

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

Guam Waterworks Authority

(A Component Unit of the Government of Guam)

*Years ended September 30, 2025 and 2024
with Report of Independent Auditors*



**Shape the future
with confidence**

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

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

Years ended September 30, 2025 and 2024

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Report of Independent Auditors

Commissioners
Consolidated Commission on Utilities

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Guam Waterworks Authority (the Authority), a component unit of the Government of Guam, as of and for the years ended September 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents (collectively referred to as the "basic financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority at September 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Authority adopted a new accounting standard which is GASB 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2026 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

June 3, 2026

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

Management’s Discussion and Analysis

Years ended September 30, 2025 and 2024

This Management’s Discussion and Analysis (MD&A) provides an overview and analysis of the financial activities of the Guam Waterworks Authority (“GWA” or the “Authority”) for the fiscal year ended September 30, 2025, with comparative information for fiscal year 2024. This discussion should be read in conjunction with the Authority’s basic financial statements and the accompanying notes.

If you have any questions about this report or require further information, contact Guam Waterworks Authority at finance@guamwaterworks.org.

Introduction

GWA provides water and wastewater services to the majority of Guam’s civilian population and some military facilities, serving more than 43,650 water customers and 31,200 wastewater customers at the end of FY2025, with a staff of 381 full-time equivalent employees.

In 2002, pursuant to Public Law 26-76, the Authority was converted from a government agency to a Guam public corporation governed by the Consolidated Commission on Utilities (CCU) – an elected, non-partisan five-member body that holds policy and decision-making authority over GWA operations, including approval of budgets, management strategy, and the hiring of the General Manager, Legal Counsel, and Chief Financial Officer.

The CCU also oversees the Guam Power Authority (GPA); GWA’s main offices are co-located with GPA at the Gloria B. Nelson Public Service Building in Fadian, Mangilao, with satellite offices in Hagåtña and Upper Tumon.

GWA’s water system draws on groundwater (approximately 90% of supply), surface water, and springs through a network of 120 wells – 95 of which were operational as of September 30, 2025 – along with transmission and distribution pipelines, booster pump stations, pressure regulating valve stations, reservoirs, tanks, and fire hydrants. The wastewater system is divided into seven basins served by six treatment plants and an extensive collection system of gravity sewer pipes, pump stations, force mains, and related infrastructure. The condition and performance of these assets were last comprehensively reviewed in the 2018 Water Resources Master Plan Update, which was subsequently updated in FY2025. GWA continues to modernize its operations through ongoing deployment of mobile workforce tools, District Metered Areas and proactive leak detection under its Water Loss Control Program, Advanced Metering Infrastructure pilot testing, and procurement process improvements – all contributing to improved efficiency and setting the foundation for stronger operating results in the near term.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Overview of the Financial Statements

GWA's basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting and consist of the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These statements present the Authority's overall financial position, results of operations, and cash flows as a single business-type activity.

The Statements of Net Position report all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual reported as net position. Net position is classified into three components: net investment in capital assets; restricted net position; and unrestricted net position. The Statements of Revenues, Expenses, and Changes in Net Position present operating and nonoperating activities for the fiscal year, while the Statements of Cash Flows provide information about the Authority's cash receipts and disbursements and its ability to meet financial obligations.

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 26 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 72 of this report.

Financial Highlights

GWA's financial position during FY2025 was shaped by continued execution of its financial plan, implementation of approved rate adjustments, and ongoing capital and regulatory obligations.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

As shown in Table 1, as of September 30, 2025, the Authority's total assets and deferred outflows increased by \$285.9 million (23.5%) compared to the prior year. New debt issued in 2025 contributed to most of this as restricted cash balances increased. Completed and ongoing capital improvement projects continued to grow in FY2025. Current and other liabilities decreased approximately \$22.1 million (11.1%) primarily due to reductions in net pension and OPEB liabilities resulting from updated actuarial valuations and related adjustments. The decrease was partially offset by increases in accrued interest, accrued payroll and employee benefits, and contractor payables.

Total net position increased by \$20.1 million (5.9%) to \$358.2 million driven primarily by improved operating income and higher capital contributions, partially offset by interest expense on outstanding debt.

Table 1
Summary Statement of Net Position

	September 30, 2025	(Restated) September 30, 2024	2025 to 2024 Comparison		September 30, 2023
			Increase/ (Decrease)	% Change	
Current and other assets	\$ 594,771,768	\$ 333,682,275	\$261,089,493	78.2%	\$ 325,180,362
Capital assets, net	<u>852,213,105</u>	<u>811,400,744</u>	<u>40,812,361</u>	5.0%	<u>812,902,989</u>
Total assets	1,446,984,873	1,145,083,019	301,901,854	26.4%	1,138,083,351
Deferred outflows of resources	<u>53,252,495</u>	<u>69,291,823</u>	<u>(16,039,328)</u>	-23.1%	<u>77,227,192</u>
Total assets and deferred outflows of resources	<u>\$1,500,237,368</u>	<u>\$1,214,374,842</u>	<u>\$285,862,526</u>	23.5%	<u>\$1,215,310,543</u>
Current and other liabilities	\$ 177,263,490	\$ 199,390,279	\$ (22,126,789)	-11.1%	\$ 182,998,550
Long-term debt	<u>891,289,641</u>	<u>631,351,050</u>	<u>259,938,591</u>	41.2%	<u>650,847,410</u>
Total liabilities	1,068,553,131	830,741,329	237,811,802	28.6%	833,845,960
Deferred inflows of resources	<u>73,525,278</u>	<u>45,550,274</u>	<u>27,975,004</u>	61.4%	<u>46,950,249</u>
Total liabilities and deferred inflows of resources	<u>1,142,078,409</u>	<u>876,291,603</u>	<u>265,786,806</u>	30.3%	<u>880,796,209</u>
Net Position:					
Net investment in capital assets	307,355,311	320,670,696	(13,315,385)	-4.2%	330,849,577
Restricted	143,255,843	119,899,165	23,356,678	19.5%	102,947,398
Unrestricted	<u>(92,452,195)</u>	<u>(102,486,622)</u>	<u>10,034,427</u>	-9.8%	<u>(99,282,641)</u>
Total net position	<u>358,158,959</u>	<u>338,083,239</u>	<u>20,075,720</u>	5.9%	<u>334,514,334</u>
Total liabilities, deferred inflows and net position	<u>\$1,500,237,368</u>	<u>\$1,214,374,842</u>	<u>\$285,862,526</u>	23.5%	<u>\$1,215,310,543</u>

Operating income increased significantly due to higher revenues and modest reductions in operating expenses. Increases in capital contributions further strengthened the Authority's financial position and supported ongoing investment in critical infrastructure.

Net position continues to be predominantly invested in capital assets, net of related debt, with restricted balances supporting debt service and capital-related purposes. Unrestricted net position remains constrained due to the capital-intensive nature of utility operations, ongoing regulatory requirements, and long-term financing obligations.

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Management's Discussion and Analysis, continued

During FY2025, the Authority implemented provisions of GASB Statement No. 101, which required recognition and measurement changes related to compensated absences liabilities. As a result, beginning net position for FY2024 was restated to reflect the cumulative effect of the new accounting standard, including the impact attributable to prior periods dating back to FY2023.

Analysis of Financial Position and Results of Operations

A summary of the Authority's results of operations is presented in Table 2, which reflects a significant improvement over the prior year.

Operating revenues increased by \$5.9 million (4.5%), reflecting the combined impact of rate adjustments and changes in customer demand and flow. The Authority implemented a PUC-approved 11.5% increase in water and wastewater rates across all rate classes, effective October 1, 2024, as part of its FY2025–FY2029 Five-Year Financial Plan. Additional discussion of revenue performance is provided in the sections that follow.

Operating expenses decreased by approximately \$500 thousand (0.4%), contributing to an increase in net operating income of \$6.4 million (33.8%). A \$1.8 million increase in net pension expense was substantially offset by a negative \$1.8 million OPEB adjustment recorded at year-end.

Non-operating activities resulted in a net expense of \$21.3 million, largely attributable to interest expense on outstanding debt. During FY2025, the Authority also recorded a \$3.2 million write-off of regulatory assets, as approved by the PUC, related to amounts accumulated in prior years. This item is not expected to recur and is disclosed here as it is material to an understanding of the Authority's results of operations for the year.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Table 2
Results of Operations/Statement of Revenues, Expenses and Changes in Net Position

	September 30, <u>2025</u>	(Restated) September 30, <u>2024</u>	2025 to 2024 Comparison Increase/ (Decrease)	% Change	September 30, <u>2023</u>
Revenues:					
Water	\$ 91,422,943	\$ 81,925,551	\$ 9,497,392	11.6%	\$ 68,775,882
Wastewater	53,562,483	45,870,259	7,692,224	16.8%	37,478,561
System development charges	1,563,818	1,698,842	(135,024)	-7.9%	1,359,167
Other	709,295	591,327	117,968	19.9%	567,167
Bad debts	(2,004,924)	(229,334)	(1,775,590)	774.2%	(421,467)
Regulatory deferral	(9,500,000)	---	(9,500,000)	---	---
Total operating revenue	<u>135,753,615</u>	<u>129,856,645</u>	<u>5,896,970</u>	4.5%	<u>107,759,310</u>
Expenses:					
Power purchases	19,917,470	21,892,448	(1,974,978)	-9.0%	24,397,961
Water purchases	7,421,447	8,662,002	(1,240,555)	-14.3%	7,038,954
Sludge (waste) disposal fees	1,336,335	1,099,837	236,498	21.5%	676,362
Salaries, wages and benefits	28,914,078	27,106,931	1,807,147	6.7%	24,470,756
Depreciation	29,427,589	30,172,311	(744,722)	-2.5%	30,911,997
Administrative and general	10,754,027	8,213,661	2,540,366	30.9%	8,346,930
Contractual	5,989,602	5,237,504	752,098	14.4%	5,421,883
Retiree healthcare costs and other benefits	<u>6,830,313</u>	<u>8,661,999</u>	<u>(1,831,686)</u>	-21.1%	<u>4,621,864</u>
Total operating expenses	<u>110,590,861</u>	<u>111,046,693</u>	<u>(455,832)</u>	-0.4%	<u>105,886,707</u>
Net operating income	25,162,754	18,809,952	6,352,802	33.8%	1,872,603
Non-operating revenue	9,513,791	9,965,400	(451,609)	-4.5%	25,605,563
Less: Interest expense	(30,774,173)	(26,805,659)	(3,968,514)	14.8%	(28,678,533)
Total non-operating revenues (expenses), net	(21,260,382)	(16,840,259)	(4,420,123)	26.2%	(3,072,970)
Income (loss) before capital contributions	3,902,372	1,969,693	1,932,679	98.1%	(1,200,367)
Capital contributions	<u>16,173,348</u>	<u>2,999,184</u>	<u>13,174,164</u>	439.3%	<u>13,485,967</u>
Change in net position	20,075,720	4,968,877	15,106,843	304.0%	12,285,600
Net position - beginning year	338,083,239	334,514,334	3,568,905	1.1%	322,228,734
Restatement of beginning net position	---	(1,399,972)	<u>1,399,972</u>	---	---
Net position - end of year	<u>\$358,158,959</u>	<u>\$338,083,239</u>	<u>\$20,075,720</u>	5.9%	<u>\$334,514,334</u>

Water Revenue Performance

Water revenues increased by \$9.5 million (11.6%), shown in Table 2 and detailed by customer rate class in Tables 3 and 4, primarily due to the rate adjustments described above, despite a slight decline in total demand of approximately 0.4%.

Growth was strongest in the residential, hotel, commercial and federal sectors. Federal demand increased notably during the year, reflecting expanded operations and occupancy associated with the continued development of Marine Corps Base Camp Blaz. Hotel demand increased by approximately 8.0%, while residential and commercial demand declined slightly. These increases were partially offset by reduced demand in the government sector.

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Management's Discussion and Analysis, continued

Table 3
Annual Water Revenues (Excluding System Development Charges)

<u>Class Type</u>	<u>FY25</u>	<u>FY24</u>	<u>2025 to 2024 Comparison</u>		<u>FY23</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
Agricultural	\$ 512,638	\$ 501,463	\$ 11,175	2.2%	\$ 368,471
Golf Course	147,252	18,620	128,632	690.8%	116,491
Commercial	19,380,075	17,467,530	1,912,545	10.9%	14,461,167
Federal	754,739	33,854	720,885	2129.4%	25,097
Government	9,165,542	9,053,937	111,605	1.2%	7,514,091
Hotel	14,588,487	12,143,153	2,445,334	20.1%	9,046,164
Irrigation	41,032	38,727	2,305	6.0%	34,965
Residential	<u>46,833,178</u>	<u>42,668,267</u>	<u>4,164,911</u>	9.8%	<u>37,209,436</u>
Total	<u>\$91,422,943</u>	<u>\$81,925,551</u>	<u>\$9,497,392</u>	11.6%	<u>\$68,775,882</u>

Table 4
Water Demand by Rate Class
(in '000 gallons)

<u>Class Type</u>	<u>FY25</u>	<u>FY24</u>	<u>2025 to 2024 Comparison</u>		<u>FY23</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
Agricultural	57,761	59,551	(1,790)	-3.0%	49,748
Golf Course	6,449	158	6,291	3,981.6%	6,415
Commercial	834,395	840,261	(5,866)	-0.7%	816,393
Federal	35,624	1,317	34,307	2604.9%	1,099
Government	411,346	462,968	(51,622)	-11.2%	445,116
Hotel	686,269	635,654	50,615	8.0%	554,767
Irrigation	3,397	3,460	(63)	-1.8%	3,242
Residential	<u>3,064,638</u>	<u>3,115,717</u>	<u>(51,079)</u>	-1.6%	<u>3,185,230</u>
Total	<u>5,099,879</u>	<u>5,119,086</u>	<u>(19,207)</u>	-0.4%	<u>5,062,010</u>

Wastewater Revenue Performance

Wastewater revenues increased by \$7.7 million (16.8%), supported by rate adjustments and a 3.9% increase in total wastewater flows, as shown in Tables 5 and 6.

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Management's Discussion and Analysis, continued

Growth was driven primarily by increased activity in the federal and hotel sectors. Federal volumes increased significantly, consistent with the operational expansion noted above, as well as in other areas serviced, while hotel volumes increased by approximately 7.0%. Commercial and residential revenues also increased modestly, while government volumes declined slightly.

Wastewater revenues for non-residential customers are directly tied to water consumption, while residential customers are billed at a flat rate. Among the approximately 44 thousand residential customers with water services, only about 71%, or 31 thousand, have wastewater services.

Table 5
Annual Wastewater Revenues (Excluding System Development Charges)

<u>Class Type</u>	<u>FY25</u>	<u>FY24</u>	<u>2025 to 2024 Comparison</u>		<u>FY23</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
Commercial	\$10,314,493	\$ 9,280,158	\$1,034,335	11.1%	\$ 8,538,306
Federal	12,613,431	9,093,663	3,519,768	38.7%	7,094,928
Government	5,426,399	5,583,721	(157,322)	-2.8%	4,356,099
Hotel	12,813,667	10,835,621	1,978,046	18.3%	8,100,157
Residential	<u>12,394,493</u>	<u>11,077,096</u>	<u>1,317,397</u>	11.9%	<u>9,389,071</u>
Total	<u>\$53,562,483</u>	<u>\$45,870,259</u>	<u>\$7,692,224</u>	16.8%	<u>\$37,478,561</u>

Table 6
Wastewater Demand by Rate Class
(in '000 gallons)

<u>Class Type</u>	<u>FY25</u>	<u>FY24</u>	<u>2025 to 2024 Comparison</u>		<u>FY23</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
Commercial	551,272	548,241	3,031	0.6%	570,488
Federal	760,742	607,799	152,943	25.2%	558,530
Government	338,329	375,420	(37,091)	-9.9%	341,718
Hotel	454,959	425,057	29,902	7.0%	376,947
Residential	<u>1,847,407</u>	<u>1,849,134</u>	<u>(1,727)</u>	-0.1%	<u>1,906,036</u>
Total	<u>3,952,709</u>	<u>3,805,651</u>	<u>147,058</u>	3.9%	<u>3,753,719</u>

Revenue Offsets and Rate Stabilization

As a result of increases in operating revenues, the Authority deferred \$9.5 million of current year revenues to the Rate Stabilization Fund (RSF) as part of its ongoing rate management strategy. This deferral reduced reported operating revenues for the year and is intended to support future rate stabilization, ensuring the Authority can manage fluctuations in revenues and maintain affordable rates for customers over time. Additional offsets include an increase in bad debt expense of \$1.8 million, primarily due to an increase in aged receivables subject to full allowance, along with lower collection rates and the reduction of disaster-related subsidies compared to the prior year.

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Management's Discussion and Analysis, continued

Operating Expenses and Performance

Operating expenses decreased by \$500 thousand (0.4%) compared to the prior year. The decrease was primarily driven by lower purchased power and water costs.

During FY2025 the Guam Power Authority (GPA) implemented reductions to its Levelized Energy Adjustment Clause (LEAC), the component of the power bill tied to fuel costs. These reductions resulted in approximately \$2.0 million in purchased power savings, despite a slight 1% increase in overall power consumption. Purchased water costs also declined, reflecting a 7% drop in consumption along with rate decreases of 6% in the first half of the fiscal year and an additional 23% in the second half.

These savings were partially offset by increases in personnel and administrative costs. Salaries increased due to the implementation of salary adjustments and increased staffing levels, while employee benefits rose as a result of higher retirement contribution rates and medical and dental costs.

Management continued to prioritize system reliability, regulatory compliance and workforce stability while managing overall expense growth.

Non-Operating Activities

Non-operating activities resulted in a net expense of \$21.3 million primarily attributable to interest expense on outstanding debt. The Authority recognized approximately \$1.0 million in FEMA funding related to prior-year disaster response activities; receipt of funds is pending as of year-end. The Authority also recognized \$3.4 million in proceeds from a PFAS litigation settlement during FY2025. Additional settlement proceeds are expected to be received over multiple future periods and will continue to be reported as non-operating revenue. And as noted above, the Authority recognized a \$3.2 million write-off related to regulatory assets accumulated in prior years.

Capital Contributions and Change in Net Position

Income before capital contributions increased by \$1.9 million (98.1%), reflecting improved operating performance. Capital contributions totaling \$16.2 million, 78% of which are derived from U.S. EPA grants, further enhanced the Authority's financial position and were significantly higher than the prior year. As a result, the Authority reported an increase in net position of \$20.1 million, compared to \$5.0 million in FY2024.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Significant Capital Asset and Long-Term Financing Activity

Capital Asset Activity

GWA owns and operates extensive water and wastewater infrastructure, including wells, treatment plants, reservoirs, transmission and distribution pipelines, and wastewater collection systems. Table 7 reflects that the carrying value of the Authority's capital assets—original cost minus accumulated depreciation—decreased 0.6% over FY2024; however, this change does not completely capture the substantial amount of capital investment activity that occurred in FY2025.

Table 7
Capital Assets, Net of Accumulated Depreciation

	September 30, <u>2025</u>	September 30, <u>2024</u>	<u>2025 to 2024 Comparison</u>		September 30, <u>2023</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
Capital assets, net	\$726,212,556	\$730,296,860	\$(4,084,304)	-0.6%	\$733,466,467
Land	5,811,163	5,741,163	70,000	1.2%	5,287,305
Construction in progress	<u>120,189,386</u>	<u>75,362,721</u>	<u>44,826,665</u>	59.5%	<u>74,149,217</u>
Total	<u>\$852,213,105</u>	<u>\$811,400,744</u>	<u>\$ 40,812,361</u>	5.0%	<u>\$812,902,989</u>

During FY2025, capital asset activity focused on projects identified in the Authority's Capital Improvement Program, including water loss control initiatives, wastewater collection system improvements, reservoir rehabilitation, and other regulatory compliance-driven projects. Capital additions totaled approximately \$26.0 million, as reflected in Table 8.

Construction work in progress increased by approximately \$44.8 million or 59.5% as projects advanced through planning, procurement, and construction phases. Balances at the start of FY2025 were \$75.4 million. Approximately \$72.8 million in construction activity progressed throughout the fiscal year, about \$25.6 million were transferred to capital assets as projects were substantially completed and roughly \$2.5 million were adjusted or reclassified. A detailed schedule of Construction Work in Progress is available on Page 73 of the financial statements showing the movement by major project.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Table 8
FY2025 Capital Asset Additions

<u>Wastewater</u>	
Collection systems	\$ 2,091,218
Equipment	749,927
	2,841,145
<u>Water</u>	
Treatment plants	9,401,394
Reservoirs	5,734,411
Distribution systems	3,910,021
Deepwells	946,878
Equipment	290,296
Booster pump stations	32,670
Meters	49,391
Fire hydrants	3,234
	20,368,295
<u>General</u>	
Vehicles and heavy equipment	1,514,859
Equipment	757,289
General plant improvements	561,439
	2,833,587
Total	\$ 26,043,027

Long-Term Financing Activity

Total bonds outstanding, as reflected in Table 9, increased significantly during FY2025, primarily due to the issuance of Water and Wastewater System Revenue Bonds, Series 2025A. The Series 2025A bonds were issued to support the Authority's capital improvement program and address critical regulatory and infrastructure needs, including partial consent decree wastewater projects, PFAS and emerging contaminant initiatives and system-wide infrastructure upgrades identified in the Authority's Capital Improvement Program.

The issuance resulted in an increase in long-term debt of approximately \$266.5 million. Debt service will be funded through system revenues, consistent with the Authority's revenue bond structure. Management continues to evaluate opportunities to optimize debt service costs and align financing structures with the timing of capital expenditures.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Debt service coverage for FY2025 was 1.51, compared to 1.53 in FY2024. The slight decrease reflects the impact of increased debt service requirements associated with the issuance of the Series 2025A Revenue Bonds, partially offset by improved operating performance during the year. The Authority continues to maintain debt service coverage above minimum bond covenant requirements and remains focused on preserving financial flexibility while supporting its capital investment program.

Table 9
Long-Term Debt

	September 30, <u>2025</u>	September 30, <u>2024</u>	<u>2025 to 2024 Comparison</u>		September 30, <u>2023</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>	
2013 Bond Series	\$ ---	\$ ---	\$ ---	---	\$ 18,365,000
2014 Refunding Bond Series	---	---	---	---	60,050,000
2016 Bond Series	80,965,000	81,890,000	(925,000)	-1.1%	134,140,000
2017 Refunding Bond Series	55,175,000	57,660,000	(2,485,000)	-4.3%	100,930,000
2020A Bond Series	134,000,000	134,000,000	---	---	134,000,000
2020B Refunding Bond Series	125,835,000	125,835,000	---	---	166,075,000
2024A Refunding Bond Series	130,615,000	133,575,000	(2,960,000)	-2.2%	---
2024B Refunding Bond Series	47,200,000	51,275,000	(4,075,000)	-7.9%	---
2025A Bond Series	<u>266,535,000</u>	<u>---</u>	<u>266,535,000</u>	---	<u>---</u>
Total	<u>\$840,325,000</u>	<u>\$584,235,000</u>	<u>\$256,090,000</u>	43.8%	<u>\$613,560,000</u>

Currently Known Facts, Decisions, or Conditions

As of the date the financial statements are issued, several currently known facts, decisions, and conditions are expected to affect the Guam Waterworks Authority's future financial position and results of operations.

Court-Ordered Compliance Requirements

The Authority is subject to a federal court order requiring specific improvements to its water and wastewater infrastructure. Compliance with the court order necessitates continued capital investment and operational focus through FY2027.

During FY2025, the Authority filed a request for an extension of certain court-ordered deadlines. On January 6, 2026, the court granted an extension of the applicable deadline to December 31, 2026. While the extension provides additional time to complete required improvements, the underlying compliance obligations remain in effect and will continue to influence capital planning, project sequencing, and future cash flow requirements.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Partial Consent Decree

In August 2024, the U.S. District Court for the District of Guam entered a Partial Consent Decree (Partial CD) between the United States and the Authority, which became effective August 9, 2024. The Partial CD is separate from and in addition to the 2011 Court Order and is focused on GWA's wastewater collection and conveyance system under the federal Clean Water Act, with the primary objective of reducing and preventing sewer system overflows.

The Partial CD requires the Authority to complete a series of assessments, planning measures, operational program enhancements, and capital improvements over a 10-year compliance period ending in 2034. Required improvements include rehabilitation and upgrade of gravity sewer mains, pump stations, and force mains, along with implementation of enhanced cleaning, CCTV inspection, sewer system overflow response, pre-treatment, and asset management programs. Additionally, the Partial CD requires completion of a feasibility study for upgrading or replacing the Hagåtña Wastewater Treatment Plant to secondary treatment within seven years of the effective date.

Compliance with the Partial CD represents a significant driver of the Authority's capital investment requirements. Partial CD-related projects constitute approximately 30% of the Authority's FY2025–FY2029 Five-Year Capital Improvement Program, which totals \$899 million. Funding for these projects is anticipated to be provided through a combination of revenue bond proceeds, State Revolving Fund allocations, and other federal grants. Failure to meet established milestones could result in stipulated penalties under the Partial CD. As of the date of issuance of these financial statements, the Authority is on track to meet all deadlines due under the Partial CD. Additional information regarding the Partial CD is disclosed in the notes to the financial statements.

Regulatory Guidance and Dieldrin Response

In July 2025, the Guam Environmental Protection Agency (GEPA) issued guidance establishing acceptable concentrations of dieldrin in drinking water, effective August 1, 2025. In response to this guidance, the Authority removed two wells from service. A third well remained in operation, and precautionary public notices were issued to customers receiving water from that well. Temporary granular activated carbon (GAC) filtration systems were installed to address the identified concentrations, and permanent GAC treatment systems are expected to be installed during the first half of 2026. These actions have resulted in additional operational and capital expenditures and may continue to affect future costs and the timing of capital projects.

In January 2026, claims were filed against both GEPA and the Authority in connection with this matter. While the outcomes of these claims cannot be determined at this time, they may affect future expenditures or cash flows. Additional information regarding claims and contingencies is disclosed in the notes to the financial statements.

Guam Waterworks Authority
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Management's Discussion and Analysis, continued

Short-Term Financing Authorization

During FY2025, the Consolidated Commission on Utilities and the Public Utilities Commission approved the Authority's use of short-term financing arrangements to support procurement and capital project execution. This authorization provides additional liquidity and flexibility in managing cash flow timing; however, amounts drawn under these arrangements may increase short-term interest expense and will require repayment or refinancing.

Approved Rate Increases and True-Up Requirements

The Authority's approved Five-Year Financial Plan for FY2025–FY2029 includes proposed rate increases for FY2026. Implementation of these increases remains subject to annual true-up proceedings before the Public Utilities Commission. The outcomes of future true-ups will affect the timing and level of revenue recovery and may influence the Authority's ability to meet debt service coverage and capital funding targets.

Capital Structure and Financing Considerations

Management will continue to evaluate opportunities to refinance outstanding revenue bonds when market conditions are favorable and refinancing is economically viable. Any future refunding transactions would be undertaken to reduce debt service costs or improve cash flow flexibility and would be subject to required approvals and prevailing market conditions. In addition, the Authority is evaluating the potential issuance of additional revenue bonds to fund capital projects identified in its Capital Improvement Program. A decision to proceed with any such financing has not been made and would be subject to approval by the Consolidated Commission on Utilities, the Public Utilities Commission, and market conditions at the time of issuance. Any new money bond issuance, if undertaken, would be structured consistent with the Authority's existing bond indenture requirements and would be reflected in future debt service coverage analyses.

Construction Market Conditions and Funding Availability

Construction market conditions in Guam, including labor availability, inflation, and supply chain constraints, may continue to affect project schedules and costs. Additionally, the timing and availability of federal funding, including State Revolving Fund allocations and other infrastructure grants, may influence the pace and sequencing of capital project execution and financing needs.

The Authority is also monitoring the potential financial impacts of the ongoing U.S.-Israel military conflict with Iran (commenced February 2026), which has contributed to disruptions in global shipping lanes and energy markets. Supply chain constraints related to the conflict may affect construction material costs and delivery timelines for capital projects. In addition, energy price volatility associated with global market disruptions may affect purchased power costs in future periods, as GWA's power costs are subject to fuel adjustment clauses applied by the Guam Power Authority. The Authority is also assessing the potential impact of federal budget priorities on the availability of EPA grants and State Revolving Fund allocations in future periods, and the potential for increased federal and military activity in Guam to affect water and wastewater demand.

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Management's Discussion and Analysis, continued

Management will continue to monitor these developments and their potential financial impact on the Authority's operations.

Workforce Cost Pressures

The Authority continues the phased implementation of its salary market adjustment and migration plan, which is intended to address workforce recruitment, retention, and competitiveness. These adjustments are expected to result in higher personnel costs in future periods while supporting long-term operational stability.

Pending Litigation

The Authority is a party to certain legal proceedings arising in the ordinary course of business. While the outcomes of these matters cannot be determined at this time, certain proceedings, if resolved unfavorably, could require future expenditures or affect the timing of capital projects or financing activities. Additional information regarding pending litigation is disclosed in the notes to the financial statements.

Management will continue to monitor these facts, decisions, and conditions and adjust financial, operational, and capital strategies as necessary to ensure the Authority's ability to provide reliable service, comply with court and regulatory requirements, and meet its long-term financial obligations.

Guam Waterworks Authority
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Statements of Net Position

	September 30, <u>2025</u>	<u>2024</u> (Restated)
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 68,753,143	\$ 51,776,370
Restricted	47,917,143	47,882,117
Receivables, net of allowance for doubtful accounts	25,790,916	19,067,116
Materials and supplies inventory, net of allowance for obsolescence of \$213,524 (\$199,791 in 2024)	6,935,675	4,960,656
Prepaid expenses	<u>1,212,737</u>	<u>1,217,846</u>
Total current assets	<u>150,609,614</u>	<u>124,904,105</u>
Capital assets:		
Utility plant in service:		
Water system	483,115,995	463,754,614
Wastewater system	686,191,704	683,350,559
Non-utility property	<u>36,950,224</u>	<u>34,757,389</u>
	1,206,257,923	1,181,862,562
Less accumulated depreciation	(<u>480,656,082</u>)	(<u>452,839,346</u>)
	725,601,841	729,023,216
Lease and subscription-based IT assets, net	610,715	1,273,644
Land and land rights	5,811,163	5,741,163
Construction work in progress	<u>120,189,386</u>	<u>75,362,721</u>
Capital assets, net	<u>852,213,105</u>	<u>811,400,744</u>
Other noncurrent assets:		
Restricted cash and cash equivalents	<u>444,162,154</u>	<u>208,778,170</u>
Total assets	<u>1,446,984,873</u>	<u>1,145,083,019</u>
Deferred outflows of resources:		
Deferred outflows on bond refunding	23,190,417	24,067,333
Deferred outflows from pension	8,244,724	13,056,974
Deferred outflows from OPEB	21,817,354	28,992,788
Regulatory assets	<u>---</u>	<u>3,174,728</u>
Total deferred outflows of resources	<u>53,252,495</u>	<u>69,291,823</u>
Total assets and deferred outflows of resources	<u>\$1,500,237,368</u>	<u>\$1,214,374,842</u>

See accompanying notes.

Guam Waterworks Authority
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Statements of Net Position, continued

	September 30, <u>2025</u>	<u>2024</u> (Restated)
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Current maturities of revenue bonds payable	\$ 10,965,000	\$ 10,445,000
Accounts payable:		
Guam Power Authority	1,576,203	2,083,943
Trade	2,337,661	3,499,226
Accrued interest	9,002,963	6,852,336
Accrued payroll and employee benefits	2,829,713	872,091
Current portion of compensated absences	1,816,090	1,312,990
Current portion of lease and subscription-based IT liabilities	43,634	204,577
Payable to contractors	18,129,972	12,578,904
Customer deposits	2,613,337	2,311,776
Due to Grantor	8,299,382	7,599,831
Other liabilities	<u>1,066,831</u>	<u>907,716</u>
Total current liabilities	<u>58,680,786</u>	<u>48,668,390</u>
Revenue bonds payable, less current maturities	880,324,641	620,906,050
Compensated absences, less current portion	4,758,237	4,492,666
Lease and subscription-based IT liabilities	52,585	96,219
Net pension liability	44,488,639	53,371,429
Collective total other post-employment benefits liability	<u>80,248,243</u>	<u>103,206,575</u>
Total liabilities	<u>1,068,553,131</u>	<u>830,741,329</u>
Deferred inflows of resources:		
Regulatory related	10,116,337	631,637
Deferred inflows on bond refunding	6,767,085	7,532,330
Deferred inflows from pension	6,116,764	4,909,340
Deferred inflows from OPEB	<u>50,525,092</u>	<u>32,476,967</u>
Total deferred inflows of resources	<u>73,525,278</u>	<u>45,550,274</u>

See accompanying notes.

Guam Waterworks Authority
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Statements of Net Position, continued

	September 30, <u>2025</u>	<u>2024</u> (Restated)
Net position:		
Net investment in capital assets	307,355,311	320,670,696
Restricted for:		
Debt service	85,689,893	63,941,087
Service operations	<u>57,565,950</u>	<u>55,958,078</u>
Total restricted - expendable	<u>143,255,843</u>	<u>119,899,165</u>
Unrestricted	(<u>92,452,195</u>)	(<u>102,486,622</u>)
Total net position	<u>358,158,959</u>	<u>338,083,239</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,500,237,368</u>	<u>\$1,214,374,842</u>

See accompanying notes.

Guam Waterworks Authority
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Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2025</u>	<u>2024</u> (Restated)
Operating revenues:		
Water:		
Private	\$ 78,980,159	\$ 70,389,155
Government	9,584,879	8,754,865
Legislative surcharge	2,857,905	2,781,530
System development charge	<u>830,023</u>	<u>776,254</u>
	<u>92,252,966</u>	<u>82,701,804</u>
Wastewater:		
Private	34,742,911	30,453,396
Government	17,432,144	14,140,891
Legislative surcharge	1,387,428	1,275,973
System development charge	<u>733,795</u>	<u>922,588</u>
	<u>54,296,278</u>	<u>46,792,848</u>
Other	709,295	591,327
Bad debts expense	(2,004,924)	(229,334)
Regulatory deferrals	<u>(9,500,000)</u>	<u>(---)</u>
Total operating revenues	<u>135,753,615</u>	<u>129,856,645</u>
Operating and maintenance expenses:		
Power purchases	19,917,470	21,892,448
Water purchases	7,421,447	8,662,002
Waste disposal fees	<u>1,336,335</u>	<u>1,099,837</u>
	28,675,252	31,654,287
Depreciation	29,427,589	30,172,311
Salaries, wages and benefits	28,914,078	27,106,931
Administrative and general	10,754,027	8,213,661
Contractual	5,989,602	5,237,504
Retiree healthcare costs and other benefits	<u>6,830,313</u>	<u>8,661,999</u>
Total operating and maintenance expenses	<u>110,590,861</u>	<u>111,046,693</u>
Operating income	<u>25,162,754</u>	<u>18,809,952</u>

See accompanying notes.

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

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

	Year ended September 30, <u>2025</u>	<u>2024</u> <i>(Restated)</i>
Nonoperating revenues (expenses):		
Interest income	\$ 13,116,573	\$ 13,949,794
Insurance recoveries	659,567	1,000,000
Interest expense	(30,774,173)	(26,805,659)
Others, net	(2,325,859)	(219,504)
Bond issuance costs	(1,208,522)	(3,364,221)
Loss on capital asset disposals	(<u>727,968</u>)	(<u>1,400,669</u>)
Total non-operating expenses, net	(<u>21,260,382</u>)	(<u>16,840,259</u>)
Income before capital contributions	3,902,372	1,969,693
Capital contributions:		
Grants from the U.S. Government	<u>16,173,348</u>	<u>2,999,184</u>
Change in net position	20,075,720	4,968,877
Net position at beginning of year	<u>338,083,239</u>	<u>333,114,362</u>
Net position at end of year	<u>\$358,158,959</u>	<u>\$338,083,239</u>

See accompanying notes.

Guam Waterworks Authority
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Statements of Cash Flows

	Year ended September 30,	
	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash received from customers	\$ 132,999,217	\$127,084,900
Cash payments to supplies for goods and services	(49,434,193)	(43,969,246)
Cash payments to employees for services	(32,577,783)	(28,417,575)
Cash payments for retiree healthcare costs	(4,565,086)	(3,909,646)
Net cash provided by operating activities	<u>46,422,155</u>	<u>50,788,433</u>
Cash flows from capital and related financing activities:		
Proceeds from revenue bond issuances	269,286,740	212,168,699
Federal grants received	22,512,445	1,311,964
Proceeds from disposals of capital assets	---	21,871
Insurance proceeds	659,567	1,000,000
Principal paid on revenue bond maturities	(10,445,000)	(224,379,819)
Interest paid on revenue bonds	(28,614,861)	(27,013,904)
Acquisition of capital assets	(64,150,189)	(23,049,455)
Net cash provided by (used in) capital and related financing activities	<u>189,248,702</u>	<u>(59,940,644)</u>
Cash flows from noncapital financing activity:		
Legal proceeds	<u>3,415,740</u>	<u>---</u>
Cash flows from investing activity – Interest income received	<u>13,309,186</u>	<u>13,949,794</u>
Net change in cash and cash equivalents	252,395,783	4,797,583
Cash and cash equivalents at beginning of year	<u>308,436,657</u>	<u>303,639,074</u>
Cash and cash equivalents at end of year	<u>\$560,832,440</u>	<u>\$308,436,657</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Current assets:		
Cash and cash equivalents	\$ 68,753,143	\$ 51,776,370
Restricted cash and cash equivalents	47,917,143	47,882,117
Noncurrent assets:		
Restricted cash and cash equivalents	<u>444,162,154</u>	<u>208,778,170</u>
	<u>\$560,832,440</u>	<u>\$308,436,657</u>

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30, <u>2025</u>	<u>2024</u> (Restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$25,162,754	\$18,809,952
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	29,427,589	30,172,311
Bad debts expense	2,004,924	229,334
Capitalized labor and benefits	(3,526,882)	(3,321,043)
Non-cash pension costs	2,863,116	6,925,523
Non-cash OPEB costs	(2,265,227)	7,389,859
Regulatory deferral	9,500,000	---
Other non-cash adjustments	(3,709,940)	(219,504)
(Increase) decrease in assets:		
Receivables	(15,260,434)	(2,371,548)
Materials and supplies inventory	(1,975,019)	136,002
Prepaid expenses	5,109	(10,898)
Regulatory assets	3,174,728	---
Increase (decrease) in liabilities:		
Accounts payable	(1,669,305)	1,121,328
Accrued payroll and employee benefits	1,957,622	(461,931)
Compensated absences	768,671	1,333,007
Customer deposits	301,561	42,808
Due to Grantor	699,551	(672,339)
Other liabilities	159,115	109,278
Net pension liability	(5,726,232)	(5,786,200)
Collective total other post-employment benefits liability	<u>4,530,454</u>	<u>(2,637,506)</u>
Net cash provided by operating activities	<u>\$46,422,155</u>	<u>\$50,788,433</u>
Supplemental information on noncash capital activities:		
Lease and subscription IT assets	\$ 43,524	\$ 108,550
Lease and subscription IT liabilities	<u>(43,524)</u>	<u>(108,550)</u>
	<u>\$ ---</u>	<u>\$ ---</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2025 and 2024

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Net Position

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

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

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

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Position, continued

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

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

Estimates

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

Risk Management

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Materials and Supplies Inventory

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Prepaid Expenses

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

Capital Assets

Plant in service of \$139,583,309 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items over \$5,000.

Noncurrent Restricted Cash and Cash Equivalents

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GWA has determined the deferred outflows on debt defeasance of the 2005, 2010, 2013 and 2024 series bonds, regulatory assets, the difference between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, the net difference between projected and actual earnings on pension plan investments, changes of assumptions, pension and OPEB contributions made subsequent to the measurement date, and changes in proportion and difference between GWA pension and OPEB contributions and proportionate share of contributions qualify for reporting in this category.

Deferred Inflows of Resources

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Compensated Absences

Vesting annual leave accrued during employment. Employees occupying permanent positions shall accrue annual leave in accordance with its policies. One-half day (four hours) for each full bi-weekly pay period in the case of employees with less than three years of service; Three-fourths day (six hours) for each full bi-weekly pay period except that the accrual for the last full bi-weekly pay period in the year shall be one and one-fourth day (10 hour) in the case of employees with three, but less than 15 years of service; and One day (eight hours) for each full bi-weekly pay period in the case of employees with 15 or more years of service. Unused annual leave is paid out upon termination up to 320 hours. The full unused balance is considered a liability under GASB 101 as employees have earned the right to payment.

For Defined Benefit (DB) plan participants, sick leave is not paid at retirement; instead, it is converted to service credit therefore no liability for compensated absences was computed. However, sick leave expected to be used prior to retiring was computed and is measured based on expected usage. For Defined Contribution (DC) plan participants, sick leave is paid at retirement at 50% of unused sick leave balance. Sick leave that does not vest and is not paid out is measured based on expected usage and payout probabilities.

Pensions

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

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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Other Postemployment Benefits (OPEB)

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

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

Bond Premiums and Discounts

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

Contribution in Aid of Construction

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

Revenue Recognition

Customer water meters are read on a cyclical basis throughout a monthly period based on the route schedules of GWA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$35.84 (\$32.14 in 2024) 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, 2025 and 2024 is \$5,088,036 and \$3,864,984, respectively and is included in receivables in the accompanying statement of net position.

Guam Waterworks Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Operating and Non-Operating Revenue and Expenses

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

Grants and Contributions

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

Recently Adopted Accounting Pronouncement

During the year ended September 30, 2025, the Authority implemented the following pronouncements.

GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. The adoption of GASB Statement No. 101 requires retrospective application. As a result, the financial statements for the prior period have been restated to reflect the changes in the accounting principles as mandated by the new standard.

	09/30/2023 As Previously <u>Reported</u>	Change in Accounting <u>Principle</u>	09/30/2023 As <u>Restated</u>
Government-Wide	\$(99,902,179)	\$(2,584,443)	\$(102,486,622)

The restatement of the beginning net position affected the current and noncurrent portion of compensated absences in the statement of net position, and salaries, wages and benefits reported in the statement of revenues, expenses and changes in net position.

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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement, continued

GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The implementation of this Statement did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and address certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

Guam Waterworks Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal years ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.

This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed.

This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. GASB Statement No. 105 will be effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter.

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

3. Deposits and Investments

GWA's bond indenture agreements require the establishment of special funds to be held and administered by trustees and by GWA. In addition, proceeds from borrowings to fund capital improvements are maintained by GWA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used to fund capital improvements.

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

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

As of September 30, 2025 and 2024, the carrying amount of GWA's total deposits was \$40,171,214 and \$89,111,882, and the corresponding bank balance was \$49,268,525 and \$88,972,984, respectively. Of that bank balance, \$31,004,417 and \$23,554,882 were uninsured and uncollateralized, respectively as of September 30, 2025 and 2024.

As of September 30, 2025 and 2024, the remaining amount of \$520,121,226 and \$219,318,845, 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.

Unrestricted cash and cash equivalents at September 30, 2025 and 2024 in the amount of \$26,308,170 and \$16,165,703, respectively, are subject to internally imposed restrictions by the CCU to provide additional liquidity to assist GWA in addressing unforeseen obligations and unexpected short-term cash flow demands and the amount of \$12,660,059 and \$9,947,328, respectively are subject to internally imposed restrictions by the CCU to fund capital expenditures.

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

3. Deposits and Investments, continued

The composition of restricted cash and cash equivalents at September 30, 2025 and 2024 is as follows:

	<u>2025</u>	<u>2024</u>
Current restricted:		
Sewer Hook-up Revolving Fund	\$ 2,278,951	\$ 2,172,114
Legislative Surcharge Fund	302,974	74,446
Bid Escrow Fund	1,347,321	990,824
Customer Deposit Fund	2,180,461	2,351,163
Revenue Trust and Revenue Fund	13,725,730	11,507,306
System Development Fund	9,004,334	7,160,562
Working Cap – Reserved for CAPEX	15,993,890	20,542,219
Working Cap – Reserved for O&M	<u>3,083,482</u>	<u>3,083,483</u>
	<u>47,917,143</u>	<u>47,882,117</u>
Noncurrent restricted:		
2010 Bond Indenture Funds:		
Construction Fund	3,184,141	3,144,121
2013 Bond Indenture Funds:		
Construction Fund	1,315,745	2,014,974
2014 Bond Indenture Funds:		
Operations, Maintenance, Renewal and Replacement Reserve Fund	23,300,857	19,560,351
2016 Bond Indenture Funds:		
Construction Fund	7,807,728	18,506,062
Reserved for Debt Service	1,362,934	1,297,905
2017 Bond Indenture Funds:		
Reserved for Debt Service	1,485,212	1,399,148
2020A Bond Indenture Funds:		
Construction Fund	76,494,812	108,145,643
Reserved for Debt Service	1,929,765	1,847,966

Guam Waterworks Authority
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Notes to Financial Statements, continued

3. Deposits and Investments, continued

	<u>2025</u>	<u>2024</u>
Noncurrent restricted, continued:		
2020B Bond Indenture Funds:		
Reserved for Debt Service	\$ 1,284,405	\$ 1,229,928
2024A Bond Indenture Funds:		
Cost of Issuance Fund	---	16,946
Bond Reserve Fund	41,343,585	42,180,075
Reserved for Debt Service	2,962,442	2,810,063
2024B Bond Indenture Funds:		
Cost of Issuance Fund	---	5,970
Reserved for Debt Service	1,782,255	1,668,696
2025A Bonds Indenture Series		
Cost of Issuance Fund	73,682	---
Construction Fund	250,677,264	---
Reserved for Debt Service	19,813,563	---
Various Construction Fund	<u>9,343,764</u>	<u>4,950,322</u>
	<u>444,162,154</u>	<u>208,778,170</u>
Total restricted cash and cash equivalents	<u>\$492,079,297</u>	<u>\$256,660,287</u>

4. Receivables

Receivables at September 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Customers:		
Private	\$22,758,097	\$19,624,964
Government	<u>2,466,728</u>	<u>3,321,993</u>
	25,224,825	22,946,957
Federal grants receivable	6,877,296	538,199
Guam Power Authority	625,097	2,516,111
Other	<u>2,482,057</u>	<u>1,725,880</u>
	<u>35,209,275</u>	<u>27,727,147</u>
Less allowance for doubtful accounts	(9,418,359)	(8,660,031)
	<u>\$25,790,916</u>	<u>\$19,067,116</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

5. Capital Assets

Capital assets activities for the years ended September 30, 2025 and 2024 are as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2024	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2025
Depreciable:					
Utility Plant in Service Water	25-50	\$ 463,754,614	\$20,368,295	\$(1,006,914)	\$ 483,115,995
Utility Plant in Service Wastewater	25-50	683,350,559	2,841,145	---	686,191,704
General Fixed Assets	25-50	<u>34,757,389</u>	<u>2,833,587</u>	<u>(640,752)</u>	<u>36,950,224</u>
		1,181,862,562	26,043,027	(1,647,666)	1,206,257,923
Less: Accumulated Depreciation		<u>452,839,346</u>	<u>28,721,135</u>	<u>(904,399)</u>	<u>480,656,082</u>
		<u>729,023,216</u>	<u>(2,678,108)</u>	<u>(743,267)</u>	<u>725,601,841</u>
Lease assets:					
Equipment	1-4	928,842	---	---	928,842
Building		<u>22,473</u>	<u>---</u>	<u>---</u>	<u>22,473</u>
		951,315	---	---	951,315
Less: Accumulated amortization		<u>765,445</u>	<u>100,073</u>	<u>---</u>	<u>865,518</u>
		<u>185,870</u>	<u>(100,073)</u>	<u>---</u>	<u>85,797</u>
Subscription-based IT assets		1,644,158	43,524	---	1,687,682
Less: Accumulated amortization		<u>556,384</u>	<u>606,380</u>	<u>---</u>	<u>1,162,764</u>
		<u>1,087,774</u>	<u>(562,856)</u>	<u>---</u>	<u>524,918</u>
Non-depreciable:					
Land		5,741,163	70,000	---	5,811,163
Construction Work in Progress		<u>75,362,721</u>	<u>72,819,309</u>	<u>(27,992,644)</u>	<u>120,189,386</u>
		<u>\$ 811,400,744</u>	<u>\$69,548,272</u>	<u>\$(28,735,911)</u>	<u>\$ 852,213,105</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

5. Capital Assets, continued

	Estimated Useful Lives in Years	Beginning Balance October 1, 2023	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2024
Depreciable:					
Utility Plant in Service Water	25-50	\$ 444,848,078	\$21,295,194	\$(2,388,658)	\$ 463,754,614
Utility Plant in Service Wastewater	25-50	679,249,470	4,430,989	(329,900)	683,350,559
General Fixed Assets	25-50	<u>33,683,228</u>	<u>1,271,439</u>	<u>(197,278)</u>	<u>34,757,389</u>
		1,157,780,776	26,997,622	(2,915,836)	1,181,862,562
Less: Accumulated Depreciation		<u>424,928,727</u>	<u>29,491,632</u>	<u>(1,581,013)</u>	<u>452,839,346</u>
		<u>732,852,049</u>	<u>(2,494,010)</u>	<u>(1,334,823)</u>	<u>729,023,216</u>
Lease assets:					
Equipment	1-4	928,842	---	---	928,842
Building		<u>22,473</u>	<u>---</u>	<u>---</u>	<u>22,473</u>
		951,315	---	---	951,315
Less: Accumulated amortization		<u>498,065</u>	<u>267,380</u>	<u>---</u>	<u>765,445</u>
		<u>453,250</u>	<u>(267,380)</u>	<u>---</u>	<u>185,870</u>
Subscription-based IT assets		304,253	1,339,905	---	1,644,158
Less: Accumulated amortization		<u>143,085</u>	<u>413,299</u>	<u>---</u>	<u>556,384</u>
		<u>161,168</u>	<u>926,606</u>	<u>---</u>	<u>1,087,774</u>
Non-depreciable:					
Land		5,287,305	453,858	---	5,741,163
Construction Work in Progress		<u>74,149,217</u>	<u>28,587,981</u>	<u>(27,374,477)</u>	<u>75,362,721</u>
		<u>\$ 812,902,989</u>	<u>\$27,207,055</u>	<u>\$(28,709,300)</u>	<u>\$ 811,400,744</u>

Lease assets

Guam Power Authority (GPA)

In February 2015, GWA moved to a building owned by GPA. GWA does not currently have a signed lease agreement with GPA but pays for its share of building maintenance costs. GWA's use of the building did not amount to a lease as the resolution passed by the CCU did not convey the right to use an underlying asset. For the years ended September 30, 2025 and 2024, GWA's share of building maintenance cost totaled \$294,705 and \$291,811, respectively

Morrigo Equipment, LLC (Morrigo)

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt

Long-term debt at September 30, 2025 and 2024 is as follows:

Revenue Bonds

	<u>2025</u>	<u>2024</u>
2016 Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$420,000 in July 2020, maturity date in January 2046. On March 14, 2024, these bonds were partially refunded through the issuance of \$133,575,000 2024A refunding bonds.	\$ 80,965,000	\$ 81,890,000
2017 Series refunding bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$55,000 in July 2019, maturity date in July 2040. On March 14, 2024, these bonds were partially refunded through the issuance of \$133,575,000 2024A refunding bonds.	55,175,000	57,660,000
2020A Series revenue bonds, interest at 5% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$30,880,000 in July 2047, maturity date in January 2050.	134,000,000	134,000,000
2020B Series refunding bonds, interest at varying rates from 2.75% to 3.70% per annum, payable semiannually in January and July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$1,260,000 in July 2028, maturity date in July 2043. On March 14, 2024, these bonds were partially refunded through the issuance of \$133,575,000 2024A refunding bonds.	125,835,000	125,835,000

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

	<u>2025</u>	<u>2024</u>
2024A Series refunding bonds, interest at 5% per annum, payable annually in July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,960,000 in July 2025, maturity date in January 2046.	130,615,000	133,575,000
2024B Series refunding bonds, interest at 5% per annum, payable annually in July, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$4,075,000 in July 2025, maturity date in July 2034.	47,200,000	51,275,000
2025A Series bonds, interest at varying rates from 5.00% to 5.50% per annum, principal and mandatory sinking fund payments in varying annual installments commencing with a payment of \$2,725,000 in July 2031, maturity date in July 2055.	<u>266,535,000</u>	<u>---</u>
Total revenue bonds payable	840,325,000	584,235,000
Less current maturities	<u>(10,965,000)</u>	<u>(10,445,000)</u>
	829,360,000	573,790,000
Bond premium – 2024A series bonds	13,428,603	14,075,764
Bond premium – 2016 series bonds	10,700,283	11,224,379
Bond premium – 2020A series bonds	9,379,312	9,764,763
Bond premium – 2017 series bonds	6,640,582	7,088,262
Bond premium – 2025A series bond	6,361,993	---
Bond premium – 2024B series bonds	<u>4,453,868</u>	<u>4,962,882</u>
	<u>\$880,324,641</u>	<u>\$620,906,050</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 10,965,000	\$ 39,669,625	\$ 50,634,625
2027	11,510,000	40,497,955	52,007,955
2028	13,300,000	39,922,455	53,222,455
2029	14,675,000	39,269,830	53,944,830
2030	15,165,000	38,596,605	53,761,605
2031 through 2035	114,930,000	179,843,688	294,773,688
2036 through 2040	150,670,000	149,730,905	300,400,905
2041 through 2045	192,840,000	110,928,560	303,768,560
2046 through 2050	231,670,000	57,699,588	289,369,588
2051 through 2055	<u>84,600,000</u>	<u>14,456,750</u>	<u>99,056,750</u>
	<u>\$840,325,000</u>	<u>\$710,615,961</u>	<u>\$1,550,940,961</u>

On March 14, 2024, GWA issued \$133.58 million in Refunding Bonds to refund \$18.37 million of outstanding 2013 Series bonds, \$51.39 million outstanding 2016 Series bonds, \$40.91 million of outstanding 2017 Series bonds and \$40.24 million outstanding of 2020B Series bonds. The net proceeds of \$151.09 million (after payment of \$1.96 million in underwriting fees, insurance and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments.

On April 2, 2024, GWA issued \$51.28 million in Refunding Bonds to refund \$55.84 million outstanding 2014 Series bonds. The net proceeds of \$56.48 million (after payment of \$0.67 million in underwriting fees, insurance and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments.

Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in GWA's financial statements. The economic gain from this transaction was \$14.5 million.

The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$7.74 million. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being charged to operations using the effective-interest method.

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

During FY2025, the Authority issued Water and Wastewater System Revenue Bonds, Series 2025A, with an aggregate principal amount of \$266.5 million. The bonds were issued to finance capital improvements to the Authority's water and wastewater systems, fund the required bond reserve fund and pay certain costs of issuance. The Series 2025A Bonds were delivered on August 6, 2025, with the first interest payment due January 1, 2026 and final maturity on July 1, 2055. Interest rates range from 5.00% to 5.50%. Total bond proceeds were \$272.93 million, consisting of the par amount of \$266.54 million and net original issue premium of \$6.40 million.

Proceeds from the issuance were applied as follows: \$250 million was deposited to the Series 2025A Construction Account, \$19.81 million was deposited to the Bond Reserve Fund and \$3.12 million was used for costs of issuance and underwriter's discount. The Authority also contributed \$0.56 million from cash for Guam Economic Development Authority fees. The Series 2025A Bonds require annual debt service payments ranging from approximately \$12.8 million in fiscal year 2026 to approximately \$19.8 million thereafter through fiscal year 2055. Total debt service over the life of the bonds is approximately \$561.78 million consisting of \$266.54 million of principal and \$295.24 million of interest.

Changes in GWA's long-term debt for the year ended September 30, 2025 and 2024 are as follows:

	Outstanding October 1, <u>2024</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2025</u>	<u>Current</u>
Revenue Bonds:					
2016 series A bonds	\$ 81,890,000	\$ ---	\$(925,000)	\$ 80,965,000	\$ 965,000
2017 series A bonds	57,660,000	---	(2,485,000)	55,175,000	2,610,000
2020 series A bonds	134,000,000	---	---	134,000,000	---
2020 series B bonds	125,835,000	---	---	125,835,000	---
2024 series A bonds	133,575,000	---	(2,960,000)	130,615,000	---
2024 series B bonds	51,275,000	---	(4,075,000)	47,200,000	3,110,000
2025 series A bonds	---	266,535,000		266,535,000	4,280,000
Unamortized premium on bonds	<u>47,116,050</u>	<u>3,848,591</u>	<u>---</u>	<u>50,964,641</u>	<u>---</u>
	<u>\$631,351,050</u>	<u>\$270,383,591</u>	<u>\$(10,445,000)</u>	<u>\$891,289,641</u>	<u>\$10,965,000</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Revenue Bonds, continued

	Outstanding October 1, <u>2023</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2024</u>	<u>Current</u>
Revenue Bonds:					
2013 series A bonds	\$18,365,000	\$ ---	\$(18,365,000)	\$ ---	\$ ---
2014 series A and B bonds	60,050,000	---	(60,050,000)	---	---
2016 series A bonds	134,140,000	---	(52,250,000)	81,890,000	925,000
2017 series A bonds	100,930,000	---	(43,270,000)	57,660,000	2,485,000
2020 series A bonds	134,000,000	---	---	134,000,000	---
2020 series B bonds	166,075,000	---	(40,240,000)	125,835,000	---
2024 series A bonds	---	133,575,000	---	133,575,000	2,960,000
2024 series B bonds	---	51,275,000	---	51,275,000	4,075,000
Unamortized premium on bonds	<u>37,287,410</u>	<u>19,574,316</u>	<u>(9,745,676)</u>	<u>47,116,050</u>	<u>---</u>
	<u>\$650,847,410</u>	<u>\$204,424,316</u>	<u>\$(223,920,676)</u>	<u>\$631,351,050</u>	<u>\$10,445,000</u>

Pledged Revenues

The 2013, 2014, 2016, 2017, 2020A, 2020B, 2024A, 2024B and 2025A Series Bonds are limited obligations of GWA and are payable solely from, and secured solely by a lien on and pledge of, GWA system revenues (excluding legislative surcharges and system development charges) to secure the payment of principal and interest on the Bonds. As of September 30, 2025, total principal and interest remaining on these bonds is \$1,550,940,961 payable through July 2055. For the years ended September 30, 2025 and 2024, debt service paid on these bonds was \$36,308,121 and \$251,393,723, respectively, and total pledged GWA system revenues were \$140,740,093 and \$123,738,307, respectively.

Prior-Year Defeasance of Debt

In prior years, GWA defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payouts on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in GWA's financial statements. As of September 30, 2025, bonds outstanding of \$206,730,000, are considered defeased.

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Bond Covenants

The General Indenture, dated December 1, 2005, as updated by supplemental indentures, sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes GWA was in compliance with all bond covenants as of and for the years ended September 30, 2025 and 2024. The primary requirements of the General Indenture are summarized below:

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

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

Debt Service Fund - the General Indenture creates a Debt Service Fund available for the purpose of: (1) paying interest on bonds as it shall become due and payable; (2) paying the principal of Serial Bonds when due and payable; (3) purchasing or redeeming or paying at maturity Term Bonds; (4) paying Parity Payment Agreement Payments due and payable; and (5) paying Credit Agreement Reimbursement Payments due and payable. As of September 30, 2025 and 2024, GWA is not currently a party to any Parity Payment Agreements.

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

Guam Waterworks Authority
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Notes to Financial Statements, continued

6. Long-Term Debt, continued

Bond Covenants, continued

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

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

7. Change in Other Long-Term Liabilities

Changes in GWA's other long-term liabilities for the year ended September 30, 2025 are as follows:

	Outstanding October 1, <u>2024</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2025</u>	<u>Current</u>
Other:					
Compensated absences	\$ 5,805,656	\$ 768,671	\$ ---	\$ 6,574,327	\$1,816,090
Lease liabilities	192,245	---	(103,802)	88,443	35,858
Subscription- based IT liabilities	108,551	---	(100,775)	7,776	7,776
Net pension liability	53,371,429	---	(8,882,790)	44,488,639	---
OPEB liability	<u>103,206,575</u>	<u>---</u>	<u>(22,958,332)</u>	<u>80,248,243</u>	<u>---</u>
	<u>\$162,684,456</u>	<u>\$ 768,671</u>	<u>\$(32,045,699)</u>	<u>\$131,407,428</u>	<u>\$1,859,724</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

7. Change in Other Long-Term Liabilities, continued

	Outstanding October 1, <u>2023</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2024</u>	<u>Current</u>
<i>(Restated)</i>					
Other:					
Compensated absences	\$ 4,472,647	\$ 1,333,009	\$ ---	\$ 5,805,656	\$1,312,990
Lease liabilities	438,714	---	(246,469)	192,245	103,802
Subscription- based IT liabilities	128,634	108,550	(128,633)	108,551	100,775
Net pension liability	59,402,698	---	(6,031,269)	53,371,429	---
OPEB liability	<u>87,184,863</u>	<u>16,021,712</u>	<u>---</u>	<u>103,206,575</u>	<u>---</u>
	<u>\$151,627,556</u>	<u>\$17,463,271</u>	<u>\$(6,406,371)</u>	<u>\$162,684,456</u>	<u>\$1,517,567</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 62,073	\$3,153	\$ 65,226
2027	<u>34,147</u>	<u>1,376</u>	<u>35,523</u>
	<u>\$96,220</u>	<u>\$4,529</u>	<u>\$100,749</u>

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Notes to Financial Statements, continued

8. Pensions

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

A. General Information About the Pension Plans

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

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

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

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

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Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

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

Supplemental annuity benefit payments are provided to DB retirees in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. Annual COLA payments are provided to DB and DCRS retirees in a lump sum amount of \$2,300. Both supplemental annuity benefit payments and COLA payments are made at the discretion of the Guam Legislature, but are funded on a “pay-as-you-go” basis so there is no plan trust. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

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

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

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

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Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

Members of the DB 1.75 Plan may retire at age 62 with 5 years of credited service, or at age 60 with 5 years of credited service without survivor benefits, or at age 55 with 25 years of credited service but the retirement annuity shall be reduced $\frac{1}{2}$ of 1% for each month that the age of the member is less than 62 years (6% per year). Credited service is earned for each year of actual employment by the member as an employee. Upon retirement, a retired member is entitled to a basic retirement annuity equal to an annual payment of 1.75% of average annual salary multiplied by years of credited service. Average annual salary means the average of annual base salary for the three years of service that produce the highest average.

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

GWA's statutory contribution rates were 30.77% and 29.43% for the years ended September 30, 2025 and 2024, respectively. Employees are required to contribute 9.5% of their annual pay for the years ended September 30, 2025 and 2024.

GWA's contributions to the DB Plan for the years ended September 30, 2025 and 2024 were \$5,812,289 and \$5,639,689, respectively, which were equal to the statutorily required contributions for the year then ended.

GWA's contributions for supplemental annuity benefit and COLA payments for the years ended September 30, 2025 and 2024 were \$602,600 and \$611,800, respectively which were equal to the statutorily required contributions for the years then ended.

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

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

Statutory employer contributions for the DCRS plan for the years ended September 30, 2025 and 2024 is determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 6.2% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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Notes to Financial Statements, continued

8. Pensions, continued

A. General Information About the Pension Plans, continued

GWA's contributions to the DCRS Plan for the years ended September 30, 2025 and 2024 were \$3,801,591 and \$3,823,503, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$3,035,589 and \$2,491,199 were contributed towards the unfunded liability of the DB Plan for the years ended September 30, 2025 and 2024, respectively.

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

Pension Liability: At September 30, 2025 and 2024, GWA reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2024 and September 30, 2023, respectively, which is comprised of the following:

	<u>2025</u>	<u>2024</u>
Defined Benefit Plan	\$31,191,285	\$41,197,565
Ad Hoc COLA/supplemental annuity Plan for DB retirees	11,411,860	10,123,344
Ad Hoc COLA Plan for DCRS retirees	<u>1,885,494</u>	<u>2,050,520</u>
	<u>\$44,488,639</u>	<u>\$53,371,429</u>

GWA's proportion of the GovGuam net pension liabilities was based on GWA's expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam's component units. At September 30, 2025 and 2024, GWA's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2025</u>	<u>2024</u>
Defined Benefit Plan	2.96%	2.95%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	3.75%	3.76%
Ad Hoc COLA Plan for DCRS retirees	2.64%	2.62%

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Notes to Financial Statements, continued

8. Pensions, continued

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

Pension Expense (Benefit): For the years ended September 30, 2025 and 2024, GWA recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

	<u>2025</u>	<u>2024</u>
Defined Benefit Plan	\$2,672,777	\$5,645,481
Ad Hoc COLA/supplemental annuity Plan for DB retirees	783,853	868,052
Ad Hoc COLA Plan for DCRS retirees	(152,289)	411,990
	<u>\$3,304,341</u>	<u>\$6,925,523</u>

Deferred Outflows and Inflows of Resources: At September 30, 2025 and 2024, GWA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2025</u>					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 41,903	\$ 232,994	\$552,118	\$193,269	\$197,371	\$21,798
Net difference between projected and actual earnings on pension plan investments	---	3,964,351	250,887	---	---	---
Changes of assumptions	---	125,002	---	---	396,534	307,402
Contributions subsequent to the measurement date	5,812,289	---	602,600	---	94,300	---
Changes in proportion and difference between GWA contributions and proportionate share of contributions	<u>126,725</u>	<u>1,102,043</u>	<u>---</u>	<u>48,768</u>	<u>169,997</u>	<u>121,137</u>
	<u>\$5,980,917</u>	<u>\$5,424,390</u>	<u>\$1,405,605</u>	<u>\$242,037</u>	<u>\$858,202</u>	<u>\$450,337</u>

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Notes to Financial Statements, continued

8. Pensions, continued

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

	2024					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 423,016	\$ 463,409	\$ ---	\$410,000	\$200,897	\$ 26,380
Net difference between projected and actual earnings on pension plan investments	5,361,803	---	---	---	---	---
Changes of assumptions	---	248,620	155,090	515,766	396,982	363,012
Contributions subsequent to the measurement date	5,639,689	---	611,800	---	89,700	---
Changes in proportion and difference between GWA contributions and proportionate share of contributions	---	<u>2,683,825</u>	---	<u>48,444</u>	<u>177,998</u>	<u>149,884</u>
	<u>\$11,424,508</u>	<u>\$3,395,854</u>	<u>\$766,890</u>	<u>\$974,210</u>	<u>\$865,577</u>	<u>\$539,276</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2025 and 2024 will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	<u>Defined Benefit Plan</u>	<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan for DCRS Retirees</u>
2026	\$(1,388,885)	\$282,169	\$ 38,051
2027	425,858	278,798	38,052
2028	(2,376,762)	---	40,137
2029	(1,908,164)	---	37,589
2030	---	---	6,725
Thereafter	---	---	<u>131,749</u>
	<u>\$(5,247,953)</u>	<u>\$560,967</u>	<u>\$292,303</u>

Guam Waterworks Authority
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Notes to Financial Statements, continued

8. Pensions, continued

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

Actuarial Assumptions: The actuarial assumptions used are based upon recommendations from the actuarial experience study for the period October 1, 2015 through September 30, 2020.

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

Defined Benefit Plan:

Inflation:	2.50% per year
Investment rate of return:	7.0%
Payroll growth:	4.00% for Fiscal Year 2023; 2.50% per year thereafter
Salary increases:	6.0% per year in the first 5 years, 4.5% for years 6-10, 3.0% for service after 10 years
Retirement age:	40% of employees assumed to retire when first eligible for unreduced retirement, 20% per year thereafter until age 75, at which time all remaining employees are assumed to retire
Investment rate of return:	The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate range of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.
Mortality:	Based on the PUB-2010 General Employees Amount-Weighted and PUB-2010 General Healthy Retiree Amount-Weighted mortality table, set forward by 4 years for males and 2 years for females, respectively then increased by 30% for ages less than 80

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Notes to Financial Statements, continued

8. Pensions, continued

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

Inflation:	2.50% per year
Payroll growth:	4.00% for Fiscal Year 2023; 2.50% per year thereafter
Salary increases:	6.0% per year in the first 5 years, 4.5% for years 6-10, 3.0% for service after 10 years
Retirement age:	40% of employees assumed to retire when first eligible for unreduced retirement, 20% per year thereafter until age 75, at which time all remaining employees are assumed to retire
Mortality:	Based on the PUB-2010 General Employees Amount-Weighted and PUB-2010 General Healthy Retiree Amount-Weighted mortality table, set forward by 4 years for males and 2 years for females, respectively then increased by 30% for ages less than 80

Ad Hoc COLA Plan for DCRS Retirees:

Inflation:	2.50% per year
Payroll growth:	4.00% for Fiscal Year 2023; 2.50% per year thereafter
Salary increases:	6.0% per year in the first 5 years, 4.5% for years 6-10, 3.0% for service after 10 years
Retirement age:	5% of employees assumed to retire each year for ages 55 to 64, 10% of employees per year thereafter from age 65 until age 74, at which time all remaining employees are assumed to retire
Mortality:	Based on the PUB-2010 General Employees Amount-Weighted and PUB-2010 General Healthy Retiree Amount-Weighted mortality table, set forward by 4 years for males and 2 years for females, respectively then increased by 30% for ages less than 80

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Notes to Financial Statements, continued

8. Pensions, continued

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	26.0%	7.83%	2.03%
U.S. Equities (small cap)	4.0%	9.32%	0.37%
Non-U.S. Equities	17.0%	10.12%	1.72%
Non-U.S. Equities (emerging markets)	3.0%	11.79%	0.35%
U.S. Fixed Income (aggregate)	22.0%	4.86%	1.07%
Risk Parity	8.0%	6.53%	0.52%
High Yield Bonds	8.0%	6.54%	0.52%
Global Real Estate (REITs)	2.5%	9.34%	0.23%
Global Equity	7.5%	8.59%	0.64%
Global Infrastructure	2.0%	8.42%	0.17%
Expected average return for one year			7.64%
Expected geometric mean (30 years)			6.91%

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan was 7.0%, which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments was 3.81% (4.09% at September 30, 2024), which is equal to the rate of return of a high-quality bond index.

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

Defined Benefit Plan:

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	<u>\$40,863,250</u>	<u>\$31,191,285</u>	<u>\$22,864,413</u>

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Notes to Financial Statements, continued

8. Pensions, continued

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>2.81%</u>	Current Discount Rate <u>3.81%</u>	1% Increase in Discount Rate <u>4.81%</u>
Net Pension Liability	<u>\$12,453,265</u>	<u>\$11,411,860</u>	<u>\$10,504,990</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>2.81%</u>	Current Discount Rate <u>3.81%</u>	1% Increase in Discount Rate <u>4.81%</u>
Net Pension Liability	<u>\$2,115,875</u>	<u>\$1,885,494</u>	<u>\$1,690,198</u>

C. Payables to the Pension Plans

As of September 30, 2025 and 2024, GWA recorded payables to GGRF of \$186,674 and \$138,453, respectively, representing unremitted statutorily required contributions.

9. Other Post Employment Benefits (OPEB)

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

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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

A. General Information About the OPEB Plan

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

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

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

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

Reporting Date:	September 30, 2025	September 30, 2024
Measurement Date:	September 30, 2024	September 30, 2023
Valuation Date:	September 30, 2024	September 30, 2022

Collective total OPEB liability as of September 30, 2025 and 2024 is \$80,248,243 and \$103,206,575, respectively.

Proportionate share of total OPEB liability at September 30, 2025 and 2024 is 3.66% and 3.77%, respectively.

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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

B. Total OPEB Liability:

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

Inflation:	2.60%
Healthcare cost trend rate:	For both non-Medicare and Medicare claims, 7% for FY2025, decreasing 0.5% per year to 4.5% in FY2030 and an ultimate rate of 4.1% for FY2031 and later years. For both Medicare and non-Medicare retiree contributions, 0% for all years.
Dental trend rates:	For claims, 4.25% per year. For retiree contributions, 0% per year. These trend rates are based on a blend of historical retiree premium rate increases as well as observed U.S. national trends. The 0% retiree contribution increases reflect recent Guam plan experience.
Employee mortality rates	PUB-2010 General Employees Headcount-Weighted Mortality Table, set forward 4 years and 2 years for males and females, respectively, with 130% of rates prior to age 80. Projected generationally using 50% of scale MP-2020.
Healthy retiree mortality rates:	PUB-2010 General Healthy Retiree Headcount-Weighted Mortality Table, set forward 4 years and 2 years for males and females, respectively, with 130% of rates prior to age 80. Projected generationally using 50% of scale MP-2020.
Disabled retiree mortality rates:	PUB-2010 General Disabled Retiree Headcount-Weighted Mortality Table, set forward 4 years and 2 years for males and females, respectively, with 130% of rates prior to age 80. Projected generationally using 50% of scale MP-2020.

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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

B. Total OPEB Liability, continued

Discount rate: The discount rate used to measure the total OPEB liability was 3.81%. The projection of cash flows used to determine the discount rate assumed that contributions from the Government will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 3.81% municipal bond rate was applied to all periods to determine the total OPEB liability.

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

	1% Decrease in Discount Rate <u>2.81%</u>	Current Discount Rate <u>3.81%</u>	1% Increase in Discount Rate <u>4.81%</u>
Total OPEB Liability	\$ <u>93,220,216</u>	\$ <u>80,248,243</u>	\$ <u>69,743,077</u>

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

	<u>1% Decrease</u>	Healthcare Cost <u>Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ <u>68,471,105</u>	\$ <u>80,248,243</u>	\$ <u>95,300,412</u>

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Notes to Financial Statements, continued

9. Other Post Employment Benefits (OPEB), continued

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

For the years ended September 30, 2025 and 2024, GWA reported total OPEB expense of \$6,404,598 and \$7,389,859, respectively, for its proportionate share of the GovGuam total OPEB expense. At September 30, 2025 and 2024, GWA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2025		2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 4,519,014	\$13,397,181	\$ 3,487,443	\$19,775,455
Difference between expected and actual experience	11,199,060	28,309,956	15,791,492	4,358,671
Contributions subsequent to the measurement date	3,324,872	---	2,735,797	---
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>2,774,408</u>	<u>8,817,955</u>	<u>6,978,056</u>	<u>8,342,841</u>
	<u>\$21,817,354</u>	<u>\$50,525,092</u>	<u>\$28,992,788</u>	<u>\$32,476,967</u>

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

Year ending September 30,

2026	\$(4,533,669)
2027	(6,809,757)
2028	(7,339,013)
2029	(7,339,015)
2030	(2,348,623)
Thereafter	(<u>3,662,533</u>)
	<u>\$(32,032,610)</u>

10. Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the U.S. Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the year ended September 30, 2025 and 2024 amount to \$7,421,447 and \$8,662,002.

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Notes to Financial Statements, continued

11. Commitments and Contingencies

Claims

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

Litigation

In a civil action before the Superior Court of Guam GWA continues to seek resolution in a quiet title action for its Northern District Wastewater Treatment Plant (WWTP) property. In the civil action, a crossclaim and a counterclaim against GWA was filed seeking just compensation for inverse condemnation in the amount of \$220 million plus damages for trespass and encroachment. While a final judgment has not been issued, an April 2024 decision and order by the Superior Court granted title to the opposing party. In May 2024, GWA sought an interlocutory appeal on the trial court's April order and an earlier decision arguing that certificates of title for property upon which the Northern District WWTP resides have been continuously owned, used, and occupied by the federal government, the Government of Guam, and GWA's predecessor (the PUAG) for the use of a very visible wastewater treatment plant since 1979. In January 2025, the Guam Supreme Court granted GWA's request for an interlocutory appeal and since August 2025, the appeal has been under advisement awaiting the Supreme Court's decision. Before the Guam Supreme Court, the Office of the Governor, the Guam Legislature, and the Guam Public Utilities Commission each filed separate appearances and briefs supporting GWA's overall position. As such, the litigation before the Superior Court remains stayed until the appeal is resolved. Considering the status of the litigation and without any firm liability or entry of Judgment having been entered by the courts and realized, no related provision has been recorded in the accompanying financial statements for the potential impact, if any, of this matter.

On November 5, 2024, GWA was served a civil suit (GWA lawsuit) resulting from a \$4.4. million demand in damages from Gershman Brickner and Bratton, Inc. (GBB) the federal dump's Receiver. The suit alleges that GWA waterline leaks are solely responsible for increased leachate flows and volumes to the Ordot Dump resulting in extraordinary costs to the federal receiver and the local Guam Solid Waste Authority (GSWA) for treatment and investigation. On January 6, 2025, GWA filed a Motion to Dismiss the matter citing GBB's failure to properly file a government claim and for GBB's failure to have the authority to seek a claim on behalf of GSWA without GSWA's consent as GSWA and GWA had publicly agreed to resolve these claims with a \$1M account credit prior to GBB's suit. A Decision and Order denying GWA's Motion to Dismiss was entered and a reconsideration motion was filed shortly thereafter; however as of October 2025, the case has remain stayed by the Superior court pending the outcome of a global mediation involving the GWA Lawsuit and three related federal cases. Issues concerning the landfill's high leachate volumes and alleged design flaws that purportedly allowed the intrusion of stormwater and waterline leaks into the dumps leachate collection system remain the subject of global mediation efforts and the ongoing litigation.

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Notes to Financial Statements, continued

11. Commitments and Contingencies

Litigation, continued

GWA is a class member and claimant in the National Water Provider Settlement class action suit for PFAS. In 2024 and 2025, GWA entered settlement and filed timely claims with four settling defendants: the 3M, Dupont, Tyco and BASF manufacturing companies. Since 2025, GWA has received both lumpsum and periodic award payments from each of the four (4) settlements. Future periodic payments are to be made over the next nine (9) years for the 3M company in accordance with applicable settlement agreements.

In 2025, the Guam EPA promulgated local drinking water regulations for a pesticide compound known as Dieldrin currently unregulated at the federal level. After the regulation took effect, GWA complied with the regulation and issued required Do Not Drink without Treatment Notices to approximately 1,200 ratepayers receiving water from GWA's affected well(s) until treatment systems were put in place reducing and eliminating traces of the pesticide compound. These actions were in line and compliant with the local Guam EPA water regulations. Notwithstanding, as of January 2026, through May 2026, 360 government claims totaling \$167.5 million have been filed against GWA resulting from the local drinking water regulations with claimants threatening to file a class-action lawsuit.

As of May 2026, no litigation has been initiated and all claims received remain under review. Based on the information currently available, management believes that the likelihood of a material loss arising from these claims is remote. Accordingly, no related liability and no provision has been recorded in the accompanying financial statements. As the finalized review of the claims progress and as any threatened or potential litigation developments become known this assessment may change.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$86,155,383 at September 30, 2025, of which \$36,827,269 will be funded by federal grants from the U.S. Government.

Regulatory Oversight - Court Orders

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

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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Regulatory Oversight - Court Orders, continued

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

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

GWA together with the Government of Guam, as a co-Defendant, filed an unopposed motion in the U.S. District Court to extend the final completion deadline from December 31, 2025, to December 31, 2026. The Court approved the extension and GWA continues its work to complete the sole remaining compliance requirement by the new deadline.

In further regulatory enforcement efforts, GWA and the U.S. EPA entered and filed a Partial Consent Decree (Partial CD) in the Guam U.S. District Court on January 31, 2024. In August 2024, the federal court entered an Order accepting the Partial CD making it effective August 9, 2024. The Order triggers proximate deadlines from August 9, 2024, for GWA to address a series of assessments, planning, reporting, rule updates, and construction measures within a 10-year period to avoid stipulated penalties. The deadlines to be completed vary from months to years over the 10-year period. . To date, GWA remains on track to meet all applicable deadlines. Where schedule modifications are necessary, the U.S. EPA has been notified and requests for deadline extensions are expected for review.

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Notes to Financial Statements, continued

12. Supplemental Annuities/COLA

As required by GovGuam's Annual Appropriation's Act, GWA must reimburse GovGuam's Department of Administration for certain supplemental and healthcare benefits paid to retirees. During the years ended September 30, 2025 and 2024, GWA levied a 3.5% and 3.80% surcharge, respectively amounting to \$4,245,333 and \$4,057,503, respectively, in order to satisfy this legislative mandate.

13. System Development Charge (SDC)

In 2010, PUC approved the implementation of a water and sewer SDC, which authorized GWA to charge water and wastewater SDC to applicable customers on and after March 2, 2010. SDC revenues generated and collected are to be expended for costs associated with the construction, expansion, upgrade, and repair of water and wastewater facilities for users who are for the first time connecting property into the Guam water or wastewater system or for builders if the density of the existing connection is increased. SDC revenues may also be used to pay the principal sum and interest and other finance costs on bonds, notes or other obligations issued by or on behalf of GWA to finance such capital improvements or facilities expansion or renovations. During the years ended September 30, 2025 and 2024, SDC revenues were \$1,563,818 and \$1,698,842, respectively.

14. Related Party Transactions

GWA receives electrical and administrative services from GPA, a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2025 and 2024 were \$19,917,470 and \$21,892,448, respectively, and GWA was also charged \$610,302 and \$593,742, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA were \$1,577,928 and \$1,961,502 as of September 30, 2025 and 2024, respectively.

For the years ended September 30, 2025 and 2024, GWA billed GPA a total of \$3,058,705 and \$2,501,224 for water and sewer charges on the facilities transferred by the Navy to GPA. The amount due from GPA as of September 30, 2025 and 2024 was \$625,097 and \$2,516,111, respectively, which is included in receivables in the accompanying statements of net position.

GWA receives waste disposal services from Guam Solid Waste Authority (GSWA). Waste disposal fees for the year ended September 30, 2025 and 2024 were \$1,336,335 and \$1,099,837, respectively. Outstanding payables for waste disposal fees owed by GWA to GSWA were \$126,545 and \$84,595 as of September 30, 2025 and 2024, respectively, and were included in trade accounts payable in the accompanying statements of net position.

Required Supplementary Information

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

Defined Benefit Plan

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
GWA's proportionate share of the net pension liability	\$31,191,285	\$41,197,565	\$48,214,836	\$32,556,486	\$42,300,716	\$40,222,332	\$37,292,034	\$33,100,479	\$38,799,923
GWA's proportion of the net pension liability	2.96%	2.95%	3.24%	3.38%	3.39%	3.31%	3.16%	2.90%	2.83%
GWA's covered payroll**	\$20,283,563	\$19,718,173	\$19,156,692	\$18,724,804	\$17,738,557	\$16,874,281	\$16,251,058	\$14,729,699	\$14,353,805
GWA's proportionate share of the net pension liability as percentage of its covered payroll	153.78%	208.93%	251.69%	173.87%	238.47%	238.36%	229.47%	224.72%	270.31%
Plan fiduciary net position as a percentage of the total pension liability	69.98%	59.17%	54.45%	70.14%	61.48%	62.25%	63.28%	60.63%	54.62%

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

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

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
GWA's proportionate share of the net pension liability	\$11,411,860	\$10,123,344	\$9,694,959	\$11,715,208	\$12,486,188	\$12,866,333	\$11,195,277
GWA's proportion of the net pension liability	3.75%	3.76%	3.78%	3.80%	3.88%	3.97%	3.86%

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

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

Ad Hoc COLA Plan for DCRS Retirees

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
GWA's proportionate share of the net pension liability	\$1,885,494	\$2,050,520	\$1,492,903	\$1,766,641	\$1,577,875	\$1,299,011	\$1,105,860
GWA's proportion of the net pension liability	2.64%	2.62%	2.48%	2.50%	2.38%	2.17%	2.24%

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

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 4,979,441	\$ 4,365,333	\$ 4,474,004	\$ 4,263,160	\$ 4,116,086	\$ 3,998,221	\$ 4,029,190	\$ 3,491,479	\$ 3,524,561
Contributions in relation to the actuarially determined contribution	<u>6,578,291</u>	<u>5,639,689</u>	<u>5,187,181</u>	<u>5,180,477</u>	<u>4,038,242</u>	<u>4,025,886</u>	<u>4,296,287</u>	<u>3,630,252</u>	<u>3,527,186</u>
Contribution deficiency (excess)	\$ (1,598,850)	\$ (1,274,356)	\$ (713,177)	\$ (917,317)	\$ 77,844	\$ (27,665)	\$ (267,097)	\$ (138,773)	\$ (2,625)
GWA's covered payroll**	<u>\$22,596,768</u>	<u>\$20,283,563</u>	<u>\$19,718,173</u>	<u>\$ 18,724,804</u>	<u>\$17,738,557</u>	<u>\$ 16,874,281</u>	<u>\$ 16,251,058</u>	<u>\$ 14,729,699</u>	<u>\$ 14,353,805</u>
Contributions as a percentage of covered payroll	29.11%	27.80%	26.31%	27.67%	22.77%	23.86%	26.44%	24.65%	24.57%

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

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
GWA's proportionate share of the OPEB liability	\$80,248,243	\$103,206,575	\$87,184,863	\$116,272,057	\$106,433,894	\$84,163,331	\$62,656,405	\$88,950,661
GWA's proportion of the OPEB liability	3.66%	3.77%	3.80%	4.19%	4.23%	3.30%	3.34%	3.66%

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years' information is available.

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$9,347,798	\$7,868,855	\$9,019,293	\$8,511,831	\$7,175,899	\$5,617,770	\$7,776,105	\$8,045,954
Contributions in relation to the actuarially determined contribution	<u>3,550,297</u>	<u>2,869,062</u>	<u>2,397,392</u>	<u>1,966,259</u>	<u>1,598,791</u>	<u>1,745,004</u>	<u>1,795,850</u>	<u>1,617,515</u>
Contribution deficiency	<u>\$5,797,501</u>	<u>\$4,999,793</u>	<u>\$6,621,901</u>	<u>\$6,545,572</u>	<u>\$5,577,108</u>	<u>\$3,872,766</u>	<u>\$5,980,255</u>	<u>\$6,428,439</u>

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

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

Notes to Required Supplementary Information (Unaudited)

Changes in Assumptions – Pension Plans

Amounts reported in 2024 actuarial valuation reflected an assumption related to administrative expenses to increase to \$7,402,000 per year.

Amounts reported in 2023 actuarial valuation reflected an assumption related to administrative expenses to increase to \$6,798,000 per year.

Amounts reported in 2022 actuarial valuation reflected an assumption related to administrative expenses to decrease to \$6,798,000 per year.

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

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

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

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

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

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

Amounts reported in 2015 actuarial valuation reflect a change in assumption of payroll growth to 3% rather than 3.5% which was used to determine amounts reported prior to 2015.

Other Postemployment Benefit Plan

The information presented has no assets accumulated in a trust to pay related benefits.

Supplementary and Other Information

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

Schedule of Certain Operating and Maintenance Expenses

	Year ended September 30,	
	<u>2025</u>	<u>2024</u> (Restated)
Salaries, wages and benefits:		
Regular, differential and hazardous pay	\$19,748,833	\$17,077,804
Pension costs and other benefits	8,352,274	9,264,298
Overtime pay	<u>812,971</u>	<u>764,829</u>
Total salaries, wages and benefits	<u>\$28,914,078</u>	<u>\$27,106,931</u>
Administrative and general:		
Materials and supplies	\$ 2,949,256	\$ 1,396,741
Chemicals	2,615,143	1,882,201
Insurance	1,878,914	1,803,101
Transportation	738,450	504,105
Miscellaneous	738,879	665,430
Merchant fees	857,559	860,821
Public Utility Commission	212,101	552,292
Communications	131,982	136,781
Training	489,052	198,701
Liability claims	84,431	144,593
Advertising	<u>58,260</u>	<u>68,895</u>
Total administrative and general	<u>\$10,754,027</u>	<u>\$ 8,213,661</u>
Contractual:		
Labor, materials and others	\$ 2,007,291	\$ 1,404,959
Accounting	2,182,406	1,879,040
Legal	448,384	559,014
Property rental	586,377	582,808
Equipment rental	453,606	124,257
Testing	<u>311,538</u>	<u>687,426</u>
Total contractual	<u>\$ 5,989,602</u>	<u>\$ 5,237,504</u>
Other expense:		
Interest expense	\$30,774,173	\$26,805,659
Retiree healthcare costs and other benefits	6,830,313	8,661,999
Bond issuance costs	<u>1,208,522</u>	<u>3,364,221</u>
Total other expense	<u>\$38,813,008</u>	<u>\$38,831,879</u>

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

Schedule of Construction Work in Progress

Year ended September 30, 2025

Projects	Type	Beginning Balance FY2025	Additions and Transfers	Closeouts and Adjustments	Ending Balance FY2025
Asan / Santa Rita Springs Rehabilitation	Water	\$ 1,016,691	\$ 56,615	\$ ---	\$ 1,073,306
Deepwells (New Well Site Development, Rehabilitation, GAC treatment)	Water	2,328,052	3,049,753	---	5,377,805
District Metered Areas	Water	---	470,479	---	470,479
Equipment Purchases	Water/Wastewater	606,843	2,472,895	(2,434,575)	645,163
Facilities Improvement	Water/Wastewater	1,036,445	1,039,298	(663,523)	1,412,220
Fire Hydrant Replacement Project	Water	3,234	---	(3,234)	-
GIS Mapping	Water	96,736	---	(96,736)	-
Hydraulic Modeling	Water/Wastewater	644,072	---	(119,849)	524,223
I&I SSES for Central/Northern/Southern Sewer Systems	Wastewater	1,451,991	---	(241,999)	1,209,992
Information Technology	Water/Wastewater	77,257	148,726	(216,889)	9,094
Island Wide Real Property Survey & Mapping	Water/Wastewater	432,318	40,471	---	472,789
Island Wide Water Reservoirs	Water	48,262,157	43,612,998	(5,734,411)	86,140,744
Meters and related	Water	536,524	(92,483)	(10,905)	433,136
Northern & Central Sewer Transmission System	Wastewater	---	278,436	---	278,436
Pressure Zone Realignment	Water	268,291	1,426,980	(256,650)	1,438,621
Program Management Office	Water/Wastewater	3,973,462	193,759	(2,168,101)	1,999,120
Pumps, Motors, Cables and related Replacements	Water/Wastewater	145,121	420,683	(510,848)	54,956
SCADA System for Water and Wastewater	Water/Wastewater	7,240	---	(3,694)	3,546
Sewer Pump Station Improvements	Wastewater	2,839,820	1,036,802	(179,678)	3,696,944
Southern and Central Sewer Transmission	Wastewater	---	30,889	---	30,889
Tumon Hot Spots Sewer Line Rehabilitation	Wastewater	444,979	94,007	---	538,986
Ugum Water Treatment Plant Rehabilitation	Water	877,483	10,156,727	(9,401,394)	1,632,816
Upgrade to Secondary Treatment at NDWWTP	Wastewater	660,382	---	---	660,382
Wastewater Collection Systems	Wastewater	2,261,953	4,872,538	(2,120,852)	5,013,639
Water and Wastewater Infrastructure Improvements	Water/Wastewater	1,723,602	2,017,581	(70,000)	3,671,183
Water Booster Pump Station Improvements	Water	723,245	213,537	(32,670)	904,112
Water Distribution Systems	Water	4,944,823	1,278,618	(3,726,636)	2,496,805
Total		\$ 75,362,721	\$ 72,819,309	\$ (27,992,644)	\$ 120,189,386

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

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

	September 30, <u>2025</u>	<u>2024</u>
Assets		
Current assets:		
Restricted cash	\$ 9,004,334	\$7,160,562
Receivables	<u>1,350,811</u>	<u>1,334,015</u>
	<u>\$10,355,145</u>	<u>\$8,494,577</u>
Liabilities and Net Position		
Current liabilities:		
Due to GWA	\$ <u>1,096,611</u>	\$ <u>1,091,264</u>
Net Position:		
Restricted	<u>9,258,534</u>	<u>7,403,313</u>
	<u>\$10,355,145</u>	<u>\$8,494,577</u>
Revenues, Expenses and Changes in Net Position		
Revenues:		
System development charge	\$1,563,818	\$1,698,842
Other revenues	<u>291,403</u>	<u>193,550</u>
Change in net position	1,855,221	1,892,392
Net position at beginning of year	<u>7,403,313</u>	<u>5,510,921</u>
Net position at end of year	<u>\$9,258,534</u>	<u>\$7,403,313</u>

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

Schedule of Operating Revenues

	Year ended September 30,	
	<u>2025</u>	<u>2024</u>
Water	\$ 88,565,038	\$ 79,144,020
Wastewater	52,175,055	44,594,287
Surcharges:		
Legislative	4,245,333	4,057,503
System development charge	1,563,818	1,698,842
Other	709,295	591,327
Bad debts expense	(2,004,924)	(229,334)
Regulatory deferral	(<u>9,500,000</u>)	<u>---</u>
Total operating revenues	<u>\$135,753,615</u>	<u>\$129,856,645</u>

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

Schedule of Employee and Other Data

Years ended September 30, 2025 and 2024

2025					
Cost Category	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration and Support	76	\$ 5,911,576	\$ 1,600,466	\$ 152,809	\$ 7,664,851
Compliance & Safety	18	1,999,306	687,529	121,312	2,808,147
Engineering	32	1,457,551	11,967	29,527	1,499,045
Executive Management	45	4,523,791	1,570,497	223,391	6,317,679
Operations: Construction & Maintenance	33	2,037,386	176,301	134,171	2,347,858
Operations: Water Distribution	55	3,845,798	904,855	1,086,880	5,837,533
Operations: Water Production & Treatment	32	2,454,255	287,546	285,870	3,027,671
Operations: Wastewater Collection	55	4,270,789	735,179	643,456	5,649,424
Operations: Wastewater Treatment	35	2,413,625	15,262	271,840	2,700,729
Total	381	\$ 28,914,077	\$ 5,989,602	\$ 2,949,256	\$ 37,852,937

2024 (Restated)					
Cost Category	Full-Time Employees	Personnel Services	Contractual Services	Materials and Supplies	Total
Administration and Support	72	\$ 5,825,477	\$ 1,668,452	\$ 72,220	\$ 7,566,149
Compliance & Safety	18	2,137,330	1,072,148	43,961	3,253,439
Engineering	28	1,718,923	---	7,953	1,726,876
Executive Management	43	4,242,489	1,588,523	14,321	5,845,333
Operations: Construction & Maintenance	27	2,123,667	47,689	73,721	2,245,077
Operations: Water Distribution	49	3,164,670	438,184	788,992	4,391,846
Operations: Water Production & Treatment	34	2,030,299	125,826	124,951	2,281,076
Operations: Wastewater Collection	48	3,461,107	242,888	193,623	3,897,618
Operations: Wastewater Treatment	28	2,402,969	53,795	76,999	2,533,763
Total	347	\$ 27,106,931	\$ 5,237,505	\$ 1,396,741	\$ 33,741,177