

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

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

**YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(AS RESTATED)**

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on the Financial Statements

We have audited the accompanying financial statements of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, in 2017, GWA adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. As a result of adopting this standard, GWA has elected to restate its 2016 financial statements to reflect the adoption of this standard. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 as well as the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other than Pension on page 44, the Schedule of Proportional Share of the Net Pension Liability on pages 45 through 47, and the Schedule of Pension Contributions on page 48, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

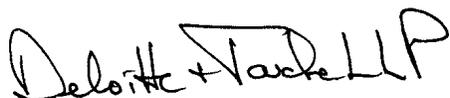
Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Certain Operating and Maintenance Expenses, the Schedule of Construction Work in Progress, the Schedule of Net Position, Revenue, Expenses and Changes in Net Position for the System Development Charge Fund, and the Schedule of Operating Revenues on pages 49 through 52 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such additional information on pages 49 through 52 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Employee and Other Data on page 53 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2018, on our consideration of GWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GWA's internal control over financial reporting and compliance.



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

Management's Discussion and Analysis
September 30, 2017 and 2016

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 ended September 30, 2017. We encourage readers to consider the information presented here and in our basic financial statements, which begins on page 11.

Overview of the Financial Statements

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

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 16 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 44 of this report.

Financial Condition and Results

The Authority's total net position increased by \$40.4 million during the fiscal year (see table below) primarily due to the \$32.0 million in operating income.

The net increase in current assets of about \$20.4 million is due to increases in restricted cash, as well as trade and other receivables.

The net increase in property, plant and equipment of \$72.0 million is due primarily to on-going construction projects related to wastewater treatment plant replacement, transmission lines, reservoir replacements, booster pump upgrades, sewer line rehabilitation/replacements, deep well rehabilitations, acquisition of mechanical and electrical equipment and general plant improvements.

The Authority's net investment in capital assets represents 92.1% of total net position. The net amount invested in capital assets increased by \$20.0 million compared to prior year.

Effective October 1, 2016, GWA implemented GASB Statement No. 73, which resulted in the restatement of GWA's prior year financial statements to reflect the reporting of net pensions liability for ad hoc Cost of Living Allowances and supplemental annuity payments. Refer to note 8 for more information regarding GWA's pensions.

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Summary Statement of Net Position

	September 30,	September 30,	2017 to 2016 Comparison		September 30,
	2017	2016 (As Restated)	Increase/ (Decrease)	% Change	2015 (As Restated)
Current and other assets	\$ 374,191,577	\$ 402,532,025	\$ (28,340,448)	-7.04%	\$ 248,055,723
Property, plant and equipment, net	459,580,691	387,543,998	72,036,693	18.59%	360,109,966
Deferred outflows of resources	6,639,757	8,216,190	(1,576,433)	-19.19%	6,128,089
Total assets and deferred outflows	<u>\$ 840,412,025</u>	<u>\$ 798,292,213</u>	<u>\$ 42,119,812</u>	5.28%	<u>\$ 614,293,778</u>
Current and other liabilities	\$ 83,012,861	\$ 73,008,688	\$ 10,004,173	13.70%	\$ 66,184,145
Long-term debt	533,892,880	542,555,913	(8,663,033)	-1.60%	389,165,861
Deferred inflows of resources	564,513	174,281	390,232	223.91%	3,568,590
Total liabilities and deferred inflows	<u>617,470,254</u>	<u>615,738,882</u>	<u>1,731,372</u>	0.28%	<u>458,918,596</u>
Net position:					
Net investment in capital assets	205,317,593	185,367,498	19,950,095	10.76%	180,072,079
Restricted	18,481,379	18,266,223	215,156	1.18%	15,898,661
Unrestricted	<u>(857,201)</u>	<u>(21,080,390)</u>	<u>20,223,189</u>	-95.93%	<u>(40,595,558)</u>
Total net position	<u>222,941,771</u>	<u>182,553,331</u>	<u>40,388,440</u>	22.12%	<u>155,375,182</u>
Total liabilities, deferred inflows and net position	<u>\$ 840,412,025</u>	<u>\$ 798,292,213</u>	<u>\$ 42,119,812</u>	5.28%	<u>\$ 614,293,778</u>

Operating income decreased 12.4% from the previous year, from \$36.5 million to \$32.0 million in FY2017. GWA saw operating revenues drop from \$105.4 million to \$104.4 million in FY2017, or approximately -1.0%, while on the other hand, operating costs increased from \$68.8 million to \$72.3 million in FY2017, or a 5.1% increase from the previous year. The result shows net operating income of \$32.0 million or a 12.4% decrease when compared to the prior year.

Water revenues (total) decreased by \$0.4 million or -0.6% over the prior fiscal year. Residential customers accounted for most of the decrease in FY2017.

Wastewater revenues (total) also decreased by \$0.3 million or -0.7% over the prior fiscal year due primarily to a decline in revenues from the Federal customer class.

Operating expenses are generally driven by power, water purchases and salaries expenses. These costs account for almost 2/3rds of O&M expenses. In FY2017, O&M expenses increased, moving from \$68.8 million in FY2016 to \$72.3 million in FY2017. The table below illustrates the changes among major cost components.

- Operating expenses increased by \$3.5 million or 5.1% over the prior fiscal year for nearly all expense categories. Notably, power expenses increased by \$0.9 million and Navy water purchases increased by \$0.9 million due to a combination of; (1) approximately 17.6 thousand additional kgals of water purchased and (2) a 15% increase in the Navy's tariff. Depreciation expense shows the most significant increases over FY2016 at \$1.5 million.

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- Net non-operating revenues increased slightly by \$1.4 million. Interest expense increased by \$2.5 million but was largely offset by the \$3.9 million increase in non-operating revenues.

A comparative analysis of Revenues, Expenses and Changes in Net Position, FY2016 – FY2017, is illustrated in the Table below:

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

	September 30, 2017	September 30, 2016 (As Restated)	2017 to 2016 Comparison Increase/ (Decrease)	% Change	September 30, 2015 (As Restated)
Revenues:					
Water	\$ 66,573,958	\$ 66,941,486	\$ (367,528)	-0.55%	\$ 59,518,287
Wastewater	38,676,388	38,953,665	(277,277)	-0.71%	33,886,360
Other	435,514	519,898	(84,384)	-16.23%	706,657
Bad debts	<u>(1,316,397)</u>	<u>(1,034,310)</u>	<u>(282,087)</u>	27.27%	<u>(980,243)</u>
Total operating revenue	<u>104,369,463</u>	<u>105,380,739</u>	<u>(1,011,276)</u>	-0.96%	<u>93,131,061</u>
Expenses:					
Power purchases	12,076,262	11,225,884	850,378	7.58%	14,026,448
Water purchases	7,309,125	6,374,035	935,090	14.67%	5,098,872
Sludge (waste) disposal fees	1,685,842	1,565,080	120,762	7.72%	1,343,767
Salaries, wages and benefits	19,697,917	19,856,213	(158,296)	-0.80%	16,168,167
Depreciation	16,824,455	15,348,101	1,476,354	9.62%	14,543,396
Administrative and general	7,300,127	7,008,883	291,244	4.16%	6,503,317
Contractual	4,087,429	4,117,122	(29,693)	-0.72%	2,793,267
Retiree healthcare costs and other benefits	<u>3,376,745</u>	<u>3,348,262</u>	<u>28,483</u>	0.85%	<u>3,491,101</u>
Total operating expenses	<u>72,357,902</u>	<u>68,843,580</u>	<u>3,514,322</u>	5.10%	<u>63,968,335</u>
Net operating income (loss)	32,011,561	36,537,159	(4,525,598)	-12.39%	29,162,726
Non-operating revenue (expenses)	13,739,609	9,793,775	3,945,834	40.29%	6,680,260
Less: Interest Expense	<u>(27,173,760)</u>	<u>(24,641,647)</u>	<u>(2,532,113)</u>	10.28%	<u>(20,865,205)</u>
Total non-operating revenues (expenses), net	<u>(13,434,151)</u>	<u>(14,847,872)</u>	<u>1,413,721</u>	-9.52%	<u>(14,184,945)</u>
Income (loss) before capital contributions	18,577,410	21,689,287	(3,111,877)	-14.35%	14,977,781
Capital contributions	<u>21,811,030</u>	<u>5,488,862</u>	<u>16,322,168</u>	297.37%	<u>3,586,637</u>
Change in net position	40,388,440	27,178,149	13,210,291	48.61%	18,564,418
Net position - beginning year	<u>182,553,331</u>	<u>155,375,182</u>	<u>27,178,149</u>	17.49%	<u>136,810,764</u>
Net position - end of year	<u>\$ 222,941,771</u>	<u>\$ 182,553,331</u>	<u>\$ 40,388,440</u>	22.12%	<u>\$ 155,375,182</u>

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

Annual Water Revenues (Excluding System Development Charges)

<u>Class Type</u>	<u>FY17</u>	<u>FY16</u>	<u>2017 to 2016 Comparison</u>		<u>FY15</u>
			<u>(Decrease)</u>	<u>% Change</u>	
Agricultural	\$ 395,449	\$ 431,606	\$ (36,157)	-9%	\$ 375,120
Golf Course	80,243	97,990	(17,747)	-22%	84,844
Commercial	13,962,171	13,736,890	225,281	2%	12,529,070
Federal	39,532	38,497	1,035	3%	18,449
Government	6,297,642	6,360,728	(63,086)	-1%	6,083,130
Hotel	13,499,695	13,116,414	383,281	3%	11,132,531
Irrigation	60,821	59,481	1,340	2%	18,425
Residential	31,807,345	32,457,312	(649,967)	-2%	28,705,488
TOTAL	\$ 66,142,898	\$ 66,298,918	\$ (156,020)	0%	\$ 58,947,057

Annual WasteWater Revenues (Excluding System Development Charges)

<u>Class Type</u>	<u>FY17</u>	<u>FY16</u>	<u>2017 to 2016 Comparison</u>		<u>FY15</u>
			<u>(Decrease)</u>	<u>% Change</u>	
Commercial	\$ 8,588,060	\$ 8,046,990	\$ 541,070	6%	\$ 6,988,489
Federal	5,610,218	6,580,018	(969,800)	-17%	4,926,563
Government	3,533,788	3,375,762	158,026	4%	3,325,856
Hotel	11,684,107	11,698,441	(14,334)	0%	9,266,983
Residential	8,819,329	8,466,690	352,639	4%	8,768,445
TOTAL	\$ 38,235,502	\$ 38,167,901	\$ 67,601	0%	\$ 33,276,336

As reported on the Statements of Net Position, the Authority's total net position increased by \$40.4 million during the fiscal year due to increases in both unrestricted assets and net investment in capital assets.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in GWA's report on the audit of financial statements, which is dated January 13, 2017. That Discussion and Analysis explains in more detail major factors impacting the 2016 financial statements. A copy of that report can be obtained by contacting the CFO.

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Capital Assets

The Authority had \$459.6 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2017. The investment in capital assets includes building improvements, water treatment plants, water transmission and distribution mains, sewer lines, water reservoirs, pump stations, wastewater treatment facilities, deep wells, meter replacements, fire hydrant replacements, machinery and equipment (see Table below).

In the current fiscal year 2017, capital assets increased by \$72.0 million (net) or 18.6% over the prior fiscal year. The increase is attributable to ongoing major capital improvement projects associated with a 2011 Federal Court Order and GWA's five-year (FY16 to FY20) Capital Improvement Plan.

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

WASTE WATER

Southern District Wastewater	\$ 21,876,000
Northern District Wastewater	1,185,000
Central District Wastewater	<u>803,000</u>
	<u>\$ 23,864,000</u>

WATER

Pump Station Upgrades	\$ 974,000
General Plant Upgrades	5,022,000
Line Replacements	2,666,000
Mechanical/Electrical Equipment	2,021,000
Ugum WTP Improvements	1,533,000
Deepwell Rehab & New Well Sites	8,929,000
Reservoir Rehab & Replacements	9,638,000
Meter Replacement Program	3,930,000
Fire Hydrants Replacement Project	<u>417,000</u>
	<u>\$ 35,130,000</u>

Capital Assets, Net of Accumulated Depreciation

	September 30, 2017	September 30, 2016	2017 to 2016 Comparison		September 30, 2015
			Increase (Decrease)	% Change	
Plant, buildings and equipment, net	\$ 346,773,806	\$ 305,412,149	\$ 41,361,657	13.54%	\$ 307,154,511
Land	1,110,998	254,288	856,710	336.91%	64,288
Construction in progress	<u>111,695,887</u>	<u>81,877,561</u>	<u>29,818,326</u>	36.42%	<u>52,891,167</u>
Total	<u>\$ 459,580,691</u>	<u>\$ 387,543,998</u>	<u>\$ 72,036,693</u>	18.59%	<u>\$ 360,109,966</u>

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

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Debt

As of September 30, 2017, the Authority had total long-term debt outstanding of \$515.0 million, which is a decrease of \$7.9 million or -1.5% over the prior year.

The Authority is required by bond covenants to maintain principal, interest, and reserve funds for the bond issue outstanding. In addition, the Authority is required to set rates and charges to yield revenues equal to at least 125% of the current annual debt service requirements of the outstanding 2010, 2013, 2014 and 2016 revenue bond series. The Public Utilities Commission set the requirement at 175%.

Moody's Investor Services, Fitch Rating and Standard & Poor's assigned a rating of Baa2, BBB- and A-, respectively, to GWA's Water and Wastewater Revenue Bonds. The ratings are important benchmarks of the issuer's ability to meet its financial obligation. Each rating agency incorporates a rating scale indicating credit quality of the issuer. The scales are comprised of alphabetical symbols such as "AAA", "AA", "A", "BBB", "BB", "B" etc. For example, categorical ratings in the "AAA", "AA" and "A" range denote high credit quality meaning the issuer has a high capacity to meet its financial commitments whereas categorical rating in the "BBB", "BB" and "B" range denote average credit quality. The lower the number of alpha characters assigned indicates the issuer is more susceptible to adverse effects or changes in circumstances and economic conditions than those with a higher number of alpha characters.

Long-Term Debt

	September 30, 2017	September 30, 2016	2017 to 2016 Comparison		September 30, 2015
			Increase (Decrease)	% Change	
2010 Bond Series	\$ 114,525,000	\$ 116,180,000	\$ (1,655,000)	-1.42%	\$ 117,770,000
2013 Bond Series	172,630,000	172,630,000	-	0.00%	172,630,000
2014 Refunding Bond Series	75,995,000	79,380,000	(3,385,000)	-4.26%	82,700,000
2016 Bond Series	143,310,000	143,310,000	-	0.00%	-
Bank Notes	8,571,487	11,452,191	(2,880,704)	-25.15%	14,197,776
Total	<u>\$ 515,031,487</u>	<u>\$ 522,952,191</u>	<u>\$ (7,920,704)</u>	<u>-1.51%</u>	<u>\$ 387,297,776</u>

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

Looking Forward

Outlook, Challenges, and Opportunities

Although we have achieved countless milestones on schedule and have invested nearly \$500 million in system improvements since 2005, there is still much ahead. The following are illustrations of the continued commitment from the utility to invest significant resources in initiatives aimed at opportunities for enhancing and improving the System's performance, reliability, quality and compliance with Clean Water Act (CWA) and Safe Drinking Water Act (SDWA) standards.

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Non-Revenue Water

One of the Authority's most challenging issues is non-revenue water. According to the latest figures, approximately fifty nine percent (59%) of water produced annually is not consumed or contributing to GWA's revenue, due to either water losses (leaks, breaks), unauthorized or unbilled consumption. Leaks for the most part account for the largest source of non-revenue water and GWA has engaged in an intense water loss control program, which includes leak detection to help reduce non-revenue water. A substantial amount of information on the distribution system is being collected and analyzed to improve and optimize the Authority's loss prevention program. This includes such efforts as the prioritization and acceleration of leak repairs, the rehabilitation and upgrades of main lines; the installation of monitoring and measuring devices (i.e. master flow meters, production meters) to accurately measure water production and demand in water service areas and lastly, pressure management, which aims to monitor and correctly align water pressure within each service area of the system to avoid over-pressurization that can lead to main breaks, increased line leakage, and more frequent pipe repairs/replacement. The Authority will continue to proactively manage water loss, enhance leak detection efforts, and improve its leak repair performance, through such measures as the recently received approval from the CCU to add dedicated personnel to its leak detection and repair unit.

Capital Project Risk

The success rate of Capital Projects is of a paramount priority in light of the significant investments required by a 2011 Federal Court Order (CO), regulatory mandates and policy statements defined by the CCU. There is tremendous pressure to deliver and meet targets for system improvements, thus any roadblocks or impediments on construction cannot be present. GWA is currently working with Guam contractors on the H-2B visa issue due to the industry's decreasing availability of foreign workers. The USCIS decision in 2016 to no longer accept H-2B visa applications or renewals poses a conundrum for the local construction industry and has already lead to construction delays, escalating costs and fewer bidders for GWA projects due to the size and complex nature of GWA's project. Maximizing output is especially critical for those projects under a tight court order schedule. Technological advances may have made it possible to build more effectively and efficiently with fewer people, but it has yet to replace or eliminate the need for skilled labor. GWA and contractors are working with each other to find ways to address the shrinking H-2B labor pool and prevent schedule delays and disruption.

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Court Order Compliance

The CCU and Authority are focused on meeting the requirements of the 2011 Federal Court Order and have made considerable progress in the execution of mandatory rehabilitation, repair and construction projects, and have instituted an asset management and maintenance program to ensure capital investment is not squandered, and system performance does not deteriorate resulting in CWA and or SDWA violations. The 2011 Court Order establishes deadlines for completing outstanding projects that were identified in a previous Stipulated Order originally issued in 2003 and subsequently amended in 2004 and 2006. GWA continues to work collaboratively with U.S. EPA and is maintaining a strong compliance record. GWA is still on schedule to meet all major court ordered deadlines, achieving a performance rating of 98.9% for Court Order items completed or in-progress and on-schedule. It has been over 6 (six) years since the utility has been fined by U.S. EPA for not meeting mandated deadlines. The implications of H-2B visa program on remaining court ordered projects is still unknown, however GWA is working closely with our designers and contractors on near term measures to address the situation and stay on schedule notwithstanding the labor shortage of the foreign worker pool. This includes designing for less labor-intensive construction methods (such as pre-cast concrete structures versus cast-in-place concrete structures), and more flexible contract provisions which address proper assignment of schedule risk.

Secondary Treatment

EPA issued new NPDES permits for the Northern District and Hagatna WWTPs that became effective on June 1, 2013. The new NPDES permits include secondary treatment standards, some of which the existing WWTPs are unable to meet until a secondary treatment process is implemented. The WWTPs are currently meeting the requirements of the Court Order with chemically enhanced primary treatment, but are not in compliance with the secondary treatment standards and will require significant upgrades to comply with the permit. GWA is on schedule to complete secondary treatment upgrades at the NDWWTP by December 2021. In the fall of 2016, the Department of Defense (DOD), through the Office of Economic Adjustment (OEA), awarded the Authority grants totaling \$55.3 million to initiate projects associated with the design and construction of improvements needed to bring the Northern District WWTP to full secondary treatment capability. In late 2017, the Authority received an additional grant award totaling \$117.9 million for construction of wastewater improvements related to the build-up. Several projects, including the NDWWTP secondary treatment upgrades, are already underway and in various stages of design or construction procurement.

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, 578 N. Marine Corp Drive, Tamuning, GU 96913, or telephone (671) 300-6860.

GUAM WATERWORKS AUTHORITY
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Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2017</u>	<u>2016</u> (As Restated)
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 4,873,275	\$ 8,157,430
Restricted	65,124,401	48,436,548
Receivables, net	23,884,177	16,709,227
Materials and supplies inventory, net of an allowance for obsolescence of \$457,370 at September 30, 2017 and 2016	2,166,557	2,269,775
Prepaid expenses	<u>551,127</u>	<u>652,000</u>
Total current assets	<u>96,599,537</u>	<u>76,224,980</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	327,484,191	306,262,568
Wastewater system	286,394,940	259,512,407
Non-utility property	<u>18,938,255</u>	<u>22,474,787</u>
	632,817,386	588,249,762
Less accumulated depreciation	<u>(286,043,580)</u>	<u>(282,837,613)</u>
	346,773,806	305,412,149
Land	1,110,998	254,288
Construction work in progress	<u>111,695,887</u>	<u>81,877,561</u>
Property, plant and equipment, net	<u>459,580,691</u>	<u>387,543,998</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	<u>277,592,040</u>	<u>326,307,045</u>
Total assets	<u>833,772,268</u>	<u>790,076,023</u>
Deferred outflows of resources:		
Debt defeasance loss on refunding	1,695,980	1,878,602
Deferred outflows from pension	<u>4,943,777</u>	<u>6,337,588</u>
Total deferred outflows of resources	<u>6,639,757</u>	<u>8,216,190</u>
Total assets and deferred outflows of resources	<u>\$ 840,412,025</u>	<u>\$ 798,292,213</u>

See accompanying notes to financial statements.

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

Statements of Net Position, Continued
September 30, 2017 and 2016

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
Current liabilities:		
Current maturities of long-term debt:		
Revenue bonds payable	\$ 5,200,000	\$ 5,040,000
Note payable	3,037,569	2,873,988
Accounts payable:		
Guam Power Authority	1,129,494	1,164,722
Trade	2,966,960	2,224,191
Accrued interest	6,656,499	6,748,638
Accrued payroll and employee benefits	2,604,343	1,692,622
Current portion of employee annual leave	567,057	548,845
Payable to contractors	13,950,287	3,436,908
Customer deposits	2,087,207	2,228,235
Other liabilities	1,293,931	1,562,359
Total current liabilities	<u>39,493,347</u>	<u>27,520,508</u>
Long-term debt, less current maturities:		
Revenue bonds payable	520,121,393	526,063,722
Note payable	5,533,918	8,578,203
Employee annual leave, less current portion	783,992	887,084
DCRS sick leave liability	1,729,291	1,641,497
Net pension liability	49,243,800	50,873,587
Total liabilities	<u>616,905,741</u>	<u>615,564,601</u>
Deferred inflows of resources:		
Deferred inflows from pension	564,513	174,281
Commitments and contingencies		
Net position:		
Net investment in capital assets	205,317,593	185,367,498
Restricted	18,481,379	18,266,223
Unrestricted	(857,201)	(21,080,390)
Total net position	<u>222,941,771</u>	<u>182,553,331</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 840,412,025</u>	<u>\$ 798,292,213</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016 (As Restated)
Operating revenues:		
Water:		
Private	\$ 57,875,384	\$ 58,162,503
Government	6,101,458	6,177,211
Legislative surcharge	2,166,056	1,959,204
System development charge	431,060	642,568
	66,573,958	66,941,486
Wastewater:		
Private	28,386,690	27,570,392
Government	8,807,642	9,658,388
Legislative surcharge	1,041,170	939,121
System development charge	440,886	785,764
	38,676,388	38,953,665
Other	435,514	519,898
Bad debts expense	(1,316,397)	(1,034,310)
Total operating revenues	104,369,463	105,380,739
Operating and maintenance expenses:		
Power purchases	12,076,262	11,225,884
Water purchases	7,309,125	6,374,035
Waste disposal fees	1,685,842	1,565,080
	21,071,229	19,164,999
Salaries, wages and benefits	19,697,917	19,856,213
Depreciation	16,824,455	15,348,101
Administrative and general	7,300,127	7,008,883
Contractual	4,087,429	4,117,122
Retiree healthcare costs and other benefits	3,376,745	3,348,262
	72,357,902	68,843,580
Total operating and maintenance expenses	72,357,902	68,843,580
Operating income	32,011,561	36,537,159
Nonoperating revenues (expenses):		
Allowance for funds used during construction	14,066,891	13,708,441
Interest income	917,351	63,115
Interest expense	(27,173,760)	(24,641,647)
Loss on property, plant and equipment disposals	(755,256)	(49,796)
Loss on inventory write-down	(217,999)	-
Federal expenditures	(510,017)	(1,058,262)
Others, net	238,639	(2,869,723)
	(13,434,151)	(14,847,872)
Total nonoperating expenses, net	(13,434,151)	(14,847,872)
Income before capital contributions	18,577,410	21,689,287
Capital contributions:		
Grants from the U.S. Government	21,811,030	5,488,862
Change in net position	40,388,440	27,178,149
Net position at beginning of year	182,553,331	155,375,182
Net position at end of year	\$ 222,941,771	\$ 182,553,331

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016 (As Restated)
Cash flows from operating activities:		
Cash received from customers	\$ 103,127,811	\$ 107,244,584
Cash payments to suppliers for goods and services	(32,033,579)	(30,591,445)
Cash payments to employees for services	(18,629,026)	(17,884,871)
Cash payments for retiree healthcare costs	(3,376,745)	(3,348,262)
Net cash provided by operating activities	49,088,461	55,420,006
Cash flows from capital and related financing activities:		
Federal grants received	15,226,686	3,636,780
Acquisition of property, plant and equipment	(65,036,135)	(32,205,217)
Proceeds from bond issuance	-	162,874,896
Principal paid on revenue bond maturities	(5,040,000)	(4,910,000)
Interest paid on revenue bonds	(27,008,870)	(26,606,602)
Principal repayment of bank loan	(2,880,704)	(2,745,585)
Interest paid on bank loan	(578,096)	(709,147)
Net cash (used for) provided by capital and related financing activities	(85,317,119)	99,335,125
Cash flows from investing activities:		
Interest income received	917,351	63,115
Net change in cash and cash equivalents	(35,311,307)	154,818,246
Cash and cash equivalents at beginning of year	382,901,023	228,082,777
Cash and cash equivalents at end of year	\$ 347,589,716	\$ 382,901,023
Reconciliation of cash and cash equivalents to the statements of net position:		
Current assets:		
Cash and cash equivalents	\$ 4,873,275	\$ 8,157,430
Restricted cash and cash equivalents	65,124,401	48,436,548
Noncurrent assets:		
Restricted cash and cash equivalents	277,592,040	326,307,045
	347,589,716	382,901,023
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 14,066,891	\$ 13,708,441
Capitalized interest	(14,066,891)	(13,708,441)
	\$ -	\$ -
Noncash federal expenditures	\$ 510,017	\$ 1,058,262
Noncash grants from U.S. Government	(510,017)	(1,058,262)
	\$ -	\$ -

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	2017	2016 (As Restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 32,011,561	\$ 36,537,159
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,824,455	15,348,101
Bad debts expense	1,316,397	1,034,310
Non-cash pension costs	154,256	1,297,095
(Increase) decrease in assets:		
Accounts receivable	(2,417,020)	599,241
Materials and supplies inventory	(114,781)	(492,533)
Prepaid expenses	100,873	(5,252)
Increase (decrease) in liabilities:		
Accounts payable	707,542	(724,514)
Accrued payroll and employee benefits	911,721	541,290
Employee annual leave	(84,880)	31,967
Customer deposits	(141,028)	230,294
Other liabilities	(268,429)	921,858
DCRS sick leave liability	87,794	100,990
Net cash provided by operating activities	\$ 49,088,461	\$ 55,420,006

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2017 and 2016

(1) Reporting Entity

The Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Public Utility 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 after liabilities are deducted and consists of the following categories:

Net investment in capital assets - include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt, net of debt service reserve.

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.

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.

At September 30, 2017 and 2016, restricted net position consists of the following:

	<u>2017</u>	<u>2016</u>
System Development Fund	\$ 9,986,016	\$ 9,064,792
Revenue Trust and Revenue Fund	8,147,509	8,966,422
Legislative Surcharge Fund	284,264	172,877
Sewer Hook-up Revolving Fund	<u>63,590</u>	<u>62,132</u>
	\$ <u>18,481,379</u>	\$ <u>18,266,223</u>

All of GWA's restricted net position is expendable.

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Risk Management

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

Allowance for Doubtful Accounts

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

Materials and Supplies Inventory

Materials and supplies inventory is stated at the lower of cost or market with cost determined by the first-in, first-out method.

Property, Plant and Equipment

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

Noncurrent Restricted Cash and Cash Equivalents

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

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GWA has determined the loss on defeasance of the 2014 series refunding bonds, the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, changes of assumptions, pension contributions made subsequent to the measurement date, and changes in proportion and difference between GWA 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
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

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

Compensated Absences

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

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

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GWA recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents GWA's proportional 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 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.

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.

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Customer water meters are read on a cyclical basis throughout a monthly period based on the route schedules of GWA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$26.61 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, 2017 and 2016 are \$2,597,374 and \$2,700,451, respectively, and are included as receivables in the accompanying financial statements.

Cash and Cash Equivalents

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

For purposes of the statements of cash flows, cash and cash equivalents do not include restricted cash and cash equivalents.

Capitalization of Interest

GWA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2017 and 2016, interest of \$14,066,891 and \$13,708,441, respectively, was capitalized.

Capitalized Labor Costs

GWA capitalizes related labor costs incurred on construction in progress. During the years ended September 30, 2017 and 2016, labor costs of \$3,150,189 and \$2,980,358, respectively, were capitalized.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of GWA. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and expenses.

Grants and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions. Approved capital grants not yet received approximated \$39,036,541 and \$21,013,647 at September 30, 2017 and 2016, respectively.

Income Taxes

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

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2017, GWA implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated as follows due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan.

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2015:			
Net position	\$ <u>165,187,728</u>	\$ <u>(9,812,546)</u>	\$ <u>155,375,182</u>
For the year ended September 30, 2016:			
Salaries, wages, and benefits expense	\$ <u>18,486,407</u>	\$ <u>1,369,806</u>	\$ <u>19,856,213</u>
Change in net position	\$ <u>28,547,955</u>	\$ <u>(1,369,806)</u>	\$ <u>27,178,149</u>
As of September 30, 2016:			
Deferred outflows of resources from pension	\$ <u>4,668,010</u>	\$ <u>1,669,580</u>	\$ <u>6,337,590</u>
Net pension liability	\$ <u>38,195,938</u>	\$ <u>12,677,651</u>	\$ <u>50,873,589</u>
Deferred inflows of resources from pension	\$ <u>-</u>	\$ <u>174,281</u>	\$ <u>174,281</u>
Net position	\$ <u>193,735,683</u>	\$ <u>(11,182,352)</u>	\$ <u>182,553,331</u>

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that GWA will record upon implementation of Statement 75 is anticipated to be \$36,450,784 as of September 30, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain balances in the 2016 presentation have been reclassified to conform to the 2017 presentation.

(3) Cash and Cash Equivalents

The bond indenture agreements for the 2010, 2013, 2014, and 2016 series revenue bonds require the establishment of special funds to be held and administered by trustees and by GWA. In addition, proceeds from borrowings to fund capital improvements are maintained by GWA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used to fund capital improvements.

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

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

GUAM WATERWORKS AUTHORITY
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Notes to Financial Statements
September 30, 2017 and 2016

(3) Cash and Cash Equivalents, Continued

As of September 30, 2017 and 2016, the carrying amount of GWA's total cash and cash equivalents was \$347,589,716 and \$382,901,023, respectively, and the corresponding bank balances were \$347,776,215 and \$385,219,466, respectively. Of the bank balance amount, \$19,955,124 and \$22,383,354, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$329,557,107 and \$362,836,112, respectively, represents short-term investments held and administered by GWA's trustees in GWA's name in accordance with various trust agreements and bond indentures. As of September 30, 2017 and 2016, bank deposits in the amount of \$578,147 and \$620,067, respectively, were FDIC insured. GWA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2017 and 2016, \$18,876,977 and \$21,763,287, respectively, of cash and cash equivalents are subject to custodial credit risk.

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 current and noncurrent restricted cash and cash equivalents is as follows:

	<u>2017</u>	<u>2016</u>
Current restricted:		
Sewer Hook-up Revolving Fund	\$ 63,590	\$ 62,132
Legislative Surcharge Fund	284,264	172,877
Bid Escrow Fund	666,140	845,734
Customer Deposit Fund	1,831,426	1,431,631
Revenue Trust and Revenue Fund	8,147,509	8,966,422
System Development Fund	9,986,016	9,064,792
Working Cap – Reserved for DS	12,076,966	12,044,843
Working Cap – Reserved for CAPEX	15,468,468	8,714,316
Working Cap – Reserved for O&M	<u>16,600,022</u>	<u>7,133,801</u>
	<u>65,124,401</u>	<u>48,436,548</u>
Noncurrent restricted:		
2010 Bond Indenture Funds:		
Construction Fund	9,299,311	11,725,749
Bond Reserve Fund	7,566,460	7,566,460
Reserved for Debt Service	2,020,121	2,016,413
2013 Bond Indenture Funds:		
Construction Fund	74,461,765	107,622,618
Bond Reserve Fund	12,031,688	12,031,688
Reserved for Debt Service	2,336,754	2,333,082
2014 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	17,423,213	17,423,213
Construction Fund	771,281	820,529
Bond Reserve Fund	7,707,602	7,707,628
Reserved for Debt Service	1,796,559	1,791,265
2016 Bond Indenture Funds:		
Construction Fund	132,811,449	138,748,131
Capitalized Interest Fund	1,782,982	8,937,544
Bond Reserve Fund	7,582,725	7,582,725
Reserved for Debt Service	<u>130</u>	<u>-</u>
	<u>277,592,040</u>	<u>326,307,045</u>
Total restricted cash and cash equivalents	\$ <u>342,716,441</u>	\$ <u>374,743,593</u>

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(4) Receivables

Receivables at September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Customers:		
Private	\$ 24,203,927	\$ 22,040,481
Government	<u>3,744,648</u>	<u>3,161,512</u>
	27,948,575	25,201,993
Federal grants receivable	7,041,969	967,641
Guam Power Authority	334,140	1,081,164
Other	<u>1,178,527</u>	<u>761,009</u>
	<u>36,503,211</u>	<u>28,011,807</u>
Less allowance for doubtful accounts:		
Private	(11,871,734)	(10,555,280)
Government	<u>(747,300)</u>	<u>(747,300)</u>
	<u>(12,619,034)</u>	<u>(11,302,580)</u>
	\$ <u>23,884,177</u>	\$ <u>16,709,227</u>

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

(5) Property, Plant and Equipment

Capital asset activities for the year ended September 30, 2017 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2016	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2017
<u>Depreciable:</u>					
Utility Plant in Service - Water	10-50	\$ 306,262,568	\$ 29,208,760	\$ (7,987,137)	\$ 327,484,191
Utility Plant in Service - Wastewater	25-50	259,512,407	27,060,338	(177,805)	286,394,940
General Fixed Assets	5-10	<u>22,474,787</u>	<u>2,672,271</u>	<u>(6,208,803)</u>	<u>18,938,255</u>
		588,249,762	58,941,369	(14,373,745)	632,817,386
Accumulated Depreciation		<u>(282,837,613)</u>	<u>(16,824,455)</u>	<u>13,618,488</u>	<u>(286,043,580)</u>
		305,412,149	42,116,914	(755,257)	346,773,806
<u>Non-depreciable:</u>					
Land		254,288	856,710	-	1,110,998
Construction Work in Progress		<u>81,877,561</u>	<u>88,812,420</u>	<u>(58,994,094)</u>	<u>111,695,887</u>
		\$ <u>387,543,998</u>	\$ <u>131,786,044</u>	\$ <u>(59,749,351)</u>	\$ <u>459,580,691</u>

Capital asset activities for the year ended September 30, 2016 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2015	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2016
<u>Depreciable:</u>					
Utility Plant in Service - Water	10-50	\$ 294,780,104	\$ 12,185,819	\$ (703,355)	\$ 306,262,568
Utility Plant in Service - Wastewater	25-50	258,799,236	713,171	-	259,512,407
General Fixed Assets	5-10	<u>21,612,653</u>	<u>929,969</u>	<u>(67,835)</u>	<u>22,474,787</u>
		575,191,993	13,828,959	(771,190)	588,249,762
Accumulated Depreciation		<u>(268,037,482)</u>	<u>(15,348,101)</u>	<u>547,970</u>	<u>(282,837,613)</u>
		307,154,511	(1,519,142)	(223,220)	305,412,149
<u>Non-depreciable:</u>					
Land		64,288	190,000	-	254,288
Construction Work in Progress		<u>52,891,167</u>	<u>42,221,096</u>	<u>(13,234,702)</u>	<u>81,877,561</u>
		\$ <u>360,109,966</u>	\$ <u>40,891,954</u>	\$ <u>(13,457,922)</u>	\$ <u>387,543,998</u>

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(6) Long-Term Debt

Long-term debt at September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
<u>Revenue Bonds:</u>		
2010 Series revenue bonds, initial face value of \$118,825,000, interest at varying rates from 4% to 5.5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,055,000 in July 2015, increasing to \$14,460,000 in July 2040 (see Note 16).	\$ 114,525,000	\$ 116,180,000
2013 Series revenue bonds, initial face value of \$172,630,000, interest at varying rates from 5% to 5.5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,695,000 in July 2020, increasing to \$25,880,000 in July 2043.	172,630,000	172,630,000
2014 Series refunding bonds, initial face value of \$85,600,000, interest at varying rates from 5% to 6% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,900,000 in July 2015, maturity date in July 2035.	75,995,000	79,380,000
2016 Series revenue bonds, initial face value of \$143,310,000, 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.	<u>143,310,000</u>	<u>143,310,000</u>
Total revenue bonds payable	506,460,000	511,500,000
Less current maturities	<u>(5,200,000)</u>	<u>(5,040,000)</u>
	501,260,000	506,460,000
Bond premium – 2016 series bonds	17,262,975	17,870,470
Bond premium – 2014 series bonds, net	4,804,694	5,071,307
Bond discount – 2013 series bonds	(1,338,751)	(1,389,850)
Bond discount – 2010 series bonds	<u>(1,867,525)</u>	<u>(1,948,205)</u>
	<u>\$ 520,121,393</u>	<u>\$ 526,063,722</u>

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(6) Long-Term Debt, Continued

Revenue Bonds, Continued:

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,200,000	\$ 26,532,297	\$ 31,732,297
2019	5,420,000	26,348,302	31,768,302
2020	8,770,000	26,114,825	34,884,825
2021	9,215,000	25,669,588	34,884,588
2022	9,690,000	25,196,775	34,886,775
2023 through 2027	56,430,000	121,991,481	178,421,481
2028 through 2032	72,490,000	105,352,438	177,842,438
2033 through 2037	93,565,000	83,484,738	177,049,738
2038 through 2042	97,570,000	50,945,625	148,515,625
2043 through 2046	<u>148,110,000</u>	<u>16,518,550</u>	<u>164,628,550</u>
	<u>\$ 506,460,000</u>	<u>\$ 508,154,619</u>	<u>\$ 1,014,614,619</u>

Note Payable:

	<u>2017</u>	<u>2016</u>
Note payable to a bank in the original amount of \$25,000,000, interest at 7.75% per annum, due in monthly installments of principal and interest of \$300,027 through June 2015; refinanced principal balance of \$14,856,080, interest at 5.25% per annum, due in monthly installments of principal and interest of \$285,000 through June 2020.	\$ 8,571,487	\$ 11,452,191
Less current maturities	<u>(3,037,569)</u>	<u>(2,873,988)</u>
	<u>\$ 5,533,918</u>	<u>\$ 8,578,203</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>
2018	\$ 3,037,569	\$ 382,431	\$ 3,420,000
2019	3,206,110	213,890	3,420,000
2020	<u>2,327,808</u>	<u>47,932</u>	<u>2,375,740</u>
	<u>\$ 8,571,487</u>	<u>\$ 644,253</u>	<u>\$ 9,215,740</u>

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(6) Long-Term Debt, Continued

2010 Series Revenue Bonds

On November 1, 2010, GWA entered into a supplemental indenture agreement for the issuance of \$118,825,000 Water and Wastewater System Revenue Bonds, Series 2010, to finance various water and wastewater capital improvement projects. The 2010 bonds are limited obligations of GWA payable solely from and secured by a pledge of revenues as defined in the indenture. The bonds are subject to mandatory, optional and special redemption prior to maturity. Total bond proceeds were \$116,404,591, net of a bond discount of \$2,420,409 and GWA incurred closing costs of \$2,805,108. The bond discount has been deferred and amortized on a straight line basis over the average remaining life of the 2010 bonds. Proceeds of the 2010 series bonds are to be used for the purpose of funding capital improvements of water and wastewater systems, meeting certain requirements of the U.S. Environmental Protection Agency, to paying capitalized interest, to fund a deposit to the Bond Reserve Fund, and paying related issuance costs. All gross revenues, except System Development Charge (SDC) revenues, of GWA have been pledged to repay the 2010 series bonds principal and interest. The debt service for the 2010 series bonds was \$8,065,600 and \$8,064,200 for each of the years ended September 30, 2017 and 2016 or approximately 8%, respectively, of pledged gross revenues.

2013 Series Revenue Bonds

On December 12, 2013, GWA issued \$172,630,000 of Water and Wastewater System Revenue Bonds, Series 2013, to fund capital improvement projects in connection with the financing of its 5-year Capital Improvement Plan. A portion of the bond proceeds was used to fund certain bond reserves, pay for capitalized interest and costs in connection with the issue but, for the most part, the proceeds will be used to pay for capital projects. Total bond proceeds are \$171,097,017, net of a bond discount of \$1,532,983 and GWA incurred closing costs of \$2,961,409. The bond discount has been deferred and amortized on a straight line basis over the average remaining life of the 2013 bonds. The 2013 Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, revenues to secure the payment of principal and interest on the Bonds. Revenues consist primarily of all gross income and revenue received by GWA from the ownership or operation of the System, subject to the provisions of the Indenture and exclusive of certain surcharges. The debt service for the 2013 series bonds was \$9,331,688 and \$9,331,688 for the years ended September 30, 2017 and 2016 or approximately 9% and 10%, respectively, of pledged gross revenues.

2014 Series Refunding Bonds

On August 7, 2014, GWA issued \$85,600,000 of Water and Wastewater System Revenue Bonds, Series 2014, to refund all of GWA's outstanding Guam Waterworks Authority Water and Wastewater Revenue Bonds, Series 2005, and to pay costs of issuing the 2014 Bonds. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase U.S. Treasury Securities which are to be held by the escrow agent in an irrevocable trust to pay the redemption price of the 2005 bonds and interest thereon to become due on or prior to July 1, 2015 (redemption date). The advance refunding met the requirements of an in-substance defeasance and the 2005 bonds were removed from the accompanying financial statements. The advance refunding resulted in a loss on defeasance of \$2,468,670 representing the difference between the reacquisition price and the carrying amount of the 2005 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GWA in effect reduced its aggregate debt service payments by almost \$13,873,732 over the next twenty years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$8,352,503. The unamortized balance of the deferred loss on refunding of the 2005 Series bonds as of September 30, 2017 and 2016 totals \$1,695,980 and \$1,878,602, respectively.

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(6) Long-Term Debt, Continued

2014 Series Refunding Bonds, Continued

The Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, revenues to secure the payment of principal and interest on the Bonds. Revenues consist primarily of all gross income and revenue received by GWA from the ownership or operation of the System, subject to the provisions of the Indenture and exclusive of certain surcharges. Total bond proceeds were \$92,533,037, including net bond premium of \$5,648,970 and funds from deposit in 2005 Bond Fund and Bond Reserve Fund of \$1,284,068. GWA incurred closing costs of \$1,536,177. The net bond premium has been deferred and is being amortized on a straight line basis over the average remaining life of the 2014 bonds. The debt service for the 2014 series bonds was \$7,165,014 and \$7,162,430 for the years ended September 30, 2017 and 2016 or approximately 7%, respectively, of pledged gross revenues.

2016 Series Revenue Bonds

On February 9, 2016, GWA issued \$143,310,000 of Water and Wastewater System Revenue Bonds, Series 2016, to fund capital improvement projects in connection with the financing of its 5-year Capital Improvement Plan. A portion of the bond proceeds was used to fund certain bond reserves, pay for capitalized interest and costs in connection with the issue but, for the most part, the proceeds will be used to pay for capital projects. Total bond proceeds were \$161,534,842, including net bond premium of \$18,224,842. GWA incurred closing costs of \$2,467,854. The bond premium has been deferred and amortized on a straight line basis over the average remaining life of the 2016 bonds. The 2016 Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, revenues to secure the payment of principal and interest on the Bonds. Revenues consist primarily of all gross income and revenue received by GWA from the ownership or operation of the System, subject to the provisions of the Indenture and exclusive of certain surcharges. The debt service for the 2016 series bonds was \$7,165,500 and \$2,527,829 for the years ended September 30, 2017 and 2016 or approximately 7% and 2%, respectively, of pledged gross revenues.

Bank Loan

On June 15, 2010, GWA entered into a \$25 million bank loan for the purpose of funding a portion of the cost of a moratorium project. Pursuant to the loan, GWA pledged all revenues but subject first, to a consent decree, and second, to the prior pledge and lien and other provisions of the bond indenture agreements for the 2005 series revenue bonds refunded through 2014 series revenue bonds in 2014.

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, 2017 and 2016, bonds outstanding of \$81,065,000 and \$81,065,000, respectively, are considered defeased.

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(7) Change in Long-Term Liabilities

The following summarizes changes in GWA's long-term liabilities for the years ended September 30, 2017 and 2016:

	Outstanding October 1, 2016	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, 2017	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 116,180,000	\$ -	\$ (1,655,000)	\$ 114,525,000	\$ 1,725,000
2013 series A bonds	172,630,000	-	-	172,630,000	-
2014 series A and B bonds	79,380,000	-	(3,385,000)	75,995,000	3,475,000
2016 series A bonds	143,310,000	-	-	143,310,000	-
Note payable	11,452,191	-	(2,880,704)	8,571,487	3,037,569
Deferred amount:					
Unamortized discount on 2010 bonds issued	(1,948,205)	-	80,680	(1,867,525)	-
Unamortized discount on 2013 bonds issued	(1,389,850)	-	51,099	(1,338,751)	-
Unamortized premium on 2014 bonds issued	5,080,177	-	(269,744)	4,810,433	-
Unamortized discount on 2014 bonds issued	(8,870)	-	3,131	(5,739)	-
Unamortized premium on 2016 bonds issued	<u>17,870,470</u>	<u>-</u>	<u>(607,495)</u>	<u>17,262,975</u>	<u>-</u>
	<u>542,555,913</u>	<u>-</u>	<u>(8,663,033)</u>	<u>533,892,880</u>	<u>8,237,569</u>
Other:					
Employee annual leave	1,435,929	-	(84,880)	1,351,049	567,057
DCRS sick leave liability	1,641,497	87,794	-	1,729,291	-
Net pension liability	<u>50,873,587</u>	<u>-</u>	<u>(1,629,787)</u>	<u>49,243,800</u>	<u>-</u>
	<u>\$ 596,506,926</u>	<u>\$ 87,794</u>	<u>\$ (10,377,700)</u>	<u>\$ 586,217,020</u>	<u>\$ 8,804,626</u>
	Outstanding October 1, 2015	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, 2016	<u>Current</u>
Long-term debt:					
2010 series A bonds	\$ 117,770,000	\$ -	\$ (1,590,000)	\$ 116,180,000	\$ 1,655,000
2013 series A bonds	172,630,000	-	-	172,630,000	-
2014 series A and B bonds	82,700,000	-	(3,320,000)	79,380,000	3,385,000
2016 series A bonds	-	143,310,000	-	143,310,000	-
Note payable	14,197,776	-	(2,745,585)	11,452,191	2,873,988
Deferred amount:					
Unamortized discount on 2010 bonds issued	(2,028,886)	-	80,681	(1,948,205)	-
Unamortized discount on 2013 bonds issued	(1,440,950)	-	51,100	(1,389,850)	-
Unamortized premium on 2014 bonds issued	5,349,921	-	(269,744)	5,080,177	-
Unamortized discount on 2014 bonds issued	(12,000)	-	3,130	(8,870)	-
Unamortized premium on 2016 bonds issued	<u>-</u>	<u>17,870,470</u>	<u>-</u>	<u>17,870,470</u>	<u>-</u>
	<u>389,165,861</u>	<u>161,180,470</u>	<u>(7,790,418)</u>	<u>542,555,913</u>	<u>7,913,988</u>
Other:					
Employee annual leave	1,403,962	31,967	-	1,435,929	548,845
DCRS sick leave liability	1,540,507	100,990	-	1,641,497	-
Net pension liability	<u>44,880,812</u>	<u>5,956,775</u>	<u>-</u>	<u>50,837,587</u>	<u>-</u>
	<u>\$ 436,991,142</u>	<u>\$ 167,270,202</u>	<u>\$ (7,790,418)</u>	<u>\$ 596,506,926</u>	<u>\$ 8,462,833</u>

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(8) Employees' Retirement Plans

A. General Information About the Pension Plans:

Defined Benefit Plan

Plan Description: GWA participates in the GovGuam Defined Benefit (DB) Plan, a single-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). 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, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

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

Plan Membership: As of September 30, 2016, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,298
Terminated employees entitled to benefits but not yet receiving	4,463
Current members	<u>2,208</u>
	<u>13,969</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age.

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(8) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

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.

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2015 actuarial valuation was used for determining the year ended September 30, 2017 statutory contributions. Member contributions are required at 9.55% of base pay (9.54% in 2016).

As a result of actuarial valuations performed as of September 30, 2015, 2014, and 2013, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2017, 2016 and 2015, respectively, have been determined as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Normal costs (% of DB Plan payroll)	16.27%	15.86%	15.92%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.72%</u>	<u>6.32%</u>	<u>6.37%</u>
Employer portion of normal costs (% of total payroll)	1.87%	1.94%	2.05%
Unfunded liability cost (% of total payroll)	<u>21.60%</u>	<u>22.42%</u>	<u>24.09%</u>
Government contribution as a % of total payroll	<u>23.47%</u>	<u>24.36%</u>	<u>26.14%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.41%</u>	<u>28.16%</u>	<u>29.85%</u>
Employee	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>

GWA's contributions to the DB Plan for the years ended September 30, 2017, 2016 and 2015 were \$736,380, \$846,186 and \$1,096,069, respectively, which were equal to the required contributions for the respective years then ended.

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(8) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

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

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	14.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	6.70%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. 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 ad hoc cost-of-living adjustments (COLA) and supplemental annuity (SA) payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

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(8) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>5.70%</u>	Current Discount Rate <u>6.70%</u>	1% Increase in Discount Rate <u>7.70%</u>
Net Pension Liability	\$ <u>47,307,950</u>	\$ <u>38,799,923</u>	\$ <u>31,476,819</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

Plan Description: GWA participates in the GovGuam ad hoc COLA/supplemental annuity plan for DB retirees, a single-employer defined benefit pension plan administered by the GGRF. GWA considers this as a separate pension plan for DB retirees. A single actuarial calculation 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 this plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

Plan Membership: The plan membership is the same as the DB plan described above.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA and supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. Ad hoc COLAs are made through annual allocations to provide DB Plan retired members and spouse survivors with COLA payments of \$2,000 per year. In addition, DB Plan retired members and survivors whose benefits commenced prior to October 1, 1995, have received supplemental annuity payments in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. 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.

GWA's contributions to the Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees for the years ended September 30, 2017, 2016 and 2015 were \$919,780, \$929,892 and \$953,460, respectively, which were equal to the statutorily required contributions.

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(8) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	6.70%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. 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 ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>5.70%</u>	Current Discount Rate <u>6.70%</u>	1% Increase in Discount Rate <u>7.70%</u>
Net Pension Liability	\$ <u>9,556,790</u>	\$ <u>8,881,604</u>	\$ <u>8,283,917</u>

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(8) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA Plan for DCRS Retirees

Plan Description: GWA participates in the GovGuam ad hoc COLA plan for DCRS retirees, a single-employer defined benefit pension plan administered by the GGRF. GWA considers this as a separate pension plan for DCRS retirees. A single actuarial calculation 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 this plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

Plan Membership: As of September 30, 2016, the most recent measurement date, plan membership consisted of 8,858 active DCRS participants.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA benefits, contributions and funding policy are the same as those for DB retirees.

GWA's contributions to the Ad Hoc COLA Plan for DCRS Retirees for the years ended September 30, 2017, 2016 and 2015 were \$38,000, \$36,000 and \$30,000, respectively, which were equal to the statutorily required contributions.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	3.058%
Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to age 74, 100% at age 75.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

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(8) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA Plan for DCRS Retirees, Continued:

Discount Rate: The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>2.058%</u>	Current Discount Rate <u>3.058%</u>	1% Increase in Discount Rate <u>4.058%</u>
Net Pension Liability	\$ <u>1,784,560</u>	\$ <u>1,562,273</u>	\$ <u>1,373,128</u>

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

Pension Liability: At September 30, 2017 and 2016, GWA reported a net pension liability for its proportionate shares of the GovGuam net pension liabilities which comprised of the following:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 38,799,923	\$ 40,053,650
Ad hoc COLA/supplemental annuity plan for DB retirees	8,881,604	9,515,304
Ad hoc COLA plan for DCRS retirees	<u>1,562,273</u>	<u>1,304,633</u>
	<u>\$ 49,243,800</u>	<u>\$ 50,873,587</u>

GWA's proportion of the GovGuam net pension liabilities was based on projection of GPA's long-term share of contributions to the pension plans relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2017 and 2016, GPA's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	2.83%	2.79%
Ad hoc COLA/supplemental annuity plan for DB retirees	3.87%	4.04%
Ad hoc COLA plan for DCRS retirees	2.53%	2.50%

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(8) Employees' Retirement Plans, Continued

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

Pension Expense: For the years ended September 30, 2017 and 2016, GWA recognized pension expense from the above pension plans as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 4,003,497	\$ 4,778,450
Ad hoc COLA/supplemental annuity plan for DB retirees	459,553	909,001
Ad hoc COLA plan for DCRS retirees	<u>128,931</u>	<u>107,074</u>
	<u>\$ 4,591,981</u>	<u>\$ 5,794,525</u>

Deferred Outflows and Inflows of Resources: At September 30, 2017 and 2016, GWA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA 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	\$ -	\$ 127,820	\$ 695	\$ -	\$ 30,156	\$ 13,150
Net difference between projected and actual earnings on pension plan investments	-	202,942	-	-	-	-
Changes of assumptions	110,474	-	9,162	-	170,615	-
Contributions subsequent to the measurement date	3,500,170	-	919,780	-	38,000	-
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>150,906</u>	<u>-</u>	<u>-</u>	<u>89,596</u>	<u>13,819</u>	<u>131,005</u>
	<u>\$ 3,761,550</u>	<u>\$ 330,762</u>	<u>\$ 929,637</u>	<u>\$ 89,596</u>	<u>\$ 252,590</u>	<u>\$ 144,155</u>

	2016					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA 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	\$ 479,024	\$ -	\$ -	\$ 20,803	\$ -	\$ 13,853
Net difference between projected and actual earnings on pension plan investments	431,628	-	-	-	-	139,624
Changes of assumptions	538,086	-	48,357	-	59,204	-
Contributions subsequent to the measurement date	3,545,109	-	929,892	-	36,000	-
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>212,247</u>	<u>-</u>	<u>58,041</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,206,094</u>	<u>\$ -</u>	<u>\$ 1,036,290</u>	<u>\$ 20,803</u>	<u>\$ 95,204</u>	<u>\$ 153,477</u>

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(8) Employees' Retirement Plans, Continued

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

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2017 will be recognized in pension expense as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Defined</u> <u>Benefit Plan</u>	<u>Ad Hoc COLA/SA</u> <u>Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan</u> <u>for DCRS Retirees</u>
2018	\$ (315,494)	\$ (79,739)	\$ 4,127
2019	103,041	-	4,127
2020	361,254	-	4,127
2021	(218,184)	-	4,127
2022	-	-	4,127
Thereafter	_____ -	_____ -	_____ 49,800
	\$ <u>(69,382)</u>	\$ <u>(79,739)</u>	\$ <u>70,435</u>

Defined Contribution Plan

Contributions into the Defined Contribution Retirement System (DCRS) plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions for participants in the DCRS plan for the years ended September 30, 2017, 2016 and 2015 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the DB plan.

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.

GWA's contributions for participants in the DCRS Plan for the years ended September 30, 2017, 2016 and 2015 were \$3,376,521, \$3,271,914 and \$3,199,900, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,763,791, \$2,698,925 and \$2,667,022 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2017, 2016 and 2015, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GWA has accrued an estimated liability of \$1,729,291 and \$1,641,497 at September 30, 2017 and 2016, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

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(8) Employees' Retirement Plans, Continued

Other Post-Employment Benefits

Plan Description: GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, 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. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

Funding Policy: GovGuam contributes to the Plan a portion of the medical and dental premiums based on a schedule of semi-monthly rates provided through insurance companies, with GovGuam's contribution amount set each year at renewal. Retirees are also required to pay a portion of the medical and dental insurance premiums. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. Retirees and covered spouses are eligible for a \$10,000 life insurance benefit. Retirees do not share in the cost of this benefit. Monthly life insurance premium is \$15.52 per covered life.

For the years ended September 30, 2017, 2016 and 2015, GWA reimbursed GovGuam \$2,391,872, \$2,357,792 and \$2,244,249, respectively, for its share of the costs of the above mentioned Plan, which were equal to the statutorily required contributions.

GWA's net OPEB obligation at September 30, 2017, 2016, 2015 for the above mentioned Plan is as follows:

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ <u>36,450,784</u>	\$ <u>31,786,350</u>	\$ <u>27,236,000</u>

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP)

In September 2016, Public Law 33-186 was enacted to create two new retirement plans; the Defined Benefit 1.75 plan (DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP). Beginning 2018, the DB 1.75 plan and GRSP are to become the primary retirement systems for all new hires.

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 or the new GRSP 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.

The GRSP will be the primary retirement plan for new employees beginning January 1, 2018, unless the employee elects to participate in the DC Plan within 60 days of the employee's hire date. Certain existing and reemployed employees are also provided limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary.

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(8) Employees' Retirement Plans, Continued

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP), Continued

No actuarial valuation of the DB 1.75 Plan or the GRSP has been performed.

(9) Real Estate Property Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate property under GWA's administration. As of September 30, 2017 and 2016, the property has not been recognized in the financial statements pending completion of formal transfer proceedings.

(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 years ended September 30, 2017 and 2016 are \$7,309,125 and \$6,374,035, respectively.

(11) Commitments and Contingencies

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GWA did not calculate or pay any bonuses pursuant to the law from 1991 through 2012. As of September 30, 2017, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2016. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Claims

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

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$158,436,057 at September 30, 2017, of which \$39,036,541 will be funded by federal contracts from the U.S. Government.

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(11) Commitments and Contingencies, Continued

Program Management Office Services

On February 6, 2012, GWA entered into a contract for Program Management Office (PMO) services to provide a wide variety of as needed program management services and general staff assistance for the development of required utility infrastructure improvements. The PMO provides GWA with additional resources to address the deadlines defined in the November 10, 2011 court order and supports GWA staff in executing 2010 and 2013 Series Bond funded projects, military buildup, and other related tasks. The PMO contract is for a five-year period with an option to extend for two two-year periods. Contract commitments for the PMO services approximate \$17,800,713 as of September 30, 2017.

Operating Lease

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

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

Medicare

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

Court Order

In 2002, the U.S. 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 is seeking 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.

On June 5, 2003, a Court Order for Preliminary Relief was filed before the District Court of Guam. The Stipulation requires implementation of short-term projects and initial planning measures by GWA. GWA is 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.

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(11) Commitments and Contingencies, Continued

Court Order, Continued

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 scope of remaining projects and project completion dates; however, 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 establishing new projects that were not part of the amended Court Order. As of September 30, 2017, the financial impact of the order has not been fully known and has been estimated to cost approximately \$450 million to \$500 million, including financing costs.

Primary Treatment Permits

On November 29, 2011, the United States Environmental Protection Agency (USEPA) informed GWA that its primary treatment permits for the Hagatna and Northern District Wastewater Treatment Plants had been denied and that GWA would be required to upgrade the plants to secondary treatment. The upgrades have been estimated to cost approximately \$300 million. GWA intends to negotiate with the USEPA as to timelines for upgrading the plants, which will determine implementation schedule for secondary treatment.

(12) Contributions Received

Contributions received by GWA during the years ended September 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Grants from U.S. Government:		
Received from the U.S. EPA - Direct	\$ 20,004,462	\$ 4,152,783
Received from the U.S. EPA - Non-cash	510,017	1,058,262
Received from the U.S. DOD	1,276,579	-
Passed through from the Government of Guam	<u>19,972</u>	<u>277,817</u>
	<u>\$ 21,811,030</u>	<u>\$ 5,488,862</u>

(13) Supplemental/COLA Annuities

As required by enabling legislation, GWA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. During the years ended September 30, 2017 and 2016, GWA levied surcharges of 3.7% and 3.25%, respectively, amounting to \$3,207,226 and \$2,898,325, respectively, in accordance with this legislation. The supplemental benefits are derived from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

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(14) System Development Charge (SDC)

On January 29, 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, 2017 and 2016, SDC revenues were \$871,946 and \$1,428,332, respectively.

(15) Related Party Transactions

GWA receives electrical and administrative services from GPA, a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2017 and 2016 were \$12,076,262 and \$11,225,884, respectively, and GWA was also charged \$680,238 and \$981,961, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,213,478 and \$1,164,722 as of September 30, 2017 and 2016, respectively.

For the years ended September 30, 2017 and 2016, GWA billed GPA a total of \$982,681 and \$1,166,911, respectively, for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2017 and 2016 was \$334,140 and \$1,086,164, respectively, which is included in receivables in the accompanying statements of net position.

GWA receives waste disposal services from Guam Solid Waste Authority (GSWA). Waste disposal fees for the years ended September 30, 2017 and 2016 were \$1,685,842 and \$1,565,080, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$124,824 and \$134,837 as of September 2017 and 2016, respectively, and were included in trade accounts payable in the accompanying statements of net position.

During the year ended September 30, 2017, the Government of Guam transferred certain land to GWA in accordance with Public Law 33-174 for consideration of \$455,000.

(16) Subsequent Event

On December 13, 2017, GWA issued \$107,660,000 Series 2017 bonds to refund a portion of the outstanding Series 2010 bonds.

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

Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2017, 2016, 2011, and 2007 for the Guam Waterworks Authority's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 26,386,000	\$ 26,386,000	0.0%	\$ 11,071,238	238.3%
October 1, 2011	\$ -	\$ 38,357,000	\$ 38,357,000	0.0%	\$ 13,410,801	286.0%
October 1, 2015	\$ -	\$ 73,213,364	\$ 73,213,364	0.0%	\$ 14,150,906	517.4%
October 1, 2016*	\$ -	\$ 76,916,422	\$ 76,916,422	0.0%	\$ 14,335,525	536.5%

*Projected

The actuarial accrued liability presented above is only for GWA's active employees. It does not include the actuarial accrued liability for GWA's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

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

Defined Benefit Plan

	2017	2016	2015	2014
Total net pension liability	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
GWA's proportionate share of the net pension liability	\$ 38,799,923	\$ 40,053,650	\$ 34,047,740	\$ 38,536,384
GWA's proportion of the net pension liability	2.83%	2.79%	2.73%	2.96%
GWA's covered-employee payroll**	\$ 14,353,805	\$ 14,388,631	\$ 13,930,486	\$ 14,971,043
GWA's proportionate share of the net pension liability as percentage of its covered employee payroll	270.31%	278.37%	244.41%	257.41%
Plan fiduciary net position as a percentage of the total pension liability	54.62%	52.32%	56.60%	53.94%

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

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

See Accompanying Independent Auditors' Report.

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	2017	2016
Total net pension liability	\$ 229,486,687	\$ 235,799,709
GWA's proportionate share of the net pension liability	\$ 8,881,604	\$ 9,515,304
GWA's proportion of the net pension liability	3.87%	4.04%
GWA's covered-employee payroll**	\$ 19,595,708	\$ 20,635,339
GWA's proportionate share of the net pension liability as percentage of its covered employee payroll	45.32%	46.11%

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

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

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

See Accompanying Independent Auditors' Report.

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

Ad Hoc COLA Plan for DCRS Retirees

	2017	2016
Total net pension liability	\$ 61,688,067	\$ 52,115,736
GWA's proportionate share of the net pension liability	\$ 1,562,273	\$ 1,304,633
GWA's proportion of the net pension liability	2.53%	2.50%
GWA's covered-employee payroll**	\$ 9,245,521	\$ 8,909,268
GWA's proportionate share of the net pension liability as percentage of its covered employee payroll	16.90%	14.64%

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

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

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

See Accompanying Independent Auditors' Report.

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 3,524,561	\$ 3,759,121	\$ 3,684,774	\$ 3,687,568
Contribution in relation to the actuarially determined contribution	<u>3,527,186</u>	<u>3,749,595</u>	<u>3,663,653</u>	<u>3,605,575</u>
Contribution deficiency (excess)	<u>\$ (2,625)</u>	<u>\$ 9,526</u>	<u>\$ 21,121</u>	<u>\$ 81,993</u>
GWA's covered-employee payroll **	<u>\$ 14,353,805</u>	<u>\$ 14,388,631</u>	<u>\$ 13,930,486</u>	<u>\$ 14,971,043</u>
Contribution as a percentage of covered employee payroll	24.57%	26.06%	26.30%	24.08%

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

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

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule of Certain Operating and Maintenance Expenses
Years Ended September 30, 2017 and 2016

	2017	2016
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$ 13,461,180	\$ 12,829,124
Pension costs and other benefits	5,157,837	6,140,881
Overtime pay	1,078,900	886,208
Total salaries, wages and benefits	\$ 19,697,917	\$ 19,856,213
Administrative and general:		
Chemicals	\$ 2,088,013	\$ 2,239,147
Materials and supplies	1,545,542	1,244,535
Insurance	1,087,233	1,213,327
Miscellaneous	863,959	821,152
Transportation	644,933	574,510
Public Utility Commission	289,613	325,252
Training	276,654	149,481
Liability claims	265,812	127,412
Communications	130,605	123,178
Advertising	107,853	190,889
Total administrative and general	\$ 7,300,217	\$ 7,008,883
Contractual:		
Labor, materials and others	\$ 1,880,965	\$ 1,855,070
Accounting	922,812	1,037,609
Equipment rental	712,487	697,942
Property rental	438,678	399,343
Testing	127,518	122,810
Legal	4,969	4,348
Total contractual	\$ 4,087,429	\$ 4,117,122
Other expense:		
Interest expense	\$ 27,173,760	\$ 24,641,647
Retiree healthcare costs and other benefits	3,376,745	3,348,262
	\$ 30,550,505	\$ 27,989,909

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule of Construction Work in Progress
Year Ended September 30, 2017

Project Title	Type	Beginning Balance FY2016	Additions and Transfers	Closed out during FY2016	Ending Balance FY2017
Agat-Santa Rita Wastewater Treatment Plant Replacement	Wastewater	18,955,003	28,152,881	(17,301,170)	29,806,714
Asan Springs Rehabilitation	Water	322,962	18,087	-	341,049
Backflow Prevention and Cross-Connection Control Program	Wastewater	-	58,147	-	58,147
Baza Garden WW Cross Island Pumping and Conveyance	Wastewater	3,815,871	9,424,875	-	13,240,746
Baza Gardens WW Upgrade	Wastewater	728,424	-	(728,424)	-
Centrifuge Emergency Repair	Wastewater	78,274	9,015	(87,289)	-
Critical WWPS Repairs - High Water Alarms	Wastewater	2,001	1,640,835	(1,642,836)	-
Deepwell Chlorine Analyzer	Water	6,464,985	1,496,912	(7,853,641)	108,256
Deepwell New Wells Site Development and Rehabilitation	Water	3,336,516	6,931,289	(1,075,316)	9,192,489
Emergency Standby Generation System	Wastewater	18,552	350,172	(368,724)	-
Energy Efficiency Retrofit	Wastewater	2,523,324	315,127	(2,838,451)	-
Equipment Purchases	Water/Wastewater	2,914	574,530	(577,444)	-
Facilities Improvement	Water/Wastewater	358,466	216,003	(492,680)	81,789
Facility Plans for Hagatna and Northern District WWTP	Wastewater	534,221	456,084	-	990,305
Hydraulic Model for Sewer	Wastewater	380,615	1,427	(382,042)	-
I&I SSES for Central/Northern/Southern Sewer Systems	Wastewater	4,107,295	1,086,747	(1,788,712)	3,405,330
Information Technology	Water/Wastewater	112,783	894,934	(107,557)	900,160
Island Wide Real Property Survey & Mapping	Water/Wastewater	1,130,602	66,755	-	1,197,357
Island Wide Water Reservoirs	Water	12,770,971	10,083,200	(4,140,443)	18,713,728
Land Acquisitions	Water/Wastewater	-	867,460	(856,710)	10,750
Line Replacement - Phase IV	Wastewater	3,409,551	2,937,393	(1,468,960)	4,877,984
Macheche Sewer Line Replacement	Wastewater	2,155	1,713,875	-	1,716,030
Meter Replacement Program	Water	1,662,327	93,247	(816,283)	939,291
New Compliance Laboratory	Water/Wastewater	427,384	3,654,672	-	4,082,056
Northern District WWTP Service Area PS Improvements	Wastewater	2,155	1,366,131	(113,516)	1,254,770
Ordot-Chalan Pago Sewer	Wastewater	637,118	-	-	637,118
Pigua Generator Building	Water	-	62,664	-	62,664
Program Management Office	Water/Wastewater	6,432,557	2,933,488	(5,998,895)	3,367,150
Pump, Motors, Cables, Pipes, Mixers Replacements	Water/Wastewater	92,961	1,366,843	(1,443,352)	16,452
Route 1 Sanitary Sewer Rehabilitation and Replacement (Asan-Adelup-Hagatna)	Wastewater	1,037,794	1,838,411	-	2,876,205
Route 2 Agat War in the Pacific National Park Sewerline Rehab & Replacement	Wastewater	120,302	406,587	-	526,889
Route 3 16" Pressure Regulating Valve and Isolation Valves	Water	141,082	-	-	141,082
Route 4 Relief Sewer Line Rehabilitation Replacement	Wastewater	90,476	503,216	-	593,692
SCADA System for Water and Wastewater	Water/Wastewater	1,931,098	274,994	(185,213)	2,020,879
Sewer Pump Station Improvements	Wastewater	403,938	770,913	(568,782)	606,069
System Wide District Meters	Water	2,873,678	17,016	(2,617,336)	273,358
Tamuning Hot Spots Sewer Line Rehabilitation and Replacement	Wastewater	1,077	516,826	-	517,903
Tiyan Water Audit	Water	48,058	-	-	48,058
Tumon Hot Spots Sewer Line Rehabilitation	Wastewater	55,513	365,137	-	420,650
Ugum WTP Improvements	Water	901,838	614,950	(1,510,676)	6,112
Umatac-Merizo Wastewater Systems	Wastewater	2,489,657	1,841,260	(1,433,021)	2,897,896
USWTP Equipment Purchase to Provide Redundancy	Water	32,471	-	-	32,471
Vacuum Regulators	Water	-	57,069	(57,069)	-
Water and Wastewater Infrastructure Improvements	Water/Wastewater	-	1,171,871	-	1,171,871
Water BPS Improvements	Water	574,495	479,686	(973,679)	80,502
Water Chlorination System	Water	355,898	18,574	-	374,472
Water Distribution Systems	Water	570,820	61,087	(464,902)	167,005
Water Hydraulic Modeling Data Collection Barrigada Service Area	Water	1,001	485,030	-	486,031
Water Resources Master Plan	Water	578,771	1,910,370	-	2,489,141
Water System Hydraulic	Water	675,945	6,359	-	682,304
Water System Hydro Analysis	Water	683,662	-	(683,662)	-
Wet Barrel Fire Hydrants Replacement Project	Water	-	700,271	(417,309)	282,962
		<u>\$ 81,877,561</u>	<u>\$ 88,812,420</u>	<u>\$ (58,994,094)</u>	<u>\$ 111,695,887</u>

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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System Development Charge Fund
Schedule of Net Position, Revenue, Expenses and Changes in Net Position
September 30, 2017 and 2016

ASSETS

	2017	2016
Current assets:		
Restricted cash	\$ 9,986,016	\$ 9,064,792
Receivables	127,286	186,025
	\$ 10,113,302	\$ 9,250,817

LIABILITIES AND NET POSITION

Current liabilities:		
Due to GWA	\$ 39,092	\$ 61,270
Net position:		
Restricted	10,074,210	9,189,547
	\$ 10,113,302	\$ 9,250,817

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues:		
System development charge	\$ 871,946	\$ 1,428,332
Other revenues	12,717	22,746
	884,663	1,451,078
Expenses:		
Miscellaneous	-	60,884
Change in net position	884,663	1,390,194
Net position at beginning of year	9,189,547	7,799,353
Net position at end of year	\$ 10,074,210	\$ 9,189,547

See Accompanying Independent Auditors' Report.

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

Schedule of Operating Revenues
Years Ended September 30, 2017 and 2016

	2017	2016
Water	\$ 63,976,842	\$ 64,339,714
Wastewater	37,194,332	37,228,780
Surcharges:		
Legislative	3,207,226	2,898,325
System development charge	871,946	1,428,332
Other	435,514	519,898
Bad debts expense	(1,316,397)	(1,034,310)
Total operating revenues	\$ 104,369,463	\$ 105,380,739

See Accompanying Independent Auditors' Report.

GUAM WATERWORKS AUTHORITY
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Schedule of Employee and Other Data
Years Ended September 30, 2017 and 2016

2017					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration	50	\$ 4,336,973	\$ 1,248,243	\$ 84,364	\$ 5,669,580
Accounting	27	1,810,878	725,189	25,347	2,561,414
Engineering	30	1,115,812	4,290	-	1,120,102
Collection and Distribution	62	3,347,242	771,017	708,638	4,826,897
Utility Services	55	2,498,284	6,456	44,250	2,548,990
Production and Treatment	106	6,588,728	1,332,234	682,947	8,603,909
Total	330	\$ 19,697,917	\$ 4,087,429	\$ 1,545,546	\$ 25,330,892

2016					
Department	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration	52	\$ 4,223,121	\$ 1,252,038	\$ 88,263	\$ 5,563,422
Accounting	27	1,774,584	686,519	17,877	2,478,980
Engineering	29	1,023,164	48,056	7,627	1,078,847
Collection and Distribution	66	3,165,956	765,228	698,445	4,629,629
Utility Services	54	3,109,273	55,232	26,087	3,190,592
Production and Treatment	105	6,560,115	1,310,049	406,236	8,276,400
Total	333	\$ 19,856,213	\$ 4,117,122	\$ 1,244,535	\$ 25,217,870

See Accompanying Independent Auditors' Report.