

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

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

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



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

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

Years ended September 30, 2023 and 2022

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Report of Independent Auditors

Commissioners
Consolidated Commission on Utilities

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Guam Waterworks Authority (the Authority), a component unit of the Government of Guam, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority at September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 24 as well as the Schedules of Proportionate Share of the Net Pension Liability on pages 66 through 68, the Schedule of Pension Contributions on page 69, the Schedule of Proportionate Share of the Total OPEB Liability on page 70, the Schedule of OPEB Contributions on page 71, and the Notes to Required Supplementary Information on page 72 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2024 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

June 12, 2024

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

Management's Discussion and Analysis

Years Ended September 30, 2023 and 2022

As management of the Guam Waterworks Authority (GWA), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ending September 30, 2023. It is based on the financial statements provided in the annual audit report. Selected 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

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

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

GWA's main offices are co-located with GPA at the Gloria B. Nelson Public Service Building in Fadian, Mangilao. Satellite offices in Hagåtña and Upper Tumon serve both GWA and GPA customers. Operations and Maintenance personnel also work out of water and wastewater treatment plants as well as field offices in various locations. At the end of FY2023, GWA had a staff of 356 full-time equivalent (FTE) employees.

GWA owns and operates a variety of facilities that provide water and wastewater services. These facilities represent a significant investment of ratepayer funds and include substantial visible and underground infrastructure assets. The condition and performance of GWA's existing utility system assets were reviewed in the 2018 Water Resources Master Plan Update; the next update to the Master Plan is scheduled to be completed in FY2024.

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Management's Discussion and Analysis, continued

Introduction, continued

GWA provides water and wastewater services to the majority of Guam's civilian population and Water sources on the island of Guam include groundwater, surface water, and springs. Groundwater supplies about 90 percent of the drinking water for Guam's residents and visitors. Deep wells are used to extract groundwater for use. GWA owns 120 wells, of which 95 were operational (though all were not in use) on September 30, 2023. 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 FY2023, GWA had over 43,650 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 FY2023, GWA had more than 30,750 wastewater customers. The wastewater system is separated into seven wastewater basins, served by six wastewater treatment plants, and an extensive collection system. The GWA wastewater collection systems are comprised of gravity sewer pipes, manholes, pump stations, ejector stations, force mains, and siphons.

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

Regulatory Oversight

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

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

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Management's Discussion and Analysis, continued

Regulatory Oversight, continued

The studies, updated financial plan, and rate model were timely filed as required; the impact of the COVID-19 pandemic on customer demand and revenues was also taken into consideration in the update of the financial plan. The updated financial plan also contained a revised rate design, and a Customer Assistance Program to address water affordability. PUC action on the requested rate increases did not take place until September 22, 2022 resulting in no rate increases for FY2022 and 5.5% rate increases effective October 1, 2022 for FY2023, and October 1, 2023 for FY2024; the FY2024 increase was subject to a true-up projection which was provided, as required, on June 1, 2023. In the September 22, 2022, PUC Order, the requested change in rate design was not authorized and the proposed Customer Assistance Program was deferred. The PUC subsequently approved a 16.7% increase for FY2024 effective October 1, 2023.

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 U.S. Environmental Protection Agency (US EPA) issues NPDES (National Pollutant Discharge Elimination System) permits for GWA facilities when required and is responsible for monitoring its compliance. The Guam Environmental Protection Agency (GEPA) is the territorial agency in charge of monitoring GWA water system operations as well as SDWA compliance.

GWA is currently under a 2011 Court Order to address US EPA complaints and has completed all but one element, which involves repairing or replacing potable water reservoirs. The District Court approved a request to extend the deadline for completion of the projects to December 31, 2025, due to the impacts to the construction capabilities on Guam resulting from the pandemic, global supply chain issues and related inflationary pressures.

In further regulatory enforcement efforts, over the last five years, GWA has been negotiating with US EPA on a consent decree to address its wastewater collection and conveyance systems; the negotiated partial consent decree was signed by Guam signatories in December 2023 and was filed by US EPA in Guam District Court on January 31, 2024.

Debt Service Coverage and Financing

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

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Management's Discussion and Analysis, continued

Rate Stabilization Fund

CCU Resolution 11-FY2021 authorized the establishment of a Rate Stabilization Fund to address the financial risk associated with utility operations and capital financing. A transfer in September 2021 of \$11.4 million previously in the dissolved Working Capital Reserves for Debt Services, was made to the Rate Stabilization Fund. Transfers from the Rate Stabilization Fund in FY2022 and FY2023 depleted the balances due to PUC inaction or reduction of GWA's requested rate increase as well as COVID-related impacts to revenues and inflationary effects on expenses. A \$950,000 settlement payment was transferred into the Rate Stabilization Fund in September 2023.

Federal Assistance

U.S. Department of Defense

GWA received \$173.2 million in grants from the U.S. Department of Defense Office of Economic Adjustment, renamed Office of Local Defense Community Cooperation (OLDCC), to make water and wastewater system improvements related to the Marine relocation from Okinawa to Guam. The projects were completed by January 2023. In FY2023, there were \$8.1 million in OLDCC grant related expenditures. The projects funded by OLDCC include:

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

U.S. Environmental Protection Agency (US EPA)

The Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law, was signed into law on November 15, 2021. As a result, the GWA FY2023 (Federal Fiscal Year 2022) allotment received through the US EPA State Revolving Fund increased by \$26 million. Funds must be obligated within three years and are used for a number of water and wastewater capital projects including sewer line upgrades, sewer force main improvements, and water distribution system pressure zone realignments. US EPA SRF expenditures totaled \$4.9 million in FY2023.

American Rescue Plan Act (ARPA)

In November 2022, GWA received \$12.4 million of ARPA funds through the Office of the Governor to mitigate needed rate increases in FY2023. The \$12.4 million was exhausted by the end of FY2023. An additional \$8.6 million in ARPA funding was received for water and wastewater infrastructure upgrades in Adacao to enhance utility services to underserved areas impacted by the COVID-19 pandemic; \$365,230 of these funds were expended in FY2023.

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Management's Discussion and Analysis, continued

Federal Assistance, continued

Department of Interior (DOI)

GWA was awarded a \$296,500 Technical Assistance Program (TAP) grant to fund leak detection, sewer inspection and sewer cleaning equipment and related training. DOI expenditures totaled \$71,551 in FY2023.

Federal Emergency Management Agency (FEMA)

GWA received \$35,749 in FEMA grants in FY2023 to reimburse expenditures resulting from 2019 damages related to Typhoon Wutip.

Ratepayer Assistance Programs

Guam Department of Administration administered a number of programs to assist qualified applicants pay current and past due GWA bills. The Guam Emergency Rental Assistance Program (GERAP) and the Guam Homeowners Assistance Fund (GHAFP), funded through the second federal relief act, assists renters and homeowners with water and wastewater billings. In FY2023, total GERAP payments received were approximately \$867,606 and total GHAFP payments received were approximately \$524,268. Additionally, \$108,610 in payments from the Low-Income Household Water Assistance Program (LIHWAP) for eligible ratepayers were received in FY2023.

Water Loss

As of FY2023, GWA has established 21 of 36 planned district metered areas (DMAs). Within each DMA, water flow entering and leaving the DMA can be measured through flow meters and customer meters. Using this flow data, real water losses within each DMA can be determined. The data from the DMA is loaded into software to analyze loss patterns and trends and assess performance of leak detection and repair efforts. Leak detection campaigns are being performed to identify and repair leaks that otherwise would not have been reported.

The vast majority of leaks detected occur on service laterals less than 4 inches in diameter, and although reductions in losses have been achieved after detected leaks are repaired, they are not sustained as new leaks in other sections of the piping subsequently appear. This indicates that piping is beyond its useful service life and sustained reductions in water loss will require large scale line replacements.

Additional leak detection equipment has been acquired and training for leak detection staff has been conducted. However, staff turnover has stymied progress.

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Management's Discussion and Analysis, continued

COVID-19 Public Health Emergency

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

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

GWA also worked to maintain the timely execution of on-going CIP projects to enhance critical water and wastewater infrastructure systems, and to sustain economic activity related to these significant construction projects.

Overview of the Financial Statements

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

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 32 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary and statistical information. Supplementary and statistical information can be found beginning on page 66 of this report.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Financial Condition and Results

The Authority's total net position increased by \$12.3 million at the end of the fiscal year resulting from net operating income of \$1.9 million, non-operating revenues of \$25.6 million (investment income and operating grant) offset by \$28.7 million in non-operating expenses (interest expense) and \$13.5 million in capital contributions.

Summary Statement of Net Position

	September 30, <u>2023</u>	September 30, <u>2022</u>	<u>2023 to 2022 Comparison</u>		September 30, <u>2021</u>
			Increase/ (Decrease)	%	
			Change		
Current and other assets	\$ 325,180,362	\$ 326,517,486	\$(1,337,124)	-0.4%	\$ 367,169,585
Capital assets, net	812,902,989	814,497,440	(1,594,451)	-0.2%	767,223,631
Deferred outflows of resources	<u>77,227,192</u>	<u>80,679,601</u>	<u>(3,452,409)</u>	-4.3%	<u>94,965,533</u>
Total assets and deferred outflows	<u>\$1,215,310,543</u>	<u>\$1,221,694,527</u>	<u>\$(6,383,984)</u>	-0.5%	<u>\$1,229,358,749</u>
Current and other liabilities	\$ 182,998,550	\$ 205,224,088	\$(22,225,538)	-10.8%	\$ 206,642,888
Long-term debt	650,847,410	662,573,147	(11,725,737)	-1.8%	674,194,335
Deferred inflows of resources	<u>46,950,249</u>	<u>31,668,558</u>	<u>15,281,691</u>	48.3%	<u>38,804,923</u>
Total liabilities and deferred inflows	<u>880,796,209</u>	<u>899,465,793</u>	<u>(18,669,584)</u>	-2.1%	<u>919,642,146</u>
Net Position:					
Net investment in capital assets	330,849,577	322,499,972	8,349,605	2.6%	286,341,746
Restricted	102,947,398	99,393,423	3,553,975	3.6%	28,019,130
Unrestricted	<u>(99,282,641)</u>	<u>(99,664,661)</u>	<u>382,020</u>	-0.4%	<u>(4,644,273)</u>
Total net position	<u>334,514,334</u>	<u>322,228,734</u>	<u>12,285,600</u>	3.8%	<u>309,716,603</u>
Total liabilities, deferred inflows and net position	<u>\$1,215,310,543</u>	<u>\$1,221,694,527</u>	<u>\$(6,383,984)</u>	-0.5%	<u>\$1,229,358,749</u>

The Authority's net investment in capital assets represents 98.9% of total net position. The net amount invested in capital assets increased by \$8.3 million compared to the previous year.

In FY2023, overall operating revenues increased by 6.5% or \$6.6 million over the prior fiscal year, of which \$4.9 million can be attributed to increases in water and wastewater revenues combined with a reduction to this year's bad debt expense of \$1.6 million.

Water revenues (excluding System Development Charges) increased by \$2.0 million or 3.1% over the prior fiscal year. Despite overall demand decreasing by 4.1% or 217.5 million gallons, a PUC approved rate increase of 5.5% effective October 1, 2022, contributed to the revenue growth. The hotel sector, with a 19.9% or 92.0 million gallon increase, was the top contributor at \$1.9 million. The commercial sector saw revenue increases of about \$741 thousand which is due mainly to the rate increase as demand saw a slight reduction.

Wastewater revenues (excluding System Development Charges) also increased by \$2.8 million. Because non-residential wastewater revenues are driven by water consumption, wastewater revenues showed similar improvements in the hotel sector reflecting an 18.4% or 58.5 million gallon increase resulting in a 24.2% or \$1.6 million increase in revenues. Federal sector growth at 9.9% or 50.1 million gallons added nearly \$1 million in revenues; note that much of the services provided to the military is for wastewater only as the water supply for the military is from military sources.

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Management's Discussion and Analysis, continued

Financial Condition and Results, continued

Operating expenses increased by 10.1% or \$9.7 million over FY2022. A \$13.9 million increase in all expense categories was offset by a reduction in retiree health care costs of \$4.2 million, although non-cash in nature. Power purchases continue to be one of the largest contributing factors of the increase at 31.3% or \$5.8 million due to increasing LEAC (Levelized Energy Adjustment Clause) rates tied to the price of oil. Salaries, wages, and benefits increased by \$2.3 million, of which nearly \$900 thousand was used to fund premium pay for employees directly involved in the recovery after Typhoon Mawar. Depreciation increased by \$2.4 million due to property additions in FY2023 making power, salaries and depreciation the top three largest increases in expenses. Recovery of typhoon related expenses is not expected until FY2024 or later, either by property insurance claims or through FEMA public assistance funds.

A comparative analysis of Revenues, Expenses, and Changes in Net Position for FY2023 and FY2022, as well as the results of FY2021 are illustrated in the Table below:

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

	September 30, <u>2023</u>	September 30, <u>2022</u>	<u>2023 to 2022 Comparison</u>		September 30, <u>2021</u>
			Increase/ (Decrease)	% Change	
Revenues:					
Water	\$ 69,482,859	\$ 67,271,841	\$ 2,211,018	3.3%	\$ 67,797,404
Wastewater	38,130,751	35,434,169	2,696,582	7.6%	33,364,098
Other	567,167	464,488	102,679	22.1%	502,315
Bad debts	(421,467)	(2,028,510)	<u>1,607,043</u>	-79.2%	(1,991,300)
Total operating revenue	<u>107,759,310</u>	<u>101,141,988</u>	<u>6,617,322</u>	6.5%	<u>99,672,517</u>
Expenses:					
Power purchases	24,397,961	18,577,440	5,820,521	31.3%	12,507,537
Water purchases	7,038,954	5,656,471	1,382,483	24.4%	6,615,983
Sludge (waste) disposal fees	676,362	658,813	17,549	2.7%	1,415,293
Salaries, wages and benefits	24,470,756	22,191,629	2,279,127	10.3%	24,240,266
Depreciation	30,911,997	28,462,573	2,449,424	8.6%	26,869,495
Administrative and general	8,346,930	7,297,610	1,049,320	14.4%	6,861,923
Contractual	5,421,883	4,492,845	929,038	20.7%	4,247,073
Retiree healthcare costs and other benefits	<u>4,621,864</u>	<u>8,864,985</u>	(4,243,121)	-47.9%	<u>9,707,749</u>
Total operating expenses	<u>105,886,707</u>	<u>96,202,366</u>	<u>9,684,341</u>	10.1%	<u>92,465,319</u>
Net operating income (loss)	1,872,603	4,939,622	(3,067,019)	-62.1%	7,207,198
Non-operating revenue	25,605,563	941,435	24,664,128	2619.8%	4,731,813
Less: Interest expense	(28,678,533)	(29,175,309)	<u>496,776</u>	-1.7%	(30,075,496)
Total non-operating revenues (expenses), net	(3,072,970)	(28,233,874)	<u>25,160,904</u>	-89.1%	(25,343,683)
Loss before capital contributions	(1,200,367)	(23,294,252)	22,093,885	-94.8%	(18,136,485)
Capital contributions	<u>13,485,967</u>	<u>35,806,383</u>	(22,320,416)	-62.3%	<u>64,592,719</u>
Change in net position	12,285,600	12,512,131	(226,531)	-1.8%	46,456,234
Net position - beginning year	<u>322,228,734</u>	<u>309,716,603</u>	<u>12,512,131</u>	4.0%	<u>263,260,369</u>
Net position – end of year	<u>\$334,514,334</u>	<u>\$322,228,734</u>	<u>\$12,285,600</u>	3.8%	<u>\$309,716,603</u>

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Financial Condition and Results, continued

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

Annual Water Revenues (Excluding System Development Charges)

Class Type	FY23	FY22	2023 to 2022 Comparison		FY21
			Increase (Decrease)	% Change	
Agricultural	\$ 368,471	\$ 431,070	\$ (62,599)	-14.5%	\$ 444,892
Golf Course	116,491	70,280	46,211	65.8%	56,152
Commercial	14,461,167	13,720,269	740,898	5.4%	13,251,332
Federal	25,097	28,145	(3,048)	-10.8%	38,596
Government	7,514,091	7,611,024	(96,933)	-1.3%	6,437,468
Hotel	9,046,164	7,125,401	1,920,763	27.0%	6,968,351
Irrigation	34,965	39,113	(4,148)	-10.6%	43,360
Residential	<u>37,209,436</u>	<u>37,709,793</u>	<u>(500,357)</u>	-1.3%	<u>39,816,286</u>
Total	<u>\$68,775,882</u>	<u>\$66,735,095</u>	<u>\$2,040,788</u>	3.1%	<u>\$67,056,437</u>

Annual Wastewater Revenues (Excluding System Development Charges)

Class Type	FY23	FY22	2023 to 2022 Comparison		FY21
			Increase (Decrease)	% Change	
Commercial	\$ 8,538,306	\$ 8,373,667	\$ 164,639	2.0%	\$ 7,760,006
Federal	7,094,928	6,110,211	984,717	16.1%	5,944,514
Government	4,356,099	4,391,010	(34,911)	-0.8%	3,617,134
Hotel	8,100,157	6,523,248	1,576,909	24.2%	6,091,381
Residential	<u>9,389,071</u>	<u>9,327,418</u>	<u>61,653</u>	0.7%	<u>9,095,570</u>
Total	<u>\$37,478,561</u>	<u>\$34,725,554</u>	<u>\$2,753,006</u>	7.9%	<u>\$32,508,605</u>

Water Demand by Rate Class

(in '000 gallons)

Class Type	FY23	FY22	2023 to 2022 Comparison		FY21
			Increase (Decrease)	% Change	
Agricultural	49,748	65,719	(15,971)	-24.3%	68,805
Golf Course	6,415	3,796	2,619	69.0%	2,855
Commercial	816,393	818,460	(2,067)	-0.3%	786,157
Federal	1,099	1,389	(290)	-20.9%	2,069
Government	445,116	471,943	(26,827)	-5.7%	404,026
Hotel	554,767	462,757	92,010	19.9%	448,034
Irrigation	3,242	4,888	(1,646)	-33.7%	5,404
Residential	<u>3,185,230</u>	<u>3,450,574</u>	<u>(265,344)</u>	-7.7%	<u>3,622,514</u>
Total	<u>5,062,010</u>	<u>5,279,526</u>	<u>(217,516)</u>	-4.1%	<u>5,339,864</u>

Guam Waterworks Authority
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Management’s Discussion and Analysis, continued

Financial Condition and Results, continued

Wastewater Demand by Rate Class

(in ‘000 gallons)

<u>Class Type</u>	<u>FY23</u>	<u>FY22</u>	<u>2023 to 2022 Comparison</u>		<u>FY21</u>
			<u>Increase (Decrease)</u>	<u>% Change</u>	
Commercial	570,488	585,512	(15,024)	-2.6%	566,044
Federal	558,530	508,438	50,092	9.9%	493,841
Government	341,718	365,856	(24,138)	-6.6%	303,587
Hotel	376,947	318,491	58,456	18.4%	297,738
Residential	<u>1,906,036</u>	<u>2,051,330</u>	<u>(145,294)</u>	-7.1%	<u>2,150,617</u>
Total	<u>3,753,719</u>	<u>3,829,627</u>	<u>(75,908)</u>	-2.0%	<u>3,811,827</u>

Capital Assets

The Authority had \$812.3 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2023. The table below highlights the various categories where these investments in capital assets were made.

This fiscal year’s net decrease in capital assets of \$1.6 million is a result of a net increase of \$97.5 million due to utility plant additions offset by a reduction in construction in progress of \$99.1 million. Capital asset increases are 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. The table below reflects major capital additions as a result of construction projects that were completed in the fiscal year that include wastewater treatment plant upgrades, sewer line rehabilitation/replacements, reservoir replacements, deep well rehabilitations and flow meter installations, sewer and water pump station work and general plant improvements. The reduction in construction in progress is due largely to the final completion of the Northern District Wastewater Treatment Plant.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Capital Assets, continued

FY2023 Capital Asset Additions

<u>Wastewater</u>	
Treatment plants	\$ 88,480,273
Sewer lines	12,508,816
Sewer pump stations	<u>2,054,152</u>
	103,043,240
<u>Water</u>	
Reservoirs	14,900,184
Deepwells	8,511,764
Booster pump stations	264,722
Water lines	127,969
Meters	<u>1,123,347</u>
	24,927,986
General Plant Improvements	<u>366,306</u>
Total	<u>\$128,337,532</u>

Capital Assets, Net of Accumulated Depreciation

	September 30, <u>2023</u>	September 30, <u>2022</u>	<u>2023 to 2022 Comparison</u>		September 30, <u>2021</u>
			<u>Increase (Decrease)</u>	<u>% Change</u>	
Capital assets, net	\$733,466,467	\$635,933,884	\$ 97,532,583	15.3%	\$594,394,314
Land	5,287,305	5,287,305	---	---	5,240,187
Construction in progress	<u>74,149,217</u>	<u>173,276,251</u>	(99,127,034)	-57.2%	<u>167,589,130</u>
Total	<u>\$812,902,989</u>	<u>\$814,497,440</u>	\$(-1,594,451)	-0.2%	<u>\$767,223,631</u>

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

Debt

As of September 30, 2023, the Authority had total long-term debt outstanding of \$613.6 million, which is a decrease of \$10.2 million or -1.6% over the prior year.

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

Guam Waterworks Authority
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Management’s Discussion and Analysis, continued

Debt, continued

Long-Term Debt

	September 30, <u>2023</u>	September 30, <u>2022</u>	<u>2023 to 2022 Comparison</u>		September 30, <u>2021</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
2013 Bond Series	\$ 18,365,000	\$ 21,510,000	\$(3,145,000)	-14.6%	\$24,500,000
2014 Refunding Bond Series	60,050,000	64,055,000	(4,005,000)	-6.3%	64,610,000
2016 Bond Series	134,140,000	134,975,000	(835,000)	-0.6%	139,030,000
2017 Refunding Bond Series	100,930,000	103,180,000	(2,250,000)	-2.2%	105,325,000
2020A Bond Series	134,000,000	134,000,000	---	---	134,000,000
2020B Refunding Bond Series	<u>166,075,000</u>	<u>166,075,000</u>	<u>---</u>	<u>---</u>	<u>167,075,000</u>
Total	<u>\$613,560,000</u>	<u>\$623,795,000</u>	<u>\$(10,235,000)</u>	<u>-1.6%</u>	<u>\$633,540,000</u>

As of the end of FY2023, Moody’s Investor Services and Standard & Poor’s maintained their existing GWA bond rating of Baa2, and A-, respectively. The ratings are important benchmarks of an issuer’s ability to meet its financial obligation. Each rating agency incorporates a rating scale indicating the credit quality of the issuer. The scales are comprised of alphabetical symbols such as “AAA”, “AA”, “A”, “BBB”, “BB”, and “B.” For example, categorical ratings in the “AAA,” “AA” and “A” ranges denote high credit quality meaning the issuer has a high capacity to meet its financial commitments whereas categorical ratings in the “BBB,” “BB” and “B” ranges denote average credit quality. The lower the number of alpha characters assigned indicates the issuer is more susceptible to adverse effects or changes in circumstances and economic conditions than those with a higher number of alpha characters.

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

Please refer to the MD&A in the FY2022 GWA Financial Audit for additional information related to FY2022. A copy of the audit is posted on the GWA website at www.guamwaterworks.org/finance/ or can be obtained by contacting the Chief Financial Officer.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Looking Forward

Outlook, Challenges, and Opportunities

On May 24, 2023, Typhoon Mawar made landfall in Guam, one of the strongest storms to hit the island in decades. President Biden issued an emergency declaration prior to the Typhoon, triggering federal assistance to aid in recovery efforts. Such federal assistance from FEMA, and cooperation and assistance from the U.S. Navy, allowed GWA to fully and safely restore water services island-wide within 29-days. While there was minimal damage to GWA facilities, coordination with insurance and FEMA representatives on storm related claims is ongoing. Additionally, GWA faces challenges imposed by continuing power system impacts which have persisted in the period since Typhoon Mawar. These include intermittent disruption to water production due to electrical distribution system issues and occasional load shedding. Such events have impacted GWA's inventory of critical equipment spare parts and increased operational expenses as crews work to address the increased number of pump and motor failures and main line breaks from these operational challenges.

With FY2024 rate increases approved, and signs of increased visitor arrivals, GWA's outlook for the coming year continues to be defined by cautious optimism. Construction activity related to the military buildup continues apace and post-Typhoon Mawar assessments of resiliency by federal entities brings the possibility of additional infrastructure investment for both military and civilian systems. GWA remains concerned about regulatory and permitting delays for construction projects, the availability of companies bidding on construction contracts, and the impact on construction costs.

Operationally, GWA's has seen disturbing trends in employee turnover and faces increasing difficulty in recruitment and retention of qualified operations, technical and professional staff. The Authority anticipates increased need for training and certification to maintain operational capabilities, as well as strategic and structural compensation adjustments to enhance retention of existing qualified staff and to recruit new talent to sustain improved utility operations.

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

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Looking Forward, continued

Legal Matters

GWA continues to seek resolution in a quiet-title action for its NDWWTP, which is still in litigation in the Superior Court of Guam. While a final judgement has not been issued, an April 2024 decision and order by the trial court granted title to the opposing party. GWA strongly believes the Superior Court erred, disagrees with the order and has sought permission for interlocutory appeal at the Guam Supreme Court. The Governor, Legislature and Public Utilities Commission have filed briefs in the Guam Supreme Court supporting GWA's request (see Note 11 to the Financial Statements).

The on-going litigation against Badger Meter over the performance of meters sold to GWA was finally settled in July 2023.

Timelines related to procurements over \$500,000 may be adversely affected due to the election of a new Attorney General and the subsequent revocation of the GWA legal counsel's designation as Special Assistant Attorney General for procurement matters.

GWA is a class member and claimant of the National Water Provider Settlement class action suit for PFAS. GWA also plans to timely file a claim for both the 3M and Dupont settlements and consider claims under any future settlement offer as part of this legal proceeding.

Court Order Compliance

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

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Looking Forward, continued

Consent Decree

On January 31, 2024, the US EPA filed a complaint in the Guam District Court alleging that the Authority violated certain conditions and limitations of the NPDES permits that the US EPA issued to the Authority pursuant to the CWA. The Authority and the US EPA have entered into a partial consent decree (2024 Partial Consent Decree) to address certain claims alleged in the complaint, which was concurrently filed with the Guam District Court and is expected to be signed into order in spring 2024. The 2024 Partial Consent Decree requires the Authority to make certain improvements to the System and to undertake certain planning measures by specific dates in the next 10 years. Such improvements primarily relate to the wastewater collection system, including pipelines, pump stations, maintenance and other operational program improvements, and planning studies for secondary wastewater treatment.

Secondary Treatment

US 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 WWTP is unable to meet until a secondary treatment process is implemented at the facility. Under the 2024 Partial Consent Decree, GWA will have seven years from the effective date of the Decree to complete a feasibility study for upgrading or replacing the Hagåtña WWTP to secondary treatment.

Emerging Contaminants

It is anticipated that in spring of 2024, the US EPA will announce its final rule for the regulation of per- and polyfluoroalkyl substances (PFAS) under the Safe Drinking Water Act. The proposed regulations would require that public water systems treat source water with concentrations of these substances above a Maximum Contaminant Level or MCL to remove the contaminants prior to entry into the distribution system. The promulgation of the proposed regulations on PFAS compounds will require the Authority to design and construct new treatment systems that have not before been needed for Safe Drinking Water Act compliance.

Additionally, the GEPA has advised that they will be promulgating local drinking water regulations for a pesticide compound known as dieldrin which is currently unregulated at the federal level. Such action would require the design and construction of treatment systems to remove the contaminants at affected well sites.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Looking Forward, continued

Water Loss Control

The Capital Improvement Program for FY2025-FY2029, discussed below, includes several projects that will advance the Water Loss Control Program. This includes additional phases of the Pressure Zone Alignment project, valve and piping projects, and water line replacement projects. Additional leak detection staff have been included in the FY2025-FY2029 Financial Plan as has consulting services for DMA implementation.

Additionally, GWA intends to implement Advance Metering Infrastructure (AMI) meters to eliminate the need for much of the current human interaction and automatically upload consumption data daily to a web-based server. The consumption data can be directed daily to the web-based water loss monitoring and analysis software, providing real time access to water loss data.

Capital Project Risk

In 2018, GWA completed a comprehensive update to its 20-year master planning document. The *2018 Water Resources Master Plan* was adopted by the CCU and subsequently formed the basis of GWA's third and current 5-year Capital Improvement Plan for FY2020-FY2024. Since 2006, GWA has demonstrated improved performance in planning and implementation of capital projects for system improvements required by the 2011 Court Order and more recent regulatory priorities resulting from on-going negotiations with US EPA. The current update of the plan is being finalized and will be issued in the first half of 2024. Capital improvement program requirements have already been incorporated into the Authority's FY2025-FY2029 5-Year Capital Improvement Program.

The magnitude of GWA's capital requirements has been affected by construction cost increases resulting from construction demand created by the DoD's buildup on Guam. Additionally, the 5-year CIP includes new capital project requirements driven by 2024 Partial Consent Decree compliance and emerging contaminants discussed above. The program also includes accelerated piping infrastructure replacement to effectively sustain reductions in water loss as part of the Authority's ongoing water loss control program.

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Management's Discussion and Analysis, continued

Looking Forward, continued

Bond Refunding and Tender

GWA issued Series 2024AB Refunding Bonds to refinance all or a portion of Series 2013 Revenue Bonds and Series 2014A Refunding Bonds for debt service savings. Proceeds will also be allocated to cover the purchase of certain GWA bonds tendered for cash pursuant to the Invitation to Tender Bonds. Proceeds will also be used to cover the costs of issuance of the Series 2024AB Refunding Bonds and associated refunding. The pricing of the refunding bonds occurred on February 29, 2024. The closing of the Series 2020A Refunding Bonds is expected to occur on March 14, 2024, while the Series 2024B Refunding Bonds are set to close on April 2, 2024. The 2024AB Refunding and Tender resulted in debt service savings of \$21 million or net present value savings after adjustments of \$15 million.

Additional Bond Authorization

GWA has worked with bond counsel on draft legislation to increase GWA's bond authorization for the projected revenue bond issuances contained in the five-year Financial Plan. Additionally, the draft legislation authorizes a Tax-Exempt Commercial Paper (TECP) Program or similar short term financing instrument to be used during initial construction periods to reduce interest expense. The draft legislation also authorizes GWA to apply for and secure a US EPA Water Infrastructure Finance and Innovation Act (WIFIA) loan. GWA continues to work to get the draft legislation introduced and approved in the 37th Guam Legislature.

Five-Year Financial Plan

While the PUC acted on the FY2024 True-Up in September 2023 in time for the rate increase to be effective on October 1, 2023, GWA was also ordered to submit their FY2025-FY2029 Rate Plan by April 1, 2024. The Ratepayers Bill of Rights requires a public notice to be published in a newspaper of general circulation at least three months prior to the submission of a request for rate relief. Because of the notice requirement, GWA asked, and the PUC granted, the submission of an advance draft petition in March 2024 at the same time the public notice is published. Once the notification requirement is met, the final rate petition will be submitted in June 2023. While GWA hopes to work with the PUC to review the advance draft petition, it is unknown whether the PUC will act to adjust rates prior to the beginning of FY2025.

The FY2025-FY2029 Financial Plan and Capital Improvement Program (CIP) was approved by the CCU on March 4, 2024, and an advance copy was provided to the PUC on March 8, 2024. Public notice was published on March 8, 2024, as required by the *Ratepayers Bill of Rights*. Once the notice requirements have been met, a final petition will be submitted to the PUC along with the five-year Financial Plan and CIP.

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Management's Discussion and Analysis, continued

Looking Forward, continued

Five-Year Financial Plan, continued

The five-year Financial Plan requests for rate increases of 29% in FY2025, 12.5% in FY2026 and 10% each year in FY2027, FY2028 and FY2029. Additionally, legislative surcharges, used to pay for GWA retiree benefits, of 3.5% in FY2025, 3.2% in FY2026, and 3.0% in FY2027 through FY2029 were requested, down from 3.8% in FY2024. A large part of the rate increase is due to the debt service on new revenue bonds totaling \$780 million to fund the Capital Improvement Program (CIP).

A five-year Capital Improvement Program was submitted with the FY2025-FY2029 Financial Plan totaling \$899 million. Thirty percent (30%) of the CIP consists of partial consent decree projects (wastewater collection), 22% of the CIP will address emerging contaminants (water production and water treatment), 23% is projected to be spent on line replacements which will address water loss, and the remainder will be used for general plant improvements, expansion of SCADA and a study to address the movement of the Hagatna Wastewater Treatment Plant to secondary treatment.

Rate Design

Separately, GWA has petitioned the PUC to approve a new rate design structure for water and wastewater rates which includes:

- a. Adoption of new meter-size scaled base charges for wastewater service across all customer classes
- b. Adoption of inclining three-tiered residential volumetric rates
- c. Adoption of a new residential sewer volumetric rate structure

GWA anticipates the PUC will take action on this matter in March 2024. Should the PUC approve the proposed rate design, it is anticipated it would be effective in FY2026 at the earliest.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Looking Forward, continued

Financial Management System

In FY2024, GWA launched Phase 2 of its Financial Management System upgrade. The overall objective of the project is to support the efficient execution of CIP projects, including digitizing procurement, CIP planning, and engineering document management. The project goals are to deliver:

- Operational Efficiency through reduced negotiation cycle times and workflow automation to reduce processing costs.
- Cost Management by reducing the cost of supply with digital go to market and contracting, negotiated agreements for preferred suppliers and accurate CIP forecasting.
- Contractor Collaboration to share accurate documentation and online collaboration services for each step in the procurement lifecycle.
- Governance and Control through improved risk management by enforcing CIP procurement policies and segregation of duties. The system will also improve visibility to data, auditable spend record for capital projects and manage supplier qualifications and performance.

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

Salary Study

In March 2023, an external consultant completed a salary market review update, comparing U.S. Mainland utility salaries in 2022 to 2017 market data for GWA Certified Technical and Professional pay scales for all positions. The findings indicated an average regression of salary levels from the 20th market percentile to the 5th market percentile compared to U.S. Mainland water utilities.

Over the past three fiscal years, GWA has observed an average turnover rate of 11.9% with over half of departing employees securing positions elsewhere, primarily within the Federal Government or with their contractors. GWA is also encountering challenges in filling certain professional positions.

To enhance GWA's competitiveness in the job market, a petition will be presented to the CCU urging the adoption of the recommendations from the 2022 Market Review and migration of GWA salaries to the 50th market percentile over the next six years, FY2024-FY2029.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Looking Forward, continued

Sewer Loan Revolving Fund

The FY2023 Budget Act, Public Law 36-107, appropriated \$2 Million to the GWA Sewer Loan Revolving Fund to provide loans for residents connecting to the public wastewater system. CCU Resolution 08-FY2023 and 09-FY2024 sanctioned the revision of the Rules and Regulations for this program aimed at encouraging more customers to access the loan facility. In accordance with the Administrative Adjudication Act (AAA) procedures governing rule amendments, GWA has submitted its proposed rules to the Compiler of Law for review as to form. Additionally, GWA held a public hearing on the proposed rules and the rules have been made available online for public comment. GWA expects to conclude the requisite AAA procedures in FY2024 so that customers can benefit from the loan program.

Federal Assistance

The Guam Department of Administration (DOA) will continue to provide utility assistance to renters and homeowners using funding from the second U.S. Stimulus package. Unfortunately, the Low-Income Household Water Assistance Program (LIHWAP) previously used to pay for water and sewer services has not been reauthorized by Congress.

The Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law, signed into law on November 15, 2021, resulted in an increase to GWA's allotment received through the US EPA State Revolving Fund in FY2024 to \$23 million. It is anticipated that GWA may receive up to \$27 million annually from FY2025-FY2027 and in the subsequent years dropping to \$4 million due to Congressional earmarks.

As briefly discussed above, GWA continues to work with FEMA to qualify certain Typhoon Mawar related expenses for reimbursement. The Governor was able to negotiate a 10% local match. It is anticipated that private insurance will take care of the bulk of the property damage.

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) 300-6860. As management of the Guam Waterworks Authority (GWA), we offer readers of GWA's financial statements this narrative overview and analysis for the fiscal year ending September 30, 2023. It is based on the financial statements provided in the annual audit report. Selected comparable financial data from the prior year is also provided.

Guam Waterworks Authority
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Statements of Net Position

	September 30,	
	<u>2023</u>	<u>2022</u>
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 50,324,888	\$ 38,823,824
Restricted	32,707,733	29,987,985
Receivables, net of allowance for doubtful accounts of \$9,365,376 (\$9,753,074 in 2022)	15,237,682	16,901,464
Materials and supplies inventory, net of allowance for obsolescence of \$122,856	5,096,658	4,667,734
Prepaid expenses	<u>1,206,948</u>	<u>1,733,017</u>
Total current assets	<u>104,573,909</u>	<u>92,114,024</u>
Capital Assets:		
Utility plant in service:		
Water system	444,848,078	420,470,606
Wastewater system	679,249,470	576,276,943
Non-utility property	<u>33,683,228</u>	<u>33,353,690</u>
	1,157,780,776	1,030,101,239
Less accumulated depreciation	<u>(424,928,727)</u>	<u>(394,700,179)</u>
	732,852,049	635,401,060
Lease and subscription-based IT assets, net	614,418	532,824
Land and land rights	5,287,305	5,287,305
Construction work in progress	<u>74,149,217</u>	<u>173,276,251</u>
Capital Assets, net	<u>812,902,989</u>	<u>814,497,440</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	<u>220,606,453</u>	<u>234,403,462</u>
Total assets	<u>1,138,083,351</u>	<u>1,141,014,926</u>
Deferred outflows of resources:		
Deferred outflows on bond refunding	27,184,464	29,229,855
Deferred outflows from pension	18,328,046	7,405,025
Deferred outflows from OPEB	28,539,954	41,247,962
Regulatory assets	<u>3,174,728</u>	<u>2,796,759</u>
Total deferred outflows of resources	<u>77,227,192</u>	<u>80,679,601</u>
Total assets and deferred outflows of resources	<u>\$1,215,310,543</u>	<u>\$1,221,694,527</u>

See accompanying notes.

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

Statements of Net Position, continued

	September 30,	
	<u>2023</u>	<u>2022</u>
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Current maturities of revenue bonds payable	\$ 10,760,000	\$ 10,235,000
Accounts payable:		
Guam Power Authority	1,854,699	2,396,370
Trade	2,607,142	2,111,279
Accrued interest	7,070,516	7,200,420
Accrued payroll and employee benefits	1,334,022	1,118,809
Current portion of employee annual leave	729,390	725,007
Current portion of lease and subscription-based IT liabilities	375,103	234,824
Payable to contractors	8,565,009	23,351,921
Customer deposits	2,268,968	2,275,313
Due to Grantor	8,272,170	---
Other liabilities	<u>798,438</u>	<u>827,057</u>
 Total current liabilities	 <u>44,635,457</u>	 <u>50,476,000</u>
 Revenue bonds payable, less current maturities	 640,087,410	 652,338,147
Employee annual leave, less current portion	913,289	995,913
DCRS sick leave liability	1,429,998	1,376,504
Lease and subscription-based IT liabilities	192,245	300,279
Net pension liability	59,402,698	46,038,335
Collective total other post-employment benefits liability	<u>87,184,863</u>	<u>116,272,057</u>
 Total liabilities	 <u>833,845,960</u>	 <u>867,797,235</u>
 Deferred inflows of resources:		
Regulatory liabilities	646,937	638,875
Deferred outflows from pension	3,009,820	5,176,746
Deferred outflows from OPEB	<u>43,293,492</u>	<u>25,852,937</u>
 Total deferred inflows of resources	 <u>46,950,249</u>	 <u>31,668,558</u>

See accompanying notes.

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

Statements of Net Position, continued

	September 30,	
	<u>2023</u>	<u>2022</u>
Net position:		
Net investment in capital assets	330,849,577	322,499,972
Restricted for:		
Debt service	63,409,545	60,881,220
Service operations	<u>39,537,853</u>	<u>38,512,203</u>
Total restricted - expendable	<u>102,947,398</u>	<u>99,393,423</u>
Unrestricted	(<u>99,282,641</u>)	(<u>99,664,661</u>)
Total net position	<u>334,514,334</u>	<u>322,228,734</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,215,310,543</u>	<u>\$1,221,694,527</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Operating revenues:		
Water:		
Private	\$ 59,343,982	\$ 57,230,980
Government	7,284,629	7,376,219
Legislative surcharge	2,147,271	2,127,896
System development charge	<u>706,977</u>	<u>536,746</u>
	<u>69,482,859</u>	<u>67,271,841</u>
Wastewater:		
Private	25,467,513	23,701,033
Government	11,063,720	10,141,643
Legislative surcharge	947,328	882,878
System development charge	<u>652,190</u>	<u>708,615</u>
	<u>38,130,751</u>	<u>35,434,169</u>
Other	<u>567,167</u>	<u>464,488</u>
Bad debts expense	<u>(421,467)</u>	<u>(2,028,510)</u>
Total operating revenues	<u>107,759,310</u>	<u>101,141,988</u>
Operating and maintenance expenses:		
Power purchases	24,397,961	18,577,440
Water purchases	7,038,954	5,656,471
Waste disposal fees	<u>676,362</u>	<u>658,813</u>
	32,113,277	24,892,724
Depreciation	30,911,997	28,462,573
Salaries, wages and benefits	24,470,756	22,191,629
Administrative and general	8,346,930	7,297,610
Contractual	5,421,883	4,492,845
Retiree healthcare costs and other benefits	<u>4,621,864</u>	<u>8,864,985</u>
Total operating and maintenance expenses	<u>105,886,707</u>	<u>96,202,366</u>
Operating income	\$ <u>1,872,603</u>	\$ <u>4,939,622</u>

See accompanying notes.

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

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

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Nonoperating revenues (expenses):		
Grants from the Government of Guam	\$ 14,460,048	\$ ---
Interest income	11,604,779	1,542,233
Others, net	626,929	70,011
Interest expense	(28,678,533)	(29,175,309)
Bond issuance costs	(554,655)	(180,594)
Loss on capital asset disposals	(<u>531,538</u>)	(<u>490,215</u>)
Total non-operating expenses, net	(<u>3,072,970</u>)	(<u>28,233,874</u>)
Loss before capital contributions	(1,200,367)	(23,294,252)
Capital contributions:		
Grants from the U.S. Government	<u>13,485,967</u>	<u>35,806,383</u>
Change in net position	12,285,600	12,512,131
Net position at beginning of year	<u>322,228,734</u>	<u>309,716,603</u>
Net position at end of year	<u>\$334,514,334</u>	<u>\$322,228,734</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$120,965,897	\$101,805,519
Cash payments to supplies for goods and services	(46,755,481)	(37,793,021)
Cash payments to employees for services	(27,081,802)	(26,428,874)
Cash payments for retiree healthcare costs	(3,560,495)	(3,216,922)
Net cash provided by operating activities	<u>43,568,119</u>	<u>34,366,702</u>
Cash flows from capital and related financing activities:		
Federal grants received	10,208,987	41,774,056
Acquisition of capital assets	(41,331,452)	(74,034,091)
Principal paid on revenue bond maturities	(10,235,000)	(9,745,000)
Interest paid on revenue bonds	(28,801,678)	(29,296,403)
Legal proceeds	<u>950,000</u>	<u>(---)</u>
Net cash used for capital and related financing activities	<u>(69,209,143)</u>	<u>(71,301,438)</u>
Cash flows from noncapital financing activity – Local government grants received	<u>14,460,048</u>	<u>---</u>
Cash flows from investing activity – Interest income received	<u>11,604,779</u>	<u>1,542,233</u>
Net change in cash and cash equivalents	423,803	(35,392,503)
Cash and cash equivalents at beginning of year	<u>303,215,271</u>	<u>338,607,774</u>
Cash and cash equivalents at end of year	<u>\$303,639,074</u>	<u>\$303,215,271</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Current assets:		
Cash and cash equivalents	\$ 50,324,888	\$ 38,823,824
Restricted cash and cash equivalents	32,707,733	29,987,985
Noncurrent assets:		
Restricted cash and cash equivalents	<u>220,606,453</u>	<u>234,403,462</u>
	<u>\$303,639,074</u>	<u>\$303,215,271</u>

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,872,603	\$ 4,939,622
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,911,997	28,462,573
Bad debts expense	421,467	2,028,510
Capitalized labor and benefits	(3,075,928)	(3,699,767)
Non-cash pension costs	5,565,339	3,782,547
Non-cash OPEB costs	4,166,314	6,927,940
Other non-cash adjustments	(323,071)	---
Increase (decrease) in assets:		
Receivables	4,519,295	(1,462,007)
Materials and supplies inventory	(623,993)	(383,398)
Prepaid expenses	526,069	(883,150)
Regulatory assets	(377,969)	(802,595)
Increase (decrease) in liabilities:		
Accounts payable	(45,808)	1,870,234
Accrued payroll and employee benefits	215,213	185,363
Employee annual leave	(78,241)	(125,018)
Customer deposits	(6,345)	38,303
Due to Grantor	8,272,170	---
Other liabilities	(28,619)	(852,208)
DCRS sick leave liability	53,494	37,296
Net pension liability	(5,290,923)	(4,417,666)
Collective total other post-employment benefits liability	(<u>3,104,945</u>)	(<u>1,279,877</u>)
Net cash provided by operating activities	<u>\$43,568,119</u>	<u>\$34,366,702</u>
Supplemental information on noncash capital activities:		
Lease and subscription IT assets	\$ 614,418	\$ 782,682
Lease and subscription IT liabilities	(<u>614,418</u>)	(<u>782,682</u>)
	<u>\$ ---</u>	<u>\$ ---</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2023 and 2022

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Net Position

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

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

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

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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Position, continued

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

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

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Materials and Supplies Inventory

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Prepaid Expenses

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

Capital Assets

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 capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items over \$5,000.

Noncurrent Restricted Cash and Cash Equivalents

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GWA has determined the deferred outflows on debt 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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Compensated Absences

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

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

Pensions

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

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, 2023 and 2022 is \$3,135,371 and \$3,180,073, respectively and is included in receivables in the accompanying statement of net position.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Operating and Non-Operating Revenue and Expenses

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

Grants and Contributions

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

Recently Adopted Accounting Pronouncement

In 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. The adoption of this statement does not have material effect on the financial statements.

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. The adoption of this statement does not have material effect on the financial statements.

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. The adoption of this statement did not have an effect on beginning net position. GWA recorded subscription IT assets and subscription IT liability of \$304,253 at October 1, 2022.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

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

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

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal years ending September 30, 2025.

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

3. Deposits and Investments

GWA's bond indenture agreements 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.

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

Notes to Financial Statements, continued

3. Deposits and Investments, continued

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, 2023 and 2022, the carrying amount of GWA’s total deposits was \$86,322,834 and \$303,209,342, and the corresponding bank balance was \$88,198,370 and \$306,120,630, respectively. Of that bank balance, \$23,038,585 and \$18,261,372 were uninsured and uncollateralized, respectively as of September 30, 2023 and 2022.

As of September 30, 2023 and 2022, the remaining amount of \$217,310,310 represents short-term investments held and administered by GWA’s trustees in GWA’s name in accordance with various trust agreements and bond indentures.

Unrestricted cash and cash equivalents at September 30, 2023 and 2022 in the amount of \$15,427,230 and \$19,565,501, 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 \$7,219,224 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 at September 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Current restricted:		
Sewer Hook-up Revolving Fund	\$ 2,079,769	\$ 64,373
Legislative Surcharge Fund	6,863	93,776
Bid Escrow Fund	958,711	843,058
Customer Deposit Fund	2,157,517	2,108,598
Revenue Trust and Revenue Fund	10,593,092	8,898,996
System Development Fund	5,375,796	7,408,420
Working Cap – Reserved for CAPEX	8,452,503	7,487,283
Working Cap – Reserved for O&M	<u>3,083,482</u>	<u>3,083,481</u>
	<u>32,707,733</u>	<u>29,987,985</u>

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

Notes to Financial Statements, continued

3. Deposits and Investments, continued

	<u>2023</u>	<u>2022</u>
Noncurrent restricted:		
2010 Bond Indenture Funds:		
Construction Fund	\$ 3,648,718	\$ 4,133,026
Bond Reserve Fund	7,566,460	7,566,460
2013 Bond Indenture Funds:		
Construction Fund	3,459,448	4,236,835
Bond Reserve Fund	12,031,688	12,031,688
Reserved for Debt Service	1,494,615	1,400,508
2014 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	17,423,213	17,423,213
Bond Reserve Fund	8,068,508	7,792,925
Reserved for Debt Service	2,032,467	1,907,253
2016 Bond Indenture Funds:		
Construction Fund	27,091,177	38,621,743
Bond Reserve Fund	7,591,999	7,591,999
Reserved for Debt Service	2,061,782	1,967,736
2017 Bond Indenture Funds:		
Reserved for Debt Service	2,015,191	1,907,628
2020A Bond Indenture Funds:		
Construction Fund	111,457,380	118,006,420
Bond Reserve Fund	6,659,700	6,659,700
Capitalized Interest Fund	---	1,245
Reserved for Debt Service	1,753,543	1,678,906
2020B Bond Indenture Funds:		
Reserved for Debt Service	1,540,498	1,476,177
Various – Construction Fund	<u>4,710,066</u>	<u>---</u>
Total restricted cash and cash equivalents	<u>\$253,314,186</u>	<u>\$264,391,447</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

4. Receivables

Receivables at September 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Customers:		
Private	\$17,349,003	\$16,575,526
Government	<u>3,343,918</u>	<u>3,407,067</u>
	20,692,921	19,982,593
Federal grants receivable	2,191,346	5,468,327
Guam Power Authority	218,391	303,282
Other	<u>1,500,400</u>	<u>900,336</u>
	<u>24,603,058</u>	<u>26,654,538</u>
Less allowance for doubtful accounts	(<u>9,365,376</u>)	(<u>9,753,074</u>)
	<u>\$15,237,682</u>	<u>\$16,901,464</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

5. Capital Assets

Capital assets activities for the years ended September 30, 2023 and 2022 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2022	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2023
Depreciable:					
Utility Plant in Service Water	25-50	\$ 420,470,606	\$ 24,883,755	\$(506,283)	\$ 444,848,078
Utility Plant in Service Wastewater	25-50	576,276,943	102,972,527	---	679,249,470
General Fixed Assets	25-50	<u>33,353,690</u>	<u>414,583</u>	<u>(85,045)</u>	<u>33,683,228</u>
		1,030,101,239	128,270,865	(591,328)	1,157,780,776
Less: Accumulated Depreciation		<u>394,700,179</u>	<u>30,535,664</u>	<u>(307,116)</u>	<u>424,928,727</u>
		<u>635,401,060</u>	<u>97,735,201</u>	<u>(284,212)</u>	<u>732,852,049</u>
Lease assets:					
Equipment	1-4	760,208	168,634	---	928,842
Building		<u>22,473</u>	<u>---</u>	<u>---</u>	<u>22,473</u>
		782,681	168,634	---	951,315
Less: Accumulated amortization		<u>249,858</u>	<u>248,207</u>	<u>---</u>	<u>498,065</u>
		<u>532,823</u>	<u>(79,573)</u>	<u>---</u>	<u>453,250</u>
Subscription-based IT assets		---	304,253	---	304,253
Less: Accumulated amortization		<u>---</u>	<u>143,085</u>	<u>---</u>	<u>143,085</u>
		<u>---</u>	<u>161,168</u>	<u>---</u>	<u>161,168</u>
Non-depreciable:					
Land		5,287,305	---	---	5,287,305
Construction Work in Progress		<u>173,276,251</u>	<u>28,518,008</u>	<u>(127,645,042)</u>	<u>74,149,217</u>
		<u>\$ 814,497,439</u>	<u>\$126,334,804</u>	<u>\$(127,929,254)</u>	<u>\$ 812,902,989</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

5. Capital Assets, continued

	Estimated Useful Lives in Years	Beginning Balance October 1, 2021	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2022
Depreciable:					
Utility Plant in Service Water	25-50	\$415,123,284	\$ 5,973,315	\$(625,993)	\$ 420,470,606
Utility Plant in Service Wastewater	25-50	513,741,066	62,792,686	(256,809)	576,276,943
General Fixed Assets	25-50	<u>33,051,603</u>	<u>881,697</u>	<u>(579,610)</u>	<u>33,353,690</u>
		961,915,953	69,647,698	(1,462,412)	1,030,101,239
Less: Accumulated Depreciation		<u>367,521,639</u>	<u>28,212,716</u>	<u>(1,034,176)</u>	<u>394,700,179</u>
		594,394,314	41,434,982	(428,236)	635,401,060
Lease assets:					
Equipment	1-4	760,208	---	---	760,208
Building		<u>22,473</u>	<u>---</u>	<u>---</u>	<u>22,473</u>
		782,682	---	---	782,682
Less: Accumulated amortization		<u>---</u>	<u>249,858</u>	<u>---</u>	<u>249,858</u>
		<u>782,682</u>	<u>(249,858)</u>	<u>---</u>	<u>532,824</u>
Non-depreciable:					
Land		5,240,187	47,118	---	5,287,305
Construction Work in Progress		<u>167,589,130</u>	<u>73,997,349</u>	<u>(68,310,228)</u>	<u>173,276,251</u>
		<u>\$768,006,313</u>	<u>\$115,229,591</u>	<u>\$(68,738,464)</u>	<u>\$ 814,497,440</u>

Lease assets

Guam Power Authority (GPA)

In February 2015, GWA moved to a building owned by GPA. GWA does not currently have a signed lease agreement with GPA but pays for its share of building maintenance costs. GWA's use of the building did not amount to a lease as the resolution passed by the CCU did not convey the right to use an underlying asset. For the years ended September 30, 2023 and 2022, GWA's share of building maintenance cost totaled \$286,165 and \$241,668, respectively

Morrigo Equipment, LLC (Morrigo)

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt

Long-term debt at September 30, 2023 and 2022 is as follows:

Revenue Bonds

	<u>2023</u>	<u>2022</u>
2013 Series revenue bonds, interest at 5.25% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,695,000 in July 2020, increasing to \$4,045,000 in July 2028. On August 26, 2020, these bonds were partially refunded through the issuance of \$166,075,000 2020B refunding bonds.	\$ 18,365,000	\$ 21,510,000
2014 Series refunding bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,900,000 in July 2015, maturity date in July 2035.	60,050,000	64,055,000
2016 Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$420,000 in July 2020, maturity date in January 2046.	134,140,000	134,975,000
2017 Series refunding bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$55,000 in July 2019, maturity date in July 2040.	100,930,000	103,180,000
2020A Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$30,880,000 in July 2047, maturity date in January 2050.	134,000,000	134,000,000

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

	<u>2023</u>	<u>2022</u>
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.	166,075,000	166,075,000
Total revenue bonds payable	613,560,000	623,795,000
Less current maturities	(10,760,000)	(10,235,000)
	602,800,000	613,560,000
Bond premium – 2020A series bonds	10,150,215	10,150,215
Bond premium – 2017 series bonds	10,327,219	10,940,717
Bond premium – 2016 series bonds	13,618,006	14,225,502
Bond premium – 2014 series bonds, net	<u>3,191,970</u>	<u>3,461,713</u>
	<u>\$640,087,410</u>	<u>\$652,338,147</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>
2024	\$ 10,760,000	\$ 28,282,065	\$ 39,042,065
2025	11,305,000	27,735,778	39,040,778
2026	11,875,000	27,161,815	39,036,815
2027	12,470,000	26,568,065	39,038,065
2028	14,355,000	25,944,565	40,299,565
2029 through 2033	85,210,000	119,436,487	204,646,487
2034 through 2038	105,500,000	99,155,000	204,655,000
2039 through 2043	133,085,000	73,524,160	206,609,160
2044 through 2048	125,880,000	40,779,875	166,659,875
2049 through 2050	<u>103,120,000</u>	<u>4,451,500</u>	<u>107,571,500</u>
	<u>\$613,560,000</u>	<u>\$473,039,310</u>	<u>\$1,086,599,310</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

Changes in GWA's long-term debt for the year ended September 30, 2023 and 2022 are as follows:

	Outstanding October 1, <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2023</u>	<u>Current</u>
Revenue Bonds:					
2013 series A bonds	\$ 21,510,000	\$ ---	\$(3,145,000)	\$ 18,365,000	\$ 3,315,000
2014 series A and B bonds	64,055,000	---	(4,005,000)	60,050,000	4,205,000
2016 series A bonds	134,975,000	---	(835,000)	134,140,000	875,000
2017 series A bonds	103,180,000	---	(2,250,000)	100,930,000	2,365,000
2020 series A bonds	134,000,000	---	---	134,000,000	---
2020 series B bonds	166,075,000	---	---	166,075,000	---
Unamortized premium on bonds	<u>38,778,147</u>	<u>---</u>	<u>(1,490,737)</u>	<u>37,287,410</u>	<u>---</u>
	<u>\$662,573,147</u>	<u>\$ ---</u>	<u>\$(11,725,737)</u>	<u>\$650,847,410</u>	<u>\$10,760,000</u>

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Pledged Revenues

The 2010, 2013, 2014, 2016, 2017, 2020A and 2020B Series Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, GWA system revenues (excluding legislative surcharges and system development charges) to secure the payment of principal and interest on the Bonds. As of September 30, 2023, total principal and interest remaining on these bonds is \$1,086,599,310 payable through January 2050. For the years ended September 30, 2023 and 2022, debt service paid on these bonds was \$39,036,678 and \$39,041,402, respectively, and total pledged GWA system revenues were \$103,159,844 and \$98,449,875, 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, 2023 and 2022, bonds outstanding of \$142,595,000, are considered defeased, which represents a portion of the Series 2013 bonds.

Bond Covenants

The General Indenture, dated December 1, 2005, as updated by supplemental indentures, sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes GWA was in compliance with all bond covenants as of and for the years ended September 30, 2023 and 2022. The primary requirements of the General Indenture are summarized below:

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Bond Covenants, continued

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

Debt Service Fund - the General Indenture creates a Debt Service Fund available for the purpose of: (1) paying interest on bonds as it shall become due and payable; (2) paying the principal of Serial Bonds when due and payable; (3) purchasing or redeeming or paying at maturity Term Bonds; (4) paying Parity Payment Agreement Payments due and payable; and (5) paying Credit Agreement Reimbursement Payments due and payable. As of September 30, 2023 and 2022, GWA is not currently a party to any Parity Payment Agreements.

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

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

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

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Notes to Financial Statements, continued

7. Change in Other Long-Term Liabilities

Changes in GWA's other long-term liabilities for the year ended September 30, 2023 are as follows:

	Outstanding October 1, <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2023</u>	<u>Current</u>
Other:					
Employee annual leave	\$ 1,720,920	\$ 1,496,472	\$(1,574,713)	\$ 1,642,679	\$ 729,390
DCRS sick leave liability	1,376,504	53,494	---	1,429,998	---
Lease liabilities	535,103	171,639	(268,028)	438,714	246,469
Subscription-based IT liabilities	---	308,006	(179,372)	128,634	128,634
Net pension liability	46,038,335	13,364,363	---	59,402,698	---
OPEB liability	<u>116,272,057</u>	<u>---</u>	<u>(29,087,194)</u>	<u>87,184,863</u>	<u>---</u>
	<u>\$165,942,919</u>	<u>\$15,393,974</u>	<u>\$(31,109,307)</u>	<u>\$150,227,586</u>	<u>\$1,104,493</u>

Changes in GWA's other long-term liabilities for the year ended September 30, 2023 and 2022 are as follows:

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

The future payments of lease and subscription-based IT liabilities are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$396,662	\$ 6,260	\$402,922
2025	84,563	3,023	87,586
2026	35,943	1,977	37,920
2027	36,985	935	37,920
2028	<u>13,195</u>	<u>75</u>	<u>13,270</u>
	<u>\$567,348</u>	<u>\$12,270</u>	<u>\$579,618</u>

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Notes to Financial Statements, continued

8. Pensions

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

A. General Information About the Pension Plans

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

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

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

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.

Guam Waterworks Authority
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Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

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

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

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

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

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

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Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

Members of the DB 1.75 Plan may retire at age 62 with 5 years of credited service, or at age 60 with 5 years of credited service without survivor benefits, or at age 55 with 25 years of credited service but the retirement annuity shall be reduced $\frac{1}{2}$ 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: Plan members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The contribution requirements of the plan members and GWA are established and may be amended by the GGRF.

GWA's statutory contribution rates were 28.43% and 28.32% for the years ended September 30, 2023 and 2022, respectively. Employees are required to contribute 9.5% of their annual pay for the year ended September 30, 2023 and 2022.

GWA's contributions to the DB Plan for the years ended September 30, 2023 and 2022 were \$5,187,181 and \$5,180,477, respectively, which were equal to the statutorily required contributions for the year then ended.

GWA's contributions for supplemental annuity benefit and COLA payments for the years ended September 30, 2023 and 2022 were \$594,000 and \$558,000, respectively which were equal to the statutorily required contributions for the 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 6.2% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions for the DCRS plan for the years ended September 30, 2023 and 2022 is determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 6.2% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Guam Waterworks Authority
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Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

GWA's contributions to the DCRS Plan for the years ended September 30, 2023 and 2022 were \$3,988,179 and \$3,953,604, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,560,130 and \$2,531,814 were contributed towards the unfunded liability of the DB Plan for the years ended September 30, 2023 and 2022, respectively.

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

Pension Liability: At September 30, 2023 and 2022, GWA reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2022 and September 30, 2021, respectively, which is comprised of the following:

	<u>2023</u>	<u>2022</u>
Defined Benefit Plan	\$48,214,836	\$32,556,486
Ad Hoc COLA/supplemental annuity Plan for DB retirees	9,694,959	11,715,208
Ad Hoc COLA Plan for DCRS retirees	<u>1,492,903</u>	<u>1,766,641</u>
	<u>\$59,402,698</u>	<u>\$46,038,335</u>

GWA's proportion of the GovGuam net pension liabilities was based on GWA's expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam's component units. At September 30, 2023 and 2022, GWA's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2023</u>	<u>2022</u>
Defined Benefit Plan	3.24%	3.38%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	3.78%	3.80%
Ad Hoc COLA Plan for DCRS retirees	2.48%	2.50%

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Notes to Financial Statements, continued

8. Pensions, continued

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

Pension Expense (Benefit): For the years ended September 30, 2023 and 2022, GWA recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

	<u>2023</u>	<u>2022</u>
Defined Benefit Plan	\$5,565,339	\$2,722,613
Ad Hoc COLA/supplemental annuity Plan for DB retirees	(57,891)	907,657
Ad Hoc COLA Plan for DCRS retirees	<u>128,000</u>	<u>152,277</u>
	<u>\$5,635,448</u>	<u>\$3,782,547</u>

Deferred Outflows and Inflows of Resources: At September 30, 2023 and 2022, GWA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2023</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>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 934,747	\$ 128,930	\$ ---	\$ 82,856	\$184,632	\$ 29,569
Net difference between projected and actual earnings on pension plan investments	10,865,968	---	---	---	---	---
Changes of assumptions	---	---	15,824	1,051,976	310,418	399,897
Contributions subsequent to the measurement date	5,187,181	---	594,000	---	79,200	---
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>31,255</u>	<u>1,014,548</u>	<u>---</u>	<u>123,413</u>	<u>124,821</u>	<u>178,631</u>
	<u>\$17,019,151</u>	<u>\$1,143,478</u>	<u>\$609,824</u>	<u>\$1,258,245</u>	<u>\$699,071</u>	<u>\$608,097</u>

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Notes to Financial Statements, continued

8. Pensions, continued

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

	2022					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 52,255	\$ 331,030	\$ ---	\$162,751	\$194,282	\$ 34,403
Net difference between projected and actual earnings on pension plan investments	---	3,932,804	---	---	---	---
Changes of assumptions	---	---	319,222	34,739	358,832	116,527
Contributions subsequent to the measurement date	5,180,477	---	558,000	---	64,000	---
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>506,418</u>	<u>116,263</u>	<u>28,616</u>	<u>252,637</u>	<u>142,922</u>	<u>195,592</u>
	<u>\$5,739,150</u>	<u>\$4,380,097</u>	<u>\$905,838</u>	<u>\$450,127</u>	<u>\$760,036</u>	<u>\$346,522</u>

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, 2023 and 2022 will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	<u>Defined Benefit Plan</u>	<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan for DCRS Retirees</u>
2024	\$ 2,930,588	\$(620,755)	\$(1,670)
2025	2,519,654	(580,528)	(1,670)
2026	1,690,981	(41,138)	(1,668)
2027	3,547,269	---	16,270
2028	---	---	18,232
Thereafter	<u>---</u>	<u>---</u>	<u>(17,720)</u>
	<u>\$10,688,492</u>	<u>\$(1,242,421)</u>	<u>\$11,774</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

8. Pensions, continued

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

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

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	26.0%	8.14%	2.12%
U.S. Equities (small cap)	4.0%	9.75%	0.39%
Non-U.S. Equities	17.0%	10.15%	1.73%
Non-U.S. Equities (emerging markets)	3.0%	12.08%	0.36%
U.S. Fixed Income (aggregate)	22.0%	4.77%	1.05%
Risk Parity	8.0%	6.65%	0.53%
High Yield Bonds	8.0%	6.90%	0.55%
Global Real Estate (REITs)	2.5%	9.62%	0.24%
Global Equity	7.0%	8.93%	0.67%
Global Infrastructure	2.5%	8.08%	0.16%
Expected average return for one year			7.80%
Expected geometric mean (30 years)			7.09%

Guam Waterworks Authority
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Notes to Financial Statements, continued

8. Pensions, continued

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

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan was 7.0%, which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments was 4.02% (2.26% at September 30, 2022), 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:

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>\$56,696,128</u>	<u>\$48,214,836</u>	<u>\$37,702,604</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>3.02%</u>	Current Discount Rate <u>4.02%</u>	1% Increase in Discount Rate <u>5.02%</u>
Net Pension Liability	<u>\$10,536,279</u>	<u>\$9,694,959</u>	<u>\$8,951,792</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>3.02%</u>	Current Discount Rate <u>4.02%</u>	1% Increase in Discount Rate <u>5.02%</u>
Net Pension Liability	<u>\$1,699,336</u>	<u>\$1,492,903</u>	<u>\$1,337,409</u>

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Notes to Financial Statements, continued

8. Pensions, continued

C. Payables to the Pension Plans

As of September 30, 2023 and 2022, GWA recorded payables to GGRF of \$98,858 and \$95,252, respectively, representing unremitted statutorily required contributions.

9. Other Post Employment Benefits (OPEB)

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

A. General Information About the OPEB Plan

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

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

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

A. General Information About the OPEB Plan, continued

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

Reporting date:	September 30, 2023 and 2022
Measurement date:	September 30, 2022 and 2021
Valuation date:	September 30, 2022 and 2020

Collective total OPEB liability as of September 30, 2023 and 2022 is \$87,184,863 and \$116,272,057, respectively.

Proportionate share of total OPEB liability at September 30, 2023 and 2022 is 3.80% and 4.19%, respectively.

B. Total OPEB Liability:

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

Inflation:	2.50%
Healthcare cost trend rate:	8% for FY2023, decreasing 0.5% per year to 4.5% in FY2030 and an ultimate rate of 4.1% for FY2031 and later years.
Dental trend rates:	4.25% per year, based on a blend of historical retiree premium rate increases as well as observed U.S. national trends.
Healthy retiree mortality rates:	Head-count weighted PUB-2010 Table, set forward 4 years and 2 years for males and females, respectively, projected generationally using 50% of MP-2020.
Disabled retiree mortality rates:	PUB-2010 Disabled Retiree Amount Weighted mortality table set forward 4 years and 2 years for males and females, respectively, using 130% of the rates before age 80 and projected generationally from 2010 using 50% of mortality improvement scale MP-2020.

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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

B. Total OPEB Liability, continued

Discount rate: The discount rate used to measure the total OPEB liability was 4.02%. The projection of cash flows used to determine the discount rate assumed that contributions from the Government will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 4.02% municipal bond rate was applied to all periods to determine the total OPEB liability.

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>3.02%</u>	Current Discount Rate <u>4.02%</u>	1% Increase in Discount Rate <u>5.02%</u>
Total OPEB Liability	<u>\$101,267,601</u>	<u>\$87,184,863</u>	<u>\$75,768,674</u>

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

	<u>1% Decrease</u>	Healthcare Cost <u>Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	<u>\$74,734,233</u>	<u>\$87,184,863</u>	<u>\$103,065,701</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

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

For the years ended September 30, 2023 and 2022, GWA reported total OPEB expense of \$4,166,314 and \$6,927,940, respectively. for its proportionate share of the GovGuam total OPEB expense. At September 30, 2023 and 2022, GWA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 8,077,845	\$28,629,763	\$13,575,416	\$ 6,176,160
Difference between expected and actual experience	6,799,163	4,009,180	10,131,991	16,348,358
Contributions subsequent to the measurement date	2,481,241	---	2,155,206	---
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>11,181,704</u>	<u>10,654,549</u>	<u>15,385,349</u>	<u>3,328,419</u>
	<u>\$28,539,953</u>	<u>\$43,293,492</u>	<u>\$41,247,962</u>	<u>\$25,852,937</u>

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

2024	\$(1,028,050)
2025	887,901
2026	(2,248,466)
2027	(4,531,933)
2028	(5,131,459)
Thereafter	(<u>5,182,773</u>)
	<u>\$(17,234,780)</u>

10. Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the U.S. Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the year ended September 30, 2023 and 2022 amount to \$7,038,954 and \$5,656,471.

Guam Waterworks Authority
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Notes to Financial Statements, continued

11. Commitments and Contingencies

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.

Litigation

GWA is seeking to quiet title in property listed in a current court action. The court action was first brought by the Government of Guam, Department of Land Management (DLM) to rescind and correct certificates of title which DLM has claimed were erroneously issued to a private party. The quiet title action addresses certificates of title for property upon which GWA's Northern District Wastewater Treatment Plant (NDWWTP) is located. The private party holding the certificates of title argues it legally acquired the disputed property through foreclosure, first returned to ancestral land owners, and second by GWA's presumptive failure to perform required surveys triggering an automatic reversion of the land. Court records show the private party is seeking the enjoyment, use, and occupancy of the property and just compensation from GWA for inverse condemnation in the amount of \$220 million, as well as damages for trespass and encroachment by GWA. In the event that the Guam Superior Court enters a judgment, granting the claimed compensation, against the Authority, the resulting liability could have a material and adverse impact on the GWA's financial position.

GWA has argued that the ownership of the disputed property has been well documented and permitted through public laws, adopted land use plans, and federal and local government leases, easements, and deeds and that the collective review of these laws and conveyance documents prevents the property under NDWWTP from being transferred to a private land owner as it houses an existing public utility first constructed in 1979. In an April 2024 Decision and Order the Superior Court found there was an automatic reversion of the land in favor of the private property owner but pending the schedule of a trial no Judgment or any amount to be paid has been ordered by the Court. In May 2024, GWA orally requested the Superior Court to sua sponte stay its proceedings as it sought permission for interlocutory appeal with the Guam Supreme Court to review the lower court's Decision and Order. The Governor, Legislature and Public Utilities Commission have each filed amicus briefs in the Guam Supreme Court, in support of GWA and Guam's public laws, urging the Supreme Court to take GWA's appeal.

GWA is of the opinion that based on the current status of the litigation, and courses of actions still available to it, liabilities of a material nature will not be realized, and therefore no related provision has been recorded in the accompanying financial statements for the potential impact, if any, of this matter.

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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$35,405,617 at September 30, 2023, of which \$6,669,145 will be funded by federal grants from the U.S. Government.

Court Order

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

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

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

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

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Notes to Financial Statements, continued

12. Supplemental Annuities/COLA

As required by GovGuam's Annual Appropriation's Act, GWA must reimburse GovGuam's Department of Administration for certain supplemental and healthcare benefits paid to retirees. During the years ended September 30, 2023 and 2022, GWA levied a surcharge amounting to \$3,094,599 and \$3,010,774, respectively, in order to satisfy this legislative mandate. Effective October 1, 2021 the surcharge was reduced from 3.60% to 3.50% as approved by the Guam PUC.

13. System Development Charge (SDC)

In 2010, PUC approved the implementation of a water and sewer SDC, which authorized GWA to charge water and wastewater SDC to applicable customers on and after March 2, 2010. SDC revenues generated and collected are to be expended for costs associated with the construction, expansion, upgrade, and repair of water and wastewater facilities for users who are for the first time connecting property into the Guam water or wastewater system or for builders if the density of the existing connection is increased. SDC revenues may also be used to pay the principal sum and interest and other finance costs on bonds, notes or other obligations issued by or on behalf of GWA to finance such capital improvements or facilities expansion or renovations. During the years ended September 30, 2023 and 2022, SDC revenues were \$1,359,167 and \$1,245,362, respectively.

14. 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, 2023 and 2022 were \$24,397,961 and \$18,577,440, respectively, and GWA was also charged \$566,256 and \$555,086, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,746,771 and \$2,327,605 as of September 30, 2023 and 2022, respectively.

For the years ended September 30, 2023 and 2022, GWA billed GPA a total of \$134,497 and \$165,788 for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2023 and 2022 was \$218,391 and \$303,282, 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 year ended September 30, 2023 and 2022 were \$676,362 and \$658,813, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$143,629 and \$26,430 as of September 30, 2023 and 2022, respectively, and were included in trade accounts payable in the accompanying statements of net position.

Required Supplementary Information

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

Defined Benefit Plan

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
GWA's proportionate share of the net pension liability	\$48,214,836	\$32,556,486	\$42,300,716	\$40,222,332	\$37,292,034	\$33,100,479	\$38,799,923	\$40,053,650
GWA's proportion of the net pension Liability	3.24%	3.38%	3.39%	3.31%	3.16%	2.90%	2.83%	2.79%
GWA's covered payroll**	\$19,156,692	\$18,724,804	\$17,738,557	\$16,874,281	\$16,251,058	\$14,729,699	\$14,353,805	\$14,388,631
GWA's proportionate share of the net pension liability as percentage of its covered payroll	251.69%	173.87%	238.47%	238.36%	229.47%	224.72%	270.31%	278.37%
Plan fiduciary net position as a percentage of the total pension liability	54.45%	70.14%	61.48%	62.25%	63.28%	60.63%	54.62%	52.32%

*Data is presented for those years for which information is available.

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

Guam Waterworks Authority
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Required Supplementary Information (Unaudited)
 Schedule of Proportionate Share of the Collective Total Pension Liability
 Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the net pension liability	\$9,694,959	\$11,715,208	\$12,486,188	\$12,866,333	\$11,195,277	\$10,909,240
GWA's proportion of the net pension liability	3.78%	3.80%	3.88%	3.97%	3.86%	3.79%

*Data is presented for those years for which information is available.

Guam Waterworks Authority
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Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Collective Total Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the net pension liability	\$1,492,903	\$1,766,641	\$1,577,875	\$1,299,011	\$1,105,860	\$1,441,633
GWA's proportion of the net pension liability	2.48%	2.50%	2.38%	2.17%	2.24%	2.31%

*Data is presented for those years for which information is available.

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 4,474,004	\$ 4,263,160	\$ 4,116,086	\$ 3,998,221	\$ 4,029,190	\$ 3,491,479	\$ 3,524,561	\$ 3,759,121
Contributions in relation to the actuarially determined contribution	<u>5,187,181</u>	<u>5,180,477</u>	<u>4,038,242</u>	<u>4,025,886</u>	<u>4,296,287</u>	<u>3,630,252</u>	<u>3,527,186</u>	<u>3,749,595</u>
Contribution deficiency (excess)	\$(<u>713,177</u>)	\$(<u>917,317</u>)	\$ <u>77,844</u>	\$(<u>27,665</u>)	\$(<u>267,097</u>)	\$(<u>138,773</u>)	\$(<u>2,625</u>)	\$ <u>9,526</u>
GWA's covered payroll**	<u>\$19,156,692</u>	<u>\$18,724,804</u>	<u>\$17,738,557</u>	<u>\$16,874,281</u>	<u>\$16,251,058</u>	<u>\$14,729,699</u>	<u>\$14,353,805</u>	<u>\$14,388,631</u>
Contributions as a percentage of covered payroll	26.31%	27.67%	22.77%	23.86%	26.44%	24.65%	24.57%	26.06%

*Data is presented for those years for which information is available.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the OPEB liability	\$87,184,863	\$116,272,057	\$106,433,894	\$84,163,331	\$62,656,405	\$88,950,661
GWA's proportion of the OPEB liability	3.80%	4.19%	4.23%	3.30%	3.34%	3.66%

*Data is presented for those years for which information is available.

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$9,019,293	\$8,511,831	\$7,175,899	\$5,617,770	\$7,776,105	\$8,045,954
Contributions in relation to the actuarially determined contribution	<u>2,397,392</u>	<u>1,966,259</u>	<u>1,598,791</u>	<u>1,745,004</u>	<u>1,795,850</u>	<u>1,617,515</u>
Contribution deficiency	<u>\$6,621,901</u>	<u>\$6,545,572</u>	<u>\$5,577,108</u>	<u>\$3,872,766</u>	<u>\$5,980,255</u>	<u>\$6,428,439</u>

*Data is presented for those years for which information is available.

Guam Waterworks Authority
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Notes to Required Supplementary Information (Unaudited)

Changes in Assumptions – Pension Plans

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

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

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

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

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

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

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

Supplementary and Other Information

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

Schedule of Certain Operating and Maintenance Expenses

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$16,535,676	\$16,055,989
Pension costs and other benefits	6,724,057	5,726,543
Overtime pay	<u>1,211,023</u>	<u>409,097</u>
Total salaries, wages and benefits	<u>\$24,470,756</u>	<u>\$22,191,629</u>
Administrative and general:		
Materials and supplies	1,965,599	\$ 1,923,816
Chemicals	1,778,433	1,506,895
Insurance	1,779,677	1,299,193
Transportation	632,636	696,392
Miscellaneous	629,100	628,488
Merchant fees	669,025	625,606
Public Utility Commission	213,555	203,851
Communications	114,403	156,595
Training	164,370	95,939
Liability claims	300,724	92,335
Advertising	<u>99,408</u>	<u>68,500</u>
Total administrative and general	<u>\$ 8,346,930</u>	<u>\$ 7,297,610</u>
Contractual:		
Labor, materials and others	1,824,658	\$ 1,627,464
Accounting	1,706,562	1,411,843
Legal	619,291	563,305
Property rental	570,187	510,840
Equipment rental	439,277	192,456
Testing	<u>261,908</u>	<u>186,937</u>
Total contractual	<u>\$ 5,421,883</u>	<u>\$ 4,492,845</u>
Other expense:		
Interest expense	\$28,678,533	\$29,175,309
Retiree healthcare costs and other benefits	4,621,864	8,864,985
Bond issuance costs	<u>554,655</u>	<u>180,594</u>
Total other expense	<u>\$33,855,052</u>	<u>\$38,220,888</u>

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

Schedule of Construction Work in Progress

Year ended September 30, 2023

Project Title	Type	Beginning Balance FY2023	Additions and Adjustments	Closed out during FY2023	Ending Balance FY2023
Asan / Santa Rita Springs Rehabilitation	Water	\$ 881,342	\$ 35,766	\$ -	\$ 917,108
Deepwell New Wells Site Development and Rehabilitation	Water	1,934,154	22,525	-	1,956,679
Equipment Purchases	Water/Wastewater	25,810	342,272	(314,868)	53,214
Facilities Improvement	Water/Wastewater	741,449	71,240	-	812,689
Fire Hydrant Replacement Project	Water	-	200,616	-	200,616
Hydraulic Modeling	Water/Wastewater	644,072	-	-	644,072
I&I SSES for Central/Northern/Southern Sewer Systems	Wastewater	3,159,033	78,032	(1,135,019)	2,102,046
Information Technology	Water/Wastewater	158,526	444,109	(139,025)	463,610
Island Wide Real Property Survey & Mapping	Water/Wastewater	779,387	102,794	-	882,181
Island Wide Water Reservoirs	Water	43,719,763	9,538,236	(14,783,063)	38,474,936
Meters and related	Water	958,392	438,562	(836,815)	560,139
Pressure Zone Realignment	Water	4,919,764	2,097,333	-	7,017,097
Program Management Office	Water/Wastewater	4,007,038	564,476	(2,526)	4,568,988
Pumps, Motors, Cables and related Replacements	Water/Wastewater	341,606	1,786,344	(2,029,607)	98,343
Route 1 Sanitary Sewer Rehabilitation and Replacement (Asan-Adelup-Hagatna)	Wastewater	9,829,312	651,454	(10,461,446)	19,320
SCADA System for Water and Wastewater	Water/Wastewater	1,725,966	40,251	-	1,766,217
Sewer Pump Station Improvements	Wastewater	2,606,729	1,220,019	(1,294,966)	2,531,782
Tamuning Hot Spots Sewer Line Rehabilitation and Replacement	Wastewater	2,265,771	386,947	-	2,652,718
Tumon Hot Spots Sewer Line Rehabilitation	Wastewater	432,574	-	-	432,574
Ugum Water Treatment Plant Rehabilitation	Water	164,740	27,684	-	192,424
Upgrade to Secondary Treatment at NDWWTP	Wastewater	78,042,098	5,362,376	(82,744,090)	660,384
Wastewater Collection Systems	Wastewater	1,119,542	578,698	-	1,698,240
Water and Wastewater Infrastructure Improvements	Water/Wastewater	8,307,871	904,350	(8,681,976)	530,245
Water BPS Improvements	Water	491,621	579,814	(196,197)	875,238
Water Distribution Systems	Water	6,019,691	3,044,110	(5,025,444)	4,038,357
		<u>\$ 173,276,251</u>	<u>\$ 28,518,008</u>	<u>\$ (127,645,042)</u>	<u>\$ 74,149,217</u>

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

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

	September 30,	
	<u>2023</u>	<u>2022</u>
Assets		
Current assets:		
Restricted cash	\$5,375,796	\$7,408,420
Receivables	<u>1,256,707</u>	<u>1,275,981</u>
	<u>\$6,632,503</u>	<u>\$8,684,401</u>
Liabilities and Net Position		
Current liabilities:		
Due to GWA	<u>\$1,121,582</u>	<u>\$1,109,470</u>
Net Position:		
Restricted	<u>5,510,921</u>	<u>7,574,931</u>
	<u>\$6,632,503</u>	<u>\$8,684,401</u>
Revenues, Expenses and Changes in Net Position		
Revenues:		
System development charge	\$1,359,167	\$1,245,362
Other revenues	<u>71,608</u>	<u>22,322</u>
	1,430,775	1,267,684
Expenses:		
Transfer out	<u>3,494,785</u>	<u>3,290,280</u>
Change in net position	(2,064,010)	(2,022,596)
Net position at beginning of year	<u>7,574,931</u>	<u>9,597,527</u>
Net position at end of year	<u>\$5,510,921</u>	<u>\$7,574,931</u>

Guam Waterworks Authority
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Schedule of Operating Revenues

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Water	\$ 66,628,611	\$ 64,607,199
Wastewater	36,531,233	33,842,676
Surcharges:		
Legislative	3,094,599	3,010,774
System development charge	1,359,167	1,245,361
Other	567,167	464,488
Bad debts expense	(<u>421,467</u>)	(<u>2,028,510</u>)
Total operating revenues	<u>\$107,759,310</u>	<u>\$101,141,988</u>

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

Schedule of Employee and Other Data

Years ended September 30, 2023 and 2022

2023					
Cost Category	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration and Support	77	\$ 5,112,182	\$ 1,596,785	\$ 77,851	\$ 6,786,818
Compliance & Safety	19	1,811,794	672,121	64,406	2,548,321
Engineering	29	1,186,589	2,473	27,478	1,216,540
Executive Management	43	3,631,323	1,348,315	15,706	4,995,344
Operations: Construction & Maintenance	32	2,349,856	155,315	244,063	2,749,234
Operations: Water Distribution	48	3,105,810	709,925	791,256	4,606,991
Operations: Water Production & Treatment	31	2,013,591	243,204	427,736	2,684,531
Operations: Wastewater Collection	48	2,876,194	593,899	174,008	3,644,101
Operations: Wastewater Treatment	29	2,383,417	99,846	143,094	2,626,357
Total	356	\$ 24,470,756	\$ 5,421,883	\$ 1,965,598	\$ 31,858,237

2022					
Cost Category	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration and Support	80	\$ 4,858,540	\$ 1,469,284	\$ 68,596	\$ 6,396,420
Compliance & Safety	19	1,640,735	193,504	78,703	1,912,942
Engineering	28	631,201	4,941	8,622	644,764
Executive Management	46	3,554,686	1,649,503	23,432	5,227,621
Operations: Construction & Maintenance	31	1,926,392	44,502	160,960	2,131,854
Operations: Water Distribution	51	2,906,465	401,310	934,617	4,242,392
Operations: Water Production & Treatment	36	1,917,626	125,650	419,686	2,462,962
Operations: Wastewater Collection	45	2,969,685	449,148	162,422	3,581,255
Operations: Wastewater Treatment	30	1,786,299	155,002	66,778	2,008,079
Total	366	\$ 22,191,629	\$ 4,492,844	\$ 1,923,816	\$ 28,608,289