

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

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

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019, 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. However, due to uncertainty surrounding the duration of the COVID-19 pandemic, GWA is unable to reasonably estimate its ultimate financial impact. 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 Schedule of Proportionate Share of the Net Pension Liability on pages 58 through 60, the Schedule of Pension Contributions on page 61, the Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios on page 62, the Schedule of Proportionate Share of the Total OPEB Liability on page 63, and the Schedule of OPEB Contributions on page 64 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.

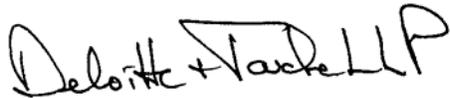
Other Financial Information

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 65 through 68 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 65 through 68 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 69 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 March 19, 2021, 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.

March 19, 2021

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

Management's Discussion and Analysis
September 30, 2020 and 2019

As management of the Guam Waterworks Authority ("GWA", "Authority"), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ended September 30, 2020. 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, 2020. It is based on the financial statements provided in the annual audit report. Comparable financial data from the prior year 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

Guam Waterworks Authority 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 operation. Their roles include 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. The CCU hires the General Manager, the Legal Counsel, and the Chief Financial Officer for GWA.

At the end of FY2020, GWA had a staff of 379 full time equivalent (FTE) employees. 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.

GWA owns and operates a variety of facilities that provide water and wastewater services to most of the island residents. 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.

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 and wells are used to extract the groundwater for use. GWA owns 120 wells, of which 112 were operational (though all were not in use) on September 30, 2020. GWA's water system includes a network of transmission and distribution pipelines, booster pump stations, pressure regulating valve stations, reservoirs, tanks, and fire hydrants all supporting the agency's effort to provide more efficient and reliable service to its customers while meeting regulatory requirements. At the end of FY2020, GWA had over 42,800 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 FY2020, GWA had over 29,300 wastewater customers. The wastewater system is separated into seven wastewater basins and includes five 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 including streamlining expenditures, decreasing leak repair times, implementing a meter replacement program, and launching a computerized maintenance 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. This Five-Year Financial Plan included a corresponding Capital Improvement Program (CIP), which is based on the first five years of GWA's 2018 Water Resources Master Plan and included anticipated capital projects to address regulatory priorities. A stipulation was signed between GWA and the PUC Consultant on January 17, 2020 agreeing to 5% rate increases in both FY2020 and FY2021. The stipulated plan included \$342 million in capital projects as follows: (a) \$47 million to complete the last remaining court ordered projects; (b) \$113 million in projects forecasted to address compliance requirements for the consent decree currently under negotiation with the EPA; (c) \$66 million in Non-Revenue Water related projects, and (d) \$116 million in projects related to safety, capacity, and efficiency for water and wastewater systems. The PUC approved the stipulation on February 27, 2020 in GWA Docket 19-08 and the resulting rate order made the FY2020 increase effective for only part of the fiscal year beginning March 1, 2020 and the FY2021 increase effective October 1, 2020.

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. 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 2021.

Series 2020A GWA Water and Wastewater System Revenue Bonds & Series 2020B Refunding

On January 28, 2020, the CCU approved Resolution 15-FY2020 authorizing the sale of Water and Wastewater System Revenue Bonds at a par value of \$134 million. The PUC authorized the sale in GWA Docket 20-03 on March 26, 2020. The bond proceeds will be used to complete projects related to the 2011 Court Order and begin projects to address the consent decree currently in negotiations, projects that will reduce non-revenue water, as well as projects to address safety and compliance, system capacity, and operational efficiency. The bonds were sold on May 28, 2020 and settled on June 4, 2020. Net proceeds for the Series 2020A Bonds were \$142,799,346, securing a 4% yield to the 10-year call date and an all-in TIC (true interest cost) of 4.59%. Subsequently, CCU Resolution 29-FY2020, and PUC Order GWA Docket 20-06 approved \$14.7 million in additional projects funded by the Series 2020A Bond premium.

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CCU Resolution 15-FY2020 and PUC Order Docket 20-03 also authorized the advanced refunding of a portion of the 2013 Series Bond. Due to market conditions, the refunding occurred on August 18, 2020 with a settlement date of August 26, 2020. The \$166 million Series 2020B bonds are taxable, secured \$13 million in debt service savings and resulted in an all-in TIC of 3.70%.

For both bond offerings, GWA maintained its existing bond ratings of Baa2 by Moody's and A- by Standard and Poor's. Although the 2020B Bonds were not rated by Fitch, GWA received a Fitch rating upgrade from BBB- to BBB the week prior to pricing.

COVID-19 Public Health Emergency

In response to the Novel Coronavirus (COVID-19) outbreak, on January 30, 2020, the World Health Organization declared a Global Health Emergency followed by the US Health & Human Services Secretary declaring a public health emergency on January 31, 2020. Subsequently, on March 13, 2020, President Donald Trump declared a National Emergency and on March 14, 2020 Governor Lourdes A. Leon Guerrero, issued Executive Order 2020-03 declaring a Guam State of Emergency.

In compliance with the Executive Orders issued by the Governor of Guam, GWA required all essential staff to report to their work sites and non-essential staff to work from home while it closed its facilities to the public for a large part of calendar year 2020. Quarantine restrictions were placed on persons entering Guam and most airlines suspended flights into Guam. In July, the Governor placed the island in Pandemic Condition of Readiness (PCOR) 3, relaxing many of the restrictions previously in place. A surge in positive cases resulting in an increase in COVID-19 related hospitalizations and deaths, placed the island back in PCOR 1 on August 16, 2020.

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 have been suspended through this emergency period. 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 the financial statements and other supplementary and statistical information.

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 23 of this report.

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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 58 of this report.

Financial Condition and Results

The Authority's total net position increased by \$61.7 million during the fiscal year (see table below) primarily due to the \$72.2 million in capital contributions.

The net increase in property, plant and equipment of \$81.1 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 87.3% of total net position. The net amount invested in capital assets increased by \$38.9 million compared to prior year.

Summary Statement of Net Position

			<u>2020 to 2019 Comparison</u>		September 30, 2018
	September 30, 2020	September 30, 2019	Increase/ (Decrease)	% Change	
Current and other assets	\$ 387,493,650	\$ 270,421,778	\$ 117,071,872	43.29%	\$ 315,973,947
Property, plant and equipment, net	698,236,064	617,097,745	\$ 81,138,319	13.15%	549,691,352
Deferred outflows of resources	66,717,845	28,016,075	\$ 38,701,770	138.14%	26,101,676
Total assets and deferred outflows	<u>\$ 1,152,447,559</u>	<u>\$ 915,535,598</u>	<u>\$ 236,911,961</u>	25.88%	<u>\$ 891,766,975</u>
Current and other liabilities	\$ 177,752,730	\$ 152,516,590	\$ 25,236,140	16.55%	\$ 178,288,295
Long-term debt	685,340,523	528,282,698	\$ 157,057,825	29.73%	538,644,643
Deferred inflows of resources	26,093,937	33,202,806	\$ (7,108,869)	-21.41%	10,599,064
Total liabilities and deferred inflows	<u>889,187,190</u>	<u>714,002,094</u>	<u>175,185,096</u>	24.54%	<u>727,532,002</u>
Net Position:					
Net investment in capital assets	\$ 229,805,072	\$ 190,953,226	\$ 38,851,846	20.35%	\$ 243,581,010
Restricted	27,166,805	35,182,289	\$ (8,015,484)	-22.78%	34,546,288
Unrestricted	6,288,492	(24,602,011)	\$ 30,890,503	-125.56%	(113,892,325)
Total net position	<u>263,260,369</u>	<u>201,533,504</u>	<u>61,726,865</u>	30.63%	<u>164,234,973</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,152,447,559</u>	<u>\$ 915,535,598</u>	<u>\$ 236,911,961</u>	25.88%	<u>\$ 891,766,975</u>

Operating revenues decreased from \$110.5 million to \$103.3 million in FY2020, or approximately - 6.6%, a direct effect of the COVID-19 pandemic. Similarly, operating income decreased by 39.3% from the previous year, down by \$10.9 million from \$27.8 million in FY2019 to \$16.9 million in FY2020. As a result, GWA implemented cost containment measures to reduce operating expenses in order to mitigate the financial impacts of reduced revenues. However, operating costs increased by \$3.7 million from \$82.7 million to \$86.4 million, mainly due to increased labor costs of \$1.5 million which included additional COVID-19 compensation and \$2.1 million increases in pension and OPEB expense adjustments related to GASB 68 and 73.

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Water revenues (total) decreased by \$2.1 million or -3.0% over the prior fiscal year. The hotel and commercial sectors accounted for most of the decreases, \$4.7 million and \$1.0 million, respectively. Residential increases of \$3.7 million helped to offset some of those impacts. Wastewater revenues (total) decreased by \$5.3 million or -12.8% over the prior fiscal year. Because non-residential wastewater revenues are driven by water consumption for non-residential customers, wastewater revenues were similarly negatively impacted with almost no offsets by residential customers as residential customers are charged a flat fee for wastewater services.

GWA's operating expenses are generally driven by power, water purchases, personnel expenses, and depreciation. These costs account for almost two thirds of operating expenses. However, power rates were significantly reduced during the pandemic due to reductions in fuel prices. As a result, GWA saw power costs reduced by \$2.0 million. Water purchases were also down by \$0.7 million due to (1) Navy price reductions as a result of lowered power costs and (2) drops in consumption by 159 thousand kgals. Salaries increased by \$3.2 million, mainly due to COVID-19 pay as mentioned above. Depreciation also increased by \$3.9 million.

Total operating expenses increased by \$3.7 million or 4.4% 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 93.2%, followed by depreciation 18.3% and salaries, wages and benefits 15.0%. However, such increases were offset by savings from (1) power purchases by -12.6% (2) water purchases -11.6% (3) administrative and general expenses by -13.5% and (4) contractual expenses by -25.5% compared to the prior fiscal year.

Net non-operating expenses increased by \$15 million. Interest expense increased by \$1.6 million while non-operating revenues decreased by of \$13.4 million. Investment income significantly declined by \$3.6 million.

A comparative analysis of Revenues, Expenses and Changes in Net Position, FY2019 – FY2020, as well as FY2018 amounts, are illustrated in the Table below:

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

	September 30, 2020	September 30, 2019	2020 to 2019 Comparison		September 30, 2018
			Increase/ (Decrease)	% Change	
Revenues:					
Water	\$ 68,728,618	\$ 70,830,149	\$ (2,101,531)	-2.97%	\$ 69,261,559
Wastewater	35,977,832	41,247,772	(5,269,940)	-12.78%	39,956,903
Other	588,593	679,465	(90,872)	-13.37%	519,529
Bad debts	<u>(2,033,768)</u>	<u>(2,217,121)</u>	<u>183,353</u>	-8.27%	<u>(2,162,950)</u>
Total operating revenue	<u>103,261,275</u>	<u>110,540,265</u>	<u>(7,278,990)</u>	-6.58%	<u>107,575,041</u>
Expenses:					
Power purchases	14,118,145	16,150,781	(2,032,636)	-12.59%	14,686,486
Water purchases	5,551,065	6,277,864	(726,799)	-11.58%	8,684,974
Sludge (waste) disposal fees	1,277,885	1,333,887	(56,002)	-4.20%	1,507,654
Salaries, wages and benefits	24,192,355	21,030,363	3,161,992	15.04%	18,534,508
Depreciation	25,048,700	21,174,220	3,874,480	18.30%	19,280,249
Administrative and general	7,359,398	8,510,862	(1,151,464)	-13.53%	8,072,978
Contractual	4,431,836	5,945,478	(1,513,642)	-25.46%	5,036,652
Retiree healthcare costs and other benefits	<u>4,381,255</u>	<u>2,267,681</u>	<u>2,113,574</u>	93.20%	<u>8,548,967</u>
Total operating expenses	<u>86,360,639</u>	<u>82,691,136</u>	<u>3,669,503</u>	4.44%	<u>84,352,468</u>
Net operating income	<u>16,900,636</u>	<u>27,849,129</u>	<u>(10,948,493)</u>	-39.31%	<u>23,222,573</u>
Non-operating revenue (expenses)	(601,249)	12,840,475	(13,441,724)	-104.68%	12,361,845
Less: Interest Expense	<u>(26,821,893)</u>	<u>(25,192,512)</u>	<u>(1,629,381)</u>	6.47%	<u>(25,979,599)</u>
Total non-operating revenues (expenses), net	<u>(27,423,142)</u>	<u>(12,352,037)</u>	<u>(15,071,105)</u>	122.01%	<u>(13,617,754)</u>
Income (loss) before capital contributions	(10,522,506)	15,497,092	(26,019,598)	-167.90%	9,604,819
Capital contributions	<u>72,249,371</u>	<u>21,801,439</u>	<u>50,447,932</u>	231.40%	<u>15,208,707</u>
Change in net position	61,726,865	37,298,531	24,428,334	65.49%	24,813,526
Net position - beginning year	<u>201,533,504</u>	<u>164,234,973</u>	<u>37,298,531</u>	22.71%	<u>139,421,447</u>
Net position - end of year	<u>\$ 263,260,369</u>	<u>\$ 201,533,504</u>	<u>\$ 61,726,865</u>	30.63%	<u>\$ 164,234,973</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	FY20	FY19	2020 to 2019 Comparison		FY18
			Increase (Decrease)	% Change	
Agricultural	\$ 485,425	\$ 496,399	\$ (10,974)	-2%	\$ 460,076
Golf Course	85,504	49,904	35,600	71%	48,567
Commercial	12,896,717	13,868,755	(972,038)	-7%	13,667,485
Federal	25,625	23,137	2,488	11%	31,502
Government	6,123,799	6,233,660	(109,861)	-2%	6,572,048
Hotel	10,237,252	14,955,990	(4,718,738)	-32%	13,802,981
Irrigation	57,432	51,409	6,023	12%	49,457
Residential	38,439,018	34,689,888	3,749,130	11%	34,100,450
TOTAL	\$ 68,350,772	\$ 70,369,142	\$ (2,018,370)	-2.87%	\$ 68,732,566

Annual WasteWater Revenues (Excluding System Development Charges)

Class Type	FY20	FY19	2020 to 2019 Comparison		FY18
			Increase (Decrease)	% Change	
Commercial	\$ 7,933,048	\$ 8,753,399	\$ (820,351)	-9%	\$ 8,735,533
Federal	6,108,423	6,388,022	(279,599)	-4%	6,322,371
Government	3,423,005	3,569,358	(146,353)	-4%	3,800,155
Hotel	9,156,976	13,178,157	(4,021,181)	-31%	11,937,462
Residential	8,977,791	8,934,366	43,425	0%	8,619,390
TOTAL	\$ 35,599,243	\$ 40,823,302	\$ (5,224,059)	-12.80%	\$ 39,414,911

Water Demand by Rate Class

Class Type	FY20	FY19	2020 to 2019 Comparison		FY18
			Increase (Decrease)	% Change	
Agricultural	84,492	90,803	(6,311)	-7%	81,127
Golf Course	5,128	2,793	2,335	84%	2,741
Commercial	822,736	906,192	(83,456)	-9%	910,905
Federal	1,338	1,602	(264)	-16%	1,813
Government	408,502	405,980	2,522	1%	450,165
Hotel	714,161	1,079,919	(365,758)	-34%	989,723
Irrigation	8,654	7,896	758	10%	8,504
Residential	3,712,723	3,359,905	352,818	11%	3,313,613
TOTAL	5,757,734	5,855,090	(97,356)	-1.66%	5,758,590

WasteWater Demand by Rate Class

Class Type	FY20	FY19	2020 to 2019 Comparison		FY18
			Increase (Decrease)	% Change	
Commercial	591,972	652,842	(60,870)	-9%	662,938
Federal	542,970	597,041	(54,071)	-9%	592,819
Government	298,457	326,653	(28,196)	-9%	345,049
Hotel	480,884	707,934	(227,050)	-32%	639,157
Residential	2,118,282	1,836,324	281,958	15%	1,836,672
TOTAL	4,032,565	4,120,794	(88,229)	-2.14%	4,076,635

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As reported on the Statements of Net Position, the Authority's total net position increased by \$61.7 million during the fiscal year due mainly to net investment in capital assets.

Capital Assets

The Authority had \$698.2 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2020. 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 2020, capital assets increased by \$81.1 million (net) or 13.2% 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	\$ 21,842,605
Treatment plants	29,345,190
	\$ 51,187,795
 <u>Water</u>	
Deepwells	\$ 1,227,848
Fire Hydrants	159,264
Meters	2,399,350
	\$ 3,786,462
 General Plant Improvements	 \$ 3,371,529
	\$ 58,345,786

Capital Assets, Net of Accumulated Depreciation

	September 30, 2020	September 30, 2019	2020 to 2019 Comparison		September 30, 2018
			Increase (Decrease)	% Change	
Plant, buildings and equipment, net	\$ 542,672,530	\$ 513,020,424	\$ 29,652,106	5.78%	\$ 367,566,306
Land	5,240,187	3,914,815	1,325,372	33.86%	3,681,120
Construction in progress	150,323,347	100,162,506	50,160,841	50.08%	178,443,926
Total	\$ 698,236,064	\$ 617,097,745	\$ 81,138,319	13.15%	\$ 549,691,352

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

Debt

As of September 30, 2020, the Authority had total long-term debt outstanding of \$642.8 million, which is an increase of \$146.4 million or 29.49% over the prior year.

The Authority issued 2020A bond series, dated June 4, 2020, for a principal amount of \$134 million to finance capital improvement projects in connection with the financing of its 5-year capital improvement plan. The Authority also issued refunding 2020B bond series, dated August 26, 2020, with a principal amount of \$166 million to refund a portion of the outstanding 2013 bond series.

The Authority is required by bond covenants to maintain principal, interest, and reserve funds for the bond issues outstanding. 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. The Public Utilities Commission set the requirement at 140%.

As of the end of FY2020, Moody's Investor Services and Standard & Poor's assigned a rating of Baa2, and A- respectively to GWA's Water and Wastewater Revenue Bonds Series 2020A and Series 2020B Refunding. The ratings are important benchmarks of an issuer's ability to meet its financial obligation. 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, 2020	September 30, 2019	2020 to 2019 Comparison		September 30, 2018
			Increase (Decrease)	% Change	
2010 Bond Series	\$ -	\$ 1,895,000	\$ (1,895,000)	-100.00%	\$ 3,695,000
2013 Bond Series	27,340,000	172,630,000	(145,290,000)	-84.16%	172,630,000
2014 Refunding Bond Series	65,140,000	68,900,000	(3,760,000)	-5.46%	72,520,000
2016 Bond Series	142,890,000	143,310,000	(420,000)	-0.29%	143,310,000
2017 Refunding Bond Series	107,365,000	107,365,000	-	0.00%	107,660,000
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	-	2,319,108	(2,319,108)	-100.00%	5,529,024
Total	\$ 642,810,000	\$ 496,419,108	\$ 146,390,892	29.49%	\$ 505,344,024

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

Please refer to the MD&A in the FY2019 GWA Financial Audit for additional information related to FY2019. 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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Other Matters

The Office of Public Accountability (OPA) released Report 21-01 Government of Guam COVID-19 Payroll Expenses in January 2021. This performance audit reviewed COVID-19 payroll expenses incurred between March 14 through May 11, 2020, in relation to applicable requirements, including the Governor's COVID-19 Differential Pay policy contained in Executive Order FY2020-08. During this period, GWA analyzed all applicable pay requirements in effect, and followed its Personnel Rules & Regulations (PR&R) Rule 8.406 (adopted from the Department of Administration's PR&R) governing pay provisions during a declared state of emergency. Rule 8.406 requires that employees required to report to work during such emergencies be paid at 2 times their regular rate or paid their regular rate and provided compensatory leave credits for each hour worked. The OPA has questioned whether GWA erred in choosing between the conflicting provisions of the COVID-19 Differential Pay Policy and PR&R Rule 8.406 and has requested that the Attorney General review the circumstances surrounding the application of the double pay provision to determine if reimbursement is necessary from employees who received the double pay."

GWA believes that the Governor's Executive Order FY2020-08 establishing the COVID-19 Differential Pay Policy did not rescind or suspend the requirements of Rule 8.406, creating simultaneously applicable requirements for pay. GWA further believes that in choosing to follow Rule 8.406 and applying it consistently with how the rule has been applied during all prior emergency declarations, the provisions of Executive Order FY2020-08 were met (exceeded) and that employees were paid appropriately.

Looking Forward

Outlook, Challenges, and Opportunities

As GWA completes the compliance requirements under the 2011 Court Order, with only one compliance element remaining, management will focus its attention in the coming years to capital and operational improvements in water and wastewater system performance and reliability that are still needed to achieve full regulatory compliance, improve levels of service to our ratepayers, and achieve gains in efficiency which will keep our services affordable.

Court Order Compliance

The CCU and the Authority remain focused on meeting the requirements of the 2011 Federal Court Order and have nearly completed the execution of mandatory rehabilitation, repair, and construction projects, with only one element remaining of the 93 compliance items. 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. While delays in the PUC action on GWA's Five-Year Financial Plan and Capital Improvement Program (FY2020 – FY2024) resulted in non-compliance with the original Court Order deadline of December 31, 2020, GWA filed an unopposed motion in the U.S. District Court to extend the final completion deadline to June 23, 2023. The Court approved the extension and GWA continues its work to complete the sole remaining compliance requirement by the new deadline.

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Secondary Treatment

EPA 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. The WWTPs are currently meeting the requirements of the Court Order with chemically enhanced primary treatment but are not in compliance with the secondary treatment standards and will require significant upgrades to comply with the permit.

In the fall of 2016, the Department of Defense (DOD), through the Office of Economic Adjustment (OEA), awarded the Authority grants totaling \$55.3 million to initiate projects associated with the design and construction of improvements needed to bring the Northern District WWTP to full secondary treatment capability. In late 2017, the Authority received additional grant awards totaling \$117.9 million for construction of wastewater improvements related to DOD re-alignment of forces in the Pacific resulting in Guam's military build-up. In July of 2019, GWA issued a notice-to-proceed to the contractor selected for the construction of secondary treatment upgrades to the Northern District WWTP. The construction is underway and is on schedule for completion of upgrades by December 2021.

GWA continues its discussions with the EPA regarding the timing of required upgrades to the Hagåtña WWTP to secondary treatment as part of a negotiated consent decree. Although there has been significant progress in discussions on the technical aspects of the consent decree's compliance requirements, the financial impacts of the global COVID-19 pandemic have complicated the Authority's efforts to have the Consent Decree completed and lodged in the U.S. District Court by the end of 2020.

Capital Project Risk

GWA has demonstrated improvement in performance through the successful implementation of Capital Projects planning and execution. With the completion of two 5-year plans and its recently approved CIP for FY2020-FY2024, the Authority has laid-out its on-going significant investments required by a 2011 Federal Court Order (CO), regulatory mandates and CCU policy as reflected in the adoption of the 2018 Water Resource Master Plan. Although GWA has successfully worked with the Department of Defense to avail its projects and contractors of allowable H-2B visa allotments associated with military build-up projects under the National Defense Authorization Act, the ban on immigrant labor from the Philippines in 2020 worsened the construction labor situation in Guam. GWA continues to see the effects of the H-2B visa issue decreasing availability of skilled construction workers and negatively affecting planned procurements for non-DOD capital projects. The risk of decreased construction bid competition and limited labor resources will continue to be a challenge for the Authority.

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Non-Revenue Water and Line Replacements

The Authority continues to address the longstanding issue of non-revenue water. According to the latest water audit figures, GWA showed a slight 3% improvement in overall Non-Revenue Water (NRW) with approximately 53% of water produced annually not consumed or contributing to GWA's revenue due to water losses (leaks, breaks – decreased from 42% in FY19 to 38% in FY20) and unauthorized or unbilled consumption. GWA recognizes that NRW is a significant challenge that affects its efficiency and financial performance. Since GWA's launch of water loss control initiatives in 2016, the Authority has seen improvement on several levels. To address surface leaks and main breaks, those instances where losses are easy to detect and report, GWA increased its staffing and equipment resources to focus on improving its leak repair times and reducing the backlog of repair work orders at the end of any given day, resulting in an over 90% reduction in backlog from FY2016 to FY2019. GWA sustained that performance in FY20 and will continue to do so in the coming year.

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, GWA initiated capital improvements for pressure zone re-alignment. 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 underway, and Phase 2 design is nearly complete.

Most recently, GWA engaged a water loss management consultant to pilot-test District Metered Areas (DMA) by installing meters at discrete supply points within three (3) defined areas or neighborhoods and monitoring supply against metered customer demand within each DMA. The resulting analysis and focused repair efforts within each DMA showed an average reduction of 45% in water losses. These encouraging results underpin GWA's decision to incorporate all the above initiatives into a comprehensive Water Loss Control Program, which will provide for and document a long-term, sustainable, and holistic approach to monitoring and managing water losses. As part of this program, a formal written Water Loss Control Plan is nearly complete. Implementation of island-wide DMAs will begin in FY2021 and help GWA to achieve target water loss levels based on economic cost-benefit analyses that are aligned with industry standards.

To complement and complete the Water Loss Control Plan, GWA has included several pipe replacement programs in its 5-Year CIP. As the completion of Court Order projects proceeds, resources will be adjusted to advance these programs in the next two years so that regular, annual investments are made to renew piping infrastructure on an on-going basis, in addition to targeted capacity-related pipe upgrades.

Metering Challenges

The Authority has effectively addressed the short-term impacts of a defective meter issue for a limited number of GWA's residential meter inventory. The Authority completed the phase-out of the problematic meter model from its distribution system in July of 2020. While GWA has seen rebounds in sales and revenues in the residential customer class due to the correction of the meter issue, the onset of the COVID-19 pandemic and its financial impacts has muted the positive impact of these meter replacements. GWA will focus in the coming year on maintaining meter performance and improving metering infrastructure to provide enhanced customer experience with improved data and software availability.

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FY2020-FY2024 Financial Plan

In the PUC Order GWA Docket 19-08, the approved stipulation called for a comprehensive review and update of the financial plan and rates for FY2022-FY2024 after a number of analytical studies have been completed. These studies, due no later than March 31, 2021, are intended to inform future rate adjustments in relation to the Authority's cost-of-service, rate design, water loss control efforts, and expansion of wastewater collection customer base. The added complication of the COVID-19 pandemic on customer demand and revenues has been taken into consideration in the performance of these analytical studies and will be reflected in the proposed rates for the remaining years of the 5-year planning period. The filing of GWA's Comprehensive Review and Update is due on or before May 1, 2021.

Financial Management System

GWA has been using JD Edwards (JDE) Enterprise Resource Planning (ERP) system since 1998 to manage its accounting, procurement, and human resource business activities. By March 2020, the JDE World ERP will no longer be supported or enhanced by the vendor. GWA will move to the DXC Red Projects JDE Enterprise 1 (E1) solution, a state-of-the-art ERP. JDE E1 will allow GWA to adopt paperless digital processes as well as integrate with other GWA business systems. The CCU approved the procurement in February 2020. The request for approval of the purchase was sent to the PUC for action at their March 2020 meeting but was not approved until June 25, 2020. Work on the development and testing of the new system is on-going and it is anticipated that the cut over to JDE E-1 will occur in May 2021.

COVID-19

Since Governor Lourdes A. Leon Guerrero declared a Guam State of Emergency in response to the COVID-19 pandemic on March 14, 2020, the emergency has been extended through the date of this audit. On November 30, 2020, the Department of Public Health and Social Services (DPHSS) began free community mass testing for COVID-19. On December 11, 2020, the US Food and Drug Administration (US FDA) issued the first emergency use authorization for the Pfizer-Bio Tech COVID-19 vaccine. DPHSS began offering free COVID-19 vaccines on December 17, 2020. On December 18, 2020 and February 27, 2021, respectively, the US FDA issued its second and third emergency use authorizations for the Moderna and Johnson & Johnson Janssen COVID-19 vaccines. DPHSS has continued to provide free COVID-19 testing to the community and free vaccines to those in designated categories to mitigate the spread of the virus.

Guam was placed in PCOR 2 on January 18, 2021 and in PCOR 3 on February 22, 2021 as Guam's Covid-19 Area Risk (CAR) Score has held steady below 5 since late November 2020 and below 2.5 since the second week of December 2020. Most carriers have suspended flights to Guam through the pandemic period. While Guam may be opened back up to tourists sometime in May 2021, the Guam Visitors Bureau suggests that arrivals are not likely to pick up until the third or fourth quarter of FY2021.

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.

While GWA received limited Corona Aid Relief and Economic Security (CARES) Act Funding in FY2020, the second US stimulus package signed into law in December 28, 2020 included funding for a rental and utility assistance program as well as direct funding for water utilities to assist qualified rate-payers.

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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, 2020 and 2019

	2020	2019
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 42,479,412	\$ 36,140,182
Restricted	30,072,502	37,890,369
Receivables, net	21,701,453	19,656,952
Materials and supplies inventory, net of an allowance for obsolescence of \$64,131 at September 30, 2020 and 2019	4,804,466	3,897,072
Prepaid expenses	2,615,781	1,667,815
Total current assets	101,673,614	99,252,390
Property, plant and equipment:		
Utility plant in service:		
Water system	378,498,710	381,484,623
Wastewater system	481,549,640	429,896,579
Non-utility property	25,752,939	23,200,625
	885,801,289	834,581,827
Less accumulated depreciation	(343,128,759)	(321,561,403)
	542,672,530	513,020,424
Land and land rights	5,240,187	3,914,815
Construction work in progress	150,323,347	100,162,506
Property, plant and equipment, net	698,236,064	617,097,745
Other noncurrent assets:		
Restricted cash and cash equivalents	285,820,036	171,169,388
Total assets	1,085,729,714	887,519,523
Deferred outflows of resources:		
Debt defeasance loss on refunding	33,366,801	11,976,380
Deferred outflows from pension	12,393,137	9,057,499
Deferred outflows from OPEB	20,526,945	6,982,196
Regulatory assets	430,962	-
Total deferred outflows of resources	66,717,845	28,016,075
Total assets and deferred outflows of resources	\$ 1,152,447,559	\$ 915,535,598

See accompanying notes to financial statements.

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Statements of Net Position, Continued
September 30, 2020 and 2019

	2020	2019
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>		
Current liabilities:		
Current maturities of long-term debt:		
Revenue bonds payable	\$ 9,270,000	\$ 8,770,000
Note payable	-	2,319,108
Accounts payable:		
Guam Power Authority	1,143,369	1,577,607
Trade	1,770,532	2,728,360
Accrued interest	6,304,598	6,359,303
Accrued payroll and employee benefits	354,780	1,685,235
Current portion of employee annual leave	572,761	616,114
Payable to contractors	23,311,295	22,094,820
Customer deposits	2,199,462	2,349,490
Other liabilities	1,095,676	994,905
Total current liabilities	46,022,473	49,494,942
Revenue bonds payable, less current maturities	676,070,523	517,193,590
Employee annual leave, less current portion	1,222,548	806,635
DCRS sick leave liability	1,226,702	1,054,545
Net pension liability	54,387,676	49,593,171
OPEB liability	84,163,331	62,656,405
Total liabilities	863,093,253	680,799,288
Deferred inflows of resources:		
Regulatory liabilities	67,608	-
Deferred inflows from pension	1,010,540	1,444,744
Deferred inflows from OPEB	25,015,789	31,758,062
Total deferred inflows of resources	26,093,937	33,202,806
Commitments and contingencies		
Net position:		
Net investment in capital assets	229,805,072	190,953,226
Restricted	27,166,805	35,182,289
Unrestricted	6,288,492	(24,602,011)
Total net position	263,260,369	201,533,504
Total liabilities, deferred inflows of resources and net position	\$ 1,152,447,559	\$ 915,535,598

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Water:		
Private	\$ 60,200,529	\$ 61,955,342
Government	5,931,406	6,027,388
Legislative surcharge	2,218,881	2,386,371
System development charge	377,802	461,048
	68,728,618	70,830,149
Wastewater:		
Private	25,462,248	30,055,421
Government	9,193,158	9,591,225
Legislative surcharge	943,890	1,176,661
System development charge	378,536	424,465
	35,977,832	41,247,772
Other	588,593	679,465
Bad debts expense	(2,033,768)	(2,217,121)
Total operating revenues	103,261,275	110,540,265
Operating and maintenance expenses:		
Power purchases	14,118,145	16,150,781
Water purchases	5,551,065	6,277,864
Waste disposal fees	1,277,885	1,333,887
	20,947,095	23,762,532
Depreciation	25,048,700	21,174,220
Salaries, wages and benefits	24,192,355	21,030,363
Administrative and general	7,359,398	8,510,862
Contractual	4,431,836	5,945,478
Retiree healthcare costs and other benefits	4,381,255	2,267,681
	86,360,639	82,691,136
Total operating and maintenance expenses	86,360,639	82,691,136
Operating income	16,900,636	27,849,129
Nonoperating revenues (expenses):		
Allowance for funds used during construction	6,008,368	11,307,192
Interest income	1,380,414	4,953,524
Interest expense	(26,821,893)	(25,192,512)
Bond issuance costs	(4,342,432)	-
Loss on property, plant and equipment disposals	(3,678,963)	(2,698,053)
Contributions from federal government	223,909	-
Federal expenditures	(276,105)	-
Others, net	83,560	(722,188)
	(27,423,142)	(12,352,037)
Total nonoperating expenses, net	(27,423,142)	(12,352,037)
Income (loss) before capital contributions	(10,522,506)	15,497,092
Capital contributions:		
Grants from the U.S. Government	72,249,371	21,801,439
Change in net position	61,726,865	37,298,531
Net position at beginning of year	201,533,504	164,234,973
Net position at end of year	\$ 263,260,369	\$ 201,533,504

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 105,523,684	\$ 112,334,357
Cash payments to suppliers for goods and services	(36,616,190)	(40,089,407)
Cash payments to employees for services	(23,953,430)	(22,071,345)
Cash payments for retiree healthcare costs	(3,161,351)	(3,457,157)
Net cash provided by operating activities	41,792,713	46,716,448
Cash flows from capital and related financing activities:		
Federal grants received	68,117,134	21,700,874
Acquisition of property, plant and equipment	(102,573,532)	(83,557,446)
Proceeds from 2020A bond series issuance	142,799,346	-
Principal paid on revenue bond maturities	(8,770,000)	(5,715,000)
Interest paid on revenue bonds	(27,208,763)	(25,653,416)
Principal repayment of bank loan	(2,319,108)	(3,209,916)
Interest paid on bank loan	(46,194)	(210,082)
Net cash provided by (used for) capital and related financing activities	69,998,883	(96,644,986)
Cash flows from investing activities:		
Interest income received	1,380,415	4,953,524
Net change in cash and cash equivalents	113,172,011	(44,975,014)
Cash and cash equivalents at beginning of year	245,199,939	290,174,953
Cash and cash equivalents at end of year	\$ 358,371,950	\$ 245,199,939
Reconciliation of cash and cash equivalents to the statements of net position:		
Current assets:		
Cash and cash equivalents	\$ 42,479,412	\$ 36,140,182
Restricted cash and cash equivalents	30,072,502	37,890,369
Noncurrent assets:		
Restricted cash and cash equivalents	285,820,036	171,169,388
	\$ 358,371,950	\$ 245,199,939
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 6,008,368	\$ 11,307,192
Capitalized interest	(6,008,368)	(11,307,192)
	\$ -	\$ -
Decrease in property, plant and equipment, net	\$ (3,678,963)	\$ (2,698,053)
Loss on property, plant and equipment disposals	3,678,963	2,698,053
	\$ -	\$ -

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Statements of Cash Flows, Continued
Years Ended September 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 16,900,636	\$ 27,849,129
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,048,700	21,174,220
Bad debts expense	2,033,768	2,217,121
Non-cash pension costs	1,024,663	(1,108,026)
Non-cash OPEB costs	1,219,904	(1,189,476)
(Increase) decrease in assets:		
Receivables	378,669	(534,280)
Materials and supplies inventory	(907,394)	(554,515)
Prepaid expenses	(947,966)	(989,987)
Regulatory assets	(430,962)	-
Increase (decrease) in liabilities:		
Accounts payable	(1,700,403)	65,044
Accrued payroll and employee benefits	(1,330,455)	33,518
Employee annual leave	372,560	(7,454)
Customer deposits	(150,028)	111,251
Other liabilities	108,864	(345,481)
DCRS sick leave liability	172,157	(4,616)
Net cash provided by operating activities	\$ 41,792,713	\$ 46,716,448

See accompanying notes to financial statements.

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Notes to Financial Statements
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(1) Reporting Entity

The Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA 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, 2020 and 2019, restricted net position consists of the following:

	<u>2020</u>	<u>2019</u>
System Development Fund	\$ 9,777,401	\$ 9,274,365
Revenue Trust and Revenue Fund	8,449,826	9,024,013
Legislative Surcharge Fund	426,924	309,073
Sewer Hook-up Revolving Fund	67,809	67,095
Working Cap – Reserved for DS	-	12,422,969
Working Cap – Reserved for CAPEX	5,361,363	1,001,292
Working Cap – Reserved for O & M	<u>3,083,482</u>	<u>3,083,482</u>
	<u>\$ 27,166,805</u>	<u>\$ 35,182,289</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.

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(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 conformity 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 financial statements.

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.

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(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.

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(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.

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(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, 2020 and 2019 are \$3,274,961 and \$3,289,089, respectively, and are included as receivables in the accompanying financial statements.

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, 2020 and 2019, interest of \$6,008,368 and \$11,307,192, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2020 and 2019, labor costs of \$3,993,300 and \$3,342,006, 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 \$104,444,135 and \$170,103,256 at September 30, 2020 and 2019, 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 2019 presentation have been reclassified to conform to the 2020 presentation.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 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.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. 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. 84 will be effective for fiscal year ending September 30, 2021.

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 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. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve 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. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. 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. 90 will be effective for fiscal year ending September 30, 2021.

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(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. 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. 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. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. 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. 93 will be effective for 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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(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.

(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.

As of September 30, 2020 and 2019, the carrying amount of GWA's total cash and cash equivalents was \$358,371,950 and \$245,199,939, respectively, and the corresponding bank balances were \$361,182,903 and \$246,737,620, respectively. Of the bank balance amount, \$15,169,905 and \$12,985,180, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, the remaining amount of \$346,012,998 and \$233,752,440, 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, 2020 and 2019, bank deposits in the amount of \$651,354 and \$765,158, respectively, were FDIC insured.

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(3) Cash and Cash Equivalents, Continued

GWA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2020 and 2019, \$14,518,551 and \$12,220,022, respectively, of cash and cash equivalents are subject to custodial credit risk.

Unrestricted cash and cash equivalents at September 30, 2020 and 2019 in the amount of \$25,689,390 and \$13,933,323, 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 \$11,222,407 and \$17,244,823, respectively, are subject to internally imposed restrictions by the CCU to fund capital expenditures.

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>2020</u>	<u>2019</u>
Current restricted:		
Sewer Hook-up Revolving Fund	\$ 67,809	\$ 67,094
Legislative Surcharge Fund	426,924	309,073
Bid Escrow Fund	842,331	836,528
Customer Deposit Fund	2,063,361	1,871,553
Revenue Trust and Revenue Fund	8,449,831	9,024,013
System Development Fund	9,777,401	9,274,365
Working Cap – Reserved for DS	-	12,422,969
Working Cap – Reserved for CAPEX	5,361,363	1,001,292
Working Cap – Reserved for O&M	<u>3,083,482</u>	<u>3,083,482</u>
	<u>30,072,502</u>	<u>37,890,369</u>
Noncurrent restricted:		
2010 Bond Indenture Funds:		
Construction Fund	6,206,731	6,313,750
Bond Reserve Fund	7,566,460	7,566,460
Reserved for Debt Service	31,556	523,353
2013 Bond Indenture Funds:		
Construction Fund	8,647,934	14,170,759
Bond Reserve Fund	12,031,688	12,031,688
Reserved for Debt Service	1,810,544	3,082,212
2014 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	17,423,213	17,423,213
Construction Fund	219,099	217,448
Bond Reserve Fund	7,735,395	7,798,212
Reserved for Debt Service	1,048,374	1,885,637
2016 Bond Indenture Funds:		
Construction Fund	68,518,206	89,235,554
Bond Reserve Fund	7,591,999	7,591,999
Reserved for Debt Service	2,815,863	1,946,774

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(3) Cash and Cash Equivalents, Continued

	<u>2020</u>	<u>2019</u>
Noncurrent restricted, continued		
2017 Bond Indenture Funds:		
Reserved for Debt Service	\$ 1,902,205	\$ 1,382,329
2020A Bond Indenture Funds:		
Construction Fund	123,327,435	-
Bond Reserve Fund	6,659,700	-
Capitalized Interest Fund	<u>12,283,634</u>	<u>-</u>
	<u>285,820,036</u>	<u>171,169,388</u>
Total restricted cash and cash equivalents	\$ <u>315,892,538</u>	\$ <u>209,059,757</u>

(4) Receivables

Receivables at September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Customers:		
Private	\$ 18,376,931	\$ 18,478,116
Government	<u>2,298,797</u>	<u>3,620,370</u>
	<u>20,675,728</u>	<u>22,098,486</u>
Federal grants receivable	8,168,373	3,711,435
Guam Power Authority	257,131	464,473
Other	<u>628,079</u>	<u>1,172,501</u>
	<u>29,729,311</u>	<u>27,446,895</u>
Less allowance for doubtful accounts:		
Private	(6,958,739)	(6,718,093)
Government	<u>(1,069,119)</u>	<u>(1,071,850)</u>
	<u>(8,027,858)</u>	<u>(7,789,943)</u>
	\$ <u>21,701,453</u>	\$ <u>19,656,952</u>

During the years ended September 30, 2020 and 2019, GWA reduced \$1,841,105 and \$539,381, 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.

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(5) Property, Plant and Equipment

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>

Capital asset activities for the year ended September 30, 2019 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2018	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2019
<u>Depreciable:</u>					
Utility Plant in Service - Water	10-50	\$ 348,812,303	\$ 37,818,936	\$ (5,146,616)	\$ 381,484,623
Utility Plant in Service - Wastewater	25-50	300,053,427	129,843,152	-	429,896,579
General Fixed Assets	5-10	<u>21,720,023</u>	<u>1,664,302</u>	<u>(183,700)</u>	<u>23,200,625</u>
		670,585,753	169,326,390	(5,330,316)	834,581,827
Accumulated Depreciation		<u>(303,019,447)</u>	<u>(21,174,220)</u>	<u>2,632,264</u>	<u>(321,561,403)</u>
		367,566,306	148,152,170	(2,698,052)	513,020,424
<u>Non-depreciable:</u>					
Land		3,681,120	233,695	-	3,914,815
Construction Work in Progress		<u>178,443,926</u>	<u>87,316,163</u>	<u>(165,597,583)</u>	<u>100,162,506</u>
		\$ <u>549,691,352</u>	\$ <u>235,702,028</u>	\$ <u>(168,295,635)</u>	\$ <u>617,097,745</u>

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(6) Long-Term Debt

Long-term debt at September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
<u>Revenue Bonds:</u>		
<p>2010 Series revenue bonds, interest at varying rates from 4% to 5.5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,055,000 in July 2015, increasing to \$14,460,000 in July 2040. On December 13, 2017, these bonds were partially refunded through the issuance of \$107,660,000 2017 refunding bonds.</p>	\$	- \$ 1,895,000
<p>2013 Series revenue bonds, interest at varying rates from 5% to 5.5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,695,000 in July 2020, increasing to \$25,880,000 in July 2043. On August 26, 2020, these bonds were partially refunded through the issuance of \$166,075,000 2020B refunding bonds.</p>	27,340,000	172,630,000
<p>2014 Series refunding bonds, interest at varying rates from 5% to 6% 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.</p>	65,140,000	68,900,000
<p>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.</p>	142,890,000	143,310,000
<p>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 \$290,000 in July 2019, maturity date in July 2040.</p>	107,365,000	107,365,000

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(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

	<u>2020</u>	<u>2019</u>
2020A Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$30,880,000 in July 2047, maturity date in January 2050.	134,000,000	-
2020B Series refunding bonds, interest at varying rates from 2.75% to 3.70% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,260,000 in July 2028, maturity date in July 2043.	<u>166,075,000</u>	<u>-</u>
Total revenue bonds payable	642,810,000	494,100,000
Less current maturities	<u>(9,270,000)</u>	<u>(8,770,000)</u>
	633,540,000	485,330,000
Bond premium – 2020A series bonds	10,921,117	-
Bond premium – 2017 series bonds	12,167,713	12,781,211
Bond premium – 2016 series bonds	15,440,491	16,047,986
Bond premium – 2014 series bonds, net	4,001,202	4,270,945
Bond discount – 2013 series bonds	<u>-</u>	<u>(1,236,552)</u>
	<u>\$ 676,070,523</u>	<u>\$ 517,193,590</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>
2021	\$ 9,270,000	\$ 28,867,017	\$ 38,137,017
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 through 2030	70,695,000	129,539,963	200,234,963
2031 through 2035	92,655,000	111,990,425	204,645,425
2036 through 2040	115,235,000	89,418,880	204,653,880
2041 through 2045	145,685,000	62,234,075	207,919,075
2046 through 2050	<u>167,225,000</u>	<u>23,838,125</u>	<u>191,063,125</u>
	<u>\$ 642,810,000</u>	<u>\$ 560,004,407</u>	<u>\$ 1,202,814,407</u>

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(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

Changes in GWA's long-term debt for the years ended September 30, 2020 and 2019 are as follows:

	Outstanding October 1, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2020</u>	<u>Current</u>
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	-
	494,100,000	300,075,000	(151,365,000)	642,810,000	9,270,000
Direct Borrowings:					
Bank loan	<u>2,319,108</u>	-	<u>(2,319,108)</u>	-	-
	<u>\$ 496,419,108</u>	<u>\$ 300,075,000</u>	<u>\$ (153,684,108)</u>	<u>\$ 642,810,000</u>	<u>\$ 9,270,000</u>

	Outstanding October 1, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2019</u>	<u>Current</u>
Revenue Bonds:					
2010 series A bonds	\$ 3,695,000	\$ -	\$ (1,800,000)	\$ 1,895,000	\$ 1,895,000
2013 series A bonds	172,630,000	-	-	172,630,000	2,695,000
2014 series A and B bonds	72,520,000	-	(3,620,000)	68,900,000	3,760,000
2016 series A bonds	143,310,000	-	-	143,310,000	420,000
2017 series A bonds	107,660,000	-	(295,000)	107,365,000	-
	<u>499,815,000</u>	-	<u>(5,715,000)</u>	494,100,000	8,770,000
Direct Borrowings:					
Bank loan	<u>5,529,024</u>	-	<u>(3,209,916)</u>	2,319,108	2,319,108
	<u>\$ 505,344,024</u>	<u>\$ -</u>	<u>\$ (8,924,916)</u>	<u>\$ 496,419,108</u>	<u>\$ 11,089,108</u>

Revenue Bonds

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.

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(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

Series 2014, Water and Wastewater System Revenue Bonds, dated August 7, 2014, were issued in the original principal amount of \$85,600,000 to refund all of GWA's outstanding Guam Waterworks Authority Water and Wastewater Revenue Bonds, Series 2005, and to pay costs of issuing the 2014 Bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2005 bonds and interest thereon to become due on or prior to July 1, 2015 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2005 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$2,468,670 representing the difference between the reacquisition price and the carrying amount of the 2005 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by \$13,873,732 over twenty years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$8,352,503. The unamortized balance of the deferred loss on refunding of the 2005 Series bonds as of September 30, 2020 and 2019 totals \$1,287,433 and \$1,414,418, 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.

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, 2020 and 2019 totals \$9,861,241 and \$10,561,962, 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.

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(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

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

Series 2020B, Water and Wastewater System Revenue Bonds, dated August 26, 2020, were issued in the original principal amount of \$166,075,000 to refund a portion of the outstanding Series 2013 bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2013 bonds and interest thereon to become due on or prior to July 1, 2023 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2013 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$22,348,953 representing the difference between the reacquisition price and the carrying amount of the 2013 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by \$13,533,562 over twenty-three years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$11,931,575. The unamortized balance of the deferred loss on refunding of the 2013 Series bonds as of September 30, 2020 and 2019 totals \$22,203,128 and \$0, 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, 2020, total principal and interest remaining on these bonds is \$1,202,814,407 payable through January 2050. For the years ended September 30, 2020 and 2019, debt service paid on these bonds was \$34,175,188 and \$31,368,416, respectively, and total pledged GWA system revenues were \$100,787,341 and \$107,629,376, 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, 2020 and 2019, bonds outstanding of \$142,595,000 and \$109,105,000, respectively, are considered defeased.

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(6) Long-Term Debt, Continued

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, 2020 and 2019. 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).

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, 2020 and 2019, 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.

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(7) Change in Other Long-Term Liabilities

Changes in GWA's other long-term liabilities for the years ended September 30, 2020 and 2019 are as follows:

	Outstanding October 1, 2019	Increases	Decreases	Outstanding September 30, 2020	Current
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>
	Outstanding October 1, 2018	Increases	Decreases	Outstanding September 30, 2019	Current
Other:					
Employee annual leave	\$ 1,430,203	\$ -	\$ (7,454)	\$ 1,422,749	\$ 616,114
DCRS sick leave liability	1,059,161	-	(4,616)	1,054,545	-
Net pension liability	45,451,352	4,141,819	-	49,593,171	-
OPEB liability	<u>88,950,661</u>	<u>-</u>	<u>(26,294,256)</u>	<u>62,656,405</u>	<u>-</u>
	<u>\$ 136,891,377</u>	<u>\$ 4,141,819</u>	<u>\$ (26,306,326)</u>	<u>\$ 114,726,870</u>	<u>\$ 616,114</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, 2019 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.

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(8) Pensions, Continued

A. General Information About the Pension Plans, Continued:

Plan Membership: As of September 30, 2019 (the measurement date), plan membership consisted of the following:

DB members:	
Inactive employees or beneficiaries currently receiving benefits	7,360
Inactive employees entitled to but not yet receiving benefits	3,162
Active employees	<u>4,850</u>
	15,372
DCRS members:	
Active employees	<u>6,286</u>
	<u>21,658</u>

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.

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(8) Pensions, Continued

A. General Information About the Pension Plans, Continued:

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.

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 $\frac{1}{2}$ 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, 2018 actuarial valuation was used for determining the year ended September 30, 2020 statutory contributions. Member contributions are required at 9.52% of base pay.

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(8) Pensions, Continued

A. General Information About the Pension Plans, Continued:

As a result of actuarial valuations performed as of September 30, 2018, 2017 and 2016, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2020, 2019 and 2018, respectively, have been determined as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Normal costs (% of DB Plan payroll)	13.86%	13.54%	15.97%
Employee contributions (DB Plan employees)	<u>9.52%</u>	<u>9.52%</u>	<u>9.55%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>4.34%</u>	<u>4.02%</u>	<u>6.42%</u>
Employer portion of normal costs (% of total payroll)	2.39%	2.29%	1.60%
Unfunded liability cost (% of total payroll)	<u>20.70%</u>	<u>21.29%</u>	<u>22.12%</u>
Government contribution as a % of total payroll	<u>23.09%</u>	<u>23.58%</u>	<u>23.72%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.28%</u>	<u>26.56%</u>	<u>27.83%</u>
Employee	<u>9.52%</u>	<u>9.52%</u>	<u>9.55%</u>

GWA's contributions to the DB Plan for the years ended September 30, 2020, 2019 and 2018 were \$2,113,893, \$2,007,437 and \$1,745,130, 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, 2020, 2019 and 2018 were \$938,926, \$968,706 and \$966,706, 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.

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay, which increased to 6.2% effective January 1, 2018. 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, 2020 and 2019 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the DCRS, which increased to 6.2% effective January 1, 2018. 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, 2020, 2019 and 2018 were \$3,495,839, \$3,214,699 and \$2,795,312, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,837,095, \$2,618,445 and \$2,214,238 were contributed towards the unfunded liability of the DB Plan for the years ended September 30, 2020, 2019 and 2018, respectively.

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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:

Pension Liability: At September 30, 2020 and 2019, GWA reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2019 and 2018, respectively, which is comprised of the following:

	<u>2020</u>	<u>2019</u>
Defined Benefit Plan	\$ 40,222,332	\$ 37,292,034
Ad Hoc COLA/supplemental annuity Plan for DB retirees	12,866,333	11,195,277
Ad Hoc COLA Plan for DCRS retirees	<u>1,299,011</u>	<u>1,105,860</u>
	<u>\$ 54,387,676</u>	<u>\$ 49,593,171</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, 2020 and 2019, GWA's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2020</u>	<u>2019</u>
Defined Benefit Plan	3.31%	3.16%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	3.97%	3.86%
Ad Hoc COLA Plan for DCRS retirees	2.17%	2.24%

Pension Expense (Benefit): For the years ended September 30, 2020 and 2019, GWA recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

	<u>2020</u>	<u>2019</u>
Defined Benefit Plan	\$ 5,051,847	\$ 5,493,408
Ad Hoc COLA/supplemental annuity Plan for DB retirees	1,206,460	1,198,898
Ad Hoc COLA Plan for DCRS retirees	<u>84,837</u>	<u>(307,073)</u>
	<u>\$ 6,343,144</u>	<u>\$ 6,385,233</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 and Inflows of Resources: At September 30, 2020 and 2019, GWA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	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>
	2019					
	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	\$ 105,244	\$ -	\$ 165,635	\$ -	\$ 158,884	\$ 10,106
Net difference between projected and actual earnings on pension plan investments	-	668,529	-	-	-	-
Changes of assumptions	-	-	-	371,579	131,707	147,598
Contributions subsequent to the measurement date	5,222,135	-	928,706	-	40,000	-
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>2,144,565</u>	<u>-</u>	<u>148,542</u>	<u>-</u>	<u>12,081</u>	<u>246,932</u>
	<u>\$ 7,471,944</u>	<u>\$ 668,529</u>	<u>\$ 1,242,883</u>	<u>\$ 371,579</u>	<u>\$ 342,672</u>	<u>\$ 404,636</u>

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, 2020 will be recognized in pension expense as follows:

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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:

<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>
2021	\$ 1,405,762	\$ 548,679	\$ 665
2022	693,060	575,695	665
2023	845,084	177,578	665
2024	541,641	-	665
2025	-	-	665
Thereafter	<u>-</u>	<u>-</u>	<u>43,025</u>
	<u>\$ 3,485,547</u>	<u>\$ 1,301,952</u>	<u>\$ 46,350</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, 2018
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	May 1, 2033 (14.58 years remaining as of September 30, 2018)
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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September 30, 2020 and 2019

(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, 2018 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, 2018 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%	6.81%
U.S. Equities (small cap)	4.0%	8.12%
Non-U.S. Equities	17.0%	8.33%
Non-U.S. Equities (emerging markets)	3.0%	10.28%
U.S. Fixed Income (aggregate)	24.0%	3.87%
Risk Parity	8.0%	5.56%
High Yield Bonds	8.0%	5.45%
Global Real Estate (REITs)	5.0%	8.01%
Master Limited Partnerships	5.0%	7.44%

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2019 and 2018 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, 2019 was 2.66% (4.18% as of September 30, 2018), 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>50,778,712</u>	\$ <u>40,222,332</u>	\$ <u>31,138,325</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>1.66%</u>	Current Discount Rate <u>2.66%</u>	1% Increase in Discount Rate <u>3.66%</u>
Net Pension Liability	\$ <u>14,194,906</u>	\$ <u>12,866,333</u>	\$ <u>11,733,631</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>1.66%</u>	Current Discount Rate <u>2.66%</u>	1% Increase in Discount Rate <u>3.66%</u>
Net Pension Liability	\$ <u>1,472,030</u>	\$ <u>1,299,011</u>	\$ <u>1,150,907</u>

C. Payables to the Pension Plans:

As of September 30, 2020 and 2019, GWA recorded payables to GGRF of \$125,112 and \$307,599, 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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Notes to Financial Statements
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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, 2019 and 2018 (the respective measurement periods), the date of the most recent valuation (the actuarial valuation date), plan membership consisted of the following:

	<u>2019</u>	<u>2018</u>
Inactive plan members or beneficiaries currently receiving benefits	7,462	7,930
Active plan members	<u>10,832</u>	<u>10,136</u>
Total plan members	<u>18,294</u>	<u>18,066</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, 2020 and 2019, GWA reported a total OPEB liability of \$84,163,331 and \$62,656,405, respectively, for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2019 and 2018. The following presents GWA’s proportion change in proportion since the prior measurement date:

Proportion at prior measurement date, September 30, 2018	<u>3.34%</u>
Proportion at measurement date, September 30, 2019	<u>3.30%</u>
Decrease in proportion	<u>(0.04)%</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, 2019 (the measurement date) using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75%.
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:	For 2019, Non-Medicare 13.5%; Medicare -25%; and Part B 5.33%. For the second year, 6.75% then reducing 0.25% annually to an ultimate rate of 4.25% for 2029 and later years. 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 retiree contributions, Medicare Part B and Medicare Part D premium reimbursements.
Dental trend rates:	3.8% in year one, 3.75% per year thereafter, 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:	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 2.66% as of September 30, 2019 (4.18% as of September 30, 2018). 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 2.66% municipal bond rate as of September 30, 2019 (4.18% as of September 30, 2018) was applied to all periods to determine the total OPEB liability.

OPEB plan fiduciary net position: As of September 30, 2020 and 2019, 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	\$ <u>62,656,405</u>	\$ <u>88,950,661</u>
Changes for the year:		
Service cost	1,838,404	2,759,685
Interest	2,659,412	3,296,491
Change in proportionate share	42,594	(7,864,286)
Differences between expected and actual experience	-	(17,455,779)
Change of assumptions	18,711,520	(5,234,517)
Benefit payments	<u>(1,745,004)</u>	<u>(1,795,850)</u>
Net change	<u>21,506,926</u>	<u>(26,294,256)</u>
Balance at end of the year	\$ <u>84,163,331</u>	\$ <u>62,656,405</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>1.66%</u>	Current Discount Rate <u>2.66%</u>	1% Increase in Discount Rate <u>3.66%</u>
Total OPEB Liability	\$ <u>100,531,934</u>	\$ <u>84,163,331</u>	\$ <u>71,153,575</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:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ <u>68,391,953</u>	\$ <u>84,163,331</u>	\$ <u>105,060,385</u>

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

For the years ended September 30, 2020 and 2019, GWA reported total OPEB expense of \$2,701,675 and \$593,794, respectively, for its proportionate share of the GovGuam total OPEB expense measured for the years ended September 30, 2019 and 2018. At September 30, 2020 and 2019, GWA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2020</u>		<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 18,345,940	\$ 7,847,443	\$ 4,537,956	\$ 10,398,720
Difference between expected and actual experience	-	11,034,795	-	14,321,887
Contributions subsequent to the measurement date	2,181,005	-	2,444,240	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	<u>6,133,551</u>	-	<u>7,037,455</u>
	<u>\$ 20,526,945</u>	<u>\$ 25,015,789</u>	<u>\$ 6,982,196</u>	<u>\$ 31,758,062</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, 2020 will be recognized in OPEB expense as follows:

<u>Year Ending September 30</u>	
2021	\$ (2,400,448)
2022	(2,400,448)
2023	(3,752,944)
2024	54,933
2025	<u>1,829,058</u>
	<u>\$ (6,669,849)</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.

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(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, 2020 and 2019 are \$5,551,065 and \$6,277,864, 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 \$163,027,798 at September 30, 2020, of which \$104,444,135 will be funded by federal contracts 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 \$6,291,431 as of September 30, 2020.

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(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 2020, of the 93 items required by the Court Order, 92 items are either complete or in progress (e.g., continuous reporting requirement). The one delayed project is related to the repair, rehabilitation or replacement of water reservoirs estimated to cost \$42 million. Issuance of the 2020A Series Revenue Bonds provided the additional funding needed to complete this last project.

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
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2020 and 2019

(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 December 2021.

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

(13) Contributions Received

Contributions received by GWA during the years ended September 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Grants from the U.S. Government:		
Received from the U.S. EPA - Direct	\$ 12,073,393	\$ 5,545,598
Received from the U.S. DOD	59,658,063	16,064,600
Received from the U.S. DOI – Direct	517,915	191,241
Passed through from the Government of Guam	<u>223,909</u>	<u>-</u>
	<u>\$ 72,473,280</u>	<u>\$ 21,801,439</u>

Of the total amount passed through from the Government of Guam, \$37,060 is outstanding as of September 30, 2020.

(14) Supplemental Annuities/COLA

As required by enabling legislation, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2020 and 2019, GWA levied a surcharge of 3.75% amounting to \$3,162,771 and \$3,563,032, respectively, in accordance with this legislation. The supplemental benefits are derived from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(15) System Development Charge (SDC), Continued

During the years ended September 30, 2020 and 2019, SDC revenues were \$756,338 and \$885,513, respectively.

(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, 2020 and 2019 were \$14,118,145 and \$16,150,781, respectively, and GWA was also charged \$442,907 and \$465,088, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,143,369 and \$1,577,607 as of September 30, 2020 and 2019, respectively.

For the years ended September 30, 2020 and 2019, GWA billed GPA a total of \$143,940 and \$1,323,554, respectively, for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2020 and 2019 was \$257,131 and \$464,473, 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, 2020 and 2019 were \$1,277,885 and \$1,333,887, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$100,020 and \$84,372 as of September 2020 and 2019, respectively, and were included in trade accounts payable in the accompanying statements of net position.

During the years ended September 30, 2020 and 2019, GWA wrote off \$268,143 and \$358,954, 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). For most of remaining year, 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 for the remainder of 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 should enable Guam's tourist markets to reopen by mid-2021 but the Guam Visitors Bureau has projected that the market may take a couple of years to fully recover.

During the year ended September 30, 2020, GWA received a \$186,849 contribution 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

	2020	2019	2018	2017	2016	2015
Total net pension liability	\$ 1,214,462,675	\$ 1,179,192,550	\$ 1,142,249,393	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754
GWA's proportionate share of the net pension liability	\$ 40,222,332	\$ 37,292,034	\$ 33,100,479	\$ 38,799,923	\$ 40,053,650	\$ 34,047,740
GWA's proportion of the net pension liability	3.31%	3.16%	2.90%	2.83%	2.79%	2.73%
GWA's covered-employee payroll**	\$ 16,874,281	\$ 16,251,058	\$ 14,729,699	\$ 14,353,805	\$ 14,388,631	\$ 13,930,486
GWA's proportionate share of the net pension liability as percentage of its covered-employee payroll	238.36%	229.47%	224.72%	270.31%	278.37%	244.41%
Plan fiduciary net position as a percentage of the total pension liability	62.25%	63.28%	60.63%	54.62%	52.32%	56.60%

* 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

	2020	2019	2018	2017
Total net pension liability	\$ 324,192,725	\$ 289,875,668	\$ 288,147,121	\$ 229,486,687
GWA's proportionate share of the net pension liability	\$ 12,866,333	\$ 11,195,277	\$ 10,909,240	\$ 8,881,604
GWA's proportion of the net pension liability	3.97%	3.86%	3.79%	3.87%
GWA's covered-employee payroll**	\$ 20,220,585	\$ 19,846,017	\$ 19,244,239	\$ 19,595,708
GWA's proportionate share of the net pension liability as percentage of its covered employee payroll	63.63%	56.41%	56.69%	45.32%

* 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.

*** 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

	2020	2019	2018	2017
Total net pension liability	\$ 59,884,407	\$ 49,342,424	\$ 62,445,490	\$ 61,688,067
GWA's proportionate share of the net pension liability	\$ 1,299,011	\$ 1,105,860	\$ 1,441,633	\$ 1,562,273
GWA's proportion of the net pension liability	2.17%	2.24%	2.31%	2.53%
GWA's covered-employee payroll**	\$ 5,108,575	\$ 5,927,414	\$ 8,698,580	\$ 9,245,521
GWA's proportionate share of the net pension liability as percentage of its covered employee payroll	25.43%	18.66%	16.57%	16.90%

* 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
(A Component Unit of the Government of Guam)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 3,998,221	\$ 4,029,190	\$ 3,491,479	\$ 3,524,561	\$ 3,759,121	\$ 3,684,774
Contributions in relation to the actuarially determined contribution	<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>	<u>3,663,653</u>
Contribution deficiency (excess)	<u>\$ (27,665)</u>	<u>\$ (267,097)</u>	<u>\$ (138,773)</u>	<u>\$ (2,625)</u>	<u>\$ 9,526</u>	<u>\$ 21,121</u>
GWA's covered-employee payroll **	<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>	<u>\$ 13,930,486</u>
Contributions as a percentage of covered employee payroll	23.86%	26.44%	24.65%	24.57%	26.06%	26.30%

* 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*

	2020	2019	2018	2017
Total OPEB liability:				
Service cost	\$ 1,838,404	\$ 2,759,685	\$ 3,131,482	\$ 2,493,619
Interest	2,659,412	3,296,491	2,937,853	3,019,815
Change in proportionate share	42,594	(7,864,286)	(108,281)	-
Differences between expected and actual experience	-	(17,455,779)	-	-
Changes of assumptions	18,711,520	(5,234,517)	(9,141,214)	10,140,650
Benefit payments	<u>(1,745,004)</u>	<u>(1,795,850)</u>	<u>(1,617,515)</u>	<u>(1,617,515)</u>
Net change in total OPEB liability	21,506,926	(26,294,256)	(4,797,675)	14,036,569
Total OPEB liability - beginning	<u>62,656,405</u>	<u>88,950,661</u>	<u>93,748,336</u>	<u>79,711,767</u>
Total OPEB liability - ending	<u>\$ 84,163,331</u>	<u>\$ 62,656,405</u>	<u>\$ 88,950,661</u>	<u>\$ 93,748,336</u>
Covered-employee payroll	\$ 17,546,110	\$ 13,011,086	\$ 14,150,906	\$ 14,150,906
GWA's total OPEB liability as a percentage of covered employee payroll	480%	482%	629%	662%

Notes to schedule

<i>Discount rate</i>	2.66%	4.18%	3.63%	3.06%
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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.

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

	2020	2019	2018	2017
Total OPEB liability **	\$ 2,553,523,376	\$ 1,874,970,335	\$ 2,431,048,672	\$ 2,532,753,040
GWA's proportionate share of the total OPEB liability	\$ 84,163,331	\$ 62,656,405	\$ 88,950,661	\$ 93,748,336
GWA's proportionate of the total OPEB liability	3.30%	3.34%	3.66%	3.70%
GWA's covered-employee payroll	\$ 17,546,110	\$ 13,011,086	\$ 14,150,906	\$ 14,150,906
GWA's proportionate share of the total OPEB liability as percentage of its covered-employee payroll	479.67%	481.56%	628.59%	662.49%

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

	2020	2019	2018	2017
Actuarially determined contribution	\$ 5,617,770	\$ 7,776,105	\$ 8,045,954	\$ 7,035,490
Contributions in relation to the actuarially determined contribution	<u>1,745,004</u>	<u>1,795,850</u>	<u>1,617,515</u>	<u>1,617,515</u>
Contribution deficiency	<u>\$ 3,872,766</u>	<u>\$ 5,980,255</u>	<u>\$ 6,428,439</u>	<u>\$ 5,417,975</u>
GWA's covered-employee payroll	\$ 17,546,110	\$ 13,011,086	\$ 14,150,906	\$ 14,150,906
Contributions as a percentage of covered-employee payroll	9.95%	13.80%	11.43%	11.43%

Notes to Schedule

Valuation date:

Actuarially determined contributions rates are calculated as of September 30, 2018.

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 13.5%; Medicare -25%; and Part B 5.33%. For the second year, 6.75% then reducing 0.25% annually to an ultimate rate of 4.25% for 2029 and later years
Salary increase:	4.5% 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

* Information for 2010 - 2016 is not available

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 16,900,151	\$ 15,130,677
Pension costs and other benefits	6,519,080	4,264,322
Overtime pay	773,124	1,635,364
Total salaries, wages and benefits	<u>\$ 24,192,355</u>	<u>\$ 21,030,363</u>
Administrative and general:		
Materials and supplies	\$ 2,091,704	\$ 2,246,462
Chemicals	1,817,213	2,451,801
Miscellaneous	1,102,665	1,035,408
Insurance	937,471	916,471
Transportation	606,260	778,349
Public Utility Commission	317,344	268,597
Communications	153,371	161,836
Training	137,912	331,577
Liability claims	134,529	196,334
Advertising	60,929	124,027
Total administrative and general	<u>\$ 7,359,398</u>	<u>\$ 8,510,862</u>
Contractual:		
Labor, materials and others	\$ 2,109,246	\$ 2,985,591
Accounting	853,736	941,820
Equipment rental	786,736	1,412,592
Property rental	440,879	423,622
Testing	212,762	169,899
Legal	28,477	11,954
Total contractual	<u>\$ 4,431,836</u>	<u>\$ 5,945,478</u>
Other expense:		
Interest expense	\$ 26,821,893	\$ 25,192,512
Retiree healthcare costs and other benefits	4,381,255	2,267,681
	<u>\$ 31,203,148</u>	<u>\$ 27,460,193</u>

See Accompanying Independent Auditors' Report.

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

Schedule of Construction Work in Progress
Year Ended September 30, 2020

Project Title	Type	Beginning Balance FY2019	Additions and Transfers	Closed out during FY2020	Ending Balance FY2020
Agat-Santa Rita Wastewater Treatment Plant Replacement	Wastewater	\$ -	\$ 104,651	\$ (104,651)	\$ -
Asan Springs Rehabilitation	Water	690,186	89,644	-	779,830
Backflow Prevention and Cross-Connection Control Program	Wastewater	131,743	-	(131,743)	-
Baza Garden WW Cross Island Pumping and Conveyance	Wastewater	-	(169,749)	169,749	-
Centrifuge Emergency Repair	Wastewater	-	3,736	(3,736)	-
Deepwell New Wells Site Development and Rehabilitation	Water	1,533,077	236,951	(10,784)	1,759,244
Equipment Purchases	Water/Wastewater	440,979	850,529	(1,291,508)	-
Facilities Improvement	Water/Wastewater	26,985	503,009	-	529,994
Facility Plans for Hagatna and Northern District WWTP	Wastewater	1,240,572	-	-	1,240,572
GWA Interceptor Sewer Refurbishment Project Northern District	Wastewater	2,615,324	11,819,242	(14,434,566)	-
Hydraulic Model for Sewer	Wastewater	241,125	(121,493)	-	119,632
I&I SSES for Central/Northern/Southern Sewer Systems	Wastewater	3,258,170	3,162	-	3,261,332
Information Technology	Water/Wastewater	1,412,435	1,717,440	(1,276,748)	1,853,127
Island Wide Real Property Survey & Mapping	Water/Wastewater	1,791,696	312,101	(1,325,373)	778,424
Island Wide Water Reservoirs	Water	24,070,743	16,706,831	36,858	40,814,432
Line Replacement - Phase IV	Wastewater	107,230	(60,180)	(47,050)	-
Meters and Related	Water	447,403	839,963	(924,179)	363,187
Ordot-Chalan Pago Sewer	Wastewater	637,118	-	-	637,118
Pigua Generator Building	Water	62,664	-	-	62,664
Program Management Office	Water/Wastewater	5,520,487	1,016,231	(1,403,617)	5,133,101
Pump, Motors, Cables, Pipes, Mixers Replacements	Water/Wastewater	-	577,732	(577,732)	-
Route 1 Sanitary Sewer Rehabilitation and Replacement (Asan-Adelup-Hagatna)	Wastewater	2,681,515	2,411,732	-	5,093,247
Route 2 Agat War in the Pacific National Park Sewerline Rehab & Replacement	Wastewater	4,237,500	753,940	(4,980,055)	11,385
Route 3 16" Pressure Regulating Valve and Isolation Valves	Water	222,159	-	-	222,159
Route 4 Relief Sewer Line Rehabilitation Replacement	Wastewater	1,451,434	8,897,170	-	10,348,604
Satellite Based Leak Detection Services	Water	-	149,241	-	149,241
SCADA System for Water and Wastewater	Water/Wastewater	4,195,798	2,867,496	-	7,063,294
Sewer Pump Station Improvements	Wastewater	1,516,662	1,644,088	(32,055)	3,128,695
Tamuning Hot Spots Sewer Line Rehabilitation and Replacement	Wastewater	552,349	293,192	-	845,541
Tiyan Water Audit	Water	-	42,891	(42,891)	-
Tumon Hot Spots Sewer Line Rehabilitation	Wastewater	432,507	-	-	432,507
Umatac-Merizo Wastewater Systems	Wastewater	24,026,117	4,615,319	(28,641,436)	-
Upgrade to Secondary Treatment at NDWWTP	Wastewater	8,314,995	46,547,240	-	54,862,235
Water and Wastewater Infrastructure Improvements	Water/Wastewater	6,547,217	4,349,802	(2,199,840)	8,697,179
Water BPS Improvements	Water	365,292	-	-	365,292
Water Chlorination System	Water	-	15,333	(15,333)	-
Water Distribution Systems	Water	761,176	257,395	(1,036)	1,017,535
Water Hydraulic Modeling Data Collection	Water	486,031	14,480	-	500,511
Water Resources Master Plan	Water	-	16,391	(16,391)	-
Wet Barrel Fire Hydrants Replacement Project	Water	143,817	267,462	(158,014)	253,265
		\$ <u>100,162,506</u>	\$ <u>107,572,972</u>	\$ <u>(57,412,131)</u>	\$ <u>150,323,347</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, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Restricted cash	\$ 9,777,402	\$ 9,274,365
Receivables	287,614	166,911
Due from GWA	-	168,182
	<u>\$ 10,065,016</u>	<u>\$ 9,609,458</u>

LIABILITIES AND NET POSITION

Current assets:		
Due to GWA	\$ 91,195	-
Net position:		
Restricted	9,973,821	\$ 9,609,458
	<u>\$ 10,065,016</u>	<u>\$ 9,609,458</u>

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues:		
System development charge	\$ 756,338	\$ 885,512
Other revenues	103,567	179,291
	859,905	1,064,803
Expenses:		
Transfer out	495,542	2,918,280
Change in net position	364,363	(1,853,477)
Net position at beginning of year	9,609,458	11,462,935
Net position at end of year	<u>\$ 9,973,821</u>	<u>\$ 9,609,458</u>

See Accompanying Independent Auditors' Report.

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

Schedule of Operating Revenues
Years Ended September 30, 2020 and 2019

	2020	2019
Water	\$ 66,131,935	\$ 67,982,730
Wastewater	34,655,406	39,646,646
Surcharges:		
Legislative	3,162,771	3,563,032
System development charge	756,338	885,513
Other	588,593	679,465
Bad debts expense	(2,033,768)	(2,217,121)
Total operating revenues	\$ 103,261,275	\$ 110,540,265

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, 2020 and 2019

2020					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration	58	\$ 5,139,779	\$ 1,673,280	\$ 86,575	\$ 6,899,634
Accounting	26	2,388,731	550,286	24,598	2,963,615
Engineering	33	1,229,846	3,449	32,431	1,265,726
Collection and Distribution	75	4,272,997	771,507	890,332	5,934,836
Utility Services	60	3,122,953	10,192	39,223	3,172,368
Production and Treatment	127	8,038,049	1,423,122	1,018,545	10,479,716
Total	379	\$ 24,192,355	\$ 4,431,836	\$ 2,091,704	\$ 30,715,895

2019					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration	58	\$ 3,718,799	\$ 1,660,655	\$ 202,939	\$ 5,582,393
Accounting	26	2,102,917	539,392	21,600	2,663,909
Engineering	31	1,025,220	5,106	12,195	1,042,521
Collection and Distribution	70	4,048,486	1,312,918	892,290	6,253,694
Utility Services	68	2,958,937	18,935	56,882	3,034,754
Production and Treatment	124	7,176,004	2,408,472	1,060,556	10,645,032
Total	377	\$ 21,030,363	\$ 5,945,478	\$ 2,246,462	\$ 29,222,303

See Accompanying Independent Auditors' Report.