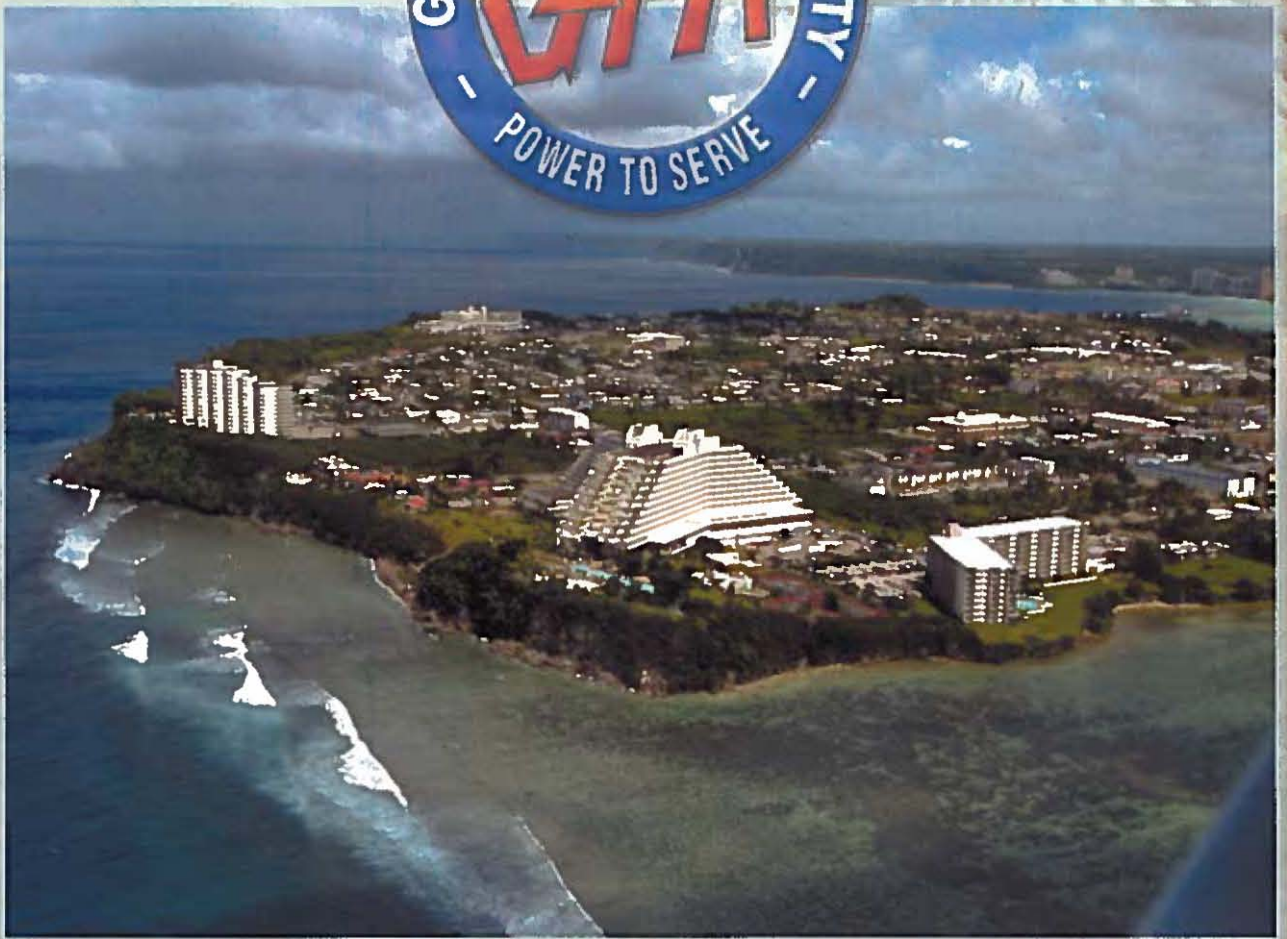




1998-1999
Annual Report



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Territorial Message

Both 1998 and 1999 were exciting and dynamic periods for the Guam Power Authority. The staff and management of GPA strived to overcome challenges to continue providing reliable electrical services as safely, efficiently and economically as possible to the ratepayers of Guam.

Newly forged partnerships with independent power producers have provided an additional 190 megawatts of generation capacity supporting increases in demand. GPA can now focus on improving efficiency with existing generation facilities to further increase reliability of these generation assets.

Other areas of improvement in customer services was the implementation of the Levelized Fuel Adjustment Charge (LEAC) thereby allowing GPA to stabilize a customer's bill and eliminate fuel cost fluctuations caused by shifting oil prices. Capital Improvement Projects like the San Vitores Substation will serve the growth of commerce within Phase II of the Tumon Redevelopment Plan. Also, line extension projects within the Iba, Matagua and Pigua subdivisions brought government back to the people sparking development and allowing these future homeowners the opportunity to improve the quality of their lives by providing the infrastructure needed to build their new homes.

We remain confident that GPA, with its commitment towards providing improved service, will lead us to further success in the millennium.

Si Yu'os Ma'ase,

Carl T.C. Gutierrez
Governor

Madeleine Z. Bordallo
Lieutenant Governor



Frank S.N. Shimizu
Chairman



Eduardo R. Ilao
Vice Chairman



Marilyn P. Megofna
Secretary



Grace C. Low
Director



Vicente A. C. Lujan
Director

GPA Board of Directors

It has been the pleasure of this Board to have been a part of the growth here at Guam Power Authority. Improvements in many areas of the Authority continue to challenge the workforce by encouraging innovative thinking to everyday situations. Many of the accomplishments reflect this forethought with improvements in reliability.

Examples of this forethought are evident with many of the pole hardening and underground projects completed or on-going within the community. Projects directly related to supporting the growth of the visitor industry. The San Vitores Substation will allow GPA to encourage development by supporting the additional load growth with the completion of Phase II of the Tumon Redevelopment Plan. The completion of the Umatac Substation in August of '99 was specifically designed to support load growth in the southern end of Guam and provide back-up feeders to and from Talafofo and Apra. In conjunction with this project, the Apra-Umatac 34.5 kV transmission line to service Umatac Substation from the Apra substation will be completed later this year.

These are just examples of the many projects within GPA focused on improving service and increasing system reliability. We, as the GPA Board of Directors, are confident that GPA is on-track with renewed vigor towards providing reliable electrical service as economically, safely and efficiently to our ratepayers.

From the General Manager

It is my great pleasure to present to you the Guam Power Authority's Annual Report consolidating fiscal years 1998 and 1999. The Authority has changed significantly over the past 32 years of public service with the development of the tourism industry and the implementation of the Customer Services Agreement with the U.S. Navy. Growth of the residential and commercial aspects of our customer base have continually challenged the Authority to meet a growing need for expanded services i.e. Demand Side Management. It is this increase in customer services that drives the planning for future capital improvement projects and innovative approaches to everyday situations.

During 1998, the completion of the Energy Conversion Agreements (ECA) with three independent power producers have addressed critical issues with spinning reserves within generation assets and GPA's ability to meet future electricity demands. The inclusion of the IPP's has provided a positive model for efficient operations and has effectively challenged the Authority to reexamine current operations for more cost-effective methods increasing efficiency within O&M.

More notable accomplishments in 1999 such as the line extension projects to families in Iba, Matagua and Pigua have enabled development in these areas increasing the quality of life for the families in these new subdivisions. Other projects such as the new Piti-Harmon 115 kv line project and the San Vitores-Tamuning transmission line to support the completion of Phase II of the Tumon Redevelopment Plan will strengthen our transmission & distribution facilities.

The above-mentioned project represents only the "tip of the iceberg" of aggressive efforts GPA has undertaken to improve not only reliability, but most important to the ratepayer . . . Service.



T. ANN AGUON PEREZ
General Manager



Throughout Fiscal Years 1998 and 1999, GPA has completed many projects focused on improving system reliability and service. Many areas of GPA contributed to the planning, project management and coordination of resources involved with project scope of work involving millions of ratepayer and bond funded moneys.

Transmission Projects: Enables GPA to serve large areas of load growth.

- Piti-Harmon 115kv Transmission Line: provides redundant 115kv transmission capabilities to Harmon Substation vs. reliability through 115kv line on Nimitz Hill
- 115 kV Piti Substation project: expands GPA substation capabilities for future load growth
- Cabras-Piti 115kv line:
- San Vitores-Tamuning transmission line construction started to support Phase II of Tumon Redevelopment Plan San Vitores-Hagåtña transmission line to begin later this year
- Agat-Umatat transmission line: to be completed this year; enables GPA to energize Umatat Substation



Substation Projects: Enables GPA to provide reliable service to large load growth areas with adequate power supply.

- Umatat Substation: completed last year; awaiting completion of Agat-Umatat transmission line to service load growth in this southern part of Guam.
- San Vitores Substation: completed last year ahead of schedule; awaiting completion of San Vitores-Tamuning transmission line to support Phase II of Tumon Redevelopment Plan.

Transmission & Distribution: GPA completed line extension projects to families in the following subdivision areas to build homes and support growth in their communities.

- Iha
- Chamorro Landtrust property in Dededo
- Matagua
- Pigua

Computer Maintenance Management Program (CMMS): GPA maintenance management program is installed within a majority of the maintenance group sections in GPA. The CMMS allows GPA planners to better schedule maintenance, manpower and requisition of materials.

Levelized Fuel Charge (LEAC): The Public Utilities Commission (PUC) authorized GPA to enter into a LEAC agreement in March of 1999. The LEAC allows GPA to stabilize customer's bill and eliminate fuel cost fluctuations caused by shifting oil prices.

Refinancing of 1992 and 1994 series Bonds: The Guam Power Authority became the first agency within the Government of Guam to receive favorable bond ratings from the bond rating firms of Moody's, Fitch and Standard & Poors. The Authority sought the refinancing of existing 1992 and 1994 series bonds on the market. The three firms upgraded GPA bond rating from BBB negative to BBB stable. The refinancing of the bonds resulted in a \$13 million dollar savings on interest payments, which will be passed onto GPA customers.



Implementation of Financial Management System (FMS): GPA completed its rollover into a new Financial Management System in 1999. Prior to the rollover, GPA division operated on different systems to process data. With the new FMS, these same divisions avoid the duplication of data with the use of one system. The new systems merge existing systems to allow all divisions within the Authority to process data simultaneously, greatly reducing duplication processes and paper flow.

Y2K remediation efforts . . . The Authority began its Y2K remediation efforts late 1999 to meet its Y2K deadline. With the efforts of many different parties within GPA, the rollover into the year 2000 came through without any incident. Efforts within operations and support divisions played significant roles with GPA's success in this regard. A recent article within the Pacific Power Association newsletter commented that, "GPA was well ahead of its Micronesian counterparts."

Pole Hardening and Upgrade Projects: GPA focused on improving GPA distribution systems within project areas:

GW and UOG pole hardening and upgrade was completed late last year involved replacing existing conductors to resized 336.4 wire to service the large load in the surrounding area to include the Guam Community College, George Washington Senior High School and the University of Guam with its newly constructed colleges.

Perezville Underground Phase II: project was designed to provide civil infrastructure for future underground customer conversions.

Tumon Underground Conversion: part of Tumon Redevelopment Plan to beautify "Hotel Row". Project converted all overhead 34.5 lines along San Vitores Boulevard from Route 1 to Westin Hotel on through to Fujita Hotel to underground system.

Federal Emergency Management Agency (FEMA) funded projects: These projects were 90% funded by FEMA Hazard Mitigation grants as a result of Typhoon Paka:

Dededo Kaiser project involved installing 175 new concrete poles to upgrade distribution system by replacing inadequate back-lot pole locations within assessable easements and termite infested wooden poles.

Santa Rita Village: a total of 111 concrete poles with concrete foundations are to be installed with approximately 246 homes converted to the secondary hybrid system.

GPA has recently completed construction of the T&D Substation Maintenance Building in Dededo. The new maintenance building will house a transformer testing area, a 10-ton overhead crane and a 3,000-gallon oil water separator for the facility. Also included in the facility is a PCB storage area and a pump pit for the oil filled transformer work area. The new maintenance building will enable substation personnel a storage area for transformers as well an equipped area to work on transformers.

Later this year, GPA has completed the Tenjo Vista Expansion Project with the installation of two 4.88 MW diesel generators with auxiliary equipment and supporting facilities. Also, two new stacks will be added along with the installation of a newly refurbished 30 MVA transformer.

In conclusion, both fiscal years 1998 and 1999 brought about changes in the manner the Authority conducted its business. As seen above, improvements in transmission and distribution, finance and accounting, customer and computer services have significantly poised the Authority to reap operational savings. Such improvements will provide the direction the Authority will follow for streamlining costs and improving efficiency during the next fiscal year.



FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 1998 AND 1997



**Deloitte Touche
Tohmatsu**



Independent Auditors' Report

The Board of Directors
Guam Power Authority

We have audited the accompanying balance sheets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 1998 and 1997, and the related statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Power Authority as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 17 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that GPA is or will become year 2000 compliant, that GPA's year 2000 remediation efforts will be successful in whole or in part, or that parties with which GPA does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report, dated April 16, 1999 on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

April 16, 1999

Deloitte & Touche LLP

GUAM POWER AUTHORITY



Balance Sheets September 30, 1998 and 1997

ASSETS	1998	1997
Utility plant, at cost:		
Electric plant in service	\$ 479,919,868	\$ 434,723,108
Construction work in progress	50,530,323	73,617,808
	530,450,191	508,340,916
Less accumulated depreciation	(111,955,549)	(96,812,134)
Total utility plant	418,494,642	411,528,782
Bond reserve funds (trustee) (note 8)	27,022,127	26,986,361
Current assets:		
Cash and cash equivalents (note 8):		
Held by trustees:		
Interest and principal funds for debt repayment	15,514,807	7,159,895
Bond indenture funds for restricted purposes	79,729,862	58,607,656
	95,244,669	65,767,551
Held by Guam Power Authority:		
Bond indenture funds	7,377,160	1,852,315
Self-insurance fund (note 7)	1,017,175	2,483,188
	8,394,335	4,335,503
Total cash and cash equivalents	103,639,004	70,103,054
Accounts receivable (notes 2, 4 and 7)	50,031,643	31,144,328
Materials and supplies inventory	22,513,721	18,944,033
Fuel inventory	9,405,768	11,346,716
Prepaid expenses	646,037	840,752
Deferred fuel costs	90,558	135,749
Total current assets	186,326,731	132,514,632
Other assets:		
Unamortized debt issuance costs	6,663,117	6,230,122
Cancelled unit, net of amortization	1,846,108	1,968,283
Regulatory assets (note 10)	-	7,409,059
Other	(236,157)	(36,955)
Total other assets	8,273,068	15,530,419
	\$ 640,116,568	\$ 586,560,264

See accompanying notes to financial statements.



GUAM POWER AUTHORITY

Balance Sheets September 30, 1998 and 1997

CAPITALIZATION AND LIABILITIES

1998

1997

Capitalization:

Contributed capital:

Grants by Government of Guam

\$ 27,898,440

\$ 27,898,440

Grants by U.S. Government

12,866,000

12,866,000

Total contributed capital

40,764,440

40,764,440

Retained earnings

123,809,773

120,268,747

164,574,213

161,033,187

Long-term debt, less current maturities (note 5)

336,326,715

341,302,940

Total capitalization

500,900,928

502,336,127

Current liabilities:

Bank overdraft

1,359,650

-

Short-term debt (note 4)

71,217,174

26,014,975

Current maturities of long-term debt (note 5)

7,203,147

6,259,784

Accounts payable:

Operations

14,824,632

12,180,083

Fuel

4,263,473

4,233,437

Navy

2,176,511

959,886

Accrued payroll and employees' benefits

1,863,995

1,517,362

Current portion of employees' annual leave

1,015,304

995,583

Other accrued liabilities

853,278

2,383,726

Interest payable

11,390,876

11,123,438

Customer deposits

2,838,176

3,174,400

Deferred credits (note 10)

5,029,462

3,345

Total current liabilities

24,235,678

68,846,219

Employees' annual leave, less current portion

1,852,786

1,594,383

Retirement fund deferred contributions (note 6)

13,127,16

13,783,535

Total Liabilities

139,215,640

84,224,137

Commitments and contingencies (note 7)

\$ 640,116,568

\$ 586,560,264

GUAM POWER AUTHORITY



Statements of Earnings and Retained Earnings Years Ended September 30, 1998 and 1997

	1998	1997
Revenues (note 5):		
Sales of electricity (note 9)	\$ 179,774,048	\$ 194,374,459
Miscellaneous	1,282,683	4,487,916
	<u>181,056,731</u>	<u>198,862,375</u>
Operating and maintenance expenses:		
Production fuel	57,190,572	72,507,199
Other production	35,995,922	30,742,433
	<u>93,186,494</u>	<u>103,249,632</u>
Administrative and general	18,638,136	16,977,790
Depreciation	17,963,315	16,247,845
Transmission and distribution (note 3)	13,084,889	14,197,610
Energy conversion costs (note 7)	9,273,805	3,736,017
Customer accounting	7,158,034	12,002,929
	<u>159,304,673</u>	<u>166,411,823</u>
Operating earnings	<u>21,752,058</u>	<u>32,450,552</u>
Other income (expense):		
Interest expense	(22,787,705)	(28,896,641)
Allowance for funds used during construction	800,052	1,070,606
Interest income	4,507,822	4,818,301
Other income (expense), net (note 7)	(731,201)	(132,433)
	<u>(18,211,032)</u>	<u>(18,140,167)</u>
Net earnings	3,541,026	14,310,385
Retained earnings at beginning of year	<u>120,268,747</u>	<u>105,958,362</u>
Retained earnings at end of year	<u>\$ 123,809,773</u>	<u>\$ 120,268,747</u>

See accompanying notes to financial statements.



GUAM POWER AUTHORITY

Statements of Cash Flows Years Ended September 30, 1998 and 1997

	1998	1997
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	\$ 162,171,158	\$ 199,237,279
Cash payments to suppliers and employees for goods and services	(129,186,860)	(168,532,207)
Net cash provided by operating activities	<u>32,984,298</u>	<u>30,705,072</u>
Cash flows from investing activities:		
Decrease (increase) in bond reserve funds	(35,766)	79,440
Interest and dividends on investments and bank accounts	<u>4,507,822</u>	<u>4,818,301</u>
Net cash provided by investing activities	<u>4,472,056</u>	<u>4,897,741</u>
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	20,000,000	1,122,607
Principal paid on short-term debt	(19,797,801)	-
Interest paid on short-term debt and deposits	(2,022,929)	(2,162,432)
Bank overdraft	<u>1,359,650</u>	<u>-</u>
Net cash used in noncapital financing activities	<u>(461,080)</u>	<u>(1,039,825)</u>
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(20,553,170)	(25,971,861)
Principal paid on bonds and other long-term debt	(6,745,040)	(4,272,019)
Interest paid on bonds	(20,328,235)	(20,680,758)
Proceeds from capital related short-term debt	45,000,000	-
Debt issuance costs	<u>(832,879)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(3,459,324)</u>	<u>(50,924,638)</u>
Net increase in cash and cash equivalents	33,535,950	(16,361,650)
Cash and cash equivalents at beginning of year	70,103,054	86,464,704
Cash and cash equivalents at end of year	<u>\$ 103,639,004</u>	<u>\$ 70,103,054</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows Years Ended September 30, 1998 and 1997

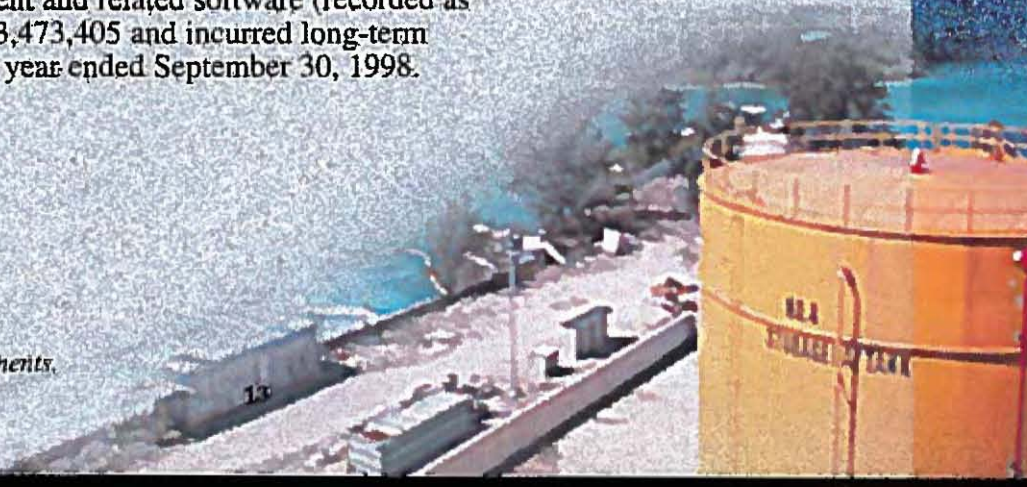


	1998	1997
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$ 21,752,058	\$ 32,450,552
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	25,372,354	24,083,385
Difference between retirement expense and funding	(656,359)	(626,524)
Other expense	(731,201)	(132,433)
(Increase) decrease in assets:		
Accounts receivable	(18,887,315)	(681,332)
Materials and supplies inventory	(3,569,688)	(1,152,688)
Fuel inventory	1,940,948	361,084
Prepaid expenses	194,715	148,856
Deferred fuel costs	45,191	1,311,879
Other assets	(151,618)	(5,349,859)
Increase (decrease) in liabilities:		
Accounts payable - fuel	30,036	(5,742,060)
Accounts payable - operations	2,644,549	(10,407,327)
Accounts payable - Navy	1,216,625	(2,765,228)
Accrued payroll and employees' benefits	346,633	29,485
Employees' annual leave	278,124	68,915
Customer deposits	(336,224)	(255,644)
Other accrued liabilities	(1,530,447)	(635,989)
Deferred credits	5,025,917	-
Net cash provided by operating activities	\$ 32,984,298	\$ 30,705,072

Non-cash capital financing transaction:

GPA acquired and installed equipment and related software (recorded as construction work-in progress) of \$3,473,405 and incurred long-term debt of the same amount during the year ended September 30, 1998.

See accompanying notes to financial statements.





GUAM POWER AUTHORITY Notes to Financial Statements September 30, 1998 and 1997

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). GPA is subject to the regulations of the Public Utility Commission of Guam (PUC), and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Because of the rate-making process, certain differences arise in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Utility Plant: Utility Plant is stated at cost, which, as to certain plant transferred from the power division of the Public Utility Agency of Guam in 1969, is based on estimated cost as determined by an independent appraiser. Cost includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. The cost of utility plant retired or otherwise disposed of, plus removal costs and less salvage, is charged to accumulated depreciation. Contributions in aid of construction are deducted from the cost of the utility plant.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets (25 - 50 years for plant assets). Depreciation expense for 1998 and 1997 was approximately 3.7% of the cost of depreciable properties.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, money market accounts and U.S. treasury bills with original maturities of less than 90 days in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund. Cash and cash equivalents do not include money market accounts in bond reserve funds held by bond trustees.

Inventories: Materials and supplies inventories are stated at the lower of cost (weighted average) or market. Fuel inventories are stated at cost using the first-in, first-out method of valuation.

Contributed Capital: GPA commenced operations in April, 1969 when assets and liabilities with a net value of \$7,898,400 were transferred to GPA from the power division of the Public Utility Agency of Guam. An

additional \$20 million loan from the Government of Guam was converted to contributed capital during the year ended September 30, 1992.

The U.S. Department of the Interior provided GPA with \$9.8 million for rebuilding a portion of the distribution system utilizing concrete poles to better resist typhoon damage. Funds were provided directly to the military construction officer for designing and administering the rebuilding work. Beneficial use of all lines has been given to GPA. The Federal Emergency Management Association (FEMA) provided a \$3,066,000 grant to GPA to subsidize the costs of housing generators to run waterwell pumps.

Accrued Annual Leave: Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with GPA. Accumulation of such vacation credits is limited to 480 hours at fiscal year end and is convertible to pay upon termination of employment.

Sales of Electricity: Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing and the actual cost of fuel.

Fuel Oil Costs: Fuel oil costs increase or decrease billings to customers with price changes in fuel oil purchased by GPA. Under-recoveries of fuel oil costs are recorded as deferred fuel cost assets in the accompanying balance sheets, and are recovered in future billings to customers.

Allowance for Funds Used During Construction: The allowance for funds used during construction (AFUDC) is provided only for construction projects of more than \$50,000 which require a minimum of 90 days to complete. AFUDC is computed using the interest expense on directly assignable borrowings to finance the projects less interest income on the related unused borrowings which have been invested. AFUDC is provided only during the period in which such projects are undergoing activities to prepare them for their intended use.

Unamortized Debt Issuance Costs: Unamortized debt issuance costs include costs related to the issuance of the Series 1992, Series 1993 and Series 1994 bonds and tax exempt commercial paper notes. These costs are being amortized on the straight line method over the life of the applicable debt.

Cancelled Unit: The cancelled unit account consists of costs incurred in the refurbishment of the Weber Power Barge. The barge refurbishment project was abandoned during the year ended September 30, 1994. These costs are being amortized on a straight-line basis over the life of the bonds used to finance the refurbishment costs.

Reclassifications: Certain reclassifications have been made to the 1997 financial statements to conform with the 1998 presentation.



GUAM POWER AUTHORITY **Notes to Financial Statements** **September 30, 1998 and 1997**

(2) ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 1998 and 1997, are summarized as follows:

Customer:	1998	1997
Private	\$ 20,572,223	\$ 21,926,810
Government	11,827,183	8,928,419
	32,399,406	30,855,229
Government subsidies	463,055	463,055
Insurance and FEMA		
claims (note 7)	16,495,156	1,181,024
Others	3,210,552	2,054,352
U.S. Navy	-	352,584
Less allowance for		
doubtful receivable	(2,536,526)	(3,761,916)
	\$ 50,031,643	\$ 31,144,328

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

(3) AGREEMENTS WITH THE UNITED STATES NAVY

On September 15, 1996, a lease agreement was entered into between GPA and the U.S. Navy (Navy) to transfer to GPA the operations, maintenance and custody of certain Navy-owned electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with associated land interest. The facilities are leased to GPA at no cost for a period of fifty years.

GPA incurred transmission and distribution expenses with the U.S. Navy of \$372,646 and \$2,088,412, respectively, for the years ended September 30, 1998 and 1997.

(4) SHORT-TERM DEBT

	1998	1997
Short-term debt at September 30, 1998 and 1997, is as follows:		
Thirty-day notes payable drawn on a \$15 million bank line of credit with interest at 7.56875% through 7.71625% at September 30, 1998 (7.625% to 7.6875% at September 30, 1997), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues.	\$ 6,217,174	\$ 15,000,000
Ninety-day notes payable drawn on a \$15 million bank line of credit with interest at 7.625% through 7.90625% at September 30, 1998 (7.71875% to 7.75% at September 30, 1997), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues.	-	11,014,975

Tax exempt commercial paper notes issued in August 1998 with interest at 2.9% to 4% at September 30, 1998. The notes provide \$20 million for working capital and \$45 million for capital projects and are collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The notes had original maturity dates from October 7, 1998 through January 12, 1999, but have been subsequently rolled over with new maturity dates from May 13, 1999 through July 15, 1999.

\$ 65,000,000	-
<u>\$ 71,217,174</u>	<u>\$ 26,014,975</u>



GUAM POWER AUTHORITY
Notes to Financial Statements
September 30, 1998 and 1997

(5) LONG-TERM DEBT

Long-term debt at September 30, 1998 and 1997, is as follows:

Bonds:

1992 Series, interest at varying rates from 2.65% to 6.3% payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments with a payment of \$2,305,000 in October 1994, increasing to \$11,040,000 in October 2022.

\$ 146,365,000 \$148,950,000

1993 Series, interest at varying rates from 3.90% to 5.25% payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023.

96,485,000 98,275,000

1994 Series, interest at varying rates from 5.20% to 6.75% payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,500,000 in October 1997, increasing to \$7,630,000 in October 2024.

101,400,000 102,900,000
 344,250,000 350,125,000

Notes:

MDI Guam non-interest bearing note payable in exchange for funds received for the construction of Manenggon Hills substation. The note is being repaid by deducting 80% of MDI's non-fuel charges from future power billings.

2,754,723 3,454,286

IBM long-term financing relating to the purchase and installation of GPA's accounting and operating systems, payable in equal monthly installments of \$95,941 until 2003, including interest ranging from 4.45% to 7.41%.

3,357,510
 350,362,238 353,579,286
 (7,203,147) (6,259,784)
 343,159,091 347,319,502
 (6,832,376) (6,016,562)

\$ 336,326,715 \$ 341,302,940

At September 30, 1998, estimated maturities of long-term debt through 2003 and subsequent years are as follows:

1999	\$ 7,203,147
2000	\$ 7,513,109
2001	7,882,063
2002	8,278,977
2003	8,404,138
Subsequent years	311,080,804
	<u>\$ 350,362,238</u>

The proceeds of the 1992 series bonds, face value of \$158 million, were used to construct and acquire additional generating capacity, to build additional transmission facilities, and to refund existing long-term debt at the time of issuance.

Bond proceeds of approximately \$19,700,000 were also used to establish escrow funds for the purpose of defeasing several existing series of bonds over their scheduled maturities.

The proceeds of the 1993 series bonds, face value of \$100 million, are being used to finance certain acquisitions of additional generating capacity, the construction of additional transmission facilities, and also to upgrade and refurbish certain existing equipment.

Proceeds of the 1994 series bonds, face value of \$102.9 million, are being used to finance the construction of an additional base-load generating unit and the construction of four new substations.

All gross revenues of GPA have been pledged to repay



GUAM POWER AUTHORITY

Notes to Financial Statements

September 30, 1998 and 1997

the 1992, 1993 and 1994 series bond principal and interest.

Discounts associated with the 1992, 1993 and 1994 bond series are being amortized using the interest method over the lives of the bonds.

(6) EMPLOYEES' RETIREMENT PLAN

Employees of GPA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of a Defined Contribution Retirement System (DCRS). Employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System until September 30, 1998.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GPA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 1995, it has been determined that for the year ended September 30, 1998, a minimum combined employer and employee contribution rate of 28.1% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1998. The effect of GPA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.6% to an effective rate of 16.1% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 2.5% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 16.1% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1997 was 16.0%.

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1995, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate entity, the accrued unfunded liability at September 30, 1998 and 1997, may be materially different than that recorded in the accompanying financial statements.

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

The cost to GPA for retirement contributions for the years ended September 30, 1998 and 1997, is as follows:

	1998	1997
Cash contributions	\$ 5,898,706	\$ 4,524,775
Accruals	(656,359)	(626,524)
	\$ 5,242,347	\$ 3,898,251

(7) COMMITMENTS AND CONTINGENCIES

Commitments:

Capital Commitments

The 1998 capital improvement project budget is approximately \$23 million. The five-year capital improvement project budget proposed by management for 1999 through 2003 is estimated to be \$105 million. These budgets are subject to change by the Board of Directors.

GPA has approximately \$46.7 million in purchase commitments as of September 30, 1998.

GPA has also entered into agreements to purchase fuel from certain suppliers at prices yet to be determined.

In March 1999, GPA acquired a turn key gas turbine power plant for \$11.2 million. GPA had previously leased the plant for \$66,666 per month plus a variable payment based on the LIBOR rate.

Leases

GPA presently leases space for operations from two locations under non-cancellable operating leases with remaining lease terms at September 30, 1998, varying between one and four years.

Minimum future lease payments under operating leases through the year 2001 are as follows:

1999	\$ 865,428
2000	865,428
2001	865,428

Energy Conversion Agreements

In September 1996, GPA entered into agreements to purchase electricity produced by plants constructed or refur-



GUAM POWER AUTHORITY Notes to Financial Statements September 30, 1998 and 1997

bished and operated by three companies. GPA has certain minimum power purchase commitments under each of the three agreements.

The agreements have 20 year terms. Power purchases for the years ended September 30, 1998 and 1997 under such agreements were \$9,271,687 and \$3,614,750, respectively.

Minimum power purchase commitments for the remaining years of such agreements are \$29,403,000 in 1999, \$37,218,000 in 2000 and \$36,417,000 annually thereafter. Performance of the units and provisions for inflation included in the agreements may significantly impact these commitments.

Letters of Credit

As of September 30, 1998, GPA has available a \$1.5 million bank line of credit for purchases of parts and supplies, which is 100% collateralized by deposits in a savings account maintained by GPA. As disclosed in note 4, GPA also has available two \$15 million lines of credit. However, while the working capital portion of the tax exempt commercial paper notes are outstanding, GPA is legally restricted from drawing more than \$10 million against these two lines of credit.

As of September 30, 1998, GPA has outstanding letters of credit of \$3.5 million.

Contingencies:

Environmental Protection Agency

On May 24, 1986, the administrator of the Environmental Protection Agency (EPA), granted a continuing exemption to GPA under the provisions of Section 325(b) of the Clean Air Act, as amended. The terms of the exemption require monitoring by EPA, certain commitments by GPA regarding fuel stocks and reporting and delineation of grounds for revocation of the exemption.

In October 1996, EPA initiated a civil action against GPA for operating the Cabras-Piti generating facilities in violation of the Clean Air Act. A consent decree, in which a penalty of \$170,000 was assessed, was signed on February 24, 1999 by EPA and GPA. The consent decree also requires GPA to install a fuel-switching device that would automate the fuel switching from high-sulfur fuel oil to low-sulfur fuel oil. The cost of this project is expected to be approximately \$2.9 million.

Typhoon Damages

In December 1997, the island of Guam was struck by a super typhoon. GPA suffered extensive damage to its generation, transmission and distribution facilities. In addition, GPA was unable to generate electricity to much of the island for periods up to six weeks. A summary of GPA's estimated typhoon damages and related insurance and FEMA recoveries is as follows:

Typhoon costs	\$ 36,681,000
Insurance and FEMA recoveries	(30,787,000)
Capitalized costs for improvements	(3,074,000)
Charges against self-insurance fund	(2,384,000)
Typhoon losses included in other expense	\$ 436,000

As of September 30, 1998, GPA has approximately \$16,495,000 in insurance and FEMA claims for typhoon damages included in accounts receivable. The amount ultimately to be collected against these claims is uncertain.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 1998. It is not possible to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

GPA self-insures its transmission and distribution plant for damage up to \$5 million per occurrence and for any damages exceeding \$15 million.

As the result of a PUC Decision and Order, GPA added an insurance charge of \$.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self-insurance fund balance of \$2.5 million is established. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records self-insurance expense in the same amount. Insurance charge proceeds are accumulated in the restricted self-insurance fund to be used to cover uninsured or self-insured damages in the event of a natural catastrophe.

Medicare

The Government of Guam and its component units, including GPA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It is the opinion of GPA and of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law and; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

Government of Guam General Fund

On March 21, 1997, legislation was enacted which requires GPA and three other component units of the Government of Guam to pay the Government of Guam General Fund, a combined amount of \$23 million as in lieu of tax payment for fiscal years 1986 to 1997. The law also requires that these component units be assessed a total of \$3.5 million annually starting in fiscal year 1998. The \$23 million may be paid immediately or over a five to ten year period with financing terms to be negotiated. GPA has not been assessed any amounts under this legislation; accordingly, no liability for this contingency has been recorded as of September 30, 1998.



GUAM POWER AUTHORITY **Notes to Financial Statements** **September 30, 1998 and 1997**

Disputed Payable

GPA is disputing charges of \$1.9 million associated with one of its Energy Conversion Agreements. GPA has not recorded this amount in the accompanying financial statements at September 30, 1998.

(8) CASH AND INVESTMENTS

The indentures for the 1992, 1993 and 1994 series revenue bonds (note 5) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction. At September 30, 1998 and 1997, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	1998	1997
Construction funds	\$ 51,875,453	\$ 33,567,439
Bond reserve funds	27,022,126	26,986,361
Working capital fund	13,481,603	12,450,000
Debt service fund	11,668,005	9,442,386
Principal and interest fund	15,514,806	7,159,895
Revenue fund	2,695,333	3,141,129
Self-insurance fund	1,017,175	2,483,188
Operating funds	7,577,162	1,852,315
Surplus fund	9,468	6,702
	\$ 130,661,131	\$ 97,089,415

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 1998 and 1997. Market values shown below implicitly include accrued interest for debt securities.

	1998	1997
Cash on hand, in demand and time deposits and money market accounts	\$ 103,638,925	\$ 70,102,974
U.S. treasury notes	20,134,247	20,098,482
Repurchase agreements	80	80
Municipal bonds	6,887,879	6,887,879
	\$ 130,661,131	\$ 97,089,415

Credit risk associated with investments is categorized into three levels generally described as follows:

Category 1- Insured or registered, or securities held by GPA or its agent in GPA's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than GPA or its agent, but in GPA's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than GPA and not in GPA's name.

Demand and time deposits and money market accounts held in GPA's name are non-categorized investments in accordance with Governmental Accounting Standards Board

(GASB) Statement #3. As of September 30, 1998, money market accounts, treasury notes and municipal bonds held by trustees amounting to \$42,638,365 are classified as Category 1 investments in accordance with GASB #3. The balance of the investments are classified as Category 2 investments in accordance with GASB #3.

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled \$8,240,423 as of September 30, 1998. Of this amount, \$422,964 was covered by federal depository and national credit union administration insurance and the remaining \$7,817,459 was uninsured and uncollateralized. In addition, \$124,776 and \$29,136, respectively, is held on hand for the change fund and petty cash.

(9) SIGNIFICANT CUSTOMER

During the years ended September 30, 1998 and 1997, GPA billed the U.S. Navy \$30,200,000 and \$33,600,000, respectively, for sales of electricity under a customer/supplier agreement.

(10) REGULATORY ASSETS AND LIABILITIES

Regulatory Assets

Regulatory assets consist of the following at September 30, 1998 and 1997:

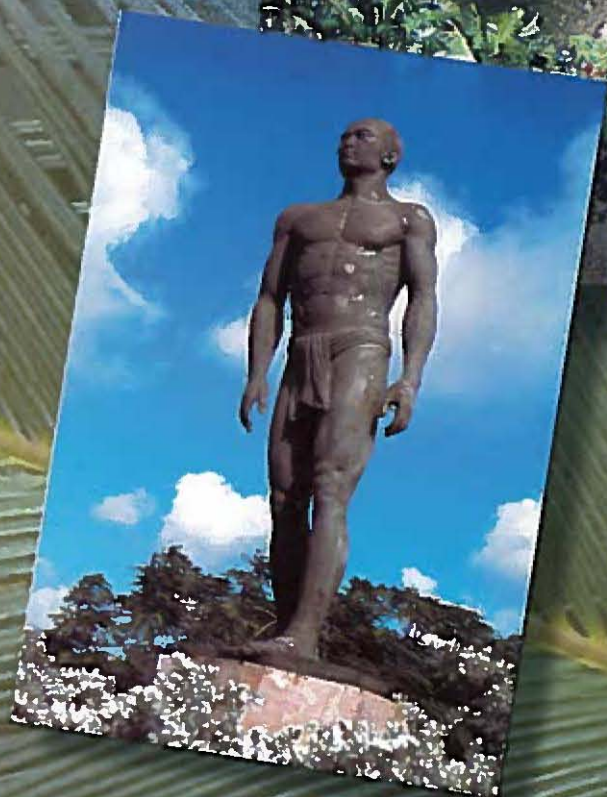
	1998	1997
Deferral of expense associated with an uncollectible receivable from a Government of Guam agency. This cost is being recovered through a water well surcharge approved by the PUC in May 1996, to be collected from GPA's civilian customers beginning June 1, 1996 through March 1, 1998.	\$ -	\$ 1,505,699
Deferral of maintenance and repair costs being recovered through maintenance surcharges approved by the PUC, to be collected from GPA's civilian customers and the Navy. The surcharge is to extend through September 30, 1998.	-	5,903,340
	\$ -	\$ 7,409,039

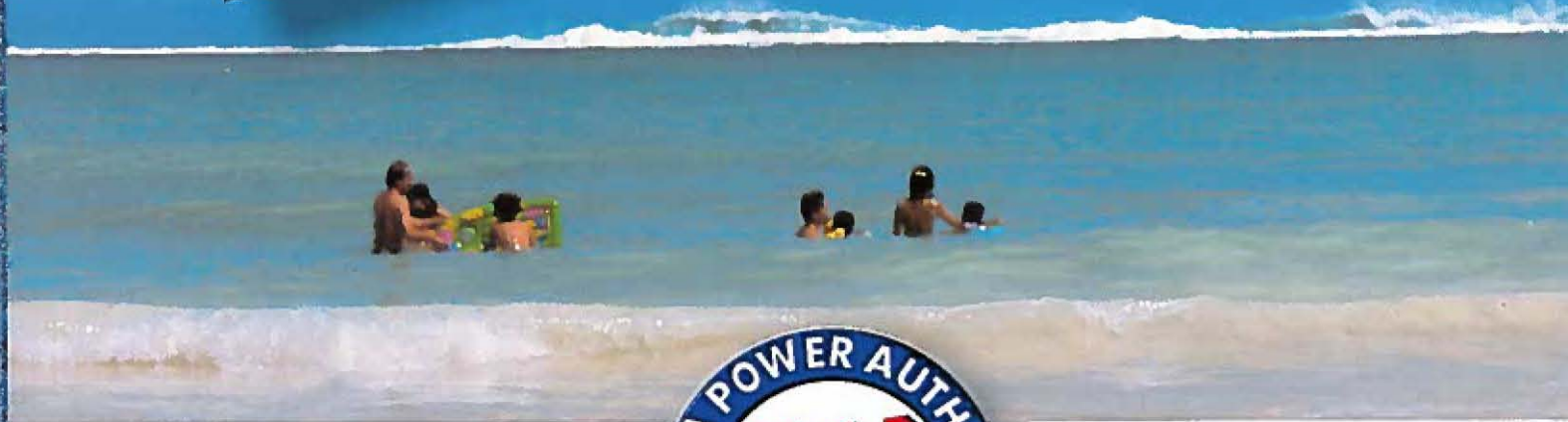
Deferred Credits

The deferred credit at September 30, 1998 results from a PUC order to defer recognition of certain revenue to offset energy conversion expenses in fiscal year 1999.

(11) RELATED PARTY TRANSACTIONS

A board member of GPA is the principal owner of a supplier who has been doing business with GPA in the past years. Transactions with this vendor during the years ended September 30, 1998 and 1997 approximate \$1,424,259 and \$859,000 respectively.

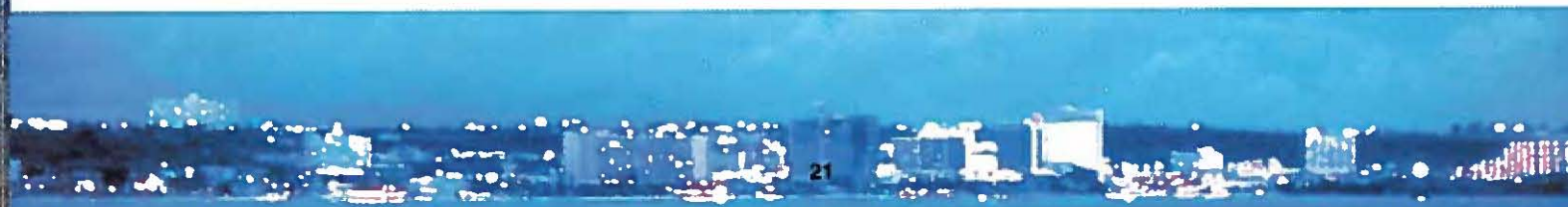




**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 1998 AND 1997

 **ERNST & YOUNG**



Independent Auditors' Report

The Board of Directors
Guam Power Authority

We have audited the accompanying balance sheet of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 1999 and the related statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended September 30, 1998 were audited by other auditors whose report dated April 16, 1999, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above mentioned financial statements present fairly, in all material respects, the financial position of Guam Power Authority as of September 30, 1999, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 10 to the financial statements, the Governor of Guam has ordered that amounts due to Guam Power Authority by the government of Guam shall be held in abeyance until the matter regarding certain assessments mandated by law are resolved. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability or uncollectible accounts has been made in the accompanying financial statements.

The year 2000 supplementary information included in Note 13 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that GPA is or will become year 2000 compliant, that GPA's year 2000 remediation efforts will be successful in whole or in part, or that parties with which GPA does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report, not included herein, dated April 17, 2000 on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

April 17, 2000

Ernst & Young LLP



Assets	September 30,	
	1999	1998
Utility plant, at cost:		
Electric plant in service (Notes 8 and 10)	\$510,278,887	\$479,919,868
Construction work in progress	<u>61,597,662</u>	<u>50,580,323</u>
	571,876,549	530,450,191
Less accumulated depreciation	<u>127,821,044</u>	<u>111,955,549</u>
Total utility plant	<u>444,055,505</u>	<u>418,494,642</u>
Bond reserve funds (trustee) (Note 3)	<u>28,836,490</u>	<u>27,022,127</u>
Current assets:		
Cash and cash equivalents (Notes 2 and 3):		
Held by trustee:		
Interest and principal funds for debt repayment	9,822,550	15,514,807
Bond indenture funds for restricted purposes	<u>80,661,059</u>	<u>79,729,862</u>
	<u>90,483,609</u>	<u>95,244,669</u>
Held by Guam Power Authority:		
Bond indenture funds	2,409,361	7,377,160
Self-insurance fund (Note 10)	<u>2,498,067</u>	<u>1,017,175</u>
	<u>4,907,428</u>	<u>8,394,335</u>
Total cash and cash equivalents	95,391,037	103,639,004
Accounts receivable (Notes 2, 4 and 10)	62,045,242	50,031,643
Materials and supplies inventory	18,560,056	19,615,755
Fuel inventory	12,106,648	9,405,768
Prepaid expenses	1,728,920	646,037
Deferred fuel costs	<u>---</u>	<u>90,558</u>
Total current assets	<u>189,831,903</u>	<u>183,428,765</u>
Unamortized debt issuance costs	6,120,029	6,663,117
Canceled unit, net of amortization	1,723,983	1,846,108
Other	<u>2,613,000</u>	<u>2,661,809</u>
Total other assets	<u>10,456,962</u>	<u>11,171,034</u>
Total assets	<u>\$673,180,860</u>	<u>\$640,116,568</u>

See accompanying notes.



September 30,

1999

1998

Capitalization and liabilities

Capitalization:

Contributed capital:

Grants by Government of Guam \$ 27,898,440 \$ 27,898,440

Grants by U.S. Government 12,866,000 12,866,000

Total contributed capital 40,764,440 40,764,440

Retained earnings 137,477,617 123,809,773

178,242,057 164,574,213

Long-term debt, less current
installments (Note 6 and 7) 414,141,680 333,337,563

Capital lease obligations, less
current installments (Note 8) 2,923,148 2,689,152

Total capitalization 595,306,885 500,600,928

Current liabilities:

Short-term debt (Notes 5 and 7) 26,217,174 71,217,174

Current installments of
long-term debt (Note 6 and 7) 384,784 6,834,784

Current installments of capital
lease obligations (Note 8) 1,013,000 668,363

Current portion of employees' annual leave 1,194,603 1,015,304

Accounts payable:

Operations 16,392,549 14,824,632

Navy 129,258 2,176,511

Fuel 1,305,707 4,263,473

Interest payable 11,303,805 11,590,876

Customer deposits 3,032,778 2,838,176

Deferred credits 2,502,816 5,882,740

Deferred fuel costs 360,184 ---

Accrued payroll and employees' benefits 404,179 1,863,995

Bank overdraft --- 1,359,650

Total current liabilities 64,240,837 124,535,678

Retirement fund deferred contributions (Note 9) 12,038,755 13,127,176

Employees' annual leave, less current portion 1,594,383 1,852,786

Total liabilities 77,873,975 139,515,640

Commitments and contingencies (Note 10)

Total capitalization and liabilities \$673,180,860 \$640,116,568



STATEMENTS OF EARNINGS AND RETAINED EARNINGS

	Years ended September 30,	
	1999	1998
Revenue (Notes 5 and 6):		
Sales of electricity (Note 11)	\$187,776,429	\$179,774,048
Miscellaneous	<u>1,229,419</u>	<u>1,282,683</u>
Total revenue	<u>189,005,848</u>	<u>181,056,731</u>
Operating and maintenance expenses:		
Production fuel	48,788,752	57,190,572
Other production	<u>24,068,019</u>	<u>33,995,922</u>
	72,856,771	93,186,494
Energy conversion costs (Note 10)	26,697,876	9,273,805
Administrative and general (Note 10)	18,863,094	18,688,136
Depreciation	18,447,252	17,963,315
Transmission and distribution (Note 11)	13,651,230	13,084,889
Customer accounting	<u>6,533,353</u>	<u>7,158,034</u>
Total operating and maintenance expenses	157,049,576	159,304,673
Earnings from operations	<u>31,956,272</u>	<u>21,752,058</u>
Other income (expense):		
Interest income	6,142,562	4,507,822
Allowance for funds used during construction	964,870	800,052
Other expense	(241,469)	(731,201)
Interest expense	<u>(25,154,391)</u>	<u>(22,787,705)</u>
Total other expenses	<u>(18,288,428)</u>	<u>(18,211,032)</u>
Net earnings	13,667,844	3,541,026
Retained earnings at beginning of year	<u>123,809,773</u>	<u>120,268,747</u>
Retained earnings at end of year	<u><u>\$137,477,617</u></u>	<u><u>\$123,809,773</u></u>

See accompanying notes.



	1999	1998
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	\$177,186,851	\$162,171,158
Cash payments to suppliers and employees for goods and services	(150,516,673)	(129,186,860)
Net cash provided by operating activities	<u>26,670,178</u>	<u>32,984,298</u>
Cash flows from investing activities:		
Increase in bond reserve funds	(1,814,363)	(35,766)
Interest and dividends on investments and bank accounts	<u>6,142,562</u>	<u>4,507,822</u>
Net cash provided by investing activities	<u>4,328,199</u>	<u>4,472,056</u>
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	—	20,000,000
Principal paid on short-term debt	(45,000,000)	(19,797,801)
Interest paid on short-term debt and deposits	(2,035,218)	(2,022,929)
(Decrease) increase in bank overdraft	<u>(1,359,650)</u>	<u>1,359,650</u>
Net cash used in noncapital financing activities	<u>(48,394,868)</u>	<u>(461,080)</u>
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(42,707,612)	(20,553,170)
Principal paid on bonds and other long-term debt	(252,042,155)	(6,629,150)
Interest paid on bonds	(24,578,502)	(20,328,235)
Repayments of capital lease obligations	(722,020)	(115,890)
Proceeds from capital related short-term debt	—	45,000,000
Proceeds from bonds	<u>349,178,601</u>	<u>—</u>
Debt issuance costs/loss on defeasance	<u>(19,979,788)</u>	<u>(832,879)</u>
Net cash provided by (used in) capital and related financing activities	<u>9,148,524</u>	<u>(3,459,324)</u>
Net (decrease) increase in cash and cash equivalents	(8,247,967)	33,535,950
Cash and cash equivalents at beginning of year	<u>103,639,004</u>	<u>70,103,054</u>
Cash and cash equivalents at end of year	<u>\$ 95,391,037</u>	<u>\$103,639,004</u>

See accompanying notes.



STATEMENTS OF CASH FLOWS

	Years ended September 30,	
	1999	1998
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$ 31,956,272	\$21,752,058
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	18,447,252	25,372,354
Difference between retirement expense and funding	(1,088,421)	(656,359)
Other expense	(241,469)	(731,201)
Change in operating assets and liabilities:		
Accounts receivable	(12,013,599)	(18,887,315)
Materials and supplies inventor	1,055,699	(3,736,795)
Fuel inventory	(2,700,880)	1,940,948
Prepaid expenses	(1,082,883)	194,715
Deferred fuel costs	450,742	45,191
Other assets	48,809	15,489
Accounts payable - operations	1,567,917	2,644,549
Accounts payable - Navy	(2,047,253)	1,216,625
Accounts payable - fuel	(2,957,766)	30,036
Customer deposits	194,602	(336,224)
Deferred credits	(3,379,924)	5,025,917
Accrued payroll and employees' benefits	(1,459,816)	346,633
Other accrued liabilities	—	(1,530,447)
Employees' annual leave	(79,104)	278,124
Net cash provided by operating activities	<u>\$ 26,670,178</u>	<u>\$32,984,298</u>

Non-cash capital financing transaction:

GPA acquired and installed equipment and related software recorded as construction work-in-progress of \$1,300,653 and \$3,473,405 and incurred capital lease obligations of the same amount during the years ended September 30, 1999 and 1998, respectively.



1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). GPA is subject to the regulations of the Public Utility Commission of Guam (PUC) and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Because of the rate-making process, certain differences arise in the application of accounting principles generally accepted in the United States between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Utility Plant

Utility Plant is stated at cost which, as to certain plant transferred from the power division of the Public Utility Agency of Guam in 1969, is based on estimated cost as determined by an independent appraiser. Cost includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. The cost of utility plant retired or otherwise disposed of, plus removal costs less salvage value, is charged to accumulated depreciation. Contributions in aid of construction are deducted from the cost of the utility plant.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (25-50 years for plant assets).

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, money market accounts and U.S. treasury bills with original maturities of 90 days or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund. Cash and cash equivalents do not include money market accounts in bond reserve funds held by bond trustees.

Inventory Valuation

Materials and supplies inventories and fuel inventories are stated at the lower of cost (using the weighted average and the first-in, first-out method, respectively) or market.

Contributed Capital

GPA commenced operations in April, 1969 when assets and liabilities with a net value of \$7,898,400 were transferred to GPA from the power division of the Public Utility Agency of Guam. An additional \$20 million loan from GovGuam was converted to contributed capital during the year ended September 30, 1992.



1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED



The U.S. Department of the Interior provided GPA with \$9.8 million for rebuilding a portion of the distribution system utilizing concrete poles to better resist typhoon damage. Funds were provided directly to the military construction officer for designing and administering the rebuilding work. Beneficial use of all lines has been given to GPA. The Federal Emergency Management Agency (FEMA) provided a \$3,066,000 grant to GPA to subsidize the costs of housing generators to run waterwell pumps.

Compensated Absences

Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with GPA. Accumulation of such vacation credits is limited to 480 hours at fiscal year end and is convertible to pay upon termination of employment.

Deferred Credits

The deferred credits resulted from PUC orders to defer recognition of certain revenues to offset energy conversion and self-insurance expenses.

Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing and the actual cost of fuel.



Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or liabilities, respectively, in the accompanying balance sheets, and are recovered or deducted in future billings to customers.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) is provided only for construction projects of more than \$50,000 which require a minimum of 90 days to complete. AFUDC is computed using the interest expense on directly assignable borrowings to finance the projects less interest income on the related unused borrowings which have been invested. AFUDC is provided only during the period in which such projects are undergoing activities to prepare them for their intended use.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1992, Series 1993, Series 1994, and Series 1999 bonds and tax exempt commercial paper notes. These costs are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

Canceled Unit

The canceled unit account consists of costs incurred in the refurbishment of the Weber Power Barge. The barge refurbishment project was abandoned during the year ended September 30, 1994. These costs are being amortized on a straight-line basis over the life of the bonds used to finance the refurbishment costs.

Reclassifications

Certain reclassifications have been made to the 1998 financial statements for comparative purposes. Such reclassifications had no effect on the previously reported net earnings.



2. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject GPA to concentrations of credit risk consist principally of cash demand deposits and accounts receivable.

At September 30, 1999, GPA has cash deposits in bank accounts which exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. GPA establishes an allowance for doubtful accounts based on management's evaluation of potential uncollectible accounts receivable.

3. CASH AND INVESTMENTS

The bond indenture agreements for the 1992, 1993, 1994 and 1999 series revenue bonds (Note 6) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction. At September 30, 1999 and 1998, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	1999	1998
Construction funds		
	\$ 70,608,809	\$ 51,875,453
Bond reserve funds		
	28,836,490	27,022,127
Principal and interest funds		
	9,822,550	15,514,807
Working capital fund		
	5,155,013	13,481,603
Capitalized interest fund		
	4,270,346	—
Self-insurance fund		
	2,498,067	1,017,175
Operating funds		
	2,409,361	7,377,160
Revenue fund		
	594,201	2,695,333
Surplus fund		
	32,690	9,468
Debt service fund		
	—	11,668,005
	<u>\$124,227,527</u>	<u>\$130,661,131</u>

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 1999 and 1998. Market values shown below implicitly include accrued interest for debt securities.

	1999	1998
Cash on hand, in demand and time deposits and money market accounts	\$ 96,215,527	\$103,638,925
Federal National Mortgage Association discount notes	\$ 28,012,000	—
U.S. treasury notes	—	\$ 20,134,247
Repurchase agreements	—	80
Municipal bonds	—	6,887,879
	<u>\$124,227,527</u>	<u>\$ 130,661,131</u>



3. CASH AND INVESTMENTS, CONTINUED

Credit risk associated with investments is categorized into three levels generally described as follows:

Category 1 - Insured or registered, or securities held by GPA or its agent in GPA's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than GPA or its agent, but in GPA's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than GPA and not in GPA's name.

Demand and time deposits and money market accounts held in GPA's name are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. As of September 30, 1999, funds held by trustees amounting to \$37,831,384 and

\$827,655 respectively, are classified as Category 1 and 3 investments respectively, in accordance with GASB No. 3. The Category 3 investments are held and registered in the name of U.S. Bank as Co-Trustee for GPA. The balance of the investments are classified as Category 2 investments in accordance with GASB No. 3.

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled \$2,020,903 as of September 30, 1999. Of this amount, \$592,081 was covered by federal depository and national credit union administration insurance, \$1,258,832 was uninsured and uncollateralized, and \$141,059 and \$28,931, respectively, is held on hand for the change fund and petty cash.



4. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 1999 and 1998, are summarized as follows:

	1999	1998
Customers:		
Private	\$27,192,472	\$20,572,223
Government	23,229,813	11,827,183
	<u>50,422,285</u>	<u>32,399,406</u>

	1999	1998
Insurance and FEMA claims	12,259,229	16,495,156
Government subsidies	463,055	463,055
Others	1,916,467	3,210,552
	<u>65,061,036</u>	<u>52,568,169</u>
Less allowance for doubtful accounts	<u>3,015,794</u>	<u>2,536,526</u>
	<u>\$62,045,242</u>	<u>\$50,031,643</u>



5. SHORT-TERM DEBT

Short-term debt at September 30, 1999 and 1998, is as follows:

Thirty-day notes payable drawn on a \$15 million bank line of credit with interest at 6.85% at September 30, 1999 (7.56875% to 7.71625% at September 30, 1998), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate



5. SHORT-TERM DEBT, CONTINUED

to the bondholders under GPA's bond issues.

1999	1998
\$ 6,217,174	\$ 6,217,174

Tax exempt commercial paper notes issued in August 1998 with interest at 3.0% to 3.2% at September 30, 1999 (2.9% to 4% at September 30, 1998). The notes provide \$20 million for working capital and \$45 million for capital projects and are collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The notes had original maturity dates from October 7, 1998 through January 12, 1999, but have been subse-

quently rolled over with new maturity dates from June 9, 2000 through August 14, 2000.

1999	1998
<u>20,000,000</u>	<u>65,000,000</u>
<u>\$26,217,174</u>	<u>\$71,217,174</u>

In addition, GPA has a \$15 million bank line of credit agreement collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues. As of September 30, 1999 and 1998, no amounts were drawn against the line.

6. LONG-TERM DEBT

Long-term debt at September 30, 1999 and 1998, is as follows:

Bonds:

1999	1998
------	------

1999 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$2,950,000 in October 2000, increasing to \$26,110,000 in October 2034.

\$349,178,601	\$ —
---------------	------

1993 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023.

92,670,000	96,485,000
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1992 Series, interest at varying rates from 2.65% to 6.375% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments with a payment of \$1,880,000 in October 1998, increasing to \$11,040,000 in October 2022.

—	146,365,000
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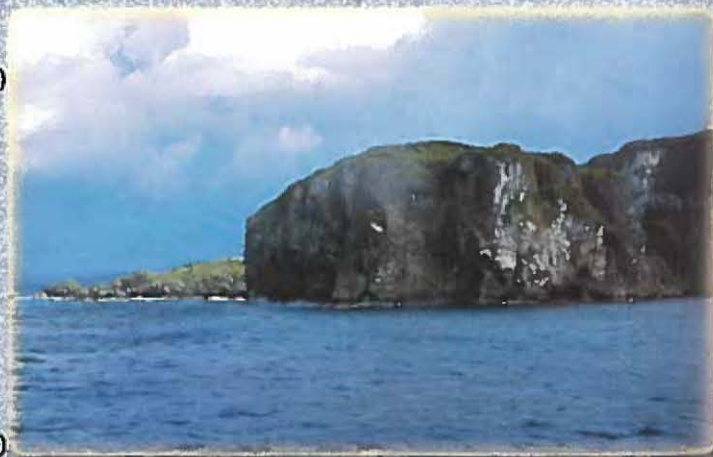
1999	1998
------	------

1994 Series, interest at varying rates from 5.20% to 6.75% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,500,000 in October 1997, increasing to \$7,630,000 in October 2024.

—	101,400,000
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Subtotal brought forward

<u>441,848,60</u>	<u>344,250,000</u>
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6. LONG-TERM DEBT, CONTINUED

Bonds subtotal carried forward

1999	1998
441,848,601	344,250,000

Note payables:

MDI Guam non-interest bearing note payable in exchange for funds received for the construction of Manenggon Hills substation. The note is being repaid by deducting 80% of MDI's non-fuel charges from future power billings.

	2,292,568	2,754,723
	<u>444,141,169</u>	<u>347,004,723</u>
Less current maturity		
(384,784)	(6,834,784)	
	<u>443,756,385</u>	<u>340,169,939</u>
Less discount on bonds		
(7,624,755)	(6,832,376)	
	<u>436,131,630</u>	<u>333,337,563</u>
Loss on defeasance, net of \$259,174 accumulated amortization in 1999		
(21,989,950)	—	
	<u>\$414,141,680</u>	<u>\$333,337,563</u>

At September 30, 1999, future maturities of long term debt are as follows:

Year ending September 30,	
2000	\$ 384,784
2001	5,374,784
2002	5,599,784
2003	5,824,784
2004	6,064,784
Thereafter	420,892,249
	<u>\$444,141,169</u>

The proceeds of the 1992 series bonds, face value of \$158 million, were used to construct and acquire additional generating capacity, to build additional transmission facilities, and to refund existing long-term debt at the time of issuance. Bond proceeds of approximately \$19,700,000 were also used to establish escrow funds for the purpose of defeasing several existing series of bonds over their scheduled maturities. In 1999, the outstanding bonds were retired with proceeds from the 1999 series bond issue.

The proceeds of the 1993 series bonds, face value of \$100 million, were used to finance certain acquisitions of additional generating capacity, the construction of additional transmission facilities, and also to upgrade and refurbish certain existing equipment.

Proceeds of the 1994 series bonds, face value of \$102.9 million, were used to finance the construction of an additional baseload generating unit and the construction of four new substations. In 1999, the outstanding bonds were retired with proceeds from the 1999 series bond issue.

Proceeds of the 1999 series bonds, face value of \$349,178,601, were used to finance new projects as specified in the bond indenture and to retire certain outstanding bonds and the commercial paper issued for the purpose of financing certain commercial paper projects.

All gross revenues of GPA have been pledged to repay the 1993 and 1999 series bond principal and interest.

Discounts associated with the 1992, 1993, 1994 and 1999 bond series are being amortized using the effective interest method over the lives of the bonds.





7. DEFEASED DEBT

On May 1, 1999, GPA issued 1999 Series bonds of \$349,178,601 to finance 1999 projects, to retire \$45 million in tax exempt commercial paper notes, to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of \$143,660,000 and \$99,820,000, respectively, and to pay the amount currently due on the 1993 bonds totaling \$1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity of

the 1992, 1993 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds, and the principal currently due on the 1993 bonds was removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$22,249,124 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss will be deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the 1999 bond liability in the accompanying 1999 balance sheet.

8. CAPITAL LEASE OBLIGATIONS

During 1998 and 1999, GPA acquired an accounting and operating system through a long term financing arrangement which has been classified as a capital lease. The capitalized lease obligations reflect the present value of future lease payments, discounted at the interest rate implicit in the lease, which ranged from 4.45% to 7.82%. The capitalized cost of equipment, which totaled \$4,744,058 on the date acquired by GPA is being amortized over its estimated useful life using the straight-line basis and is reflected as a component of electric plant in service in the accompanying 1999 and 1998 balance sheets.

Future minimum lease payments related to the aforementioned leases are as follows:

Year ending September 30,	Amount
2000	\$1,194,000
2001	1,194,000
2002	1,194,000
2003	<u>897,185</u>

Total minimum lease payments	4,479,185
Less amount representing interest	<u>543,037</u>
Present value of net minimum capital lease payments	3,936,148
Less current installments	<u>1,013,000</u>
Capital lease obligations, less current installments	<u><u>\$2,923,148</u></u>



9. EMPLOYEES' RETIREMENT PLAN



Employees of GPA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit contributory pension plan). Employees hired after September 30, 1995, are members of a Defined Contribution Retirement System (DCRS). Employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System until September 30, 1998.

The Defined Benefit Plan (DBP) and the DCRS are administered by the Government of Guam Retirement Fund, to which GPA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

For the year ended September 30, 1998, based on the most recent actuarial valuation performed as of September 30, 1995, a minimum combined employer and employee contribution rate of 28.1% of covered DBP payroll was required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1998. The effect of GPA's prior year accruals for its share of pension underfunding reduced the actuarially determined employer contribution rate from 18.6% to an effective rate of 16.1% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 2.5% of covered payroll

was necessary to reduce the unfunded liability based on the difference between the effective rate of 16.1% and the employer's statutory rate of 18.6%.

As a result of the most recent actuarial valuation performed as of September 30, 1998, it has been determined that for the year ended September 30, 1999, a minimum combined employer and employee contribution rate of 15.34% of covered DBP payroll and an employer contribution of 10.53% of covered DBP payroll plus DCRS payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1999. During 1999, GPA made statutory contributions to the plan based on the September 30, 1995 actuarial valuation rates. The effect of the actuarial valuation resulted in a reduction of \$1,088,421 of the unfunded liability.

The DBP utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% and 6.5% per annum, respectively, for the years ended September 30, 1999 and 1998. The September 30, 1998 and 1995 actuarial valuations did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net asset available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate entity, the accrued unfunded liability at September 30, 1999 and 1998, may be materially different than that recorded in the accompanying financial statements.

Contributions into the DCRS by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity





9. EMPLOYEES' RETIREMENT PLAN, CONTINUED

accounts available under the DCRS. Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the DBP.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employee contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the

amount of member contributions plus any earnings thereon.

The cost to GPA for retirement contributions for the years ended September 30, 1999 and 1998, is as follows:

	<u>1999</u>	<u>1998</u>
Cash contributions	\$5,394,572	\$5,898,706
Accruals	<u>(1,088,421)</u>	<u>(656,359)</u>
	<u>\$4,306,151</u>	<u>\$5,242,347</u>

The aforementioned contributions are recorded as a component of administrative and general expenses in the accompanying statements of earnings and retained earnings.

10. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The 2000 capital improvement project budget is approximately \$19 million. The four-year capital improvements project budget proposed by management for 2000 through 2003 is estimated to be \$181 million. These budgets are subject to change by the Board of Directors.

GPA has approximately \$64 million in purchase commitments as of September 30, 1999.

GPA has also entered into agreements to purchase fuel from certain suppliers at prices yet to be determined.

In March 1999, GPA acquired a turn-key gas turbine power plant for \$11.2 million. GPA had previously leased the plant for \$66,666 per month plus a variable payment based on the London Interbank Offer Rate (LIBOR).

Leases

In October 1997, GPA entered into a lease agreement for its office building for an initial term of three years with an option to extend for an additional two year period. Monthly rent is \$71,120 and increases to \$78,231 if the option to extend is exercised.

In May 1993, GPA entered into an agreement to



10. COMMITMENTS AND CONTINGENCIES, CONTINUED



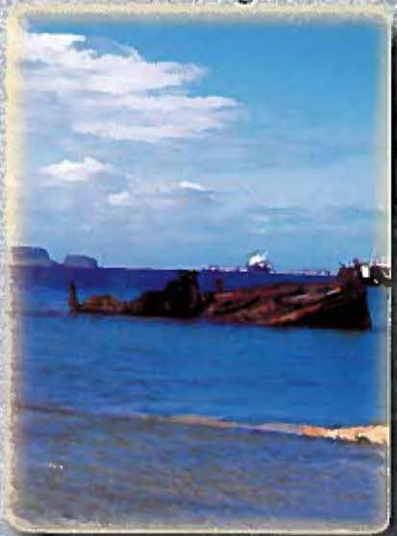
sublease a parcel of land for an initial term of 12 years commencing, retroactively, on November 1, 1989 and expiring on October 31, 2001. The lease calls for monthly lease payments of \$1,000 per month.

GPA also leases fuel storage tanks for a monthly fee of \$100,000, increasing to \$107,500 in March 2003. The initial term of the lease is for a period of 10 years with an option to renew for an additional 5 year period at an increased monthly lease fee of \$115,650.

At September 30, 1999, future minimum lease payments for the aforementioned leases are as follows:

Year ending September 30,	Amount
2000	\$ 2,065,000
2001	2,140,000
2002	2,139,000
2003	1,253,000
2004	1,290,000
Thereafter	<u>11,341,000</u>
	<u>\$20,228,000</u>

Rent expense under the aforementioned agreements totaled \$1,565,434 and \$2,065,434 during the years ended September 30, 1999 and 1998, respectively, which is included as a component of administrative and general expense in the accompanying statements of earnings and retained earnings.



Energy Conversion Agreements

In September 1996, GPA entered into agreements to purchase electricity produced by plants constructed or refurbished and operated by three companies. GPA has certain minimum power purchase commitments under each of the three agreements.

The agreements have 20 year terms. Power purchases for the years ended September 30, 1999 and 1998 under such agreements were \$24,737,385 and \$9,271,687, respectively, which is included as a component of energy conversion costs in the accompanying statements of earnings and retained earnings.

Minimum power purchase commitments for the remaining years of such agreements are \$37,218,000 in 2000 and \$36,417,000 annually thereafter. Performance of the units and provisions for inflation included in the agreements may significantly impact these commitments.

Letters of Credit

As of September 30, 1999, GPA has available a \$2.5 million bank line of credit to be reduced to \$1.5 million on November 1, 1999 for purchases of parts and supplies, which is 100% collateralized by deposits in a savings account maintained by GPA. As disclosed in Note 5, GPA also has available two \$15 million lines of credit. However, while the working capital portion of the tax

exempt commercial paper notes are outstanding, GPA is legally restricted from drawing more than \$10 million against these two lines of credit.

As of September 30, 1999, GPA has outstanding letters of credit of approximately \$2.9 million, and standby letters of credit of \$250,000.

Environmental Protection Agency

On May 24, 1986, the administrator of the Environmental Protection Agency (EPA), granted a continuing exemption to GPA under the provisions of Section 325(b) of the Clean Air Act, as amended. The terms of the exemption require monitoring by EPA, certain commit-



10. COMMITMENTS AND CONTINGENCIES, CONTINUED

ments by GPA regarding fuel stocks and reporting and delineation of grounds for revocation of the exemption.

In October 1996, EPA initiated a civil action against GPA for operating the Cabras Piti generating facilities in violation of the Clean Air Act. A consent decree, in which a penalty of \$170,000 was assessed, was signed on February 24, 1999 by EPA and GPA. The consent decree also requires GPA to install a fuel-switching device that would automate the fuel switching from high-sulfur fuel oil to low-sulfur fuel oil. The cost of this project is expected to be approximately \$800,000.

Typhoon Damages

In December 1997, the island of Guam was struck by a super typhoon. GPA suffered extensive damage to its generation, transmission and distribution facilities. In addition, GPA was unable to generate electricity to much of the island for periods of up to six weeks. A summary of GPA's estimated typhoon damages and related insurance and FEMA recoveries is as follows:

Typhoon costs	\$36,681,000
Insurance and FEMA recoveries	(30,787,000)
Capitalized costs for improvements	(3,074,000)
Charges against self-insurance fund	(2,384,000)
Typhoon losses included in other expense	<u>\$ 436,000</u>

As of September 30, 1999, GPA has approximately \$12,259,000 in insurance and FEMA claims for typhoon damages included in accounts receivable. The amount ultimately to be collected against these claims is uncertain.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 1999. It is not possible to estimate the ultimate resolution of these matters and therefore, no provision for any liability

that may result from these claims has been made in the financial statements.

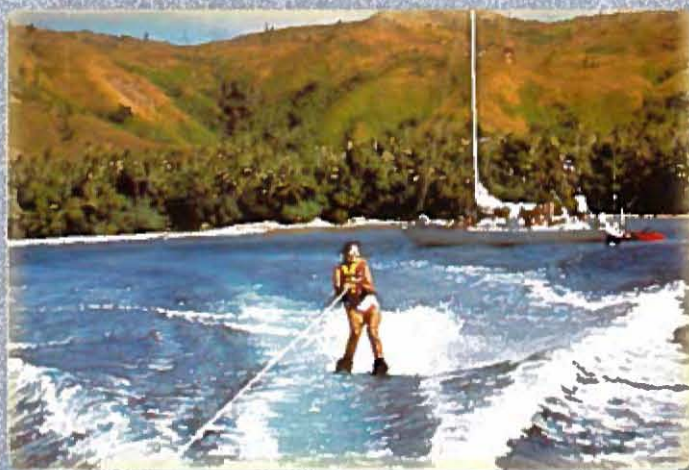
Self-Insurance

GPA self-insures its transmission and distribution plant for damage up to \$5 million per occurrence and for any damages exceeding \$15 million.

As the result of a PUC Decision and Order, GPA added an insurance charge of \$.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self-insurance fund balance of \$2.5 million is established. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records self-insurance expense in the same amount. Insurance charge proceeds are accumulated in the restricted self-insurance fund to be used to cover uninsured or self-insured damages in the event of a natural catastrophe.

Medicare

The Government of Guam and its component units, including GPA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the government is found to be liable for Medicare payments on salaries and wages



10. COMMITMENTS AND CONTINGENCIES, CONTINUED



prior to October 1998, an indeterminate liability could result. It is the opinion of GPA and of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law and; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

Government of Guam General Fund

On March 21, 1997, legislation was enacted which requires GPA and three other component units of the Government of Guam to pay the Government of Guam General Fund, a combined amount of \$23 million as payments in lieu of taxes for fiscal years 1986 to 1997. The law also requires that these component units be assessed a total of \$3.5 million annually starting in fiscal year 1998. The \$23 million may be paid immediately or over a five to ten year period with financing terms to be negotiated. Subsequently, legislation was enacted that allowed the Governor of Guam to assess and collect funds from autonomous agencies for past contributions

of capital to the agencies, past transfers of physical assets, direct services supplied or a proportionate cost of services maintained by the government. On October 27, 1999, the Governor of Guam issued Executive Order No. 99-16 which orders the PUC to open a regulatory docket to determine the basis upon which an assessment shall be conducted for past transfers for which the government of Guam has not been compensated. Additionally, the order states that the claims of the government of Guam shall be held in abeyance until the matter of the assessment has been resolved. In April 2000, a bill was introduced in the Guam legislature which would appeal the public laws relative to the transfer of autonomous agency revenues related to such assessments. As the amount of the assessment has not been ultimately determined, no accrual for this contingent liability has been recorded as of September 30, 1999.

Government of Guam Receivables

As part of Executive order No. 99-16, the Governor of Guam ordered that GPA's claims against the government of Guam shall be held in abeyance until the issue of past transfers from the government of Guam to GPA has been resolved. As of September 30, 1999, amounts due from the Government of Guam, including autonomous agencies, totaled \$23,229,813. No allowance for the uncollectibility of the government of Guam receivables has been accrued as of September 30, 1999 as the amount cannot be reasonably estimated.



Disputed Payable

GPA is disputing charges of approximately \$2 million associated with one of its Energy Conversion Agreements. GPA has not recorded this amount in the accompanying financial statements at September 30, 1999.

Shared Savings Claim

GPA settled litigation brought against GPA by one of its subcontractors for alleged "shared savings" to which the claimant



10. COMMITMENTS AND CONTINGENCIES, CONTINUED

believed they were entitled under their contract. Subsequent to September 30, 1999, the litigation was settled for \$995,000 after the Superior Court of Guam denied GPA's Motion for Summary Judgment. This amount has been recorded as a component of electric plant in service in the accompanying 1999 balance sheet.

Federal Awards

GPA has received federal awards for specific purposes that are subject to review and audit by the grantor agencies. As of September 30, 1999, questioned costs have resulted from such compliance audits in the amount of \$2,196,167. No provision has been made in the accompanying financial statements for any liability which may ultimately result as management is unable to assess the ultimate resolution of this matter.

11. AGREEMENTS WITH THE UNITED STATES NAVY

On September 15, 1996, a lease agreement was entered into between GPA and the U.S. Navy (Navy) to transfer to GPA the operations, maintenance and custody of certain Navy-owned electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with the associated land interest. The facilities are leased to GPA at no cost for a period of fifty years.

During the years ended September 30, 1999 and 1998, GPA billed the Navy approximately \$26,900,000 and \$30,200,000, respectively, for sales of electricity under a customer/supplier agreement.

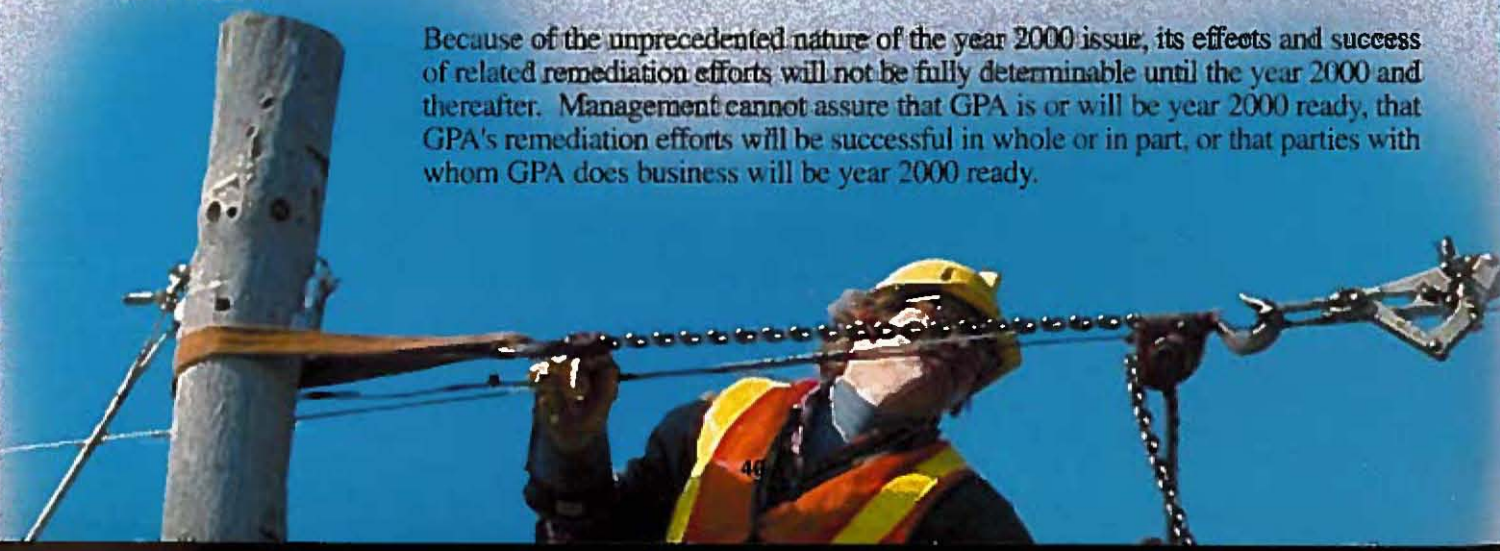
12. RELATED PARTY TRANSACTIONS

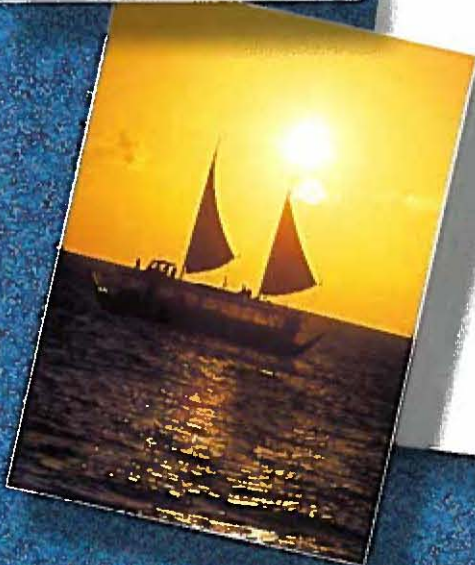
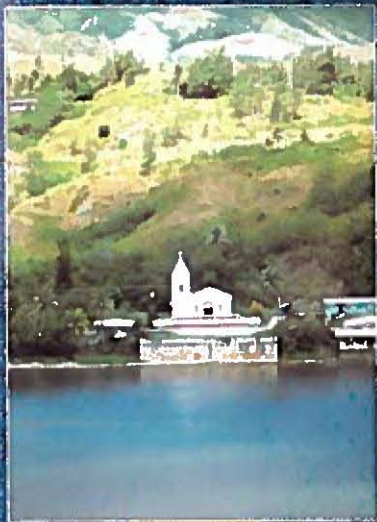
A board member of GPA is the principal owner of a supplier who has been doing business with GPA in the past years. Transactions with this vendor during the years ended September 30, 1999 and 1998 approximate \$1,627,257 and \$1,424,259, respectively.

13. YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect GPA's operations as early as fiscal year 1999. GPA has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue and has not yet determined the cost to upgrade such systems. GPA is currently in the remediation stage of addressing the Y2K issues.

Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that GPA is or will be year 2000 ready, that GPA's remediation efforts will be successful in whole or in part, or that parties with whom GPA does business will be year 2000 ready.





Hon. Carl T.C. Gutierrez, Governor of Guam
Hon. Madeleine Z. Bordallo, Lt. Governor of Guam

GUAM POWER AUTHORITY
1999 Board of Directors

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AFFILIATIONS

American Public Power Association (APPA)
Pacific Power Association (PPA)
Institute of Electrical Engineering Incorporated
International Rights of Way Association
Association of Demand-Side Management Professionals
National Safety Council

GUAM POWER AUTHORITY
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