

GUAM WATERWORKS AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on the Financial Statements

We have audited the accompanying financial statements of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

COVID-19

As discussed in Note 17 to the financial statements, GWA determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 17 as well as the Schedules of Proportionate Share of the Net Pension Liability on pages 57 through 59, the Schedule of Pension Contributions on page 60, the Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios on page 61, the Schedule of Proportionate Share of the Total OPEB Liability on page 62, and the Schedule of OPEB Contributions on page 63 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

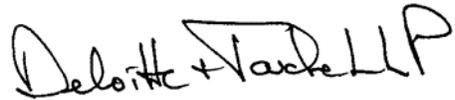
Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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 64 through 67 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such additional information on pages 64 through 67 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Employee and Other Data on page 68 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 5, 2022, on our consideration of GWA'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 GWA'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 GWA's internal control over financial reporting and compliance.

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

April 5, 2022

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2021 and 2020

As management of the Guam Waterworks Authority (GWA or the Authority), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ended September 30, 2021. 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, 2021. It is based on the financial statements provided in the annual audit report. Comparable financial data from the prior two years is also 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

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 role includes the development of operating and financial budgets and overall management strategy and direction. Elections for two seats occurred on November 3, 2020, resulting in no changes to the Board makeup. However, Commissioner Judith Guthertz resigned and was replaced by Commissioner Pedro Roy Martinez in March 2021. The CCU hires the General Manager, the Legal Counsel, and the Chief Financial Officer for GWA.

GWA's main offices are co-located with the Guam Power Authority (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 FY2021, GWA had a staff of 369 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 in FY2022.

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. Wells are used to extract the groundwater for use. GWA owns 120 wells, of which 95 were operational (though all were not in use) at September 30, 2021. 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 Authority's effort to provide more efficient and reliable service to its customers while meeting regulatory requirements. At the end of FY2021, GWA had over 43,000 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 FY2021, GWA had almost 29,900 wastewater customers. The wastewater system is separated into seven wastewater basins, six wastewater treatment plants, and an extensive collection system. The GWA wastewater collection systems are comprised of gravity sewer pipes, force mains, manholes, pump stations, ejector stations, and siphons.

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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, which includes mobile capabilities, and upgrading its financial management system. These efforts have all contributed to significantly improved operating results since FY 2011.

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 Plan and rate relief spanning FY2020 thru FY2024. The PUC approved GWA Docket 19-08 on February 27, 2020, approving 5% rate increases effective March 1, 2020, and October 1, 2020. 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.

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 was not provided before the beginning of FY2022 and the Administrative Law Judge had not issued a report as of the date of this report. GWA believes that action on this request will likely occur in the third quarter of FY2022.

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 for SDWA compliance.

GWA is currently under a 2011 Court Order to address USEPA complaints and has completed all, but one element associated with repairing or replacing potable water reservoirs. The District Court approved a request to extend the deadline for completion of the projects to June 30, 2023. Over the last three years, GWA has been negotiating with USEPA on a consent decree to address its wastewater conveyance systems; GWA believes an agreement will be reached sometime in 2022.

Debt Service Coverage and Underwriting Services

As part of the PUC Docket 19-08, GWA agreed to work to harmonize the debt service coverage (DSC) 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 FY2020 and 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. The Working Capital Reserves for Debt Service, previously used in the CCU DSC calculation, was dissolved.

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Citigroup Global Markets Inc. and RBC Capital Markets were selected to provide underwriting services for GWA through a procurement issued by the Guam Economic Development Authority on August 30, 2021. The contracts will expire on September 30, 2023, with two options to renew for an additional two years each.

Rate Stabilization Fund

CCU Resolution 11-FY2021 authorized the establishment of a Rate Stabilization Fund to address financial risk associated with utility operations and capital financing. A transfer in September 2021 of \$11.4 million from the dissolved Working Capital Reserves for Debt Service, was made to the Rate Stabilization Fund.

Financial Management System

In May 2021, GWA successfully transitioned from JDE World ERP to JDE Enterprise 1 (E-1) adopting paperless digital processes and successfully integrating GWA business systems. Account balances on April 30, 2021, were brought forward into JDE E-1 while transactions for April 2021 and prior remained on JDE World. Additionally, a mobile application, Rinami Cantara, was implemented allowing staff to access and enter information from the field for customer work orders as well as preventive and corrective maintenance.

Federal Assistance

U.S. Department of Defense (DOD)

GWA received \$173.2 million from the DOD Office of Local Defense Community Cooperation to make improvements to its water and wastewater systems related to the Marine relocation from Okinawa to Guam. In FY2021 and FY2020, there were \$52.6 million and \$59.7 million, respectively, in expenditures. The projects funded include:

- Route 9/3 sewer collection rehabilitation stretching from Andersen AFB to Northern Sewer Treatment Plant
- Northern Sewer 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 used within three years and are used for a number of water and wastewater capital projects including sewer line upgrades, sewer force main redundancies, and water pressure zone realignments. USEPA SRF expenditures totaled \$12.0 million in FY2021 and \$12.1 million in FY2020.

U.S. Department of the Interior (DOI)

GWA was awarded grants from the DOI Office of Insular Affairs through the Maintenance Assistance Program (MAP) to fund \$117 thousand in operator training and equipment and the Technical Assistance Program (TAP) to fund \$500 thousand in financial management system upgrades. Additionally, \$1 million of DOI funds were provided through the Governor's Office to fund retrofitting of wells affected by PFOS (perfluorooctane sulfuric acid). GWA expended \$7 thousand and \$518 thousand in DOI grants during FY2021 and FY2020, respectively.

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Coronavirus Aid, Relief and Economic Security (CARES) Act

CARES Act funding was made available to GWA through the Governor's Office to assist with pandemic related costs. CARES funds of \$189 thousand and \$224 thousand were provided in FY2021 and FY2020, respectively.

Guam Emergency Rental Assistance Program (GERAP) funded through the second federal relief act is administered by the Guam Department of Administration and targeted at renters. Total GERAP payments received in FY21 to assist rate payers with water and wastewater billings was \$304 thousand.

COVID-19 Public Health Emergency

Governor Lourdes Leon Guerrero kept Guam in a Public Health State of Emergency throughout FY2021 due to the Novel Coronavirus (COVID-19) pandemic. Guam began the fiscal year in Pandemic Condition of Readiness (PCOR) 1 due to the daily double-digit positive test results and COVID related hospitalizations and deaths. In November 2020, mass testing was first offered for COVID-19 at no cost. The Pfizer and Moderna COVID-19 vaccines were authorized for emergency use by the US Food and Drug Administration in December 2020. Guam offered its first COVID-19 vaccines in December 2020.

Guam was placed in PCOR 2 in January 2021, allowing most administrative employees back into offices and in February 2021, Guam moved into PCOR 3, further relaxing government restrictions. Although vaccinations of eligible populations were more than 75% by the end of July 2021, a surge in COVID cases, hospitalizations and fatalities began in August and Guam ended FY2021 with a Covid Area Risk (CAR) score of 24 peaking to almost 47 in early September.

All essential services provided by GWA continued to be performed through the pandemic emergency. Supply chains have continued the provision of needed supplies to ensure sustained water and wastewater operations. Service disconnections suspended through most of this emergency period, resumed in June 2021. FY2021 was a full year under the COVID pandemic and demand continued to be depressed in the commercial sectors, particular in the hotel class, as arrivals dropped to 61,607 for the fiscal year, 91.9% lower than FY2020.

Revenues were continuously monitored, a cost containment plan put into 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 maintained 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.

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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 23 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 57 of this report.

Financial Condition and Results

The Authority's total net position increased by \$46.4 million during the fiscal year (see table below) primarily due to the \$64.6 million in capital contributions.

The net increase in property, plant and equipment of \$69.0 million is due principally to completed and on-going construction projects related to wastewater treatment plant replacement, transmission lines, reservoir replacements, booster pump upgrades, sewer line rehabilitation/replacements, deep well rehabilitations, acquisition of mechanical and electrical equipment and general plant improvements.

The Authority's net investment in capital assets represents 92.5% of total net position. The net amount invested in capital assets increased by \$56.5 million compared to prior year.

Summary Statements of Net Position

| | September 30, 2021 | September 30, 2020 | 2021 to 2020 Comparison | | September 30, 2019 |
|---|-------------------------|-------------------------|-------------------------|---------------|-----------------------|
| | | | Increase/ (Decrease) | % Change | |
| Current and other assets | \$ 367,169,585 | \$ 387,493,650 | \$ (20,324,065) | -5.25% | \$ 270,421,778 |
| Property, plant and equipment, net | 767,223,631 | 698,236,064 | \$ 68,987,567 | 9.88% | 617,097,745 |
| Deferred outflows of resources | 94,965,533 | 66,717,845 | \$ 28,247,688 | 42.34% | 28,016,075 |
| Total assets and deferred outflows | \$ 1,229,358,749 | \$ 1,152,447,559 | \$ 76,911,190 | 6.67% | \$ 915,535,598 |
| Current and other liabilities | \$ 206,642,888 | \$ 177,752,730 | \$ 28,890,158 | 16.25% | \$ 152,516,590 |
| Long-term debt | 674,194,335 | 685,340,523 | \$ (11,146,188) | -1.63% | 528,282,698 |
| Deferred inflows of resources | 38,804,923 | 26,093,937 | \$ 12,710,986 | 48.71% | 33,202,806 |
| Total liabilities and deferred inflows | 919,642,146 | 889,187,190 | 30,454,956 | 3.43% | 714,002,094 |
| Net Position: | | | | | |
| Net investment in capital assets | \$ 286,341,746 | \$ 229,805,072 | \$ 56,536,674 | 24.60% | \$ 190,953,226 |
| Restricted | 28,019,130 | 27,166,805 | \$ 852,325 | 3.14% | 18,674,546 |
| Unrestricted | (4,644,273) | 6,288,492 | \$ (10,932,765) | -173.85% | (8,094,268) |
| Total net position | 309,716,603 | 263,260,369 | 46,456,234 | 17.65% | 201,533,504 |
| Total liabilities, deferred inflows and net position | \$ 1,229,358,749 | \$ 1,152,447,559 | \$ 76,911,190 | 6.67% | \$ 915,535,598 |

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Water revenues (excluding System Development Charges) decreased by \$1.3 million or -1.9% over the prior fiscal year. Like FY2020, the hotel sector continues to be the largest reason for the decline, a drop of -21.9% over FY2020. In FY2021, however, we see that the commercial and government sectors have shown slight improvement of 2.6% and 5.0% over FY2020, at \$0.3 million each. Residential sector increases over FY2020 by \$1.4 million, or 4.0%, has helped to offset some of these impacts. Wastewater revenues declined by \$3.1 million, or -7.8% over FY2020. Because non-residential wastewater revenues are driven by water consumption, wastewater revenues were similarly negatively impacted with almost no offsets by residential customers as residential customers are charged a flat fee for wastewater services.

Operating revenues for FY2021 decreased by \$3.6 million, or -3.4%, to \$101.7 million compared to \$105.3 million in FY2020. This decrease was primarily driven by decreases in overall demand, -7% for water and -5% for wastewater, due to the continued effects of the COVID pandemic.

Total operating expenses increased by \$6.1 million or 7.1% over the prior fiscal year. On a percentage basis, in comparison to the previous fiscal year, retiree healthcare costs and other benefits showed the largest increase at 121.6%, followed by water purchases at 19.2% and sludge disposal fees at 10.8%. However, such increases were offset by savings from (1) power purchases by -11.4% (2) administrative and general expenses by -6.8% and (3) contractual expenses by -4.2% compared to the prior fiscal year.

Operating income decreased by -57.4% from the previous year, down by \$9.7 million from \$16.9 million in FY2020 to \$7.2 million in FY2021. GWA implemented cost containment measures to reduce operating expenses to mitigate the financial impacts of reduced revenues. However, operating costs increased by \$6.1 million from \$86.4 million to \$92.5 million. Several factors contributed to this, mainly increased water purchases of \$1 million, increases in depreciation expense of \$1.8 million and \$5.3 million increases in OPEB expense adjustments related to GASB 75.

Net non-operating expenses decreased by \$2.1 million. Interest expense increased by \$3.3 million due to interest on the Series 2020A bonds offset by the decrease in interest due to the refunding of a portion of the Series 2013 bonds. Non-operating revenues increased by of \$6.6 million while investment income significantly declined by \$1.3 million.

A comparative analysis of Revenues, Expenses and Changes in Net Position, FY2020 – FY2021, as well as FY2019 amounts, are illustrated in the Table below:

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Management's Discussion and Analysis
September 30, 2021 and 2020

Summary Statements of Revenues, Expenses and Changes in Net Position

| | September 30, 2021 | September 30, 2020 | 2021 to 2020 Comparison | | September 30, 2019 |
|---|-----------------------|-----------------------|-------------------------|-------------|-----------------------|
| | | | Increase/ (Decrease) | % Change | |
| Revenues: | | | | | |
| Water | \$ 67,797,404 | \$ 68,728,618 | \$ (931,214) | -1.35% | \$ 70,830,149 |
| Wastewater | 33,364,098 | 35,977,832 | (2,613,734) | -7.26% | 41,247,772 |
| Other | 502,315 | 588,593 | (86,278) | -14.66% | 679,465 |
| Bad debts | (1,991,300) | (2,033,768) | 42,468 | -2.09% | (2,217,121) |
| Total operating revenues | <u>99,672,517</u> | <u>103,261,275</u> | <u>(3,588,758)</u> | -3.48% | <u>110,540,265</u> |
| Expenses: | | | | | |
| Power purchases | 12,507,537 | 14,118,145 | (1,610,608) | -11.41% | 16,150,781 |
| Water purchases | 6,615,983 | 5,551,065 | 1,064,918 | 19.18% | 6,277,864 |
| Sludge (waste) disposal fees | 1,415,293 | 1,277,885 | 137,408 | 10.75% | 1,333,887 |
| Salaries, wages and benefits | 24,240,266 | 24,192,355 | 47,911 | 0.20% | 21,030,363 |
| Depreciation | 26,869,495 | 25,048,700 | 1,820,795 | 7.27% | 21,174,220 |
| Administrative and general | 6,861,923 | 7,359,398 | (497,475) | -6.76% | 8,510,862 |
| Contractual | 4,247,073 | 4,431,836 | (184,763) | -4.17% | 5,945,478 |
| Retiree healthcare costs and other benefits | <u>9,707,749</u> | <u>4,381,255</u> | <u>5,326,494</u> | 121.57% | <u>2,267,681</u> |
| Total operating expenses | <u>92,465,319</u> | <u>86,360,639</u> | <u>6,104,680</u> | 7.07% | <u>82,691,136</u> |
| Net operating income | <u>7,207,198</u> | <u>16,900,636</u> | <u>(9,693,438)</u> | -57.36% | <u>27,849,129</u> |
| Non-operating revenue (expenses), net | 4,731,813 | (601,249) | 5,333,062 | -887.00% | 13,443,096 |
| Less: Interest Expense | <u>(30,075,496)</u> | <u>(26,821,893)</u> | <u>(3,253,603)</u> | 12.13% | <u>(25,795,133)</u> |
| Total non-operating revenues (expenses), net | <u>(25,343,683)</u> | <u>(27,423,142)</u> | <u>2,079,459</u> | -7.58% | <u>(12,352,037)</u> |
| Income (loss) before capital contributions | (18,136,485) | (10,522,506) | (7,613,979) | 72.36% | 15,497,092 |
| Capital contributions | <u>64,592,719</u> | <u>72,249,371</u> | <u>(7,656,652)</u> | -10.60% | <u>21,801,439</u> |
| Change in net position | 46,456,234 | 61,726,865 | (15,270,631) | -24.74% | 37,298,531 |
| Net position - beginning year | <u>263,260,369</u> | <u>201,533,504</u> | <u>61,726,865</u> | 30.63% | <u>164,234,973</u> |
| Net position - end of year | <u>\$ 309,716,603</u> | <u>\$ 263,260,369</u> | <u>\$ 46,456,234</u> | 17.65% | <u>\$ 201,533,504</u> |

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The tables below illustrate the distribution of revenues and demand among major customer classes:

Annual Water Revenues (Excluding System Development Charges)

| Class Type | FY21 | FY20 | 2021 to 2020 Comparison | | FY19 |
|--------------|----------------------|----------------------|-------------------------|---------------|----------------------|
| | | | Increase (Decrease) | % Change | |
| Agricultural | \$ 444,892 | \$ 485,425 | \$ (40,533) | -8.17% | \$ 496,399 |
| Golf Course | 56,152 | 85,504 | (29,352) | -58.82% | 49,903 |
| Commercial | 13,251,332 | 12,896,717 | 354,615 | 2.56% | 13,868,755 |
| Federal | 38,596 | 25,625 | 12,971 | 56.06% | 23,137 |
| Government | 6,437,468 | 6,123,799 | 313,669 | 5.03% | 6,233,660 |
| Hotel | 6,968,351 | 10,237,252 | (3,268,901) | -21.86% | 14,955,990 |
| Irrigation | 43,360 | 57,432 | (14,072) | -27.37% | 51,409 |
| Residential | 39,816,286 | 38,439,018 | 1,377,268 | 3.97% | 34,689,887 |
| TOTAL | \$ 67,056,437 | \$ 68,350,772 | \$ (1,294,334) | -1.88% | \$ 70,369,141 |

Annual Waste Water Revenues (Excluding System Development Charges)

| Class Type | FY21 | FY20 | 2021 to 2020 Comparison | | FY19 |
|--------------|----------------------|----------------------|-------------------------|---------------|----------------------|
| | | | Increase (Decrease) | % Change | |
| Commercial | \$ 7,760,006 | \$ 7,933,048 | \$ (173,042) | -1.98% | \$ 8,753,399 |
| Federal | 5,944,514 | 6,108,423 | (163,909) | -2.57% | 6,388,022 |
| Government | 3,617,134 | 3,423,005 | 194,129 | 5.44% | 3,569,358 |
| Hotel | 6,091,381 | 9,156,976 | (3,065,595) | -23.26% | 13,178,157 |
| Residential | 9,095,570 | 8,977,791 | 117,779 | 1.32% | 8,934,366 |
| TOTAL | \$ 32,508,605 | \$ 35,599,243 | \$ (3,090,638) | -7.84% | \$ 40,823,302 |

Water Demand by Rate Class
(in '000 gallons)

| Class Type | FY21 | FY20 | 2021 to 2020 Comparison | | FY19 |
|--------------|------------------|------------------|-------------------------|---------------|------------------|
| | | | Increase (Decrease) | % Change | |
| Agricultural | 68,805 | 84,492 | (15,687) | -17.28% | 90,803 |
| Golf Course | 2,855 | 5,128 | (2,273) | -81.37% | 2,793 |
| Commercial | 786,157 | 822,736 | (36,579) | -4.04% | 906,192 |
| Federal | 2,069 | 1,338 | 731 | 45.63% | 1,602 |
| Government | 404,026 | 408,502 | (4,476) | -1.10% | 405,980 |
| Hotel | 448,034 | 714,161 | (266,127) | -24.64% | 1,079,919 |
| Irrigation | 5,404 | 8,654 | (3,250) | -41.16% | 7,896 |
| Residential | 3,622,514 | 3,712,723 | (90,209) | -2.68% | 3,359,905 |
| TOTAL | 5,339,864 | 5,757,734 | (417,870) | -7.26% | 5,855,090 |

Waste Water Demand by Rate Class
(in '000 gallons)

| Class Type | FY21 | FY20 | 2021 to 2020 Comparison | | FY19 |
|--------------|------------------|------------------|-------------------------|---------------|------------------|
| | | | Increase (Decrease) | % Change | |
| Commercial | 566,044 | 591,972 | (25,928) | -3.97% | 652,842 |
| Federal | 493,841 | 542,970 | (49,129) | -8.23% | 597,041 |
| Government | 303,587 | 298,457 | 5,130 | 1.57% | 326,653 |
| Hotel | 297,738 | 480,884 | (183,146) | -25.87% | 707,934 |
| Residential | 2,150,617 | 2,118,282 | 32,335 | 1.76% | 1,836,324 |
| TOTAL | 3,811,827 | 4,032,565 | (220,738) | -5.41% | 4,120,794 |

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As reported on the Statements of Net Position, the Authority's total net position increased by \$46.5 million during the fiscal year due mainly to net investment in capital assets.

Capital Assets

The Authority had \$767.2 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2021. The investment in capital assets includes building improvements, water treatment plants, water transmission and distribution mains, sewer lines, water reservoirs, pump stations, wastewater treatment facilities, deep wells, meter replacements, fire hydrant replacements, machinery and equipment (see Table below).

In the current fiscal year 2021, capital assets increased by \$69.0 million (net) or 9.9% 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.

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 | <u>\$ 31,818,061</u> |
| <u>Water</u> | |
| Deepwells | 962,195 |
| Fire Hydrants | 551,949 |
| Water lines | 320,954 |
| Meters | 2,866,718 |
| Reservoirs | <u>30,801,172</u> |
| | <u>35,502,988</u> |
| General Plant Improvements | <u>12,350,596</u> |
| | <u><u>\$ 79,671,645</u></u> |

Capital Assets, Net of Accumulated Depreciation

| | September 30, <u>2021</u> | September 30, <u>2020</u> | <u>2021 to 2020 Comparison</u> | | September 30, <u>2019</u> |
|-------------------------------------|------------------------------|------------------------------|--------------------------------|-----------------|------------------------------|
| | | | <u>Increase (Decrease)</u> | <u>% Change</u> | |
| Plant, buildings and equipment, net | \$ 594,394,314 | \$ 542,672,530 | \$ 51,721,784 | 9.53% | \$ 513,020,424 |
| Land | 5,240,187 | 5,240,187 | \$ - | 0.00% | 3,914,815 |
| Construction in progress | <u>167,589,130</u> | <u>150,323,347</u> | <u>17,265,783</u> | 11.49% | <u>100,162,506</u> |
| Total | <u>\$ 767,223,631</u> | <u>\$ 698,236,064</u> | <u>\$ 68,987,567</u> | 9.88% | <u>\$ 617,097,745</u> |

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

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Debt

As of September 30, 2021, the Authority had total long-term debt outstanding of \$633.5 million, which is a decrease of \$9.3 million or -1% over the prior year.

Bond covenants require that GWA maintain 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 FY2021, Moody's Investor Services and Standard & Poor's maintained its existing bond rating of Baa2 and A-, respectively. The ratings are important benchmarks of an issuer's ability to meet its financial obligations. Each rating agency incorporates a rating scale indicating credit quality of the issuer. The scales are comprised of alphabetical symbols such as "AAA," "AA," "A," "BBB," "BB," "B" etc. For example, categorical ratings in the "AAA," "AA" and "A" range 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" range 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.

Long-Term Debt

| | September 30, 2021 | September 30, 2020 | 2021 to 2020 Comparison | | September 30, 2019 |
|-----------------------------|-----------------------|-----------------------|-------------------------|---------------|-----------------------|
| | | | Increase (Decrease) | % Change | |
| 2010 Bond Series | \$ - | \$ - | \$ - | 0.00% | \$ 1,895,000 |
| 2013 Bond Series | 24,500,000 | 27,340,000 | \$ (2,840,000) | -10.39% | 172,630,000 |
| 2014 Refunding Bond Series | 64,610,000 | 65,140,000 | \$ (530,000) | -0.81% | 68,900,000 |
| 2016 Bond Series | 139,030,000 | 142,890,000 | \$ (3,860,000) | -2.70% | 143,310,000 |
| 2017 Refunding Bond Series | 105,325,000 | 107,365,000 | \$ (2,040,000) | -1.90% | 107,365,000 |
| 2020A Bond Series | 134,000,000 | 134,000,000 | \$ - | 0.00% | - |
| 2020B Refunding Bond Series | 166,075,000 | 166,075,000 | \$ - | 0.00% | - |
| Bank Notes | - | - | \$ - | 0.00% | 2,319,108 |
| Total | \$ 633,540,000 | \$ 642,810,000 | \$ (9,270,000) | -1.44% | \$ 496,419,108 |

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

Please refer to the MD&A in the FY2020 GWA Financial Audit for additional information related to FY2020. 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.

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Looking Forward

Outlook, Challenges and Opportunities

GWA's outlook for the coming year is tempered by continued pandemic-induced impacts which affect operations, capital projects and financial performance. While progress in meeting regulatory compliance priorities remains a focused and achievable goal, the pace of capital project implementation for needed system improvements will likely continue to be affected by regulatory and permitting delays.

Similarly, operational maintenance activities may be hampered by 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 slow 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 reserves already placed in the CCU-approved Rate Stabilization Fund (RSF) to augment revenues over the short term.

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, has yet to be issued by the Guam Public Utilities Commission. No firm schedule for final adjudication of the nearly year-long rate proceeding has been issued; however, GWA anticipates a decision in the coming months. GWA also seeks resolution in a quiet-title action for its Northern District Wastewater Treatment Plant (NDWWTP), which is still in litigation in the Superior Court of Guam. Similarly, an on-going litigation against Badger Meter over the performance of meters sold to GWA has yet to be resolved.

GWA continues to make improvements in customer service levels through implementation of process improvements resulting from the recent upgrades in our enterprise resource planning / financial management system. GWA also continues to advance 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. The work on our water distribution system to improve pressure and reduce losses will continue to progress on multiple fronts in the coming year, with the implementation of District Metered Areas, an increase in our leak detection capabilities, additional work under our pressure zone realignment program, and expansion of production well meter enhancements.

Court Order Compliance

The 2011 U.S. District Court Order deadline was extended to June 30, 2023. 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 continues to work diligently to complete all work by the extended deadline.

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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 and Northern District WWTPs are unable to meet until a secondary treatment process is implemented at each facility.

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 initiated a pilot study for interim disinfection as part of on-going Consent Decree discussions with EPA. While such discussions have been stalled by uncertainties created by COVID-19 and PUC inaction on GWA's CR&U, GWA continues to move forward with the interim disinfection study and is evaluating process upgrades to achieve improved treatment performance until Secondary Treatment can be implemented.

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 upgrade of the NDWWTP to secondary treatment. As of March 18, 2022, the new secondary treatment processes at the upgraded NDWWTP have been initiated, and the plant is currently undergoing testing and commissioning for full secondary treatment. Substantial completion of construction activities is anticipated in May 2022, with a three-month performance verification period to follow.

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.

With the increased construction demand created by 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), the pace of implementation of GWA's CIP projects has been affected. The federal limitations on H-2B visa for construction labor also continues to affect GWA construction projects, 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 the process of full implementation of the forty-two (42) DMAs, as well as updating of water audit and loss reporting metrics.

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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 ongoing basis, in addition to targeted capacity-related pipe upgrades. GWA has several line replacement projects currently under construction and has initiated procurements 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 60% complete, and Phase 2 will be issued for bid within the next few months.

FY2020-FY2024 Financial Plan

Although the analytical studies and the comprehensive review and update were filed on-time and as required in the February 2020 PUC Order in GWA Docket 19-08, discovery continued through the end of FY2021 and evidentiary hearings were concluded in the first quarter of FY2022. No firm schedule has been issued for the final adjudication of this rate proceeding, and it is unlikely that a decision and order on the request for rate relief will be made until the third quarter of FY2022.

Financial Management System

Six of the remaining JDE E1 modules will be implemented by July 2022. The majority of the modules will automate the external procurement interfaces. One remaining module, Content Experience Cloud (CEC), will be implemented incrementally over the next three years.

COVID-19

Guam ended FY2021 with COVID-19 vaccination rates of more than 85% of the eligible population. Governor Leon Guerrero continued to ease COVID related restrictions as the Covid Area Risk score steadily decreased in October and November 2021. In November 2021, the Pfizer COVID-19 vaccine became available for children 5-14 and vaccine boosters became available to all adults. The Delta and Omicron variants increased COVID infections, impacting positivity rates across the island and delaying the opening of Guam to tourists from its Asian markets. Guam remained in a Public Health Emergency through April 2022.

In August 2021, Governor Leon Guerrero issued Executive Order 2021-17, mandating Government of Guam Executive Branch workers to be fully vaccinated against COVID-19 no later than September 24, 2021 or be tested for COVID-19 weekly. Subsequently, the Authority adopted Standard Operating Procedure 1300-SAF-002 Mandatory SARS-CoV-2 Vaccination and Testing for all GWA Employees. GWA employees are required to be fully vaccinated by February 5, 2022, or, if they remain unvaccinated, test weekly prior to the start of their work week. Although Executive Order 2022-06 rescinded the vaccination or test requirements for Government of Guam Executive Branch workers effective March 11, 2022, GWA has subsequently rescinded its own requirement.

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The projected delay in the economic recovery of Guam's tourism sector will have a continuing effect on the Authority's sales and revenues within related rate classes. Although residential consumption has picked up over the pandemic period, it has not been enough to offset losses in business and hotel consumption. Accordingly, GWA continues its strategy to contain costs, reduce production and improve water loss control while monitoring the effect of the pandemic on its revenues.

Federal Assistance

The Guam Department of Administration (DOA) will continue to provide utility assistance to renters using funding from the second US Stimulus package. DOA launched a similar program for homeowners at the end of January 2022. Additionally, the Low-Income Household Water Assistance Program (LIHWAP) will be administered by DOA and implemented some time in the third quarter of FY2022.

GWA is working with Guam Homeland Security to get reimbursement for COVID-19 related expenses through the FEMA Public Assistance Program.

In November 2021, GWA was notified that American Rescue Act funds of \$14.4 million have been reserved by the Governor for the Authority to mitigate future rate increases. Additionally, \$14.7 million will be made available for water and wastewater upgrades in Adacao to enhance utility services to underserved areas impacted by the COVID-19 pandemic. GWA has initiated procurement activities to implement these upgrades.

The Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law, was signed into law on November 15, 2021. Guam's FY2022 allotment received through the USEPA State Revolving Fund, may be increased by as much as \$26 million per year for the next five years. However, it is unclear if the funds must be spent on specific initiatives. GWA continues to reach out to its federal grantors to get more clarity on how the additional funding can be spent. 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 benefit in reducing the amount of debt-financing that may be required for the current 5-year CIP period (through FY2024).

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
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Statements of Net Position
September 30, 2021 and 2020

| | 2021 | 2020 |
|--|------------------|------------------|
| <u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Current assets: | | |
| Cash and cash equivalents: | | |
| Unrestricted | \$ 46,444,630 | \$ 42,479,412 |
| Restricted | 31,026,211 | 30,072,502 |
| Receivables, net | 23,427,608 | 21,701,453 |
| Materials and supplies inventory, net of an allowance for obsolescence of \$64,131 at September 30, 2021 and 2020 | 4,284,336 | 4,804,466 |
| Prepaid expenses | 849,867 | 2,615,781 |
| Total current assets | 106,032,652 | 101,673,614 |
| Property, plant and equipment: | | |
| Utility plant in service: | | |
| Water system | 415,123,284 | 378,498,710 |
| Wastewater system | 513,741,066 | 481,549,640 |
| Non-utility property | 33,051,603 | 25,752,939 |
| | 961,915,953 | 885,801,289 |
| Less accumulated depreciation | (367,521,639) | (343,128,759) |
| | 594,394,314 | 542,672,530 |
| Land and land rights | 5,240,187 | 5,240,187 |
| Construction work in progress | 167,589,130 | 150,323,347 |
| Property, plant and equipment, net | 767,223,631 | 698,236,064 |
| Other noncurrent assets: | | |
| Restricted cash and cash equivalents | 261,136,933 | 285,820,036 |
| Total assets | 1,134,393,216 | 1,085,729,714 |
| Deferred outflows of resources: | | |
| Debt defeasance loss on refunding | 31,286,637 | 33,366,801 |
| Deferred outflows from pension | 12,904,653 | 12,393,137 |
| Deferred outflows from OPEB | 48,780,079 | 20,526,945 |
| Regulatory assets | 1,994,164 | 430,962 |
| Total deferred outflows of resources | 94,965,533 | 66,717,845 |
| Total assets and deferred outflows of resources | \$ 1,229,358,749 | \$ 1,152,447,559 |

See accompanying notes to financial statements.

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Statements of Net Position, Continued
September 30, 2021 and 2020

| | 2021 | 2020 |
|--|------------------|------------------|
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u> | | |
| Current liabilities: | | |
| Current maturities of revenue bonds payable | \$ 9,745,000 | \$ 9,270,000 |
| Accounts payable: | | |
| Guam Power Authority | 1,456,249 | 1,143,369 |
| Trade | 1,181,166 | 1,770,532 |
| Accrued interest | 7,324,101 | 6,304,598 |
| Accrued payroll and employee benefits | 933,446 | 354,780 |
| Current portion of employee annual leave | 660,125 | 572,761 |
| Payable to contractors | 25,847,832 | 23,311,295 |
| Customer deposits | 2,237,010 | 2,199,462 |
| Other liabilities | 1,679,265 | 1,095,676 |
| | 51,064,194 | 46,022,473 |
| | | |
| Revenue bonds payable, less current maturities | 664,449,335 | 676,070,523 |
| Employee annual leave, less current portion | 1,185,813 | 1,222,548 |
| DCRS sick leave liability | 1,339,208 | 1,226,702 |
| Net pension liability | 56,364,779 | 54,387,676 |
| OPEB liability | 106,433,894 | 84,163,331 |
| | 880,837,223 | 863,093,253 |
| | | |
| Deferred inflows of resources: | | |
| Regulatory liabilities | 244,720 | 67,608 |
| Deferred inflows from pension | 985,049 | 1,010,540 |
| Deferred inflows from OPEB | 37,575,154 | 25,015,789 |
| | 38,804,923 | 26,093,937 |
| | | |
| Commitments and contingencies | | |
| | | |
| Net position: | | |
| Net investment in capital assets | 286,341,746 | 229,805,072 |
| Restricted | 28,019,130 | 27,166,805 |
| Unrestricted | (4,644,273) | 6,288,492 |
| | 309,716,603 | 263,260,369 |
| | | |
| Total liabilities, deferred inflows of resources and net position | \$ 1,229,358,749 | \$ 1,152,447,559 |

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

| | 2021 | 2020 |
|---|----------------|----------------|
| Operating revenues: | | |
| Water: | | |
| Private | \$ 58,664,043 | \$ 60,200,529 |
| Government | 6,261,569 | 5,931,406 |
| Legislative surcharge | 2,130,826 | 2,218,881 |
| System development charge | 740,966 | 377,802 |
| | 67,797,404 | 68,728,618 |
| Wastewater: | | |
| Private | 22,459,992 | 25,462,248 |
| Government | 9,236,444 | 9,193,158 |
| Legislative surcharge | 812,169 | 943,890 |
| System development charge | 855,493 | 378,536 |
| | 33,364,098 | 35,977,832 |
| Other | 502,315 | 588,593 |
| Bad debts expense | (1,991,300) | (2,033,768) |
| Total operating revenues | 99,672,517 | 103,261,275 |
| Operating and maintenance expenses: | | |
| Power purchases | 12,507,537 | 14,118,145 |
| Water purchases | 6,615,983 | 5,551,065 |
| Waste disposal fees | 1,415,293 | 1,277,885 |
| | 20,538,813 | 20,947,095 |
| Depreciation | 26,869,495 | 25,048,700 |
| Salaries, wages and benefits | 24,240,266 | 24,192,355 |
| Administrative and general | 6,861,923 | 7,359,398 |
| Contractual | 4,247,073 | 4,431,836 |
| Retiree healthcare costs and other benefits | 9,707,749 | 4,381,255 |
| | 92,465,319 | 86,360,639 |
| Total operating and maintenance expenses | 92,465,319 | 86,360,639 |
| Operating income | 7,207,198 | 16,900,636 |
| Nonoperating revenues (expenses): | | |
| Allowance for funds used during construction | 5,485,464 | 6,008,368 |
| Interest income | 112,720 | 1,380,414 |
| Interest expense | (30,075,496) | (26,821,893) |
| Bond issuance costs | - | (4,342,432) |
| Loss on property, plant and equipment disposals | (1,093,328) | (3,678,963) |
| Contributions from federal government | 188,768 | 223,909 |
| Federal expenditures | (130,939) | (276,105) |
| Others, net | 169,128 | 83,560 |
| | (25,343,683) | (27,423,142) |
| Total nonoperating expenses, net | (25,343,683) | (27,423,142) |
| Loss before capital contributions | (18,136,485) | (10,522,506) |
| Capital contributions: | | |
| Grants from the U.S. Government | 64,592,719 | 72,249,371 |
| | 46,456,234 | 61,726,865 |
| Change in net position | 46,456,234 | 61,726,865 |
| Net position at beginning of year | 263,260,369 | 201,533,504 |
| Net position at end of year | \$ 309,716,603 | \$ 263,260,369 |

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

| | 2021 | 2020 |
|---|----------------|----------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 101,251,537 | \$ 105,523,684 |
| Cash payments to suppliers for goods and services | (30,579,675) | (36,616,190) |
| Cash payments to employees for services | (25,820,523) | (27,946,731) |
| Cash payments for retiree healthcare costs | (3,130,955) | (3,161,351) |
| Net cash provided by operating activities | 41,720,384 | 37,799,412 |
| Cash flows from noncapital financing activities: | | |
| Federal grants received | 188,768 | 223,909 |
| Cash flows from capital and related financing activities: | | |
| Federal grants received | 61,325,092 | 67,893,225 |
| Acquisition of property, plant and equipment | (84,989,123) | (98,580,230) |
| Proceeds from 2020A bond series issuance | - | 142,799,346 |
| Principal paid on revenue bond maturities | (9,270,000) | (8,770,000) |
| Interest paid on revenue bonds | (28,852,017) | (27,208,763) |
| Principal repayment of bank loan | - | (2,319,108) |
| Interest paid on bank loan | - | (46,194) |
| Net cash (used for) provided by capital and related financing activities | (61,597,280) | 73,992,185 |
| Cash flows from investing activities: | | |
| Interest income received | 112,720 | 1,380,414 |
| Net change in cash and cash equivalents | (19,764,176) | 113,172,011 |
| Cash and cash equivalents at beginning of year | 358,371,950 | 245,199,939 |
| Cash and cash equivalents at end of year | \$ 338,607,774 | \$ 358,371,950 |
| Reconciliation of cash and cash equivalents to the statements of net position: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 46,444,630 | \$ 42,479,412 |
| Restricted cash and cash equivalents | 31,026,211 | 30,072,502 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 261,136,933 | 285,820,036 |
| | \$ 338,607,774 | \$ 358,371,950 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 7,207,198 | \$ 16,900,636 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 26,869,495 | 25,048,700 |
| Bad debts expense | 1,991,300 | 2,033,768 |
| Capitalized labor and benefits | (3,762,154) | (3,993,301) |
| Non-cash pension costs | 1,440,097 | 1,024,663 |
| Non-cash OPEB costs | 6,576,794 | 1,219,904 |
| (Increase) decrease in assets: | | |
| Receivables | (279,360) | 378,669 |
| Materials and supplies inventory | 520,129 | (907,394) |
| Prepaid expenses | 1,765,914 | (947,966) |
| Regulatory assets | (1,563,202) | (430,962) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (409,175) | (1,700,403) |
| Accrued payroll and employee benefits | 578,666 | (1,330,455) |
| Employee annual leave | 50,629 | 372,560 |
| Customer deposits | 37,547 | (150,028) |
| Other liabilities | 584,000 | 108,864 |
| DCRS sick leave liability | 112,506 | 172,157 |
| Net cash provided by operating activities | \$ 41,720,384 | \$ 37,799,412 |

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Cash Flows, Continued
Years Ended September 30, 2021 and 2020

| | 2021 | 2020 |
|---|----------------|----------------|
| Supplemental information on noncash activities: | | |
| Noncash increase in property, plant and equipment | \$ 5,485,464 | \$ 6,008,368 |
| Capitalized interest | (5,485,464) | (6,008,368) |
| | \$ - | \$ - |
| Decrease in property, plant and equipment, net | \$ (1,093,328) | \$ (3,678,963) |
| Loss on property, plant and equipment disposals | 1,093,328 | 3,678,963 |
| | \$ - | \$ - |

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2021 and 2020

(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.

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, 2021 and 2020, restricted net position consists of the following:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|----------------------|----------------------|
| System Development Fund | \$ 9,762,282 | \$ 9,777,401 |
| Revenue Trust and Revenue Fund | 8,741,678 | 8,449,826 |
| Legislative Surcharge Fund | 352,410 | 426,924 |
| Sewer Hook-up Revolving Fund | 61,318 | 67,809 |
| Working Cap – Reserved for CAPEX | 6,017,960 | 5,361,363 |
| Working Cap – Reserved for O & M | <u>3,083,482</u> | <u>3,083,482</u> |
| | <u>\$ 28,019,130</u> | <u>\$ 27,166,805</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.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

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.

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 expense. 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 first-in, first-out 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.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

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 statements 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.

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.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

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 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
September 30, 2021 and 2020

(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, 2021 and 2020 are \$3,576,525 and \$3,274,961, respectively, and are included as receivables in the accompanying statements 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 initial maturities of three months or less.

Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2021 and 2020, interest of \$5,485,464 and \$6,008,368, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2021 and 2020, labor costs of \$3,762,154 and \$3,993,301, respectively, were capitalized.

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. Approved capital grants that have not been received approximate \$57,964,580 and \$104,444,135 at September 30, 2021 and 2020, respectively.

Income Taxes

As an instrumentality of GovGuam, GWA and all property acquired by or for GWA, and all revenues and income therefrom are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

Reclassifications

Certain balances in the 2020 presentation have been reclassified to conform to the 2021 presentation.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, GWA implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

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. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

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.

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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

(3) Cash and Cash Equivalents

The bond indenture agreements for the 2010, 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.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Cash and Cash Equivalents, Continued

As of September 30, 2021, and 2020, the carrying amount of GWA's total cash and cash equivalents was \$338,607,774 and \$358,371,950, respectively, and the corresponding bank balances were \$339,210,732 and \$361,182,903, respectively. Of the bank balance amount, \$33,223,476 and \$15,169,905, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, the remaining amount of \$305,987,256 and \$346,012,998, respectively, 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, 2021 and 2020, bank deposits in the amount of \$784,351 and \$651,354, respectively, 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, 2021 and 2020, \$32,439,125 and \$14,518,551, respectively, of cash and cash equivalents are subject to custodial credit risk.

Unrestricted cash and cash equivalents at September 30, 2021 and 2020 in the amount of \$25,263,240 and \$25,689,390, respectively, 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 \$9,391,290 and \$11,222,407, respectively, are subject to internally imposed restrictions by the CCU to fund capital expenditures. During the year ended September 30, 2021, GWA, with CCU approval, established the Rate Stabilization Fund to be managed in a manner consistent with the General Indenture. At September 30, 2021, GWA has transferred \$11,400,000 into the Rate Stabilization Fund.

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:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|-------------------|
| Current restricted: | | |
| Sewer Hook-up Revolving Fund | \$ 61,318 | \$ 67,809 |
| Legislative Surcharge Fund | 352,410 | 426,924 |
| Bid Escrow Fund | 905,935 | 842,331 |
| Customer Deposit Fund | 2,101,144 | 2,063,361 |
| Revenue Trust and Revenue Fund | 8,741,680 | 8,449,831 |
| System Development Fund | 9,762,282 | 9,777,401 |
| Working Cap – Reserved for CAPEX | 6,017,960 | 5,361,363 |
| Working Cap – Reserved for O&M | <u>3,083,482</u> | <u>3,083,482</u> |
| | <u>31,026,211</u> | <u>30,072,502</u> |
| Noncurrent restricted: | | |
| 2010 Bond Indenture Funds: | | |
| Construction Fund | 4,368,639 | 6,206,731 |
| Bond Reserve Fund | 7,566,460 | 7,566,460 |
| Reserved for Debt Service | 31,558 | 31,556 |
| 2013 Bond Indenture Funds: | | |
| Construction Fund | 4,566,711 | 8,647,934 |
| Bond Reserve Fund | 12,031,688 | 12,031,688 |
| Reserved for Debt Service | 1,396,665 | 1,810,544 |

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Cash and Cash Equivalents, Continued

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Noncurrent restricted, continued | | |
| 2014 Bond Indenture Funds: | | |
| Operations, Maintenance, Renewal and Replacement Reserve Fund | \$ 17,423,213 | \$ 17,423,213 |
| Construction Fund | - | 219,099 |
| Bond Reserve Fund | 7,736,844 | 7,735,395 |
| Reserved for Debt Service | 1,048,078 | 1,048,374 |
| 2016 Bond Indenture Funds: | | |
| Construction Fund | 56,620,524 | 68,518,206 |
| Bond Reserve Fund | 7,591,999 | 7,591,999 |
| Reserved for Debt Service | 2,816,611 | 2,815,863 |
| 2017 Bond Indenture Funds: | | |
| Reserved for Debt Service | 1,903,114 | 1,902,205 |
| 2020A Bond Indenture Funds: | | |
| Construction Fund | 122,317,770 | 123,327,435 |
| Bond Reserve Fund | 6,659,700 | 6,659,700 |
| Capitalized Interest Fund | 5,584,579 | 12,283,634 |
| 2020B Bond Indenture Funds | | |
| Bond Reserve Fund | <u>1,472,780</u> | <u>-</u> |
| | <u>261,136,933</u> | <u>285,820,036</u> |
| Total restricted cash and cash equivalents | <u>\$ 292,163,144</u> | <u>\$ 315,892,538</u> |

(4) Receivables

Receivables at September 30, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|----------------------|----------------------|
| Customers: | | |
| Private | \$ 16,961,251 | \$ 18,376,931 |
| Government | <u>3,155,615</u> | <u>2,298,797</u> |
| | <u>20,116,866</u> | <u>20,675,728</u> |
| Federal grants receivable | 11,436,000 | 8,168,373 |
| Guam Power Authority | 245,844 | 257,131 |
| Other | <u>213,720</u> | <u>628,079</u> |
| | <u>32,012,430</u> | <u>29,729,311</u> |
| Less allowance for doubtful accounts: | | |
| Private | (7,205,743) | (6,958,739) |
| Government | <u>(1,379,079)</u> | <u>(1,069,119)</u> |
| | <u>(8,584,822)</u> | <u>(8,027,858)</u> |
| | <u>\$ 23,427,608</u> | <u>\$ 21,701,453</u> |

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(4) Receivables, Continued

During the years ended September 30, 2021 and 2020, GWA has written off \$1,471,105 and \$1,841,105, respectively, of long outstanding receivables against the allowance for doubtful accounts.

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

(5) Property, Plant and Equipment

Capital asset activities for the year ended September 30, 2021 are as follows:

| | Estimated Useful Lives in Years | Beginning Balance October 1, 2020 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2021 |
|--|--|--|-------------------------------|-------------------------------|--|
| <u>Depreciable:</u> | | | | | |
| Utility Plant in Service - Water | 10-50 | \$ 378,498,710 | \$ 40,061,759 | \$ (3,437,185) | \$ 415,123,284 |
| Utility Plant in Service - Wastewater | 25-50 | 481,549,640 | 32,191,426 | - | 513,741,066 |
| General Fixed Assets | 5-10 | <u>25,752,939</u> | <u>7,431,422</u> | <u>(132,758)</u> | <u>33,051,603</u> |
| | | 885,801,289 | 79,684,607 | (3,569,943) | 961,915,953 |
| Accumulated Depreciation | | <u>(343,128,759)</u> | <u>(26,869,495)</u> | <u>2,476,615</u> | <u>(367,521,639)</u> |
| | | 542,672,530 | 52,815,112 | (1,093,328) | 594,394,314 |
| <u>Non-depreciable:</u> | | | | | |
| Land | | 5,240,187 | - | - | 5,240,187 |
| Construction Work in Progress | | <u>150,323,347</u> | <u>96,547,746</u> | <u>(79,281,963)</u> | <u>167,589,130</u> |
| | | <u>\$ 698,236,064</u> | <u>\$ 149,362,858</u> | <u>\$ (80,375,291)</u> | <u>\$ 767,223,631</u> |

Capital asset activities for the year ended September 30, 2020 are as follows:

| | Estimated Useful Lives in Years | Beginning Balance October 1, 2019 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2020 |
|--|--|--|-------------------------------|-------------------------------|--|
| <u>Depreciable:</u> | | | | | |
| Utility Plant in Service - Water | 10-50 | \$ 381,484,623 | \$ 3,957,665 | \$ (6,943,578) | \$ 378,498,710 |
| Utility Plant in Service - Wastewater | 25-50 | 429,896,579 | 51,822,090 | (169,029) | 481,549,640 |
| General Fixed Assets | 5-10 | <u>23,200,625</u> | <u>2,600,014</u> | <u>(47,700)</u> | <u>25,752,939</u> |
| | | 834,581,827 | 58,379,769 | (7,160,307) | 885,801,289 |
| Accumulated Depreciation | | <u>(321,561,403)</u> | <u>(25,048,700)</u> | <u>3,481,344</u> | <u>(343,128,759)</u> |
| | | 513,020,424 | 33,331,069 | (3,678,963) | 542,672,530 |
| <u>Non-depreciable:</u> | | | | | |
| Land | | 3,914,815 | 1,325,372 | - | 5,240,187 |
| Construction Work in Progress | | <u>100,162,506</u> | <u>107,572,972</u> | <u>(57,412,131)</u> | <u>150,323,347</u> |
| | | <u>\$ 617,097,745</u> | <u>\$ 142,229,413</u> | <u>\$ (61,091,094)</u> | <u>\$ 698,236,064</u> |

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2021 and 2020

(6) Long-Term Debt

Long-term debt at September 30, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| <u>Revenue Bonds:</u> | | |
| 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. | \$ 24,500,000 | \$ 27,340,000 |
| 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. | 64,610,000 | 65,140,000 |
| 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. | 139,030,000 | 142,890,000 |
| 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. | 105,325,000 | 107,365,000 |
| 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 | 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> | <u>166,075,000</u> |

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-----------------------|-----------------------|
| Total revenue bonds payable | 633,540,000 | 642,810,000 |
| Less current maturities | <u>(9,745,000)</u> | <u>(9,270,000)</u> |
| | 623,795,000 | 633,540,000 |
| Bond premium – 2020A series bonds | 10,535,666 | 10,921,117 |
| Bond premium – 2017 series bonds | 11,554,215 | 12,167,713 |
| Bond premium – 2016 series bonds | 14,832,996 | 15,440,491 |
| Bond premium – 2014 series bonds, net | <u>3,731,458</u> | <u>4,001,202</u> |
| | <u>\$ 664,449,335</u> | <u>\$ 676,070,523</u> |

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> |
|----------------------------------|-----------------------|-----------------------|-------------------------|
| 2022 | \$ 9,745,000 | \$ 29,296,402 | \$ 39,041,402 |
| 2023 | 10,235,000 | 28,801,678 | 39,036,678 |
| 2024 | 10,760,000 | 28,282,065 | 39,042,065 |
| 2025 | 11,305,000 | 27,735,777 | 39,040,777 |
| 2026 | 11,875,000 | 27,161,815 | 39,036,815 |
| 2027 through 2031 | 75,815,000 | 126,315,150 | 202,130,150 |
| 2032 through 2036 | 96,715,000 | 107,932,718 | 204,647,718 |
| 2037 through 2041 | 121,110,000 | 84,194,615 | 205,304,615 |
| 2042 through 2046 | 151,980,000 | 55,109,670 | 207,089,670 |
| 2047 through 2050 | <u>134,000,000</u> | <u>16,307,500</u> | <u>150,307,500</u> |
| | <u>\$ 633,540,000</u> | <u>\$ 531,137,390</u> | <u>\$ 1,164,677,390</u> |

Changes in GWA's long-term debt for the years ended September 30, 2021 and 2020 are as follows:

| | <u>Outstanding</u> <u>October 1,</u> <u>2020</u> | <u>Increases</u> | <u>Decreases</u> | <u>Outstanding</u> <u>September 30,</u> <u>2021</u> | <u>Current</u> |
|------------------------------|--|------------------|------------------------|---|---------------------|
| Revenue Bonds: | | | | | |
| 2013 series A bonds | \$ 27,340,000 | \$ - | \$ (2,840,000) | \$ 24,500,000 | \$ 2,990,000 |
| 2014 series A and B bonds | 65,140,000 | - | (530,000) | 64,610,000 | 555,000 |
| 2016 series A bonds | 142,890,000 | - | (3,860,000) | 139,030,000 | 4,055,000 |
| 2017 series A bonds | 107,365,000 | - | (2,040,000) | 105,325,000 | 2,145,000 |
| 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>42,530,523</u> | <u>-</u> | <u>(1,876,188)</u> | <u>40,654,335</u> | <u>-</u> |
| | <u>\$ 685,340,523</u> | <u>\$ -</u> | <u>\$ (11,146,188)</u> | <u>\$ 674,194,335</u> | <u>\$ 9,745,000</u> |

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Notes to Financial Statements
September 30, 2021 and 2020

(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

| | Outstanding October 1, 2019 | Increases | Decreases | Outstanding September 30, 2020 | Current |
|-----------------------------------|-----------------------------------|-----------------------|-------------------------|--------------------------------------|---------------------|
| Revenue Bonds: | | | | | |
| 2010 series A bonds | \$ 1,895,000 | \$ - | \$ (1,895,000) | \$ - | \$ - |
| 2013 series A bonds | 172,630,000 | - | (145,290,000) | 27,340,000 | 2,840,000 |
| 2014 series A and B bonds | 68,900,000 | - | (3,760,000) | 65,140,000 | 530,000 |
| 2016 series A bonds | 143,310,000 | - | (420,000) | 142,890,000 | 3,860,000 |
| 2017 series A bonds | 107,365,000 | - | - | 107,365,000 | 2,040,000 |
| 2020 series A bonds | - | 134,000,000 | - | 134,000,000 | - |
| 2020 series B bonds | - | 166,075,000 | - | 166,075,000 | - |
| Unamortized premium on bonds, net | <u>31,863,590</u> | <u>12,157,669</u> | <u>(1,490,736)</u> | <u>42,530,523</u> | <u>-</u> |
| | 525,963,590 | 312,232,669 | (152,855,737) | 685,340,523 | 9,270,000 |
| Direct Borrowings: | | | | | |
| Bank loan | <u>2,319,108</u> | <u>-</u> | <u>(2,319,108)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 528,282,698</u> | <u>\$ 312,232,669</u> | <u>\$ (155,174,845)</u> | <u>\$ 685,340,523</u> | <u>\$ 9,270,000</u> |

Series 2010, Water and Wastewater System Revenue Bonds, dated November 1, 2010, were issued in the original principal amount of \$118,825,000 to finance various water and wastewater capital improvement projects. Total bond proceeds were \$116,404,591, net of a bond discount of \$2,420,409, with closing costs of \$2,805,108. The bond discount has been deferred and amortized on a straight line basis over the average remaining life of the 2010 bonds. Proceeds of the 2010 series bonds are to be used for the purpose of funding capital improvements of water and wastewater systems, meeting certain requirements of the U.S. Environmental Protection Agency, paying capitalized interest, funding a Bond Reserve Fund deposit, and paying related issuance costs.

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.

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, 2021 and 2020 totals \$1,162,480 and \$1,287,433, respectively. 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.

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(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

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 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, 2021 and 2020 totals \$9,163,847 and \$9,861,241, respectively. 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.

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Notes to Financial Statements
September 30, 2021 and 2020

(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

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, 2021 and 2020 totals \$20,960,310 and \$22,203,128, 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.

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, 2021, total principal and interest remaining on these bonds is \$1,164,677,390 payable through January 2050. For the years ended September 30, 2021 and 2020, debt service paid on these bonds was \$38,137,017 and \$40,875,188, respectively, and total pledged GWA system revenues were \$96,622,048 and \$100,787,341, respectively.

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, 2021 and 2020, 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 years ended September 30, 2021 and 2020. 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).

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(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, 2021 and 2020, 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.

(7) Change in Other Long-Term Liabilities

Changes in GWA's other long-term liabilities for the years ended September 30, 2021 and 2020 are as follows:

| | Outstanding October 1, 2020 | Increases | Decreases | Outstanding September 30, 2021 | Current |
|---------------------------|-----------------------------------|----------------------|---------------------|--------------------------------------|-------------------|
| Other: | | | | | |
| Employee annual leave | \$ 1,795,309 | \$ 987,014 | \$ (936,385) | \$ 1,845,938 | \$ 660,125 |
| DCRS sick leave liability | 1,226,702 | 112,506 | - | 1,339,208 | - |
| Net pension liability | 54,387,676 | 1,977,103 | - | 56,364,779 | - |
| OPEB liability | <u>84,163,331</u> | <u>22,270,563</u> | - | <u>106,433,894</u> | - |
| | <u>\$ 141,573,018</u> | <u>\$ 25,347,186</u> | <u>\$ (936,385)</u> | <u>\$ 165,983,819</u> | <u>\$ 660,125</u> |

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Notes to Financial Statements
September 30, 2021 and 2020

(7) Change in Other Long-Term Liabilities, Continued

| | Outstanding October 1, <u>2019</u> | <u>Increases</u> | <u>Decreases</u> | Outstanding September 30, <u>2020</u> | <u>Current</u> |
|---------------------------|--|----------------------|---------------------|---|-------------------|
| Other: | | | | | |
| Employee annual leave | \$ 1,422,749 | \$ 1,213,659 | \$ (841,099) | \$ 1,795,309 | \$ 572,761 |
| DCRS sick leave liability | 1,054,545 | 172,157 | - | 1,226,702 | - |
| Net pension liability | 49,593,171 | 4,794,505 | - | 54,387,676 | - |
| OPEB liability | <u>62,656,405</u> | <u>21,506,926</u> | <u>-</u> | <u>84,163,331</u> | <u>-</u> |
| | <u>\$ 114,726,870</u> | <u>\$ 27,687,247</u> | <u>\$ (841,099)</u> | <u>\$ 141,573,018</u> | <u>\$ 572,761</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).

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.

Plan Membership: As of September 30, 2020 (the measurement date), plan membership consisted of the following:

| | |
|--|---------------|
| DB members: | |
| Inactive employees or beneficiaries currently receiving benefits | 7,399 |
| Inactive employees entitled to but not yet receiving benefits | 3,257 |
| Active employees | 4,440 |
| | <u>15,096</u> |
| DCRS members: | |
| Active employees | <u>6,810</u> |
| | <u>21,906</u> |

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Notes to Financial Statements
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(8) Pensions, Continued

A. General Information About the Pension Plans, Continued:

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). 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.

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(8) Pensions, Continued

A. General Information About the Pension Plans, Continued:

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 and Funding Policy: Contribution requirements of participating employers and active members to the DB Plan are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2019 actuarial valuation was used for determining the year ended September 30, 2021 statutory contributions. Member contributions are required at 9.52% of base pay.

As a result of actuarial valuations performed as of September 30, 2019, 2018 and 2017, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2021, 2020 and 2019, respectively, have been determined as follows:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll) | 13.70% | 13.86% | 13.54% |
| Employee contributions (DB Plan employees) | <u>9.52%</u> | <u>9.52%</u> | <u>9.52%</u> |
| Employer portion of normal costs (% of DB Plan payroll) | <u>4.18%</u> | <u>4.34%</u> | <u>4.02%</u> |
| Employer portion of normal costs (% of total payroll) | 2.18% | 2.39% | 2.29% |
| Unfunded liability cost (% of total payroll) | <u>21.44%</u> | <u>20.70%</u> | <u>21.29%</u> |
| Government contribution as a % of total payroll | <u>23.62%</u> | <u>23.09%</u> | <u>23.58%</u> |
| Statutory contribution rates as a % of DB Plan payroll: | | | |
| Employer | <u>26.97%</u> | <u>26.28%</u> | <u>26.56%</u> |
| Employee | <u>9.52%</u> | <u>9.52%</u> | <u>9.52%</u> |

GWA's contributions to the DB Plan for the years ended September 30, 2021, 2020 and 2019 were \$2,001,837, \$2,113,893 and \$2,007,437, respectively, which were equal to the statutorily required contributions for the respective years then ended.

GWA's contributions for supplemental annuity benefit and COLA payments for the years ended September 30, 2021, 2020 and 2019 were \$933,002, \$938,926 and \$968,706, respectively, which were equal to the statutorily required contributions for the respective years 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.

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(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 years ended September 30, 2021 and 2020 are 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 years ended September 30, 2021, 2020 and 2019 were \$3,619,321, \$3,495,839 and \$3,214,699, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,950,859, \$2,837,095 and \$2,618,445 were contributed towards the unfunded liability of the DB Plan for the years ended September 30, 2021, 2020 and 2019, respectively.

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

Pension Liability: At September 30, 2021 and 2020, GWA reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2020 and 2019, respectively, which is comprised of the following:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Defined Benefit Plan | \$ 42,300,716 | \$ 40,222,332 |
| Ad Hoc COLA/supplemental annuity Plan for DB retirees | 12,486,188 | 12,866,333 |
| Ad Hoc COLA Plan for DCRS retirees | <u>1,577,875</u> | <u>1,299,011</u> |
| | <u>\$ 56,364,779</u> | <u>\$ 54,387,676</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, 2021 and 2020, GWA's proportionate shares of the GovGuam net pension liabilities were as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-------------|-------------|
| Defined Benefit Plan | 3.39% | 3.31% |
| Ad Hoc COLA/supplemental annuity Plan for DB retirees | 3.88% | 3.97% |
| Ad Hoc COLA Plan for DCRS retirees | 2.38% | 2.17% |

Pension Expense (Benefit): For the years ended September 30, 2021 and 2020, GWA recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

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(8) Pensions, Continued

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Defined Benefit Plan | \$ 5,209,165 | \$ 5,051,847 |
| Ad Hoc COLA/supplemental annuity Plan for DB retirees | 1,084,746 | 1,206,460 |
| Ad Hoc COLA Plan for DCRS retirees | <u>126,190</u> | <u>84,837</u> |
| | <u>\$ 6,420,101</u> | <u>\$ 6,343,144</u> |

Deferred Outflows and Inflows of Resources: At September 30, 2021 and 2020, GWA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2021 | | | | | |
|---|--------------------------------------|-------------------------------------|--|-------------------------------------|---------------------------------------|-------------------------------------|
| | Defined Benefit Plan | | Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees | | Ad Hoc COLA Plan for DCRS Retirees | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 105,590 | \$ 206,525 | \$ 7,922 | \$ 199,386 | \$ 152,175 | \$ 36,993 |
| Net difference between projected and actual earnings on pension plan investments | 3,030,796 | - | - | - | - | - |
| Changes of assumptions | - | - | 979,203 | 17,772 | 383,925 | 119,626 |
| Contributions subsequent to the measurement date | 5,621,159 | - | 873,002 | - | 60,000 | - |
| Changes in proportion and difference between GWA contributions and proportionate share of contributions | <u>1,463,131</u> | <u>-</u> | <u>131,082</u> | <u>181,623</u> | <u>96,668</u> | <u>223,124</u> |
| | <u>\$ 10,220,676</u> | <u>\$ 206,525</u> | <u>\$ 1,991,209</u> | <u>\$ 398,781</u> | <u>\$ 692,768</u> | <u>\$ 379,743</u> |
| | 2020 | | | | | |
| | Defined Benefit Plan | | Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees | | Ad Hoc COLA Plan for DCRS Retirees | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 57,733 | \$ 356,557 | \$ 89,157 | \$ 39,563 | \$ 136,807 | \$ 37,730 |
| Net difference between projected and actual earnings on pension plan investments | 1,414,346 | - | - | - | - | - |
| Changes of assumptions | - | - | 1,155,162 | 200,011 | 312,740 | 126,023 |
| Contributions subsequent to the measurement date | 5,609,822 | - | 878,926 | - | 60,000 | - |
| Changes in proportion and difference between GWA contributions and proportionate share of contributions | <u>2,370,025</u> | <u>-</u> | <u>297,207</u> | <u>-</u> | <u>11,212</u> | <u>250,656</u> |
| | <u>\$ 9,451,926</u> | <u>\$ 356,557</u> | <u>\$ 2,420,452</u> | <u>\$ 239,574</u> | <u>\$ 520,759</u> | <u>\$ 414,409</u> |

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(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, 2021 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> |
|-------------------------------------|---------------------------------|---|---|
| 2022 | \$ 1,432,643 | \$ 549,006 | \$ 25,641 |
| 2023 | 1,600,393 | 154,376 | 25,641 |
| 2024 | 976,556 | 16,044 | 25,641 |
| 2025 | 380,520 | - | 25,641 |
| 2026 | 2,880 | - | 25,641 |
| Thereafter | <u>-</u> | <u>-</u> | <u>124,820</u> |
| | <u>\$ 4,392,992</u> | <u>\$ 719,426</u> | <u>\$ 253,025</u> |

Actuarial Assumptions: Actuarially determined contribution rates for the DB Plan are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

| | |
|--------------------------------|--|
| Valuation Date: | September 30, 2019 |
| Actuarial Cost Method: | Entry age normal |
| Amortization Method: | Level percentage of payroll, closed |
| Remaining Amortization Period: | May 1, 2033 (13.58 years remaining as of September 30, 2019) |
| Asset Valuation Method: | 3-year smoothed market value (effective September 30, 2009) |
| Inflation: | 2.50% per year |
| Total payroll growth: | 2.75% per year |
| Salary Increases: | 4% to 7.5% |
| Retirement age: | 50% probability of retirement upon first eligibility for unreduced retirement. Thereafter, the probability of retirement is 20% for each year until age 75, and increases to 100% at age 75. |
| Mortality: | RP-2000 healthy mortality table (males +3, females +2). Mortality for disabled lives is the RP 2000 disability mortality (males +6, females +4). Both tables are projected generationally from 2016 using 30% of Scale BB. |

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(8) Pensions, Continued

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

The actuarial assumptions used in the September 30, 2019 valuation were based on the results of an actuarial experience study for the period October 1, 2011 to September 30, 2015. The rationale for each significant assumption is provided in the experience study. To the extent that actual experience differs from the assumptions, future pension costs will differ. The next experience study for the period October 1, 2015 to September 30, 2019 is scheduled to be performed prior to the next year's valuation.

The investment rate assumption as of September 30, 2020 was 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the expected nominal return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Nominal Return</u> |
|--------------------------------------|--------------------------|-----------------------|
| U.S. Equities (large cap) | 26.0% | 7.01% |
| U.S. Equities (small cap) | 4.0% | 8.61% |
| Non-U.S. Equities | 17.0% | 8.66% |
| Non-U.S. Equities (emerging markets) | 3.0% | 10.59% |
| U.S. Fixed Income (aggregate) | 24.0% | 3.33% |
| Risk Parity | 8.0% | 5.66% |
| High Yield Bonds | 8.0% | 6.11% |
| Global Real Estate (REITs) | 2.5% | 8.55% |
| Global Equity | 7.5% | 7.74% |

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2020 and 2019 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 as of September 30, 2020 was 2.21% (2.66% as of September 30, 2019), which is equal to the rate of return of a high quality bond index.

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:

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(8) Pensions, Continued

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

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>53,021,035</u> | \$ <u>42,300,716</u> | \$ <u>33,073,808</u> |

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

| | 1% Decrease in Discount Rate <u>1.21%</u> | Current Discount Rate <u>2.21%</u> | 1% Increase in Discount Rate <u>3.21%</u> |
|-----------------------|---|--|---|
| Net Pension Liability | \$ <u>13,726,426</u> | \$ <u>12,486,188</u> | \$ <u>11,408,798</u> |

Ad Hoc COLA Plan for DCRS Retirees:

| | 1% Decrease in Discount Rate <u>1.21%</u> | Current Discount Rate <u>2.21%</u> | 1% Increase in Discount Rate <u>3.21%</u> |
|-----------------------|---|--|---|
| Net Pension Liability | \$ <u>1,789,600</u> | \$ <u>1,577,875</u> | \$ <u>1,397,716</u> |

C. Payables to the Pension Plans:

As of September 30, 2021 and 2020, GWA recorded payables to GGRF of \$109,537 and \$125,112, respectively, representing statutorily required contributions unremitted as of the respective year-ends.

(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. Because the OPEB Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

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(9) Other Post Employment Benefits (OPEB), Continued

A. General Information About the OPEB Plan, Continued:

Plan Membership: As of September 30, 2020 and 2019 (the respective measurement periods), the date of the most recent valuation (the actuarial valuation date), plan membership consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|--|---------------|---------------|
| Inactive plan members or beneficiaries currently receiving benefits | 8,114 | 7,462 |
| Active plan members | <u>11,080</u> | <u>10,832</u> |
| Total plan members | <u>19,194</u> | <u>18,294</u> |

Benefits Provided: The OPEB Plan provides post employment medical, dental and life insurance benefits to GWA retirees, spouses, children and survivors, which are the same benefits as provided to active employees. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. GWA contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees are also required to pay a portion of the medical and dental insurance premiums. Three types of health plans are offered to eligible participants:

- Standard islandwide Preferred Provider Organization (PPO) Plan
- High Deductible (Health Savings Account - HSA) PPO Plan
- Retiree Supplement Plan (RSP)

The PPO and HSA Plans apply to both active employees and retirees and work with set deductible amounts whereas the RSP Plan is an added option for retirees 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.

B. Total OPEB Liability:

As of September 30, 2021 and 2020, GWA reported a total OPEB liability of \$106,433,894 and \$84,164,331, respectively, for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2020 and 2019. The following presents GWA's proportion change in proportion since the prior measurement date:

| | |
|--|--------------|
| Proportion at prior measurement date, September 30, 2019 | <u>3.30%</u> |
| Proportion at measurement date, September 30, 2020 | <u>4.23%</u> |
| Increase in proportion | <u>0.93%</u> |

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(9) Other Post Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

The total OPEB liability for the OPEB Plan was determined by an actuarial valuation as of September 30, 2020 (the measurement date) using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------------------|---|
| Inflation: | 2.75%. |
| Discount rate: | 2.21% as of September 30, 2020 (2.66% as of September 30, 2019), net of investment expenses, including inflation |
| Amortization method: | Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding. |
| Salary increases: | 7.5% per year for the first 5 years of service, 6% for 6-10 years, 5% for 11-15 years and 4% for service over 15 years. |
| Healthcare cost trend rates: | Non-Medicare and Medicare - 6% for Year 1-3 then reducing 0.25% annually to an ultimate rate of 4.25%. Part B 4.25%. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims. The overall effect of these components are expected to decline year by year. Medical trend rates are applied to claims cost and retiree contributions, Medicare Part B and Medicare Part D reimbursements are assumed to be 4.25% per year. |
| 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. |
| Participation rates: | Medical - 100% of active employees covered under a GovGuam medical plan will elect to participate at retirement. Dental - 100% of active employees under a GovGuam dental plan will elect to participate at retirement. Life - 100% of eligible retirees will elect to participate at retirement. Current retirees will continue in the GovGuam plan as provided in the data, and upon attainment of age 65, will remain in that plan or enroll in a Retiree Supplemental Plan per Medicare Enrollment assumption below. |
| Medicare enrollment: | Based on current over-65 retiree data, 55% (previously 15%) of current and future retirees are assumed to enroll in Medicare and will enroll in a Retiree Supplemental Plan upon attainment of age 65. All employees retired prior to September 30, 2008 are assumed ineligible for Medicare upon attainment of age 65 and therefore will not enroll in a Medicare Supplemental Plan. |

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(9) Other Post Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

| | |
|-----------------------------------|--|
| Dependent status: | Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee. Medical - 100% of spouses of active employees covered under a GovGuam medical plan will elect to participate at the active employee's retirement. Dental - 100% of spouses of active employees covered under a GovGuam dental plan will elect to participate at the active employee's retirement. Life - 100% of spouses of active employees will elect to participate at the active employee's retirement. For current retired employees, the actual census information is used. |
| Actuarial cost method: | Entry Age Normal. The costs of each employee's post-employment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages. |
| Healthy Retiree mortality rates: | RP-2000 Combined Healthy Mortality Table, set forward 3 years and 2 years for males and females, respectively, projected generationally using 30% of Scale BB. |
| Disabled Retiree mortality rates: | RP-2000 Disabled Mortality Table, set forward 6 years and 4 years for males and females, respectively, projected generationally using 30% of Scale BB. |
| Withdrawal rates: | 15% for less than 1 year of service, decreasing 1% for each additional year of service up to 10 years, further decreasing 0.5% for each additional year of service up to 15 years, and 2% for service over 15 years. |
| Disability rates: | 1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females as follows: 0.05% for males aged 20-39 years (0.03% for females); 0.10% - 0.18% for males aged 40-49 years (0.05% - 0.09% for females); 0.32% - 0.53% for males aged 50-59 years (0.16% - 0.27% for females); and 0.76% for males aged 60-64 years (0.38% for females). |
| Retirement rates: | 50% of employees are assumed to retire at first eligibility for unreduced benefits under the GovGuam Retirement Fund, 20% per year thereafter until age 75, and 100% at age 75. |

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(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 2.21% as of September 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from GovGuam 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 2.21% tax-exempt, high quality municipal bond rate as of September 30, 2020 was applied to all periods to determine the total OPEB liability.

OPEB plan fiduciary net position: As of September 30, 2021 and 2020, an OPEB trust has not been established thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

C. Changes in the Total OPEB Liability:

Changes in GWA's proportionate share of the total OPEB liability for the years ended September 30, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|----------------------|
| Balance at beginning of the year | \$ <u>84,163,331</u> | \$ <u>62,656,405</u> |
| Changes for the year: | | |
| Service cost | 2,989,808 | 1,838,404 |
| Interest | 2,297,010 | 2,659,412 |
| Change in proportionate share | 26,211,068 | 42,594 |
| Differences between expected and actual experience | 11,834,897 | - |
| Change of assumptions | (19,463,429) | 18,711,520 |
| Benefit payments | <u>(1,598,791)</u> | <u>(1,745,004)</u> |
| Net change | <u>22,270,563</u> | <u>21,506,926</u> |
| Balance at end of the year | \$ <u>106,433,894</u> | \$ <u>84,163,331</u> |

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>1.21%</u> | Current Discount Rate <u>2.21%</u> | 1% Increase in Discount Rate <u>3.21%</u> |
|----------------------|---|--|---|
| Total OPEB Liability | \$ <u>126,362,692</u> | \$ <u>106,433,894</u> | \$ <u>90,547,647</u> |

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(9) Other Post Employment Benefits (OPEB), Continued

C. Changes in the Total OPEB Liability, Continued:

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:

| | 1% Decrease | Healthcare Cost Trend Rates | 1% Increase |
|----------------------|----------------------|--------------------------------|-----------------------|
| Total OPEB Liability | \$ <u>88,653,328</u> | \$ <u>106,433,894</u> | \$ <u>129,554,543</u> |

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the years ended September 30, 2021 and 2020, GWA reported total OPEB expense of \$8,126,169 and \$2,701,675, respectively, for its proportionate share of the GovGuam total OPEB expense measured for the years ended September 30, 2020 and 2019. At September 30, 2021 and 2020, GWA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | 2021 | | 2020 | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Changes of assumptions | \$ 17,315,563 | \$ 22,997,997 | \$ 18,345,940 | \$ 7,847,443 |
| Difference between expected and actual experience | 9,743,925 | 10,185,585 | - | 11,034,795 |
| Contributions subsequent to the measurement date | 2,131,591 | - | 2,181,005 | - |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | <u>19,589,000</u> | <u>4,391,572</u> | <u>-</u> | <u>6,133,551</u> |
| | <u>\$ 48,780,079</u> | <u>\$ 37,575,154</u> | <u>\$ 20,526,945</u> | <u>\$ 25,015,789</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, 2021 will be recognized in OPEB expense as follows:

| Year Ending September 30 | |
|-----------------------------|---------------------|
| 2022 | \$ 269,584 |
| 2023 | (1,492,793) |
| 2024 | 3,186,404 |
| 2025 | 5,225,280 |
| 2026 | <u>1,884,859</u> |
| | <u>\$ 9,073,334</u> |

(10) Real Estate Property Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate property under GWA's administration. For the year ended September 30, 2020, GWA recognized \$1,325,372 for the cost associated with the partial transfer of the property.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(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 years ended September 30, 2021 and 2020 are \$6,615,983 and \$5,551,065, respectively.

(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.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$109,757,803 at September 30, 2021, of which \$57,964,580 will be funded by federal grants from the U.S. Government.

Program Management Office Services

On February 6, 2012, GWA entered into a contract for Program Management Office (PMO) services to provide a wide variety of as needed program services and general staff assistance for the development of required utility infrastructure improvements. The PMO provides GWA with additional resources to address the deadlines defined in the November 10, 2011 court order and supports GWA staff in executing bond funded projects, military buildup and other related project tasks. The PMO contract ended on December 31, 2019. 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 \$2,143,448 as of September 30, 2021.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(12) Commitments and Contingencies, Continued

Operating Lease

In February 2015, GWA moved to a building owned by Guam Power Authority (GPA). GWA does not currently have a signed lease agreement with GPA but pays for its share of building maintenance costs.

On October 27, 2016, CCU, GWA, and GPA agreed that GWA's cost share for the building is \$269,170 annually.

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.

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.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(12) Commitments and Contingencies, Continued

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) Capital Contributions

Capital contributions received by GWA during the years ended September 30, 2021 and 2020, are as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|----------------------|----------------------|
| Grants from the U.S. Government: | | |
| Received from the U.S. EPA - Direct | \$ 11,976,300 | \$ 12,073,393 |
| Received from the U.S. DOD | 52,609,313 | 59,658,063 |
| Received from the U.S. DOI – Direct | <u>7,106</u> | <u>517,915</u> |
| | <u>\$ 64,592,719</u> | <u>\$ 72,249,371</u> |

(14) 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 years ended September 30, 2021 and 2020, GWA levied a surcharge amounting to \$2,942,995 and \$3,162,771, respectively, in order to satisfy this legislative mandate. The Guam PUC has approved the reduction of the surcharge from 3.75% to 3.60% effective March 1, 2020.

(15) 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 years ended September 30, 2021 and 2020, SDC revenues were \$1,596,459 and \$756,338, respectively.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
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(16) 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 years ended September 30, 2021 and 2020 were \$12,507,537 and \$14,118,145, respectively, and GWA was also charged \$527,177 and \$442,907, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,456,249 and \$1,143,369 as of September 30, 2021 and 2020, respectively.

For the years ended September 30, 2021 and 2020, GWA billed GPA a total of \$44,854 and \$143,940, respectively, for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2021 and 2020 was \$245,844 and \$257,131, respectively, which is included in receivables in the accompanying statements of net position.

GWA receives waste disposal services from Guam Solid Waste Authority (GSWA). Waste disposal fees for the years ended September 30, 2021 and 2020 were \$1,415,293 and \$1,277,885, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$74,370 and \$100,020 as of September 2021 and 2020, respectively, and were included in trade accounts payable in the accompanying statements of net position.

During the years ended September 30, 2021 and 2020, GWA wrote off \$5,977 and \$268,143, respectively, of outstanding receivables from Government of Guam agencies and autonomous units.

(17) COVID-19 Pandemic

Governor Lourdes A. Leon Guerrero issued an Executive Order on March 14, 2020, placing Guam in a Public Health Emergency due to the global pandemic caused by the novel strain of coronavirus (COVID-19). As a result, non-essential business and government offices, including schools, were closed. GWA closed its offices to the public and required non-essential employees to work from home. The closures, predictably, also had a significant impact on Guam's visitor industry, significantly affecting the local economy. However, continued construction activity related to the military re-alignment in the region has had some mitigating effect on the pandemic-induced economic downturn.

The Public Health Emergency has also had a negative effect on GWA's revenues, requiring cost containment during the fiscal year. While restrictions on business and government activities were relaxed in January 2021, it is unknown how quickly the economy will recover. The availability of COVID-19 testing and vaccines may enable Guam's tourist markets to reopen but the Guam Visitors Bureau has projected that the market may take a couple of years to fully recover.

During the years ended September 30, 2021 and 2020, GWA received \$188,768 and \$223,909, respectively, of contributions from the U.S. Government passed through from the Government of Guam as part of the Coronavirus Aid, Relief, and Economic Security Act or CARES Act. While the disruption is currently expected to be temporary, there is uncertainty around the duration. While this matter is negatively impacting GWA's business, results of operations and financial position, the ultimate impact cannot be reasonably estimated at this time.

GUAM WATERWORKS AUTHORITY
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Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Total net pension liability | \$ 1,246,336,897 | \$ 1,214,462,675 | \$ 1,179,192,550 | \$ 1,142,249,393 | \$ 1,368,645,126 | \$ 1,436,814,230 |
| GWA's proportionate share of the net pension liability | \$ 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 | 3.39% | 3.31% | 3.16% | 2.90% | 2.83% | 2.79% |
| GWA's covered-employee payroll** | \$ 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 | 238.47% | 238.36% | 229.47% | 224.72% | 270.31% | 278.37% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.48% | 62.25% | 63.28% | 60.63% | 54.62% | 52.32% |

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

| | 2021 | 2020 | 2019 | 2018 |
|--|----------------|----------------|----------------|----------------|
| Total net pension liability | \$ 321,889,969 | \$ 324,192,725 | \$ 289,875,668 | \$ 288,147,121 |
| GWA's proportionate share of the net pension liability | \$ 12,486,188 | \$ 12,866,333 | \$ 11,195,277 | \$ 10,909,240 |
| GWA's proportion of the net pension liability | 3.88% | 3.97% | 3.86% | 3.79% |
| GWA's covered-employee payroll** | \$ 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 | 61.59% | 63.63% | 56.41% | 56.69% |

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

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

| | 2021 | 2020 | 2019 | 2018 |
|--|---------------|---------------|---------------|---------------|
| Total net pension liability | \$ 66,393,472 | \$ 59,884,407 | \$ 49,342,424 | \$ 62,445,490 |
| GWA's proportionate share of the net pension liability | \$ 1,577,875 | \$ 1,299,011 | \$ 1,105,860 | \$ 1,441,633 |
| GWA's proportion of the net pension liability | 2.38% | 2.17% | 2.24% | 2.31% |
| GWA's covered-employee payroll** | \$ 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 | 25.61% | 25.43% | 18.66% | 16.57% |

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

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedules of Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Actuarially determined contribution | \$ 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>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>\$ 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>\$ 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 | 22.77% | 23.86% | 26.44% | 24.65% | 24.57% | 26.06% |

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedules of Required Supplemental Information

Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios
Last 10 Fiscal Years*

| | 2021 | 2020 | 2019 | 2018 |
|--|-----------------------|----------------------|----------------------|----------------------|
| Total OPEB liability: | | | | |
| Service cost | \$ 2,989,808 | \$ 1,838,404 | \$ 2,759,685 | \$ 3,131,482 |
| Interest | 2,297,010 | 2,659,412 | 3,296,491 | 2,937,853 |
| Change in proportionate share | 26,211,068 | 42,594 | (7,864,286) | (108,281) |
| Differences between expected and actual experience | 11,834,897 | - | (17,455,779) | - |
| Changes of assumptions | (19,463,429) | 18,711,520 | (5,234,517) | (9,141,214) |
| Benefit payments | <u>(1,598,791)</u> | <u>(1,745,004)</u> | <u>(1,795,850)</u> | <u>(1,617,515)</u> |
| Net change in total OPEB liability | 22,270,563 | 21,506,926 | (26,294,256) | (4,797,675) |
| Total OPEB liability - beginning | <u>84,163,331</u> | <u>62,656,405</u> | <u>88,950,661</u> | <u>93,748,336</u> |
| Total OPEB liability - ending | <u>\$ 106,433,894</u> | <u>\$ 84,163,331</u> | <u>\$ 62,656,405</u> | <u>\$ 88,950,661</u> |
| Covered-employee payroll | \$ 18,203,494 | \$ 17,546,110 | \$ 13,011,086 | \$ 14,150,906 |
| GWA's total OPEB liability as a percentage of covered employee payroll | 585% | 480% | 482% | 629% |

Notes to schedule

| | | | | |
|----------------------|-------|-------|-------|-------|
| <i>Discount rate</i> | 2.21% | 2.66% | 4.18% | 3.63% |
|----------------------|-------|-------|-------|-------|

Changes of benefit terms:

None.

Changes of assumptions:

Discount rate has changed from respective measurement dates.

* Information for 2010 - 2016 is not available

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

See Accompanying Independent Auditors' Report.

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

| | 2021 | 2020 | 2019 | 2018 |
|---|------------------|------------------|------------------|------------------|
| Total OPEB liability ** | \$ 2,518,489,145 | \$ 2,553,523,376 | \$ 1,874,970,335 | \$ 2,431,048,672 |
| GWA's proportionate share of the total OPEB liability | \$ 106,433,894 | \$ 84,163,331 | \$ 62,656,405 | \$ 88,950,661 |
| GWA's proportionate of the total OPEB liability | 4.23% | 3.30% | 3.34% | 3.66% |
| GWA's covered-employee payroll | \$ 18,203,494 | \$ 17,546,110 | \$ 13,011,086 | \$ 14,150,906 |
| GWA's proportionate share of the total OPEB liability as percentage of its covered-employee payroll | 584.69% | 479.67% | 481.56% | 628.59% |

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedules of Required Supplemental Information
Schedule of OPEB Contributions
Last 10 Fiscal Years*

| | 2021 | 2020 | 2019 | 2018 |
|--|---------------------|---------------------|---------------------|---------------------|
| Actuarially determined contribution | \$ 7,175,899 | \$ 5,617,770 | \$ 7,776,105 | \$ 8,045,954 |
| Contributions in relation to the actuarially determined contribution | <u>1,598,791</u> | <u>1,745,004</u> | <u>1,795,850</u> | <u>1,617,515</u> |
| Contribution deficiency | <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 | \$ 18,203,494 | \$ 17,546,110 | \$ 13,011,086 | \$ 14,150,906 |
| Contributions as a percentage of covered-employee payroll | 8.78% | 9.95% | 13.80% | 11.43% |

Notes to Schedule

Valuation date:

Actuarially determined contributions rates are calculated as of September 30, 2020.

Method and assumptions used to determine contributions rates:

| | |
|-------------------------------|---|
| Actuarial cost method: | Entry age normal. |
| Amortization method: | Level dollar amount on an open amortization period for pay-as-you-go funding. |
| Amortization period: | 30 years |
| Inflation: | 2.75% |
| Healthcare cost trend rates: | Non-Medicare and Medicare - 6% for Year 1-3 then reducing 0.25% annually to an ultimate rate of 4.25%. Part B 4.25%. |
| Salary increase: | 4.0% to 7.5% |
| Mortality (Healthy Retiree): | RP-2000 Combined Healthy Mortality Table, set forward 3 years and 2 years for males and females, respectively, projected generationally using 30% of Scale BB |
| Mortality (Disabled Retiree): | RP-2000 Disabled Mortality Table, set forward 6 years and 4 years for males and females, respectively, projected generationally using 30% of Scale BB |

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2021 and 2020

| | 2021 | 2020 |
|---|---------------|---------------|
| Salaries, wages and benefits: | | |
| Regular, differential and hazardous pay | \$ 16,269,531 | \$ 16,900,151 |
| Pension costs and other benefits | 7,663,597 | 6,519,080 |
| Overtime pay | 307,138 | 773,124 |
| Total salaries, wages and benefits | \$ 24,240,266 | \$ 24,192,355 |
| Administrative and general: | | |
| Chemicals | \$ 2,124,444 | \$ 1,817,213 |
| Materials and supplies | 1,425,390 | 2,091,704 |
| Insurance | 956,589 | 937,471 |
| Miscellaneous | 644,833 | 648,685 |
| Merchant fees | 560,463 | 453,980 |
| Transportation | 519,743 | 606,260 |
| Public Utility Commission | 260,410 | 317,344 |
| Communications | 159,073 | 153,371 |
| Liability claims | 89,348 | 134,529 |
| Advertising | 86,704 | 60,929 |
| Training | 34,926 | 137,912 |
| Total administrative and general | \$ 6,861,923 | \$ 7,359,398 |
| Contractual: | | |
| Labor, materials and others | \$ 1,701,284 | \$ 2,109,246 |
| Accounting | 1,346,323 | 853,736 |
| Equipment rental | 288,743 | 786,736 |
| Property rental | 497,007 | 440,879 |
| Testing | 413,716 | 212,762 |
| Legal | - | 28,477 |
| Total contractual | \$ 4,247,073 | \$ 4,431,836 |
| Other expense: | | |
| Interest expense | \$ 30,075,496 | \$ 26,821,893 |
| Retiree healthcare costs and other benefits | 9,707,749 | 4,381,255 |
| | \$ 39,783,245 | \$ 31,203,148 |

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule of Construction Work in Progress
Year Ended September 30, 2021

| Project Title | Type | Beginning Balance FY2020 | Additions and Transfers | Closed out during FY2021 | Ending Balance FY2021 |
|--|------------------|--------------------------------|-------------------------------|--------------------------------|-----------------------------|
| Asan Springs Rehabilitation | Water | \$ 765,087 | \$ 51,335 | \$ (1,001) | \$ 815,421 |
| Deepwell New Wells Site Development and Rehabilitation | Water | 1,804,504 | 42,575 | - | 1,847,079 |
| Equipment Purchases | Water/Wastewater | - | 828,364 | (828,364) | - |
| Facilities Improvement | Water/Wastewater | 577,939 | 223,459 | (111,729) | 689,669 |
| Fire Hydrant Replacements | Water | 253,265 | 917,111 | (646,892) | 523,484 |
| Hydraulic Modeling | Water/Wastewater | 620,143 | 21,390 | - | 641,533 |
| I&I SSES for Central/Northern/Southern Sewer Systems | Wastewater | 3,261,331 | 198,711 | (483,997) | 2,976,045 |
| Information Technology | Water/Wastewater | 1,853,126 | 2,636,948 | (4,331,548) | 158,526 |
| Island Wide Real Property Survey & Mapping | Water/Wastewater | 779,387 | - | - | 779,387 |
| Island Wide Water Reservoirs | Water | 40,978,748 | 16,259,068 | (32,190,984) | 25,046,832 |
| Meters and related | Water | 681,346 | 2,349,286 | (2,173,786) | 856,846 |
| Pressure Zone Realignment | Water | 222,159 | 2,619,386 | - | 2,841,545 |
| Program Management Office | Water/Wastewater | 5,133,100 | 409,343 | (2,034,689) | 3,507,754 |
| Pumps, Motors, Cables and related Replacements | Water/Wastewater | - | 575,874 | (547,100) | 28,774 |
| Route 1 Sanitary Sewer Rehabilitation and Replacement (Asan-Adelup-Hagatna) | Wastewater | 5,093,247 | 7,574,303 | (8,009,578) | 4,657,972 |
| Route 2 Agat War in the Pacific National Park Sewerline Rehab & Replacement | Wastewater | - | 970,819 | (970,819) | - |
| Route 4 Relief Sewer Line Rehabilitation Replacement | Wastewater | 10,348,604 | 80,353 | (10,428,957) | - |
| SCADA System for Water and Wastewater | Water/Wastewater | 7,061,252 | 632,514 | (6,350,677) | 1,343,089 |
| Sewer Pump Station Improvements | Wastewater | 3,128,695 | 880,652 | (2,494,783) | 1,514,564 |
| Tamuning Hot Spots Sewer Line Rehabilitation and Replacement | Wastewater | 845,541 | 743,625 | - | 1,589,166 |
| Tumon Hot Spots Sewer Line Rehabilitation | Wastewater | 432,507 | 67 | - | 432,574 |
| Ugum Water Treatment Plant Rehabilitation | Water | - | 227,554 | - | 227,554 |
| Upgrade to Secondary Treatment at NDWWTP | Wastewater | 56,118,431 | 53,357,606 | (7,081,645) | 102,394,392 |
| Wastewater Collection Systems | Wastewater | 637,118 | 120,711 | - | 757,829 |
| Water and Wastewater Infrastructure Improvements | Water/Wastewater | 8,697,178 | 3,188,246 | (543,437) | 11,341,987 |
| Water BPS Improvements | Water | 365,292 | 2,780 | (1,731) | 366,341 |
| Water Distribution Systems | Water | 665,347 | 1,725,008 | (139,588) | 2,250,767 |
| | | <u>\$ 150,323,347</u> | <u>\$ 96,637,088</u> | <u>\$ (79,371,305)</u> | <u>\$ 167,589,130</u> |

See Accompanying Independent Auditors' Report.

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, 2021 and 2020

ASSETS

| | 2021 | 2020 |
|-----------------|---------------|---------------|
| Current assets: | | |
| Restricted cash | \$ 9,762,282 | \$ 9,777,402 |
| Receivables | 398,916 | 287,614 |
| | \$ 10,161,198 | \$ 10,065,016 |

LIABILITIES AND NET POSITION

| | | |
|----------------------|---------------|---------------|
| Current liabilities: | | |
| Due to GWA | \$ 563,671 | 91,195 |
| Net position: | | |
| Restricted | 9,597,527 | \$ 9,973,821 |
| | \$ 10,161,198 | \$ 10,065,016 |

REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | | |
|-----------------------------------|--------------|--------------|
| Revenues: | | |
| System development charge | \$ 1,596,459 | \$ 756,338 |
| Other revenues | 12,882 | 103,567 |
| | 1,609,341 | 859,905 |
| Expenses: | | |
| Transfer out | 1,985,635 | 495,542 |
| Change in net position | (376,294) | 364,363 |
| Net position at beginning of year | 9,973,821 | 9,609,458 |
| Net position at end of year | \$ 9,597,527 | \$ 9,973,821 |

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Operating Revenues
Years Ended September 30, 2021 and 2020

| | 2021 | 2020 |
|---------------------------|---------------|----------------|
| Water | \$ 64,925,612 | \$ 66,131,935 |
| Wastewater | 31,696,436 | 34,655,406 |
| Surcharges: | | |
| Legislative | 2,942,995 | 3,162,771 |
| System development charge | 1,596,459 | 756,338 |
| Other | 502,315 | 588,593 |
| Bad debts expense | (1,991,300) | (2,033,768) |
| Total operating revenues | \$ 99,672,517 | \$ 103,261,275 |

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Employee and Other Data
Years Ended September 30, 2021 and 2020

| 2021 | | | | | |
|----------------|------------------------|-----------------------|-------------------------|---------------------------|----------------------|
| Department | Full-Time Employees | Personnel Services | Contractual Services | Materials and Supplies | Total |
| Administration | 166 | \$ 12,160,512 | \$ 3,084,946 | \$ 123,916 | \$ 15,369,374 |
| Water | 110 | 6,090,626 | 672,430 | 1,017,783 | 7,780,839 |
| Wastewater | 93 | 5,989,128 | 489,697 | 283,691 | 6,762,516 |
| Total | 369 | \$ 24,240,266 | \$ 4,247,073 | \$ 1,425,390 | \$ 29,912,729 |

| 2020 | | | | | |
|----------------|------------------------|-----------------------|-------------------------|---------------------------|----------------------|
| Department | Full-Time Employees | Personnel Services | Contractual Services | Materials and Supplies | Total |
| Administration | 168 | \$ 12,262,339 | \$ 2,235,856 | \$ 176,154 | \$ 14,674,349 |
| Water | 113 | 5,904,927 | 839,958 | 1,461,938 | 8,206,823 |
| Wastewater | 98 | 6,025,089 | 1,356,022 | 453,612 | 7,834,723 |
| Total | 379 | \$ 24,192,355 | \$ 4,431,836 | \$ 2,091,704 | \$ 30,715,895 |

See Accompanying Independent Auditors' Report.