continued

Federal Assistance

The Guam Department of Administration (DOA) will continue to provide utility assistance to renters and homeowners using funding from the second US Stimulus package. DOA will also continue to aid qualified families through the Low-Income Household Water Assistance Program (LIHWAP) to pay for water and sewer services.

In November 2022, GWA received American Rescue Plan Act (ARPA) funds of \$12.4 million through the Office of the Governor to mitigate needed rate increases in FY2023. An additional \$8.6 million in ARPA funding was received for water and wastewater upgrades in Adacao to enhance utility services to underserved areas impacted by the COVID-19 pandemic.

The Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law, was signed into law on November 15, 2021. This has resulted in GWA's allotment received through the USEPA State Revolving Fund increasing as much as \$26 million per year for the next five years beginning in FY2023 (Federal Fiscal Year 2022) to total about \$34.2M annually. However, GWA has been advised that the upcoming consolidated environmental program will be funded at \$28.7M. While the additional funds are significant in the short term, GWA's existing CIP spending targets more than double the newly available grant funding. However, GWA does see potential benefits in reducing the amount of debt financing that may be required for the current 5-year CIP period (through FY2024).

Furthermore, GWA has been granted \$1 million of USEPA funding to assist the Guam Department of Public Works storm drainage planning efforts.

GWA, in March 2023, also received approval for reimbursement of almost \$38,000 of COVID-related expenses through the FEMA Public Assistance Program.

Request for Information

This financial report is to provide interested parties with a general overview of GWA's finances. If you have any questions about this report or need additional information, you may submit a request in writing to: Chief Financial Officer (CFO), Guam Waterworks Authority, Gloria B. Nelson Public Service Building, 688 Route 15, Mangilao, Guam 96913, email to finance@guamwaterworks.org, or telephone (671) 300-6862.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Statement of Net Position

September 30, 2022

Assets and deferred outflows of resources

Current assets:

Cash and cash equivalents:

 Unrestricted \$ 38,823,824

 Restricted 29,987,985

Receivables, net of allowance for doubtful accounts of \$9,753,074 16,901,464

Materials and supplies inventory, net of an allowance
for obsolescence of \$122,856 4,667,734

Prepaid expenses 1,733,017

 Total current assets 92,114,024

Property and equipment:

Utility plant in service:

 Water system 420,470,606

 Wastewater system 576,276,943

Non-utility property 33,353,690

1,030,101,239

Less accumulated depreciation (394,700,179)

635,401,060

Land and land rights 5,287,305

Construction work in progress 173,276,251

 Property, plant and equipment, net 813,964,616

Lease assets 532,824

Other noncurrent assets:

 Restricted cash and cash equivalents 234,403,462

 Total assets 1,141,014,926

Deferred outflows of resources:

 Debt defeasance loss on refunding 29,229,855

 Deferred outflows from pension 7,405,025

 Deferred outflows from OPEB 41,247,962

 Regulatory assets 2,796,759

 Total deferred outflows of resources 80,679,601

 Total assets and deferred outflows of resources \$1,221,694,527

See accompanying notes.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Statement of Net Position, continued

Liabilities, deferred inflows of resources and net position

Current liabilities:

Current maturities of revenue bonds payable	\$ 10,235,000
Accounts payable:	
Guam Power Authority	2,396,370
Trade	2,111,279
Accrued interest	7,200,420
Accrued payroll and employee benefits	1,118,809
Current portion of employee annual leave	725,007
Current portion of lease liabilities	234,824
Payable to contractors	23,351,921
Customer deposits	2,275,313
Other liabilities	<u>827,057</u>

Total current liabilities 50,476,000

Revenue bonds payable, less current maturities	652,338,147
Employee annual leave, less current portion	995,913
DCRS sick leave liability	1,376,504
Lease liabilities	300,279
Net pension liability	46,038,335
OPEB liability	<u>116,272,057</u>

Total liabilities 867,797,235

Deferred inflows of resources:

Regulatory liabilities	638,875
Deferred outflows from pension	5,176,746
Deferred outflows from OPEB	<u>25,852,937</u>

Total deferred outflows of resources 31,668,558

Net position:

Net investment in capital assets	322,499,972
Restricted	99,393,423
Unrestricted	<u>(99,664,661)</u>

Total net position 322,228,734

Total liabilities, deferred inflows of resources and net position \$1,221,694,527

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Operating revenues:	
Water:	
Private	\$ 57,230,980
Government	7,376,219
Legislative surcharge	2,127,896
System development charge	<u>536,746</u>
	<u>67,271,841</u>
Wastewater:	
Private	23,701,033
Government	10,141,643
Legislative surcharge	882,878
System development charge	<u>708,615</u>
	<u>35,434,169</u>
Other	<u>464,488</u>
Bad debts expense	<u>(2,028,510)</u>
Total operating revenues	<u>101,141,988</u>
Operating and maintenance expenses:	
Power purchases	18,577,440
Water purchases	5,656,471
Waste disposal fees	<u>658,813</u>
	24,892,724
Depreciation	28,462,573
Salaries, wages and benefits	22,191,629
Administrative and general	7,297,610
Contractual	4,492,845
Retiree healthcare costs and other benefits	<u>8,864,985</u>
Total operating and maintenance expenses	<u>96,202,366</u>
Operating income	<u>\$ 4,939,622</u>

See accompanying notes.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Statement of Revenues, Expenses and Changes in Net Position, continued

Nonoperating revenues (expenses):	
Interest income	\$ 1,542,233
Others, net	70,011
Interest expense	(29,175,309)
Bond issuance costs	(180,594)
Loss on property, plant and equipment disposals	(<u>490,215</u>)
Total non-operating expenses, net	(<u>28,233,874</u>)
Loss before capital contributions	(23,294,252)
Capital contributions:	
Grants from the U.S. Government	<u>35,806,383</u>
Change in net position	12,512,131
Net position at beginning of year	<u>309,716,603</u>
Net position at end of year	<u>\$322,228,734</u>

See accompanying notes.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$101,805,519
Cash payments to supplies for goods and services	(37,793,021)
Cash payments to employees for services	(26,428,874)
Cash payments for retiree healthcare costs	(<u>3,216,922</u>)
Net cash provided by operating activities	<u>34,366,702</u>
Cash flows from capital and related financing activities:	
Federal grants received	41,774,056
Acquisition of property, plant and equipment	(74,034,091)
Principal paid on revenue bond maturities	(9,745,000)
Interest paid on revenue bonds	(<u>29,296,403</u>)
Net cash used for capital and related financing activities	(<u>71,301,438</u>)
Cash flows from investing activity – Interest income received	<u>1,542,233</u>
Net change in cash and cash equivalents	(35,392,503)
Cash and cash equivalents at beginning of year	<u>338,607,774</u>
Cash and cash equivalents at end of year	<u>\$303,215,271</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Current assets:	
Cash and cash equivalents	\$ 38,823,824
Restricted cash and cash equivalents	29,987,985
Noncurrent assets:	
Restricted cash and cash equivalents	<u>234,403,462</u>
	<u>\$303,215,271</u>

See accompanying notes.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Statement of Cash Flows, continued

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,939,622
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	28,462,573
Bad debts expense	2,028,510
Capitalized labor and benefits	(3,699,767)
Non-cash pension costs	(635,119)
Non-cash OPEB costs	5,648,063
Increase in assets:	
Receivables	(1,462,007)
Materials and supplies inventory	(383,398)
Prepaid expenses	(883,150)
Regulatory assets	(802,595)
Increase (decrease) in liabilities:	
Accounts payable	1,870,234
Accrued payroll and employee benefits	185,363
Employee annual leave	(125,018)
Customer deposits	38,303
Other liabilities	(852,208)
DCRS sick leave liability	<u>37,296</u>
Net cash provided by operating activities	<u>\$34,366,702</u>
Supplemental information on noncash capital activities:	
Right-of-use assets	\$ 782,682
Lease liabilities	<u>(782,682)</u>
	<u>\$ ---</u>

See accompanying notes.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements

Year ended September 30, 2022

1. Reporting Entity

The Guam Waterworks Authority (GWA), a component unit of the Government of Guam (GovGuam), is subject to the regulations of the Public Utilities Commission of Guam (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119 and derives its revenues mainly from its water and wastewater system. The water system is engaged in the production, treatment, and distribution of water to villages and communities of Guam. The wastewater system is engaged in the collection and treatment of wastewater from residences and industries in the villages of Guam. GWA is governed by a five-member elected Consolidated Commission on Utilities (CCU). PUC determines such matters as rates and charges for services.

2. Summary of Significant Accounting Policies

Basis of Accounting

GWA utilizes the flow of economic resources measurement focus. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Position

Net position represents the residual interest in GWA's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following categories:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets, net of debt service reserve. Deferred outflows of resources that are attributable to related debt are also included in this component.

Restricted nonexpendable - net position subject to externally imposed stipulations that require GWA to maintain them permanently.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Position, continued

Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GWA pursuant to those stipulations or that expire with the passage of time.

At September 30, 2022, restricted net position consists of the following:

Restricted for debt service	\$60,881,220
Restricted for service operations	<u>38,512,203</u>
	<u>\$99,393,423</u>

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the CCU or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, generally it is GWA's policy to use restricted resources first and the unrestricted resources when they are needed.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Risk Management

GWA is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. There is commercial insurance coverage obtained to provide for claims arising from most of these matters. No material losses have been sustained as a result of GWA's risk management practices during the past three years.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to revenues. Bad debts are written-off against the allowance based on the specific identification method.

Materials and Supplies Inventory

Materials and supplies inventory is stated at the lower of cost or market with cost determined by the weighted average costing method.

Prepaid Expenses

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying statements of net position.

Property, Plant and Equipment

Plant in service of \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items over \$5,000.

Noncurrent Restricted Cash and Cash Equivalents

The purpose of noncurrent restricted cash and cash equivalents is for long-term capital improvements and bond related activities.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GWA has determined the loss on defeasance of the 2005, 2010 and 2013 series bonds, regulatory assets, the difference between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, the net difference between projected and actual earnings on pension plan investments, changes of assumptions, pension and OPEB contributions made subsequent to the measurement date, and changes in proportion and difference between GWA pension and OPEB contributions and proportionate share of contributions qualify for reporting in this category.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. GWA has determined regulatory liabilities, the difference between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension and OPEB liabilities, the net difference between projected and actual earnings on pension plan investments, changes of assumptions, and changes in proportion and differences between GWA pension and OPEB contributions and proportionate share of contributions qualify for reporting in this category.

Compensated Absences

Vesting annual leave is accrued and reported as an expense and a liability in the period earned. No liability is accrued for non-vesting sick leave benefits. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. The maximum accumulation of annual leave convertible to pay upon termination of employment is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement.

Public Law 26-86 allows members of the Defined Contribution Retirement System (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. A liability is accrued for estimated sick leave to be paid out to DCRS members upon retirement.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GWA recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents GWA's proportionate share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes GWA's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments that are anticipated to be made to defined benefit plan members and for anticipated future COLA payments to DCRS members. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Pensions, continued

beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and are amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Other Postemployment Benefits (OPEB)

OPEB is required to be recognized and disclosed using the accrual basis of accounting. GWA recognizes an OPEB liability for the defined benefit OPEB plan in which it participates, which represents GWA's proportionate share of total OPEB liability - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. An OPEB trust has not been established, thus the OPEB plan does not presently report OPEB plan fiduciary net position. Instead, the OPEB plan is financed on a substantially "pay-as-you-go" basis.

Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

Bond Premiums and Discounts

Bond premiums and discounts are amortized using the straight-line method, which approximates the effective yield method, over the life of the related bond issue.

Contribution in Aid of Construction

Contribution in aid of construction represents contributions received by GWA from consumers for improvement of water services and assets owned by GWA. These amounts are recorded as a deferred inflow of resources net of amortization.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

Customer water meters are read on a cyclical basis throughout a monthly period based on the route schedules of GWA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$27.54 per month for residential accounts and 80% of current water consumption for commercial and government accounts. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2022 is \$3,180,073 and is included in receivables in the accompanying statement of net position.

Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as cash deposits in banks, time certificates of deposit, and short-term investments in U.S. Treasury obligations with original maturities of three months or less.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from GWA's ongoing operations. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and expenses.

Grants and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions.

Recently Adopted Accounting Pronouncement

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on beginning net position. GWA recorded lease assets and lease liability of \$782,681 at October 1, 2021 .

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement, continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Starting October 1, 2021, no interest was capitalized. Prior to the adoption of this statement, GWA capitalized interest on construction in progress based on the weighted average interest rate.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The adoption of this statement did not have a material effect on the financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of this statement did not have a material effect on the financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The adoption of this statement did not have a material effect on the financial statements.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2022, GASB issued Statement No. 99, Omnibus 2022. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

GWA is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents

The bond indenture agreements for the 2013, 2014, 2016, 2017, 2020A and 2020B series revenue bonds require the establishment of special funds to be held and administered by trustees and by GWA. In addition, proceeds from borrowings to fund capital improvements are maintained by GWA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used to fund capital improvements.

The deposits and investment policies of GWA are governed by 15 GCA 21, *Investments and Deposits*, in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in or certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAA or better by S&P.

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

As of September 30, 2022, the carrying amount of GWA's total cash and cash equivalents was \$303,209,342, and the corresponding bank balance was \$306,120,630. Of the bank balance amount, \$18,837,414 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, the remaining amount of \$287,283,216 represents short-term investments held and administered by GWA's trustees in GWA's name in accordance with various trust agreements and bond indentures. As of September 30, 2022, bank deposits in the amount of \$576,042 were FDIC insured.

GWA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2022, \$18,261,372 of cash and cash equivalents are subject to custodial credit risk.

Unrestricted cash and cash equivalents at September 30, 2022 in the amount of \$19,565,501 are subject to internally imposed restrictions by the CCU to provide additional liquidity to assist GWA in addressing unforeseen obligations and unexpected short-term cash flow demands and \$7,219,224 are subject to internally imposed restrictions by the CCU to fund capital expenditures.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, continued

Restricted cash and cash equivalents consist of cash received for specific capital projects and for bond indenture related accounts. The working capital funds are internally imposed restrictions and are not subject to externally imposed stipulations.

The composition of restricted cash and cash equivalents is as follows:

Current restricted:

Sewer Hook-up Revolving Fund	\$ 64,373
Legislative Surcharge Fund	93,776
Bid Escrow Fund	843,058
Customer Deposit Fund	2,108,598
Revenue Trust and Revenue Fund	8,898,996
System Development Fund	7,408,420
Working Cap – Reserved for CAPEX	7,487,283
Working Cap – Reserved for O&M	<u>3,083,481</u>
	<u>29,987,985</u>

Noncurrent restricted:

2010 Bond Indenture Funds:	
Construction Fund	4,133,026
Bond Reserve Fund	7,566,460
2013 Bond Indenture Funds:	
Construction Fund	4,236,835
Bond Reserve Fund	12,031,688
Reserved for Debt Service	1,400,508
2014 Bond Indenture Funds:	
Operations, Maintenance, Renewal and Replacement Reserve Fund	17,423,213
Bond Reserve Fund	7,792,925
Reserved for Debt Service	1,907,253
2016 Bond Indenture Funds:	
Construction Fund	38,621,743
Bond Reserve Fund	7,591,999
Reserved for Debt Service	1,967,736
2017 Bond Indenture Funds:	
Reserved for Debt Service	1,907,628

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, continued

Noncurrent restricted, continued

2020A Bond Indenture Funds:	
Construction Fund	\$118,006,420
Bond Reserve Fund	6,659,700
Capitalized Interest Fund	1,245
Reserved for Debt Service	1,678,906
2020B Bond Indenture Funds	
Bond Reserve Fund	<u>1,476,177</u>
	<u>234,403,462</u>
Total restricted cash and cash equivalents	<u>\$264,391,447</u>

4. Receivables

Receivables at September 30, 2022 are as follows:

Customers:	
Private	\$16,575,526
Government	<u>3,407,067</u>
	19,982,593
Federal grants receivable	5,468,327
Guam Power Authority	303,282
Other	<u>900,336</u>
	<u>26,654,538</u>
Less allowance for doubtful accounts	(<u>9,753,074</u>)
	<u>\$16,901,464</u>

During the year ended September 30, 2022, GWA has written off \$935,767 of long outstanding receivables against the allowance for doubtful accounts.

Substantially all customer receivables are from individuals, businesses and government agencies located on Guam.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

5. Capital Assets

Capital assets activities for the year ended September 30, 2022 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2021	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2022
Depreciable:					
Utility Plant in Service Water	25-50	\$415,123,284	\$ 5,973,315	\$(625,993)	\$ 420,470,606
Utility Plant in Service Wastewater	25-50	513,741,066	62,792,686	(256,809)	576,276,943
General Fixed Assets	25-50	<u>33,051,603</u>	<u>881,697</u>	<u>(579,610)</u>	<u>33,353,690</u>
		961,915,953	69,647,698	(1,462,412)	1,030,101,239
Less: Accumulated Depreciation		<u>367,521,639</u>	<u>28,212,716</u>	<u>(1,034,176)</u>	<u>394,700,179</u>
		594,394,314	41,434,982	(428,236)	635,401,060
Non-depreciable:					
Land		5,240,187	47,118	---	5,287,305
Construction Work in Progress		167,589,130	73,997,349	(68,310,228)	173,276,251
Lease assets	1-4	<u>782,682</u>	<u>---</u>	<u>(249,858)</u>	<u>532,824</u>
		<u>\$768,006,313</u>	<u>\$115,479,449</u>	<u>\$(68,988,322)</u>	<u>\$ 814,497,440</u>

6. Long-Term Debt

Long-term debt at September 30, 2022 is as follows:

Revenue Bonds

2013 Series revenue bonds, interest at 5.25% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,695,000 in July 2020, increasing to \$4,045,000 in July 2028. On August 26, 2020, these bonds were partially refunded through the issuance of \$166,075,000 2020B refunding bonds. \$ 21,510,000

2014 Series refunding bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,900,000 in July 2015, maturity date in July 2035. 64,055,000

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

2016 Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$420,000 in July 2020, maturity date in January 2046.	134,975,000
2017 Series refunding bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$55,000 in July 2019, maturity date in July 2040.	103,180,000
2020A Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$30,880,000 in July 2047, maturity date in January 2050.	134,000,000
2020B Series refunding bonds, interest at varying rates from 2.75% to 3.70% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,260,000 in July 2028, maturity date in July 2043.	<u>166,075,000</u>
Total revenue bonds payable	623,795,000
Less current maturities	<u>(10,235,000)</u>
	613,560,000
Bond premium – 2020A series bonds	10,150,215
Bond premium – 2017 series bonds	10,940,717
Bond premium – 2016 series bonds	14,225,502
Bond premium – 2014 series bonds, net	<u>3,461,713</u>
	<u>\$652,338,147</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, 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>
2023	\$ 10,235,000	\$ 28,801,678	\$ 39,036,678
2024	10,760,000	28,282,065	39,042,065
2025	11,305,000	27,735,778	39,040,778
2026	11,875,000	27,161,815	39,036,815
2027	12,470,000	26,568,065	39,038,065
2028 through 2032	81,070,000	122,948,350	204,018,350
2033 through 2037	100,990,000	103,657,838	204,647,838
2038 through 2042	127,065,000	78,895,000	205,960,000
2043 through 2047	154,905,000	48,182,900	203,087,900
2048 through 2050	<u>103,120,000</u>	<u>9,607,500</u>	<u>112,727,500</u>
	<u>\$623,795,000</u>	<u>\$501,840,989</u>	<u>\$1,125,635,989</u>

Changes in GWA's long-term debt for the year ended September 30, 2022 are as follows:

	Outstanding October 1, <u>2021</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2022</u>	<u>Current</u>
Revenue Bonds:					
2013 series A bonds	\$ 24,500,000	\$ ---	\$(2,990,000)	\$ 21,510,000	\$ 3,145,000
2014 series A and B bonds	64,610,000	---	(555,000)	64,055,000	4,005,000
2016 series A bonds	139,030,000	---	(4,055,000)	134,975,000	835,000
2017 series A bonds	105,325,000	---	(2,145,000)	103,180,000	2,250,000
2020 series A bonds	134,000,000	---	---	134,000,000	---
2020 series B bonds	166,075,000	---	---	166,075,000	---
Unamortized premium on bonds	<u>40,654,335</u>	<u>---</u>	<u>(1,876,188)</u>	<u>38,778,147</u>	<u>---</u>
	<u>\$674,194,335</u>	<u>\$ ---</u>	<u>\$(11,621,188)</u>	<u>\$662,573,147</u>	<u>\$10,235,000</u>

Series 2013, Water and Wastewater System Revenue Bonds, dated December 12, 2013, were issued in the original principal amount of \$172,630,000 to finance capital improvement projects in connection with the financing of its 5-year Capital Improvement Plan. A portion of the bond proceeds was used to fund certain bond reserves, pay for capitalized interest and costs in connection with the issue but, for the most part, the proceeds are to be used to fund capital improvements. Total bond proceeds were \$171,097,017, net of a bond discount of \$1,532,983, with closing costs of \$2,961,409. The bond discount has been deferred and amortized on a straight-line basis over the average remaining life of the 2013 bonds.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

Series 2014, Water and Wastewater System Revenue Bonds, dated August 7, 2014, were issued in the original principal amount of \$85,600,000 to refund all of GWA's outstanding Guam Waterworks Authority Water and Wastewater Revenue Bonds, Series 2005, and to pay costs of issuing the 2014 Bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2005 bonds and interest thereon to become due on or prior to July 1, 2015 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2005 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$2,468,670 representing the difference between the reacquisition price and the carrying amount of the 2005 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by \$13,873,732 over twenty years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$8,352,503. The unamortized balance of the deferred loss on refunding of the 2005 Series bonds as of September 30, 2022 totals \$1,032,424. Total bond proceeds were \$92,533,037, and included a bond premium of \$5,648,970 and funds from deposit in 2005 Bond Fund and Bond Reserve Fund of \$1,284,068, with closing costs of \$1,536,177. The bond premium has been deferred and amortized on a straight-line basis over the average remaining life of the 2014 bonds.

Series 2016, Water and Wastewater System Revenue Bonds, dated February 9, 2016, were issued in the original principal amount of \$143,310,000 to finance capital improvement projects in connection with the financing of its 5-year Capital Improvement Plan. A portion of the bond proceeds was used to fund certain bond reserves, pay for capitalized interest and costs in connection with the issue but, for the most part, the proceeds are to be used to fund capital improvements. Total bond proceeds were \$161,534,842, including a bond premium of \$18,224,842, with closing costs of \$2,467,854. The bond premium has been deferred and amortized on a straight-line basis over the average remaining life of the 2016 bonds.

Series 2017, Water and Wastewater System Revenue Bonds, dated December 13, 2017, were issued in the original principal amount of \$107,660,000 to refund a portion of the outstanding Series 2010 bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2010 bonds and interest thereon to become due on or prior to July 1, 2019 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2010 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$11,791,115 representing the difference between the reacquisition price and the carrying amount of the 2010 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by \$14,870,141 over twenty-three years and obtained

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

an economic gain (difference between the present values of the old debt and the new debt service payments) of \$10,438,103. The unamortized balance of the deferred loss on refunding of the 2010 Series bonds as of September 30, 2022 totals \$8,479,938. Total bond proceeds were \$122,155,917 and included a bond premium of \$13,854,833 and funds from deposit in 2010 Bond Fund and Bond Reserve Fund of \$2,532,528, with closing costs of \$1,775,257. The bond premium has been deferred and amortized on a straight-line basis over the average remaining life of the 2017 bonds.

Series 2020A, Water and Wastewater System Revenue Bonds, dated June 4, 2020, were issued in the original principal amount of \$134,000,000 to finance capital improvement projects in connection with the financing of its 5-year Capital Improvement Plan. A portion of the bond proceeds was used to fund certain bond reserves, pay for capitalized interest and costs in connection with the issue but, for the most part, the proceeds are to be used to fund capital improvements. Total bond proceeds were \$145,017,480, including a bond premium of \$11,017,480, with closing costs of \$2,218,134. The bond premium has been deferred and amortized on a straight-line basis over the average remaining life of the 2020A bonds.

Series 2020B, Water and Wastewater System Revenue Bonds, dated August 26, 2020, were issued in the original principal amount of \$166,075,000 to refund a portion of the outstanding Series 2013 bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2013 bonds and interest thereon to become due on or prior to July 1, 2023 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2013 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$22,348,953 representing the difference between the reacquisition price and the carrying amount of the 2013 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by \$13,533,562 over twenty-three years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$11,931,575. The unamortized balance of the deferred loss on refunding of the 2013 Series bonds as of September 30, 2022 totals \$19,717,493, respectively. Total bond proceeds were \$167,376,076, and included funds from deposit in 2013 Bond Fund and Bond Reserve Fund of \$1,301,076, with closing costs of \$2,124,298.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

6. Long-Term Debt, continued

Pledged Revenues

The 2010, 2013, 2014, 2016, 2017, 2020A and 2020B Series Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, GWA system revenues (excluding legislative surcharges and system development charges) to secure the payment of principal and interest on the Bonds. As of September 30, 2022, total principal and interest remaining on these bonds is \$1,125,635,989 payable through January 2050. For the year ended September 30, 2022, debt service paid on these bonds was \$39,041,402 and total pledged GWA system revenues were \$98,449,875.

Prior-Year Defeasance of Debt

In prior years, GWA defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payouts on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in GWA's financial statements. At September 30, 2022, bonds outstanding of \$142,595,000, are considered defeased, which represents a portion of the Series 2013 bonds.

Bond Covenants

The General Indenture, dated December 1, 2005, as updated by supplemental indentures, sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes GWA was in compliance with all bond covenants as of and for the year ended September 30, 2022. The primary requirements of the General Indenture are summarized below:

Rate Covenant - GWA has covenanted to at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the water and wastewater system which will be sufficient to yield the sum of net revenues during each fiscal year equal to at least 125% of the annual debt service for such fiscal year. Net revenues are defined generally as all GWA system revenues (excluding legislative surcharges, system development charges and Federal grants) less operating and maintenance expenses (excluding depreciation and amortization charges and certain extraordinary, nonrecurring expenses).

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

6. Long-Term Debt, continued

Bond Covenants, continued

Operation and Maintenance Funds - the General Indenture creates an Operation and Maintenance Fund, available for working capital purposes, and the Operation, Maintenance, Renewal and Replacement Reserve Fund, available for emergency renewals, replacements and other contingency items. With respect to the Operation and Maintenance Fund, GWA must maintain a balance in such account equal to the amount of operation and maintenance expenses budgeted by GWA to be paid from revenues during the next succeeding calendar month. With respect to the Operation, Maintenance, Renewal and Replacement Reserve Fund, GWA must maintain a balance in such account equal to one-fourth of the budgeted sum for the then current fiscal year.

Debt Service Fund - the General Indenture creates a Debt Service Fund available for the purpose of: (1) paying interest on bonds as it shall become due and payable; (2) paying the principal of Serial Bonds when due and payable; (3) purchasing or redeeming or paying at maturity Term Bonds; (4) paying Parity Payment Agreement Payments due and payable; and (5) paying Credit Agreement Reimbursement Payments due and payable. As of September 30, 2022, GWA is not currently a party to any Parity Payment Agreements.

Bond Reserve Fund - the General Indenture created a Bond Reserve Fund available for the purpose of paying debt service on Bonds (including Payment Agreement Payments) in the event of a deficiency in the Debt Service Fund. GWA is required to maintain an amount within the Bond Reserve Fund equal to the maximum annual debt service for the then current or future fiscal year on all outstanding bonds.

Events of default with finance related consequences - the General Indenture specifies a number of Events of Default and related remedies. In the event that the amount in any Fund or Account is insufficient for the purposes for which such Fund or Account was established, the Trustee shall transfer such amount as is necessary to satisfy such deficiency. If after making all such transfers, the amount in the Debt Service Fund is insufficient, the Trustee shall promptly issue a notice of default to Bondholders.

Acceleration - the remedies granted to the Trustee and the Bondholders under the General Indenture do not include any right to accelerate the payment of the outstanding bonds. The Trustee is authorized to take certain actions upon the occurrence of an event of default, including proceedings to enforce the rights of Bondholders as outlined in the General Indenture.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

7. Change in Other Long-Term Liabilities

Changes in GWA's other long-term liabilities for the year ended September 30, 2022 are as follows:

	Outstanding October 1, <u>2021</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2022</u>	<u>Current</u>
Other:					
Employee annual leave	\$ 1,845,938	\$ 1,446,247	\$(1,571,265)	\$ 1,720,920	\$725,007
DCRS sick leave liability	1,339,208	37,296	---	1,376,504	---
Lease liabilities	782,682	2,587	(250,166)	535,103	234,824
Net pension liability	56,364,779	---	(10,326,444)	46,038,335	---
OPEB liability	<u>106,433,894</u>	<u>9,838,163</u>	<u>---</u>	<u>116,272,057</u>	<u>---</u>
	<u>\$166,766,501</u>	<u>\$11,324,293</u>	<u>\$(12,147,875)</u>	<u>\$165,942,919</u>	<u>\$959,831</u>

8. Pensions

GWA is statutorily responsible for providing pension benefits for GWA employees through the GovGuam Retirement Fund (GGRF).

A. General Information About the Pension Plans

Plan Description: GGRF administers the GovGuam Defined Benefit (DB) Plan, a single-employer defined benefit pension plan, and the Defined Contribution Retirement System (DCRS). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GWA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, and prior to January 1, 2018 are required to participate in the Defined Contribution Retirement System (DCRS) Plan. Hence, the DB Plan became a closed group.

Members of the DB Plan who retired prior to October 1, 1995, or their survivors, are eligible to receive annual supplemental annuity payments. In addition, retirees under the DB and DCRS Plans who retired prior to September 30, 2020 are eligible to receive an annual ad hoc cost of living allowance (COLA).

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age. Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age. Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Supplemental annuity benefit payments are provided to DB retirees in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. Annual COLA payments are provided to DB and DCRS retirees in a lump sum amount of \$2,000. Both supplemental annuity benefit payments and COLA payments are made at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

On September 20, 2016, the Guam Legislature enacted Public Law 33-186, which created two new government retirement plans; the DB 1.75 Plan and the Guam Retirement Security Plan (GRSP).

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

On February 4, 2020, the Guam Legislature terminated the GRSP. Commencing April 1, 2017, eligible employees elected, during the “election window”, to participate in the DB 1.75 Plan with an effective date of January 1, 2018.

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DC Plan and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee’s base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution. Benefits are fully vested upon attaining 5 years of credited service.

Members of the DB 1.75 Plan may retire at age 62 with 5 years of credited service, or at age 60 with 5 years of credited service without survivor benefits, or at age 55 with 25 years of credited service but the retirement annuity shall be reduced ½ of 1% for each month that the age of the member is less than 62 years (6% per year). Credited service is earned for each year of actual employment by the member as an employee. Upon retirement, a retired member is entitled to a basic retirement annuity equal to an annual payment of 1.75% of average annual salary multiplied by years of credited service. Average annual salary means the average of annual base salary for the three years of service that produce the highest average.

Contributions: Plan members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The contribution requirements of the plan members and GWA are established and may be amended by the GGRF.

GWA’s statutory contribution rates were 28.32% for the year ended September 30, 2022. Employees are required to contribute 9.5% of their annual pay for the year ended September 30, 2022.

GWA’s contributions to the DB Plan for the year ended September 30, 2022 was \$5,180,477 which was equal to the statutorily required contributions for the year then ended.

GWA’s contributions for supplemental annuity benefit and COLA payments for the year ended September 30, 2022 was \$558,000 which was equal to the statutorily required contributions for the year then ended.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

Contributions into the DCRS plan by members are based on an automatic deduction of 6.2% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions for the DCRS plan for the year ended September 30, 2022 is determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 6.2% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

GWA's contributions to the DCRS Plan for the year ended September 30, 2022 was \$3,953,604 which was equal to the required contributions for the respective years then ended. Of this amount, \$2,531,814 was contributed towards the unfunded liability of the DB Plan for the year ended September 30, 2022.

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability: At September 30, 2022, GWA reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2021 which is comprised of the following:

Defined Benefit Plan	\$32,556,486
Ad Hoc COLA/supplemental Annuity Plan for DB	11,715,208
As Hoc COLA Plan for DCRS retirees	<u>1,766,641</u>
	<u>\$46,038,335</u>

GWA's proportion of the GovGuam net pension liabilities was based on GWA's expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam's component units. At September 30, 2022, GWA's proportionate shares of the GovGuam net pension liabilities were as follows:

Defined Benefit Plan	3.38%
Ad Hoc COLA/supplemental Annuity Plan for DB	3.80%
Ad Hoc COLA Plan for DCRS retirees	2.50%

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Pension Expense (Benefit): For the year ended September 30, 2022, GWA recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

Defined Benefit Plan	\$2,722,613
Ad Hoc COLA/supplemental Plan for DB retirees	907,657
Ad Hoc COLA Plan for DCRS retirees	<u>152,277</u>
	<u>\$3,782,547</u>

Deferred Outflows and Inflows of Resources: At September 30, 2022, GWA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 52,255	\$ 331,030	\$ ---	\$162,751	\$194,282	\$ 34,403
Net difference between projected and actual earnings on pension plan investments	---	3,932,804	---	---	---	---
Changes of assumptions	---	---	319,222	34,739	358,832	116,527
Contributions subsequent to the measurement date	5,180,477	---	558,000	---	64,000	---
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>506,418</u>	<u>116,263</u>	<u>28,616</u>	<u>252,637</u>	<u>142,922</u>	<u>195,592</u>
	<u>\$5,739,150</u>	<u>\$4,380,097</u>	<u>\$905,838</u>	<u>\$450,127</u>	<u>\$760,036</u>	<u>\$346,522</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2022 will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	<u>Defined Benefit Plan</u>	<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan for DCRS Retirees</u>
2023	\$(368,582)	\$(57,205)	\$ 28,396
2024	(545,065)	(57,205)	28,396
2025	(1,111,790)	(57,205)	28,396
2026	(1,638,584)	27,766	48,378
2027	(32,593)	20,043	46,559
Thereafter	<u>(115,810)</u>	<u>21,526</u>	<u>169,389</u>
	<u>\$(3,821,424)</u>	<u>\$102,280</u>	<u>\$349,514</u>

Actuarial Assumptions: The actuarial assumptions used are based upon recommendations from the actuarial experience study for the period October 1, 2011 through September 30, 2015. A summary of actuarial assumptions applied to all periods included in the measurement is shown below.

Actuarial cost method:	Entry age normal
Total payroll growth:	2.75%
Salary increases:	Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 15 years to 7.5% for service from zero to five years.
Disability:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females.
Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to 74, 100% at age 75.
Mortality:	Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females.
Amortization method:	Level percentage of payroll, closed.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Expected Rate of Return and Asset Allocation: The Fund has a target asset allocation based on the investment policy adopted by the GGRF Board of Trustees. The target allocation and best estimates of the expected nominal return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	26.0%	7.44%	1.93%
U.S. Equities (small cap)	4.0%	9.23%	0.37%
Non-U.S. Equities	17.0%	9.28%	1.58%
Non-U.S. Equities (emerging markets)	3.0%	11.32%	0.34%
U.S. Fixed Income (aggregate)	22.0%	3.89%	0.86%
Risk Parity	8.0%	5.92%	0.47%
High Yield Bonds	8.0%	6.42%	0.51%
Global Real Estate (REITs)	2.5%	8.55%	0.21%
Global Equity	7.0%	8.20%	0.57%
Global Infrastructure	2.5%	7.58%	0.19%
Expected average return for one year			7.04%
Expected geometric mean (30 years)			6.36%

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan was 7.0%, which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments was 2.26%, which is equal to the rate of return of a high quality bond index.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

8. Pensions, continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Discount Rate Sensitivity Analysis: The following presents the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to GWA's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Defined Benefit Plan:

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	<u>\$41,106,836</u>	<u>\$32,556,486</u>	<u>\$21,966,602</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>1.26%</u>	Current Discount Rate <u>2.26%</u>	1% Increase in Discount Rate <u>3.26%</u>
Net Pension Liability	<u>\$12,847,535</u>	<u>\$11,715,208</u>	<u>\$10,726,690</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>1.26%</u>	Current Discount Rate <u>2.26%</u>	1% Increase in Discount Rate <u>3.26%</u>
Net Pension Liability	<u>\$2,005,493</u>	<u>\$1,766,641</u>	<u>\$1,562,863</u>

C. Payables to the Pension Plans

As of September 30, 2022, GWA recorded payables to GGRF of \$109,537 representing unremitted statutorily required contributions.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB)

GWA participates in the retiree health care benefits program. GovGuam’s Department of Administration is responsible for administering the GovGuam Group Health Insurance Program, which provides medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The program covers retirees and is considered an OPEB plan.

A. General Information About the OPEB Plan

Plan Description: The OPEB plan is a single-employer defined benefit plan that provides healthcare benefits to eligible employees and retirees who are members of the GovGuam Retirement Fund. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Governor’s recommended budget and the annual General Appropriations Act enacted by the Guam Legislature provide for a premium level necessary for funding the program each year on a “pay-as-you-go” basis. GovGuam issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to the Government of Guam Department of Administration, Suite 224, 2nd Floor, ITC Building, 590 South Marine Corps Drive, or by visiting the Guam Department of Administration website – <https://da.doa.guam.gov/reports/guam-other-post-employment-benefits-opeb-reports/>.

Benefits: GovGuam provides postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only.

Contributions: No employer contributions are assumed to be made since an OPEB trust has not been established. Instead, the OPEB Plan is financed on a substantially “pay-as-you-go” basis whereby contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

B. Total OPEB Liability:

Total OPEB liability at the fiscal year presented for the OPEB Plan was measured on and was determined by actuarial valuations as of the following dates:

Reporting date:	September 30, 2022
Measurement date:	September 30, 2021
Valuation date:	September 30, 2020

Total OPEB liability as of September 30, 2022 is \$112,253,488.

Proportionate share of total OPEB liability at September 30, 2022 is 4.19%.

Actuarial Assumptions: A summary of actuarial assumptions applied to all periods included in the measurement is shown below:

Inflation:	2.75%
Healthcare cost trend rate:	19 percent and 31 percent for FY2021 Non-Medicare and Medicare plans, respectively. 6 percent for FY2022 through FY2023, decreasing 0.25 percent per year to an ultimate rate of 4.25 percent for FY2030 and later years.
Dental trend rates:	4.25% per year, based on a blend of historical retiree premium rate increases as well as observed U.S. national trends. Year 1 trend is assumed to be -3.11%.
Healthy retiree mortality rates:	Head-count weighted PUB-2010 Table, set forward 4 years for males and 2 years for females, respectively, projected generationally using 50% of MP-2020.
Disabled mortality rates:	PUB-2010 Disabled Retiree Amount Weighted mortality table set forward 4 years for males and 2 years for females, respectively, using 130% of the rates before age 80 and projected generationally from 2010 using 50% of mortality improvement scale MP-2020.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

B. Total OPEB Liability, continued

Discount rate: The discount rate used to measure the total OPEB liability was 2.26%. The projection of cash flows used to determine the discount rate assumed that contributions from the Government will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 2.26% municipal bond rate was applied to all periods to determine the total OPEB liability.

OPEB plan fiduciary net position: As of September 30, 2022, an OPEB trust has not been established thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the sensitivity of the total OPEB liability to changes in the discount rate. The sensitivity analysis shows the impact to GWA's proportionate share of the total OPEB liability if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease in Discount Rate <u>1.26%</u>	Current Discount Rate <u>2.26%</u>	1% Increase in Discount Rate <u>3.26%</u>
Total OPEB Liability	<u>\$133,698,788</u>	<u>\$116,272,057</u>	<u>\$96,352,478</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The sensitivity analysis shows the impact to GWA's proportionate share of the total OPEB liability if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	Healthcare Cost <u>Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	<u>\$93,467,674</u>	<u>\$116,272,057</u>	<u>\$138,348,064</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2022, GWA reported total OPEB expense of \$6,927,940 for its proportionate share of the GovGuam total OPEB expense. At September 30, 2022, GWA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$13,575,416	\$6,176,160
Difference between expected and actual experience	10,131,991	16,348,358
Contributions subsequent to the measurement date	2,155,206	---
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>15,385,349</u>	<u>3,328,419</u>
	<u>\$41,247,962</u>	<u>\$25,852,937</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the total OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at September 30, 2022 will be recognized in OPEB expense as follows:

<u>Year Ending September 30</u>	
2023	\$(517,982)
2024	4,133,168
2025	6,163,689
2026	2,837,146
2027	<u>623,798</u>
	<u>\$ 13,239,819</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

10. Leases

Leased assets at September 30, 2022 are as follows:

<u>Lease Description</u>	<u>Classification</u>	<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Dump trucks	Equipment	\$435,767	\$132,051	\$303,716
Backhoe loaders	Equipment	259,297	79,784	179,513
Backhoe trailers	Equipment	65,144	20,044	45,100
Ground level storage	Building	<u>22,473</u>	<u>17,978</u>	<u>4,495</u>
		<u>\$782,681</u>	<u>\$249,857</u>	<u>\$532,824</u>

Guam Power Authority (GPA)

In February 2015, GWA moved to a building owned by GPA. GWA does not currently have a signed lease agreement with GPA but pays for its share of building maintenance costs. GWA's use of the building did not amount to a lease as the resolution passed by the CCU did not convey the right to use an underlying asset. For the year ended September 30, 2022, GWA's share of building maintenance cost totaled \$241,668.

Morrigo Equipment, LLC (Morrigo)

GWA and Morrigo have an equipment lease agreement with lease term of five (5) years for dump trucks, backhoe loaders and backhoe trailers, with various inception dates based on the delivery dates of the equipment. The lease agreement may be terminated for convenience by GWA with penalty.

GWA recorded the related right-of-use assets at cost of \$760,208, less accumulated amortization of \$231,879.

The future lease payments for this transaction are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$230,325	\$1,841	\$232,166
2024	231,324	841	232,165
2025	<u>68,955</u>	<u>58</u>	<u>69,013</u>
	<u>\$530,604</u>	<u>\$2,740</u>	<u>\$533,344</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

11. Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the U.S. Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the year ended September 30, 2022 amount to \$5,656,471.

12. Commitments and Contingencies

Merit System

Public Law 21-59, enacted the Uniform Position Classification and Salary Administration Act of 1991 for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam. The Act included a merit bonus, calculated at 3.5% of the employee's base salary, for employees who earn a superior performance grade. On September 17, 2013, the CCU, in GWA Resolution 42-FY2013, authorized the payment of merit bonuses in the years succeeding the CCU's approval to all eligible classified employees in accordance with the laws of Guam.

On October 20, 2017, CCU Resolution 01-FY2018 approved the creation and addition of GWA Certified, Technical and Professional (CTP) positions and the implementation of a Strategic Pay Scale for such positions as authorized by Public Law 28-159. The conversion to the CTP positions and pay scale from the unified system of position classification and compensation eliminated merit bonuses. GWA believes that no liability may ultimately arise from this matter and therefore no liability has been recognized in the accompanying financial statements.

Claims

Due to the nature of its operations, GWA is subject to various claims by private and governmental customers and vendors for various alleged losses. Because an estimate of the amount or range of potential loss cannot be determined at this time, no provision for any liability that may result from such claims has been made in the accompanying financial statements.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

12. Commitments and Contingencies, continued

Litigation

The Authority is seeking to quiet title in property listed in a current court action brought by the Government of Guam, Department of Land Management to rescind and correct certificates of title. Although the private party holding certificates of title that the Government of Guam seeks to rescind and correct has claimed \$220 million in compensation, no judgement on damages or compensation has been made and Management is of the opinion that based on the current status of the litigation, and courses of actions still available to it, liabilities of a material nature will not be realized, and therefore no related provision has been recorded in the accompanying financial statements for the potential impact, if any, of this matter. This case is in Superior Court and on August 14, 2023, the court issued a Decision and Order that GWA will either seek reconsideration on or appeal to the Guam Supreme Court. A status hearing is next scheduled for September 2023 which may lead to a trial, further review (for reconsideration), an appeal, or new motion filings.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$51,348,293 at September 30, 2022, of which \$15,584,277 will be funded by federal grants from the U.S. Government.

Program Management Office Services

On January 31, 2017, GWA entered into a separate contract for Program Management/Construction Management (PM/CM) to manage the implementation and execution of projects related to the military buildup, financed primarily by the Office of Economic Adjustment and to provide support services related to project management, design construction and operational needs as part of the execution of these projects. On June 17, 2019, GWA entered into a separate contract to provide Indefinite Delivery/Indefinite Quantity (ID/IQ) professional project/construction management and utility consulting services for various types of water and wastewater utility projects and utility management activities, as well as consulting engineering services in support of municipal planning, utility management analysis and regulatory compliance. Contract commitments for these services approximate \$1,059,971 as of September 30, 2022.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

12. Commitments and Contingencies, continued

Medicare

The Government of Guam and its component units, including GWA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of GWA and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Court Order

In 2002, the US Government filed a complaint against GWA and the Government of Guam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government sought both civil penalties and injunctive relief to address such non-compliance. Both GWA and the U.S. Department of Justice, Environmental and Natural Resources Division, mutually agreed in the form of a Court Order to resolve the violation issues.

In 2003, a Court Order for Preliminary Relief was filed before the District Court of Guam. The Stipulation required implementation of short-term projects and initial planning measures by GWA. GWA was required to submit a final financial plan in the Master Plan that generates sufficient revenue to cover the cost of all compliance activities and deliverables required by the Court Order for Preliminary Relief, as well as any other anticipated expenses, including any measures necessary to ensure compliance with the CWA and the SDWA and costs related to the infrastructure improvements identified in the Master Plan.

In 2006, the Court Order was amended, which required GWA to perform approximately \$220 million of capital improvement projects and perform other actions to bring GWA's system into compliance. However, GWA was unable to meet all deadlines set out in the amended Court Order. The District Court ordered the parties to stipulate as to the scope of the remaining projects and project completion dates. The parties were unable to reach an agreement on all items. As a result, on November 10, 2011, the District Court issued an order setting new deadlines for the unfinished projects and included new projects that were not part of the amended Court Order. As of September 2021, of the 93 items required by the Court Order, 92 are either complete or in progress (e.g., continuous reporting requirement). GWA continues to make progress in completing the one remaining item, using 2020A Series Bond Revenue to repair, rehabilitate or replace water storage reservoirs by the revised 2023 deadline.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

12. Commitments and Contingencies, continued

Court Order, continued

GWA filed an unopposed motion in the U.S. District Court to extend the final completion deadline to June 23, 2023 from December 30, 2020. The Court approved the extension and GWA continues its work to complete the sole remaining compliance requirement by the new deadline.

Primary Treatment Permits

In 2011, the United States Environmental Protection Agency (USEPA) informed GWA that its waiver request for primary treatment plants for Hagåtña and Northern District Wastewater Treatment Plants (WWTP) had been denied and that GWA would be required to upgrade the plants to secondary treatment. The upgrades were initially estimated to cost approximately \$300 million. New National Pollutant Discharge Elimination System (NPDES) permits were issued to these treatment plants effective January 1, 2020 which included secondary treatment standards, some of which these two plants are unable to meet.

In 2016 and 2017, the Office of Economic Adjustment, Department of Defense, awarded GWA \$55.3 and \$117.9 million, respectively, for projects to upgrade water and wastewater infrastructure, most specifically to upgrade the Northern District WWTP to full secondary treatment capabilities. The construction of the upgrades is scheduled to be completed by October 2022.

GWA continues discussions with USEPA regarding the timing of required upgrades to the Hagåtña WWTP as part of a negotiated consent decree.

13. Supplemental Annuities/COLA

As required by GovGuam's Annual Appropriation's Act, GWA must reimburse GovGuam's Department of Administration for certain supplemental and healthcare benefits paid to retirees. During the year ended September 30, 2022, GWA levied a surcharge amounting to \$3,010,774 in order to satisfy this legislative mandate. Effective October 1, 2021 the surcharge was reduced from 3.60% to 3.50% as approved by the Guam PUC.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

14. System Development Charge (SDC)

In 2010, PUC approved the implementation of a water and sewer SDC, which authorized GWA to charge water and wastewater SDC to applicable customers on and after March 2, 2010. SDC revenues generated and collected are to be expended for costs associated with the construction, expansion, upgrade, and repair of water and wastewater facilities for users who are for the first time connecting property into the Guam water or wastewater system or for builders if the density of the existing connection is increased. SDC revenues may also be used to pay the principal sum and interest and other finance costs on bonds, notes or other obligations issued by or on behalf of GWA to finance such capital improvements or facilities expansion or renovations. During the year ended September 30, 2022, SDC revenues were \$1,245,362.

15. Related Party Transactions

GWA receives electrical and administrative services from GPA, a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the year ended September 30, 2022 were \$18,577,440, and GWA was also charged \$555,086 for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$2,327,605 as of September 30, 2022.

For the year ended September 30, 2022, GWA billed GPA a total of \$165,788 for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2022 was \$303,282 which is included in receivables in the accompanying statements of net position.

15. Related Party Transactions, continued

GWA receives waste disposal services from Guam Solid Waste Authority (GSWA). Waste disposal fees for the year ended September 30, 2022 were \$658,813. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$26,430 as of September 2022 and were included in trade accounts payable in the accompanying statements of net position.

16. Subsequent Events

On May 24, 2023, the island of Guam suffered severe damages caused by super typhoon Mawar. As of the date of this report, the Company is unable to reasonably estimate the potential impact on its future financial statements.

Required Supplementary Information

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
GWA's proportionate share of the net pension liability	\$32,556,486	\$42,300,716	\$40,222,332	\$37,292,034	\$33,100,479	\$38,799,923	\$40,053,650
GWA's proportion of the net pension Liability	3.38%	3.39%	3.31%	3.16%	2.90%	2.83%	2.79%
GWA's covered-employee payroll**	\$18,724,804	\$17,738,557	\$16,874,281	\$16,251,058	\$14,729,699	\$14,353,805	\$14,388,631
GWA's proportionate share of the net pension liability as percentage of its covered-employee payroll	173.87%	238.47%	238.36%	229.47%	224.72%	270.31%	278.37%
Plan fiduciary net position as a percentage of the total pension liability	70.14%	61.48%	62.25%	63.28%	60.63%	54.62%	52.32%

*This date is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the net pension liability	\$11,715,208	\$12,486,188	\$12,866,333	\$11,195,277	\$10,909,240
GWA's proportion of the net pension liability	3.80%	3.88%	3.97%	3.86%	3.79%
GWA's covered-employee payroll**	\$19,210,070	\$20,273,487	\$20,220,585	\$19,846,017	\$19,244,239
GWA's proportionate share of the net pension liability as percentage of its covered-employee payroll	60.98%	61.59%	63.63%	56.41%	56.69%

*This date is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the net pension liability	\$1,766,641	\$1,577,875	\$1,299,011	\$1,105,860	\$1,441,633
GWA's proportion of the net pension liability	2.50%	2.38%	2.17%	2.24%	2.31%
GWA's covered-employee payroll**	\$12,167,634	\$6,162,019	\$5,108,575	\$5,927,414	\$8,698,580
GWA's proportionate share of the net pension liability as percentage of its covered-employee payroll	14.52%	25.61%	25.43%	18.66%	16.57%

*This date is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Required Supplementary Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 4,263,160	\$ 4,116,086	\$ 3,998,221	\$ 4,029,190	\$ 3,491,479	\$ 3,524,561	\$ 3,759,121
Contributions in relation to the actuarially determined contribution	<u>5,180,477</u>	<u>4,038,242</u>	<u>4,025,886</u>	<u>4,296,287</u>	<u>3,630,252</u>	<u>3,527,186</u>	<u>3,749,595</u>
Contribution deficiency (excess)	\$(<u>917,317</u>)	\$(<u>77,844</u>)	\$(<u>27,665</u>)	\$(<u>267,097</u>)	\$(<u>138,773</u>)	\$(<u>2,625</u>)	\$(<u>9,526</u>)
GWA's covered-employee payroll**	\$ <u>18,724,804</u>	\$ <u>17,738,557</u>	\$ <u>16,874,281</u>	\$ <u>16,251,058</u>	\$ <u>14,729,699</u>	\$ <u>14,353,805</u>	\$ <u>14,388,631</u>
Contributions as a percentage of covered employee payroll	27.67%	22.77%	23.86%	26.44%	24.65%	24.57%	26.06%

*This date is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Total OPEB Liability
Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the OPEB liability	\$116,272,057	\$106,433,894	\$84,163,331	\$62,656,405	\$88,950,661
GWA's proportion of the OPEB liability	4.19%	4.23%	3.30%	3.34%	3.66%
GWA's covered-employee payroll**	\$22,504,297	\$18,203,494	\$17,546,110	\$13,011,086	\$14,150,906
GWA's proportionate share of the OPEB liability as percentage of its covered-employee payroll	516.67%	584.96%	479.67%	481.56%	628.59%

*This date is presented for those years for which information is available.

**No assets accumulated in a trust to pay the benefits.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Required Supplementary Information (Unaudited)
Schedule of OPEB Contributions
Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$8,511,831	\$7,175,899	\$5,617,770	\$7,776,105	\$8,045,954
Contributions in relation to the actuarially determined contribution	<u>1,966,259</u>	<u>1,598,791</u>	<u>1,745,004</u>	<u>1,795,850</u>	<u>1,617,515</u>
Contribution deficiency	<u>\$6,545,572</u>	<u>\$5,577,108</u>	<u>\$3,872,766</u>	<u>\$5,980,255</u>	<u>\$6,428,439</u>
GWA's covered-employee payroll	\$22,504,297	\$18,203,494	\$17,546,110	\$13,011,086	\$14,150,906
Contributions as a percentage of covered-employee payroll	8.74%	8.78%	9.95%	13.80%	11.43%

*This date is presented for those years for which information is available.

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Notes to Required Supplementary Information (Unaudited)

Changes in Assumptions – Pension Plans

Amounts reported in 2021 actuarial valuation reflected an assumption related to administrative expenses to increase to \$6,565,000 per year.

Amounts reported in 2020 actuarial valuation reflected an assumption related to administrative expenses to decrease to \$6,439,000 per year.

Amounts reported in 2019 actuarial valuation reflected an assumption related to administrative expenses to decrease to \$6,860,000 per year.

Amounts reported in 2018 actuarial valuation reflected an assumption related to administrative expenses to increase to \$7,082,000 per year.

Amounts reported in the 2017 actuarial valuation reflect a change in assumption of payroll growth to 2.75% rather than 3%. The mortality, retirement age and disability assumption were changed to more closely reflect actual experience. Assumption related to administrative expense reflected an increase to \$6,344,000 per year and a revised allocation to the various pension plans to reflect actual experience.

Amounts reported in 2016 actuarial valuation reflect a change in assumption of administrative expenses to \$6,078,000 per year rather than \$5,806,000.

Amounts reported in 2015 actuarial valuation reflect a change in assumption of payroll growth to 3% rather than 3.5% which was used to determine amounts reported prior to 2015. Amounts reported in 2014 reflect an adjustment of the expectations of salary increases, disability and retirement age to more closely reflect actual experience. The amounts reported in the 2011 actuarial valuation reflect an expectation of retired life mortality based on the RP-2000 Mortality Table rather than the 1994 U.S. Uninsured Pensioners Table, which was used to determine amounts reported prior to 2011. Amounts reported in 2011 also reflect a change in assumption on valuation of assets to a 3-year phase in for gains/losses relative to interest rate assumption from market value, with fixed income investments at amortized costs which was used to determine amounts reported prior to 2011.

Supplementary and Other Information

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Certain Operating and Maintenance Expenses

Year ended September 30, 2022

Salaries, wages and benefits:	
Regular, differential and hazardous pay	\$16,055,989
Pension costs and other benefits	5,726,543
Overtime pay	<u>409,097</u>
Total salaries, wages and benefits	<u>\$22,191,629</u>
Administrative and general:	
Materials and supplies	\$ 1,923,816
Chemicals	1,506,895
Insurance	1,299,193
Transportation	696,392
Miscellaneous	628,488
Merchant fees	625,606
Public Utility Commission	203,851
Communications	156,595
Training	95,939
Liability claims	92,335
Advertising	<u>68,500</u>
Total administrative and general	<u>\$ 7,297,610</u>
Contractual:	
Labor, materials and others	\$ 1,627,464
Accounting	1,411,843
Legal	563,305
Property rental	510,840
Equipment rental	192,456
Testing	<u>186,937</u>
Total contractual	<u>\$ 4,492,845</u>
Other expense:	
Interest expense	\$29,175,309
Retiree healthcare costs and other benefits	8,864,985
Bond issuance costs	<u>180,594</u>
Total other expense	<u>\$38,220,888</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Construction Work in Progress

Year ended September 30, 2022

Project Title	Type	Beginning Balance FY2022	Additions and Adjustments	Closed out during FY2022	Ending Balance FY2022
Asan Springs Rehabilitation	Water	\$ 815,421	\$ 65,921	\$ -	\$ 881,342
Deepwell New Wells Site Development and Rehabilitation	Water	1,847,079	87,075	-	1,934,154
Equipment Purchases	Water/Wastewater	-	634,143	(608,333)	25,810
Facilities Improvement	Water/Wastewater	689,669	51,780	-	741,449
Fire Hydrant Replacements	Water	523,484	304,587	(828,071)	-
Hydraulic Modeling	Water/Wastewater	641,533	2,539	-	644,072
I&I SSES for Central/Northern/Southern Sewer Systems	Wastewater	2,976,045	182,988	-	3,159,033
Information Technology	Water/Wastewater	158,526	190,271	(190,271)	158,526
Island Wide Real Property Survey & Mapping	Water/Wastewater	779,387	-	-	779,387
Island Wide Water Reservoirs	Water	25,046,832	19,900,708	(1,227,777)	43,719,763
Meters and related	Water	856,846	376,117	(274,571)	958,392
Pressure Zone Realignment	Water	2,841,545	2,159,499	(81,280)	4,919,764
Program Management Office	Water/Wastewater	3,507,754	585,867	(86,583)	4,007,038
Pumps, Motors, Cables and related Replacements	Water/Wastewater	28,774	872,204	(559,373)	341,605
Route 1 Sanitary Sewer Rehabilitation and Replacement (Asan-Adelup-Hagatna)	Wastewater	4,657,972	5,861,592	(690,252)	9,829,312
SCADA System for Water and Wastewater	Water/Wastewater	1,343,089	382,877	-	1,725,966
Sewer Pump Station Improvements	Wastewater	1,514,564	1,364,948	(272,782)	2,606,730
Tamuning Hot Spots Sewer Line Rehabilitation and Replacement	Wastewater	1,589,166	676,605	-	2,265,771
Tumon Hot Spots Sewer Line Rehabilitation	Wastewater	432,574	-	-	432,574
Ugum Water Treatment Plant Rehabilitation	Water	227,554	44,609	(107,423)	164,740
Upgrade to Secondary Treatment at NDWWTP	Wastewater	102,394,392	31,832,104	(56,184,398)	78,042,098
Wastewater Collection Systems	Wastewater	757,829	361,713	-	1,119,542
Water and Wastewater Infrastructure Improvements	Water/Wastewater	11,341,987	3,103,422	(6,137,538)	8,307,871
Water BPS Improvements	Water	366,341	153,929	(28,649)	491,621
Water Distribution Systems	Water	2,250,767	4,801,851	(1,032,927)	6,019,691
		<u>\$ 167,589,130</u>	<u>\$ 73,997,349</u>	<u>\$ (68,310,228)</u>	<u>\$ 173,276,251</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

System Development Charge Fund
Schedules of Net Position, Revenue, Expenses and Changes in Net Position

September 30, 2022

Assets

Current assets:		
Restricted cash	\$	7,408,420
Receivables		<u>1,275,981</u>
	\$	<u><u>8,684,401</u></u>

Liabilities and Net Position

Current liabilities:		
Due to GWA	\$	<u>1,109,470</u>
Net position		
Restricted		<u>7,574,931</u>
	\$	<u><u>8,684,401</u></u>

Revenues, Expenses and Changes in Net Position

Revenues:		
System development charge	\$	1,245,362
Other revenues		<u>22,322</u>
		1,267,684
Expenses:		
Transfer out		<u>3,290,280</u>
Change in net position		(2,022,596)
Net position at beginning of year		<u>9,597,527</u>
Net position at end of year	\$	<u><u>7,574,931</u></u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Operating Revenues

Year Ended September 30, 2022

Water	\$ 64,607,199
Wastewater	33,842,676
Surcharges:	
Legislative	3,010,774
System development charge	1,245,361
Other	464,488
Bad debts expense	(<u>2,028,510</u>)
Total operating revenues	<u>\$101,141,988</u>

Guam Waterworks Authority
(A Component Unit of the Government of Guam)

Schedule of Employee and Other Data

Year ended September 30, 2022

Cost Category	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration and Support	80	\$ 4,858,540	\$ 1,469,284	\$ 68,596	\$ 6,396,420
Compliance & Safety	19	1,640,735	193,504	78,703	1,912,942
Engineering	28	631,201	4,941	8,622	644,764
Executive Management	46	3,554,686	1,649,503	23,432	5,227,621
Operations: Construction & Maintenance	31	1,926,392	44,502	160,960	2,131,854
Operations: Water Distribution	51	2,906,465	401,310	934,617	4,242,392
Operations: Water Production & Treatment	36	1,917,626	125,650	419,686	2,462,962
Operations: Wastewater Collection	45	2,969,685	449,148	162,422	3,581,255
Operations: Wastewater Treatment	30	1,786,299	155,002	66,778	2,008,079
Total	366	\$ 22,191,629	\$ 4,492,844	\$ 1,923,816	\$ 28,608,289