

the **power of ideas** for our changing world

GUAM POWER AUTHORITY ANNUAL REPORT 2007





With this report, the people behind your power consider our primary mission—**providing reliable electric services efficiently, and economically as possible to our ratepayers.**

We share the efforts behind significant accomplishments and introduce the formal process of broadening our capabilities for generating electric power from a mix of alternative/renewal resources through the Authority's "Integrated Resource Plan."

© 2008 Guam Power Authority



the **power of ideas** for our changing world

contents

the power of ideas for our changing world . . . 2

messages

Governor, Lt. Governor of Guam . . . 4

Commission on Consolidated Utilities . . . 5

Consolidated Utility Services General Manager . . . 6

GPA General Manager . . . 7

accomplishments

investing in our people . . . 8

planning for our future . . . 12

protecting our island . . . 16

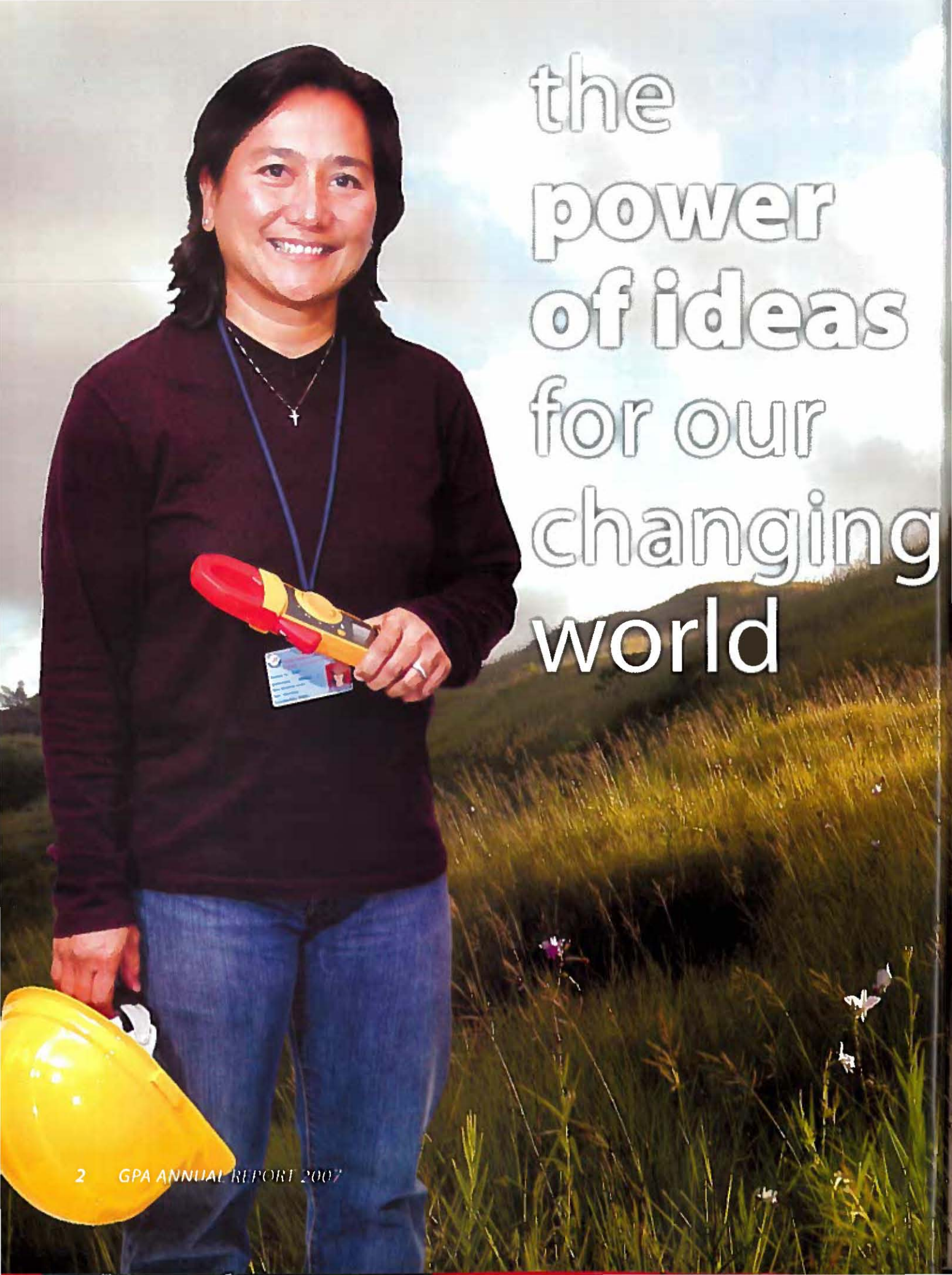
future generations . . . 22

financial report 2006 . . . 24

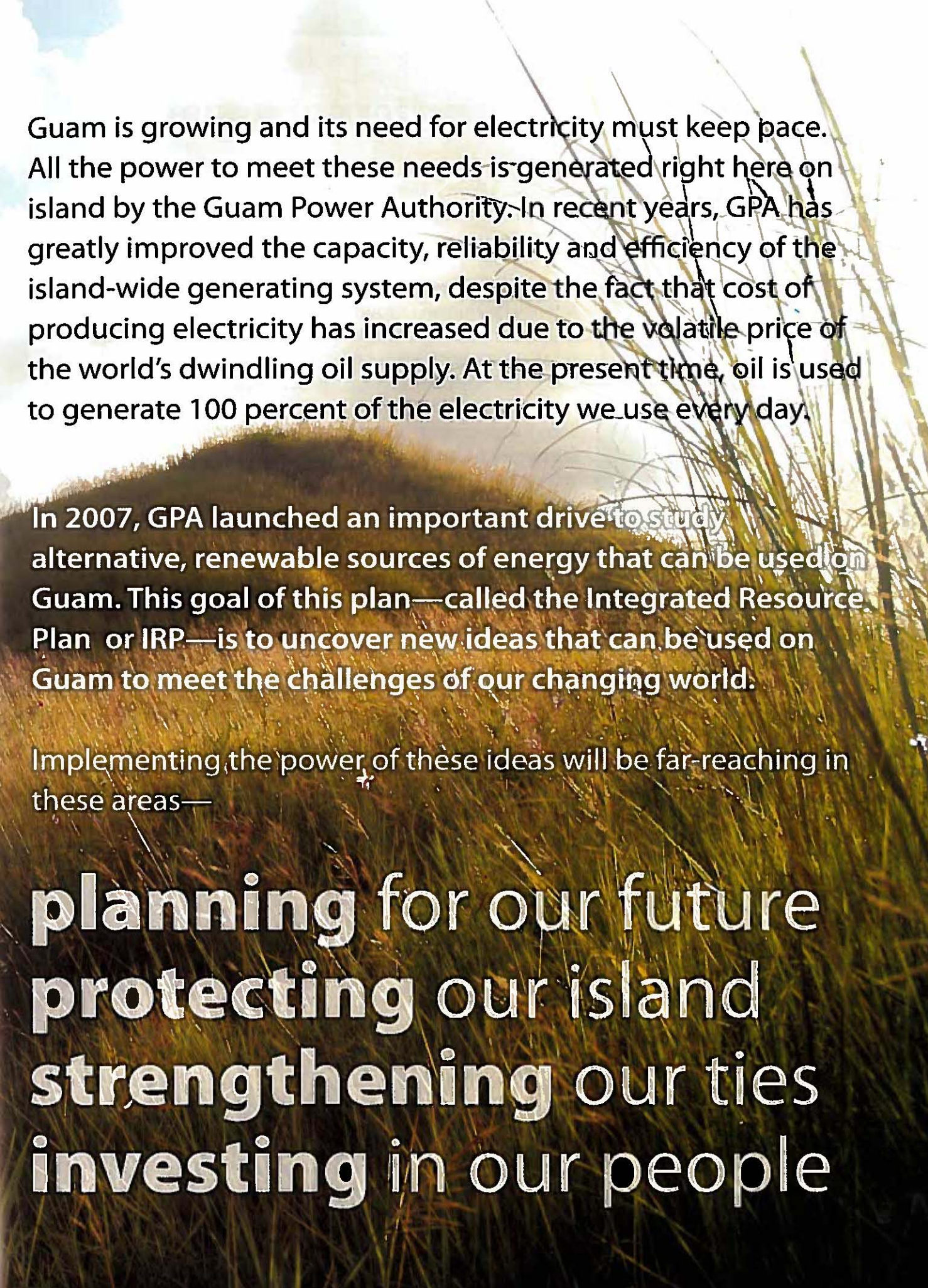
financial report 2007 . . . 66

acknowledgements . . . 109

GUAM POWER AUTHORITY
ANNUAL REPORT 2007

A woman with dark hair, wearing a dark long-sleeved shirt and blue jeans, stands in a field of tall grass. She is smiling and holding a red and yellow surveying tool in her right hand. A yellow hard hat is in her left hand. She has a blue lanyard with a badge around her neck. The background shows a grassy field with some small white flowers and a cloudy sky.

the
power
of ideas
for our
changing
world



Guam is growing and its need for electricity must keep pace. All the power to meet these needs is generated right here on island by the Guam Power Authority. In recent years, GPA has greatly improved the capacity, reliability and efficiency of the island-wide generating system, despite the fact that cost of producing electricity has increased due to the volatile price of the world's dwindling oil supply. At the present time, oil is used to generate 100 percent of the electricity we use every day.

In 2007, GPA launched an important drive to study alternative, renewable sources of energy that can be used on Guam. This goal of this plan—called the Integrated Resource Plan or IRP—is to uncover new ideas that can be used on Guam to meet the challenges of our changing world.

Implementing the power of these ideas will be far-reaching in these areas—

planning for our future
protecting our island
strengthening our ties
investing in our people



planning for our future

The Guam Power Authority recently graduated 23 of our local people in a U.S. Department of Labor Certified Apprenticeship program for highly skilled technical jobs that are critical to the operations and maintenance of the Island Wide Power System. Through partnerships with the Agency for Human Resources Development and the Guam Community College, GPA is working to rebuild its workforce by offering opportunities for those seeking jobs in these highly skilled and technical positions.



Jobs that contribute directly to an improved quality of life for those who embrace the values of dedication and hard work— values that are symbolic of our people's spirit and pride that began with the creation of the power agency with then Governor Carlos G. Camacho, my father, forty years ago.

Other opportunities abound for our young people to grasp promising careers here on Guam with the Authority's Engineering Summer Internships, In-Service Training and Engineering Scholarships. Having the people resource to support our island's changing economic landscape with professional careers is important as it directly contributes to a higher quality of life for all who make Guam their home.

I applaud the Consolidated Commission on Utilities and the Guam Power Authority for providing career opportunities for our people in career fields that will broaden their opportunities to seek and obtain their share of Guam's future prosperity.

A handwritten signature in black ink, appearing to read "F. Camacho".

FELIX P. CAMACHO
Governor of Guam

A handwritten signature in black ink, appearing to read "Michael W. Cruz".

MICHAEL W. CRUZ, M.D.
Lt. Governor of Guam



planning for our future

The Guam Power Authority recently graduated 23 of our local people in a U.S. Department of Labor Certified Apprenticeship program for highly skilled technical jobs that are critical to the operations and maintenance of the Island Wide Power System. Through partnerships with the Agency for Human Resources Development and the Guam Community College, GPA is working to rebuild its workforce by offering opportunities for those seeking jobs in these highly skilled and technical positions.



Jobs that contribute directly to an improved quality of life for those who embrace the values of dedication and hard work— values that are symbolic of our people's spirit and pride that began with the creation of the power agency with then Governor Carlos G. Camacho, my father, forty years ago.

Other opportunities abound for our young people to grasp promising careers here on Guam with the Authority's Engineering Summer Internships, In-Service Training and Engineering Scholarships. Having the people resource to support our island's changing economic landscape with professional careers is important as it directly contributes to a higher quality of life for all who make Guam their home.

I applaud the Consolidated Commission on Utilities and the Guam Power Authority for providing career opportunities for our people in career fields that will broaden their opportunities to seek and obtain their share of Guam's future prosperity.

A handwritten signature in black ink, appearing to read 'F. Camacho'.

FELIX P. CAMACHO
Governor of Guam

A handwritten signature in black ink, appearing to read 'Michael W. Cruz'.

MICHAEL W. CRUZ, M.D.
Lt. Governor of Guam

protecting our island

Since the inception of the Consolidated Commission on Utilities in 2003, GPA has made significant progress towards improving electrical services for all ratepayers. No longer is the utility just responding to emergencies, but today GPA is planning and coordinating as a well managed public utility should.

One such plan is the completion of the Integrated Resource Plan. With the announcement of the U.S. Military's plan to expand its operations here on Guam and the impact the price of fuel has had on rates, the IRP is the Authority's road map towards fuel diversity, alternative/renewable energy technologies and possible new career industries for our people.

The IRP has components that will guide GPA and our community into a future with opportunities that many communities worldwide have already embraced. Being conscious of our environment as well as our overall quality of life will literally change the landscape of our island with the possibility of new wind farms, recycling of steam power and promoting energy efficiency, requiring significant change that we, as ratepayers, must decide upon if we want reliable power.

Your Consolidated Commission on Utilities has committed much in resources to move Guam forward on this worldwide effort to lessen our reliance on oil and embrace environmentally conscious ideals. It is a new and brighter future for GPA and for our people as we make investments to secure a better Guam for all ratepayers while protecting our island.


SIMON A. SANCHEZ, II
Chairman



Simon A. Sanchez, II
Chairman



Gloria B. Nelson
Vice Chair & Secretary



Benigno M. Palomo
Vice Chairman GPA



Tom C. Ada
Vice Chair GWA & Treasurer



Eloy P. Hara
Commissioner



strengthening our ties

Back in 1968, then Governor Carlos G. Camacho authored legislation creating the Guam Power Authority—a separate utility entity from the Public Utility Agency of Guam (PUAG) which managed water and wastewater services for our island community. Both agencies, being in their infancy stage, progressed along different management policies and mission objectives distancing themselves from collaborative efforts to improve service.

With the creation of the Consolidated Commission on Utilities in 2003, both agencies share common supportive roles that have often times united to improve our overall quality of life.

Similar functions across different divisions like generations, engineering and even communications have played significant roles in resolving crisis after crisis and enabled both agencies to strengthen ties in the spirit of teamwork to get the job done.

The return of such team efforts between Guam Power Authority and now Guam Waterworks Authority have been noteworthy with improved emergency water well generator maintenance, pump repairs, heavy equipment support, engineering technical services and public relations.

As both Agencies continue to improve across the breadth of their respective roles and responsibilities, a future yet-to-be-determined date may find the reunification of both Agencies once again to serve one customer with combined electric, water and wastewater services. A direct benefit would be cost reductions that take advantage of commonalities and economies of scale . . . same ratepayer.

Strengthening our ties with one another will bear more positive results for the future of our island. The role of both power and water will significantly shape how that future will look and whether or not our island will reap a lion's share of economic prosperity.

A handwritten signature in black ink, appearing to read 'John M. Benavente'.

JOHN M. BENAVENTE, P.E.
General Manager, Consolidated Utility Services

investing in our people

THE PEOPLE ELEMENT

Investing in our People Abilities ...

This past year, the Authority significantly changed the process of measuring employee performance and providing direct incentives to achieve. Employees are challenged to meet goals that equally engage the competitive spirit while encouraging teamwork to perform beyond their traditional areas of responsibility.

Providing salary incentives that are commensurate with exceptional achievement has promoted a workplace mentality to reach "beyond the desk" and become involved with tasks from inception to closure – a "cradle to grave" undertaking that has been received as refreshing as it is new.

This change in measuring performance is coupled with training across different administrative and technical skills to support individual and professional development. All levels of management are encouraged to share more resources, coordinate related tasks and improve revenue while reducing expenditures. These practices are matched with peer rapport, workplace enthusiasm and creative problem solving to encourage and develop a well rounded employee.

It is our view that by creating a favorable working environment that GPA will improve in areas of revenue protection, system reliability and increased efficiency while working to achieve our mission of providing reliable electrical services as safely, efficiently and economically as possible to our ratepayers.



A handwritten signature in black ink, appearing to read "JC Flores".

JOAQUIN C. FLORES, P.E.
General Manager

investing in our people

**The future of our island depends on building
a stable foundation for economic growth
and enhanced quality of life for all.**



At the heart of this stable foundation is reliable electrical power that is economical and environmentally friendly. Everyone who lives, works and plays on Guam depends on GPA professionals to operate one of Guam's most important resources—the Island Wide Power System.



Accomplishment:

Training GPA's "certified, technical and professional" personnel

GPA, with its "certified, technical and professional" workforce of more than 500, is a perfect example of a Guam employer offering professional and technical employment that allows the people of our island to thrive. Providing economical, environmentally friendly electrical power in the future will certainly mean new challenges that only vibrant, creative professionals can meet.

Because GPA is a full-service electrical utility, its employees are asked to fill an extremely wide range of positions in order to generate, transmit and distribute power to our homes, schools and businesses. From meter readers to engineers, from data processors to linemen, GPA employees continually train to strengthen and expand their readiness to perform.

Teamwork and Safety

Each employee plays an integral part in providing reliable electrical power while performing maintenance and responding to emergencies and adhering to stringent safety standards.

Training Pays

GPA training programs pay off. Employees provide efficient operations, ongoing improvements and maintenance that saves money for ratepayers 365 days-a-year.

Future Employees

Providing career opportunities to our youth through apprenticeship programs, scholarships and internship experiences ensures that GPA will continue to have well-trained employees in the future. GPA partners with accredited local institutions of higher learning and off island technical and educational institutions in licensed programs to ensure that GPA will be able to continue to increase efficient performance, expand as the island's needs for electricity expand.



our people are our future

The next generation of utility professionals will be key as GPA reshapes its generation resources through alternative, renewable energy technologies to meet the needs of our changing world.



planning for our future

Electrical power is linked to every aspect of our lives. Producing enough power to serve the island economically and reliability means we can maintain our quality of life, create a stable, growing economy, and provide important services for our schools and other institutions.



GPA is leading the way in exploring alternative ways of producing power that are both economical and environmentally responsible. In 2007, we announced the process and timetable for bringing everyone together to discuss our island's needs and the solutions that will be right for our whole community. This jump start means that today we are well along the way towards developing the new sources of energy that will be needed for our changing world.



Accomplishment

Launch of the Integrated Resource Plan

The purpose of the Integrated Resource Plan (IRP) is to draft a plan of action for our community to choose alternative renewable energy resources that will lessen our reliance on a single source of fuel. Today's power plants—while much more efficient than they were even a few years ago—are dependent upon the world's supply of oil.

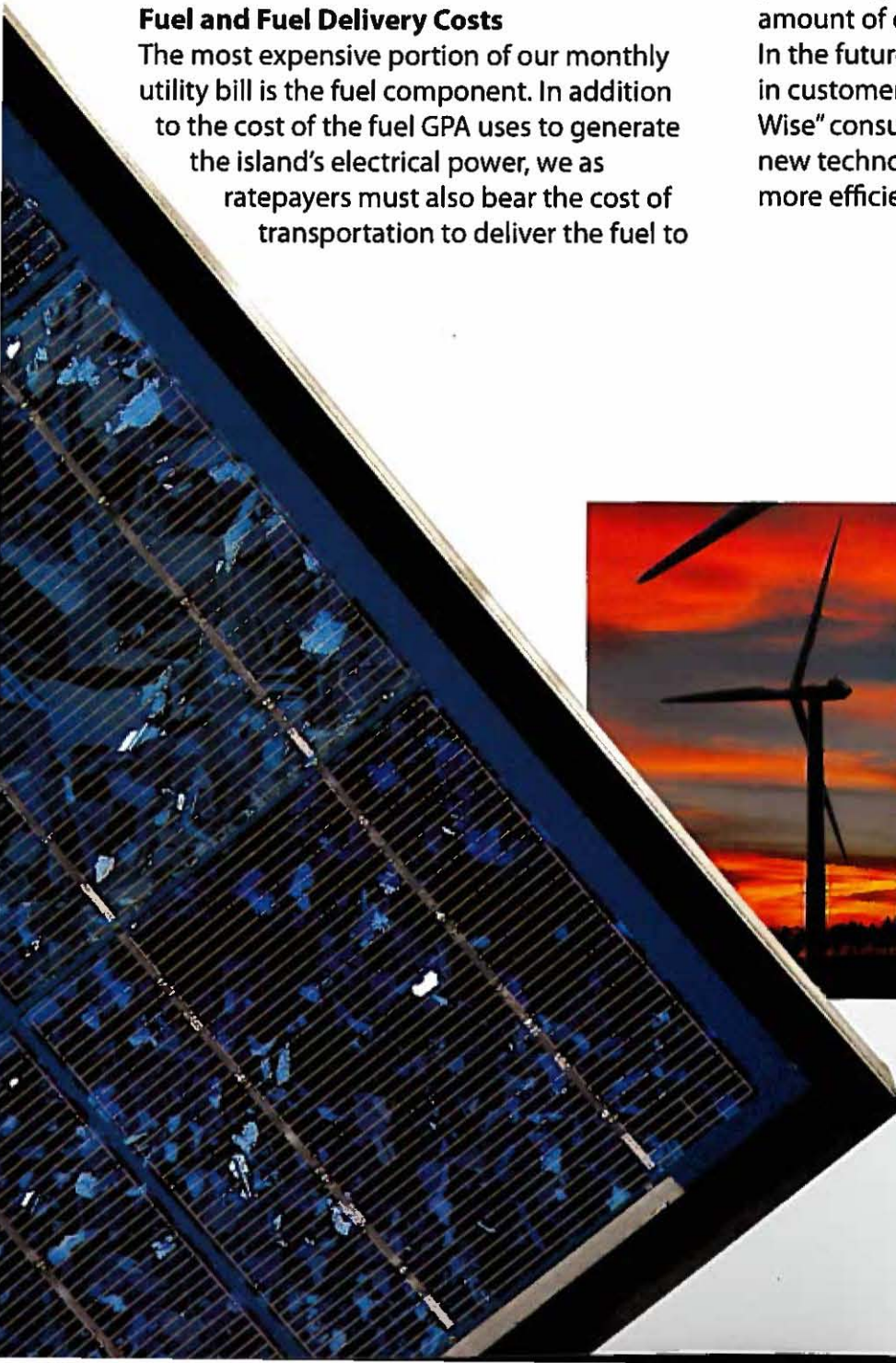
Fuel and Fuel Delivery Costs

The most expensive portion of our monthly utility bill is the fuel component. In addition to the cost of the fuel GPA uses to generate the island's electrical power, we as ratepayers must also bear the cost of transportation to deliver the fuel to

Guam. Diversifying our energy resources will potentially lessen our power bills. GPA will pass along the savings to all ratepayers.

Going Green

Renewable energy is good for our tropical island environment and promotes preserving resources by lessening the amount of carbon emissions into the air. In the future, GPA will be more involved in customer outreach to promote "Energy Wise" consumption and awareness of new technologies that utilize energy more efficiently.



GPA's strategic planning criteria

- **Reliable electric service continues to be a key issue for Guam. While significant gains have been made, it is important to continue to improve.**
- **The GPA plants that generate the island's electrical power have a significant environmental footprint. Future energy resources must be in keeping with evolving renewable resource goals.**
- **The current generating fleet is dependent on oil-based fuels, but GPA has a goal of diversifying its generation resources.**
- **The IRP stakeholder process recognizes that GPA's customers desire a more meaningful dialog with the Authority on issues that affect them.**
- **The Department of Defense expansion will impact the electrical power infrastructure. GPA should exchange and provide information to DOD NEPA during the IRP process.**

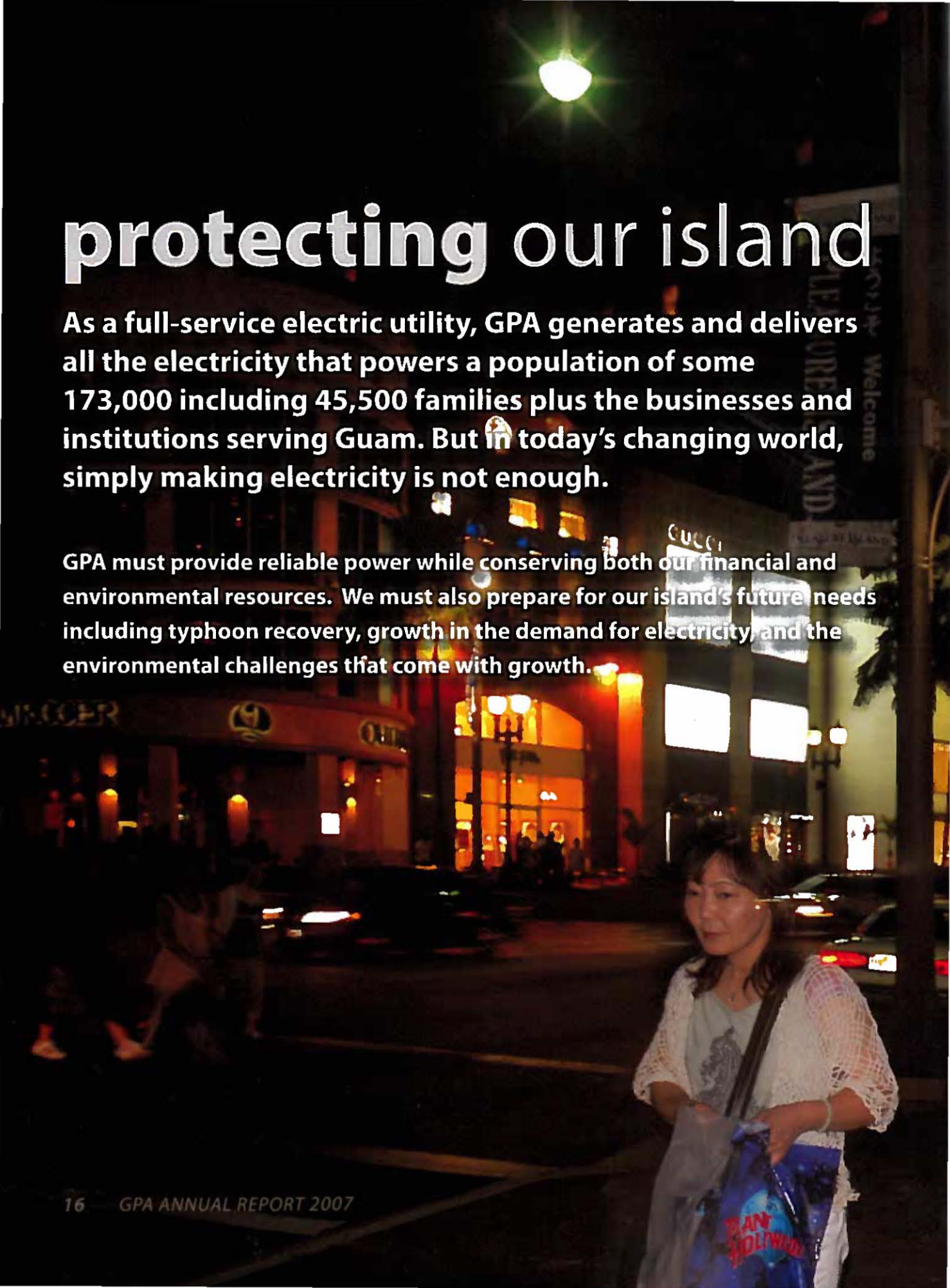
Update on the current status of Guam's IRP

The time line for drafting the IRP was announced in 2007 featuring dates of four public stakeholder meetings which were held in late 2007 and early 2008. The process was designed for GPA's customers to participate in a meaningful dialog with the Authority on issues that affect them. In addition, the Department of Defense expansion, which will have a material effect on the electrical power infrastructure, was addressed in the timeline as well.

Today, the IRP has been drafted and submitted to the Public Utilities Commission. GPA submitted its final draft of the FY 2008 Integrated Resource Plan to the Public Utilities Commission in June 2008. Approval of the plan for any new generation resource acquisition is required, however, the Public Utilities Commission has granted GPA permission to conduct wind studies in anticipation of wind power as a viable opportunity for GPA to reduce fuel costs.

The PUC further expects GPA to contract its initial alternative plant by December 2009. A copy of the IRP is available at www.guampowerauthority.com.



A nighttime photograph of a street in Guam. In the foreground, a woman with dark hair, wearing a white lace-trimmed cardigan over a grey t-shirt, is walking towards the camera. She is carrying a blue shopping bag with 'PLAN HOLLYWOOD' printed on it. The background is filled with the warm glow of city lights, including street lamps and building windows. A 'GUCCI' sign is visible on a building in the distance. The overall atmosphere is that of a bustling urban environment at night.

protecting our island

As a full-service electric utility, GPA generates and delivers all the electricity that powers a population of some 173,000 including 45,500 families plus the businesses and institutions serving Guam. But in today's changing world, simply making electricity is not enough.

GPA must provide reliable power while conserving both our financial and environmental resources. We must also prepare for our island's future needs including typhoon recovery, growth in the demand for electricity, and the environmental challenges that come with growth.



Accomplishment:

Buried main trunk lines underground.

Completion of the project to move main trunk lines underground is important for timely recovery from natural disasters. In addition, this project is key in supporting tourism and general commerce, securing connections to key power plants and protecting GPA's financial resources.

Lifelines Secured

Underground lines, which are shielded against typhoons, are now in service to Guam Memorial Hospital and the Port of Guam. These two areas are priorities for restoration after any disaster since the hospital is critical for health care and the port for delivery of goods and fuel.

The underground lines for Harmon/Tumon/Tamuning link three critical substations to transmission lines that directly serve large commercial and residential areas. Restoration of power to the key sector along Tumon and the services provided in the Harmon Industrial Park are critical to economical stability. In addition, underground lines serve densely populated residential areas in Tamuning and help beautify the island.

Placing transmission lines underground that directly connect to the Macheche and Tanguisson Power Plants will potentially provide electricity to central areas during storms or soon after.

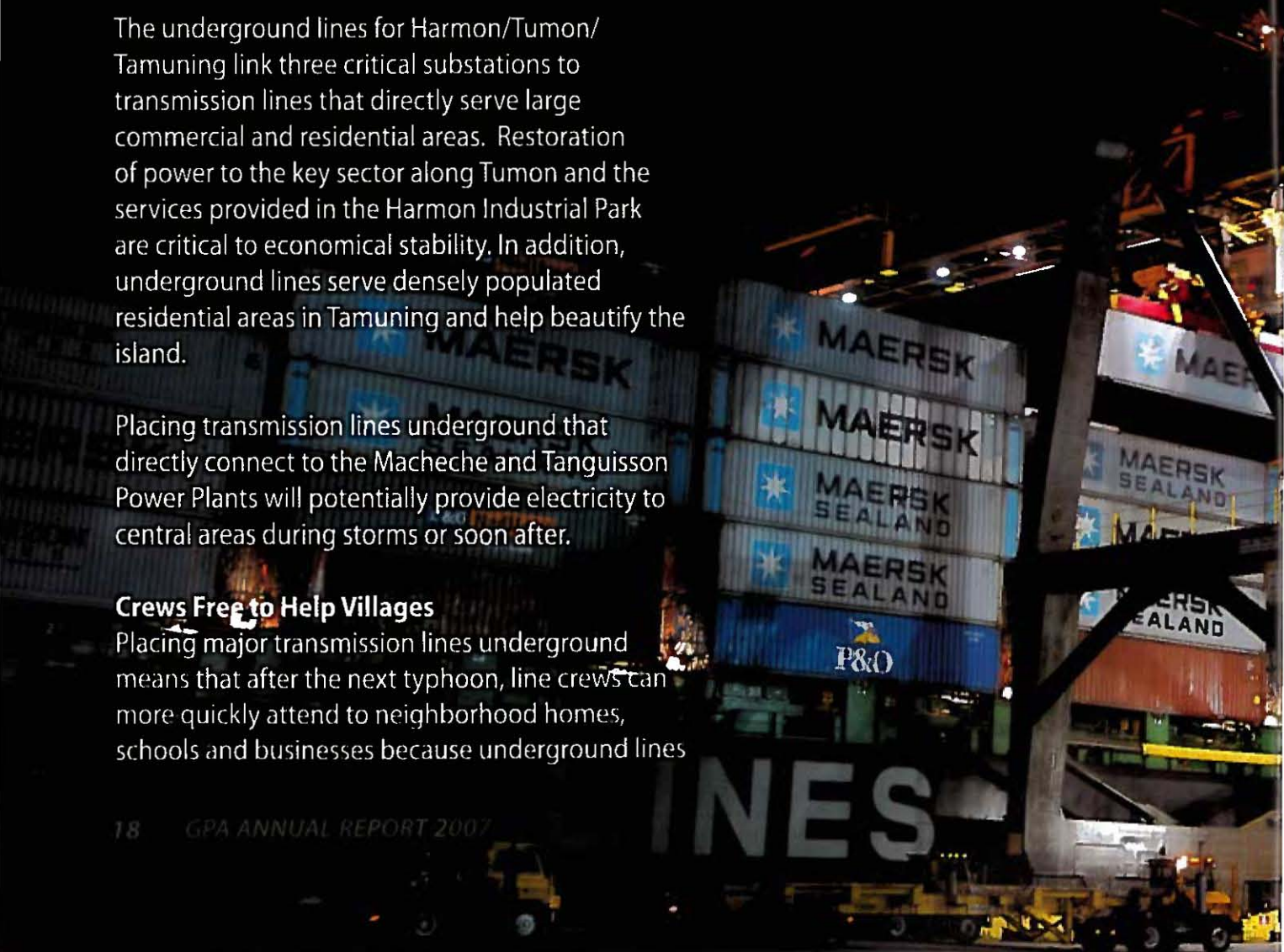
Crews Free to Help Villages

Placing major transmission lines underground means that after the next typhoon, line crews can more quickly attend to neighborhood homes, schools and businesses because underground lines

to major substations, the hospital, port, airport, and businesses and hotels along Tumon Bay are sheltered from storm damage. Line crews can be repositioned to restore electricity in villages, businesses in other areas, public and private schools and military bases.

Savings to Rate Payers

Avoiding these repairs can save greatly on funds needed for restoration thereby protecting financial resources that can be used to support other improvements.





Accomplishment

GMH payment of promissory note

Collections of Guam Memorial Hospital's past due account funded portions of operations and maintenance, capital improvement projects and payments to vendors that GPA owed for goods and services. Ratepayers are no longer burdened with the payment of this debt.

This collection is a exemplifies GPA management's commitment to diligent execution of best financial management practices.

Accomplishment

Protected GPA's bond rating

Bond ratings are like credit ratings that evaluate risks. The more favorable your credit score, the lower your interest rate will be and the less you will pay. Likewise the better GPA's bond rating, the lower the interest rate the authority must pay when borrowing for capital improvements and maintenance projects. Favorable interest rates benefit all ratepayers because funds can be spent on improvements rather than on high interest charges.

If a utility can fund its growth and investment over several years at a favorable rate, ratepayers will pay less over the short term and ratepayers can expect more in services and benefits that come from planning, efficiency and reliability in the long term.

Bond rating generally indicate the fiscal health of an agency by citing investments into improving operations, collections, protection against risks and insurability among other fiscal indicators.

Mayors want separate account for streetlights
JUNE 2008 00:00 BY ZITA TAITANO - VARIETY NEWS STAFF

Since
May
12

FILE

Amendment would pay streetlight debts
WEDNESDAY, 02 JULY 2008 21:55 BY THERESE HART | VARIETY NEWS STAFF

FILE

LAWMAKERS resumed session yesterday and started off with a new section to P.L. 29-69 which would authorize the governor to borrow \$13.8 million dollars to pay for delinquent streetlight arrearage owed to the Guam Power Authority. The loan may be made with any bank or commercial lending institution licensed on Guam, government of Guam autonomous agency or any other instrumentality of the government of Guam. The repayment of the loan shall begin July 1, 2008 and shall run for a period of not less than four years. The interest rate can be negotiated between the governor and the lending institution and shall not exceed seven percent per year. The loan may be secured by pledge of funds including the revenues derived by GovGuam appropriated by the general fund. "The rationale on this particular amendment is based on discussions with the legal counsel of the Bank of Guam in regards to moving forward with the loan to pay down the streetlight arrearage," Sen. Eddie Calvo, finance chair said. Vice Speaker David Shimizu said that he supported the amendment and it was time to move on the. "This would be about the third time we had to do this. This is minor. This came from the Department of Public Works. We tried to get this through and we have an agency which is responsible for the registration. We keep going back and forth on this. It slows down the process. I hope this is the last time they will have to come back and get it out and take care of the problem." Sen. Benjamin J. Fajardo

Accomplishment

Instituted convenience of online and debit/credit card payments

GPA customers no longer have to pay electric utility bills by cash or check. The convenience of paying by credit or debit card, is now available at GPA payment centers. In addition, accepting credit/debit cards has resulted in faster payments lines.

Online payments significantly reduce travel time and waiting in lines—a savings of both time and fuel costs to ratepayers. Payments can be made 24/7 from any computer with an internet connection—either on Guam or off island. Customers with multiple accounts have reported online payments is a great convenience.



Future generations are counting on us. The best opportunity we have to meet the future needs is to participate today in creating plans that allow GPA to continue to produce and deliver electricity efficiently and reliably. At GPA our priorities are to explore new technologies that will enhance our ability to reduce our reliance on oil while protecting the natural beauty and resources of our island.

*Together we
can create a new
and brighter
future for
ourselves and
those who follow*







FINANCIAL SECTION 2006

GUAM POWER AUTHORITY

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

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the accompanying financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4 to the financial statements, there are substantial accounts receivable balances from Government of Guam agencies that have been outstanding for several years. At September 30, 2006, collectibility of receivables totaling \$30 million from two of the agencies is completely dependent on adequate funding from the Government of Guam's General Fund. At present, the ability of the Government of Guam's General Fund to repay these receivables is not determinable. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 1-6 is not a required part of the basic financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of GPA's management. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 34 through 37, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of GPA's management. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2007, on our consideration of the GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP
March 28, 2007

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2006

Introduction

The biggest challenge facing the Guam Power Authority (GPA) continues to be the high cost of fuel. Shortly after the end of the fiscal year, GPA passed on another increase in the Levelized Energy Adjustment Clause (LEAC) of approximately 6.5% of total sales. The LEAC is the adjustable rate that allows GPA to recover its actual cost of fuel. At a time when GPA has been expecting to see increases in kWh sales resulting from the planned addition of 8,000 Marines to the island's military bases, the Authority's kWh sales have been flat or slightly decreasing as the table below describes. GPA has been finding that many of its customers have begun to take strong actions to mitigate the impact of fuel prices on their homes and businesses.

Sales Activity (kWh)

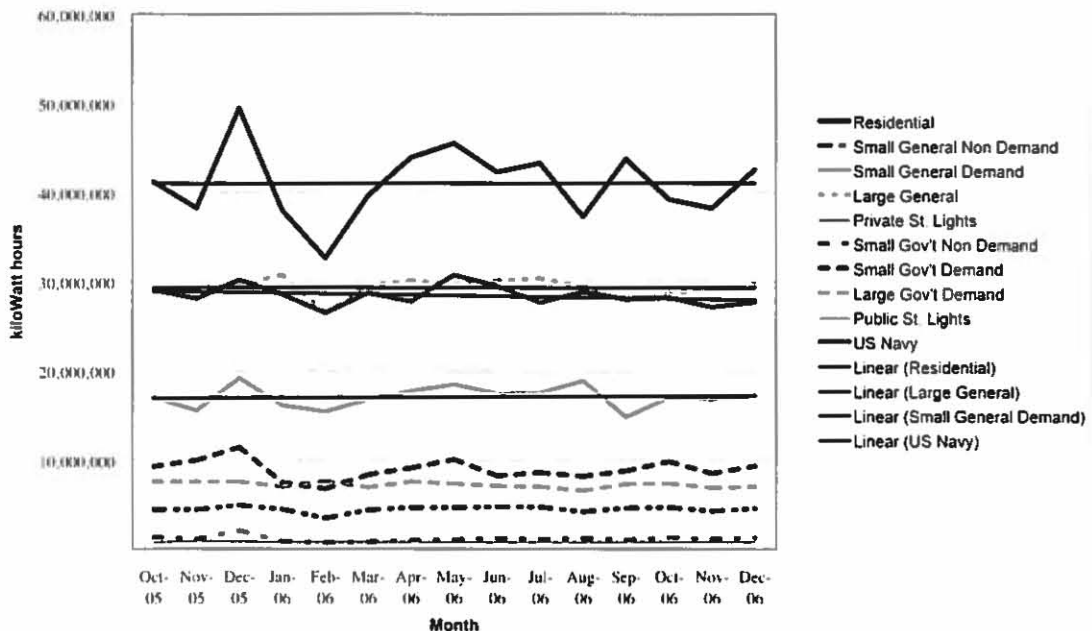


Figure 1, Energy Sales by Rate Class

GPA's system is dependent upon fossil fuels as the Authority's generation plants burn either high sulfur oil or diesel fuel – both of which have been impacted by the increased worldwide demand for petroleum products. GPA is currently developing an integrated resource plan to evaluate the feasibility of using alternative energy sources to enable the Authority to diversify its energy utilization as well as studying options for converting its existing plants to support alternative fuel types. GPA is also continuing to examine its options for constructing a sea water air cooling system in Tumon Bay to serve many of the island's largest hotels. The cold sea water would be used to replace the air conditioning load of several of the hotels lining Tumon Bay. However, even under the best case scenario, this new plant would impact less than 5% of GPA's load. Thus, finding solutions to protect customers from the high cost of energy has proven challenging.

GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ended September 30, 2006

GPA's baseload units continue to perform exceptionally well. GPA's system is made up of 351.6 megawatts of baseload units that burn high sulfur fuel oil and 200.8 megawatts of peaking units that burn diesel fuel. Because the cost of diesel fuel is sometimes as high as 200% of the cost of high sulfur fuel oil, GPA has been able to mitigate some of the increased cost of fuel by improving the reliability and availability of its baseload units. The graph below details the increased production from baseload units.

Generation From Baseload vs. Peakers

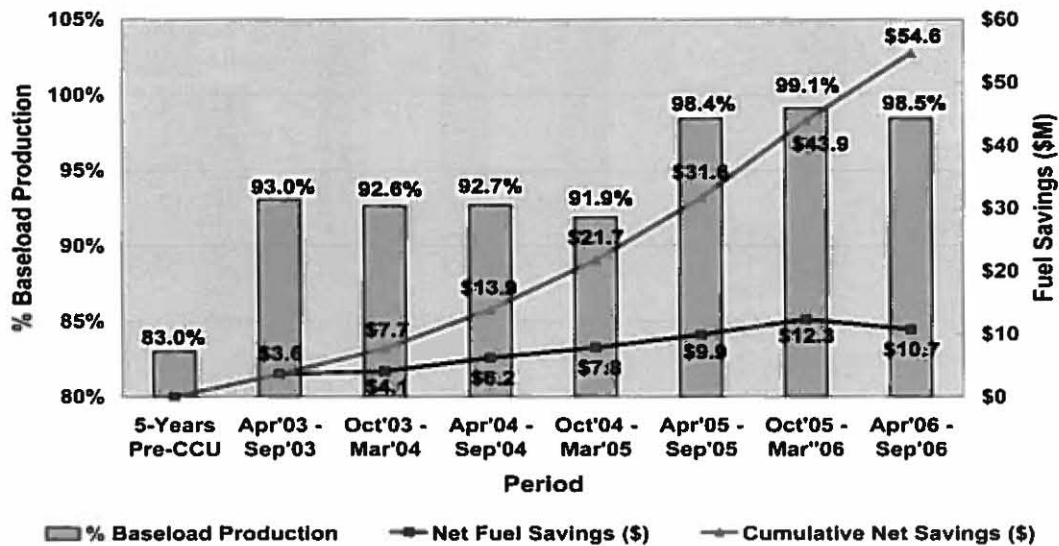


Figure 2, Baseload Production and Fuel Savings by Current Management over Prior Management

In the five years prior to the CCU taking office, the average percentage of generation from baseload production was 83%. Since that time, the percentage of generation from baseload plants has risen dramatically. If the 83% level had been held constant the last four years, GPA ratepayers would have had to bear nearly \$55 million in additional fuel costs due to the differential between high sulfur oil and diesel fuel.

Regional Comparisons

The high percentage of generation from baseload plants has put GPA in a position in which its rates have been very competitive in comparison with other island utilities that are dependent upon diesel fired generation units and even some mainland utilities that don't have some of the same constraints that GPA faces. The chart below shows a comparison of residential rates charged by the other utilities:

GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ended September 30, 2006

Rate Comparisons

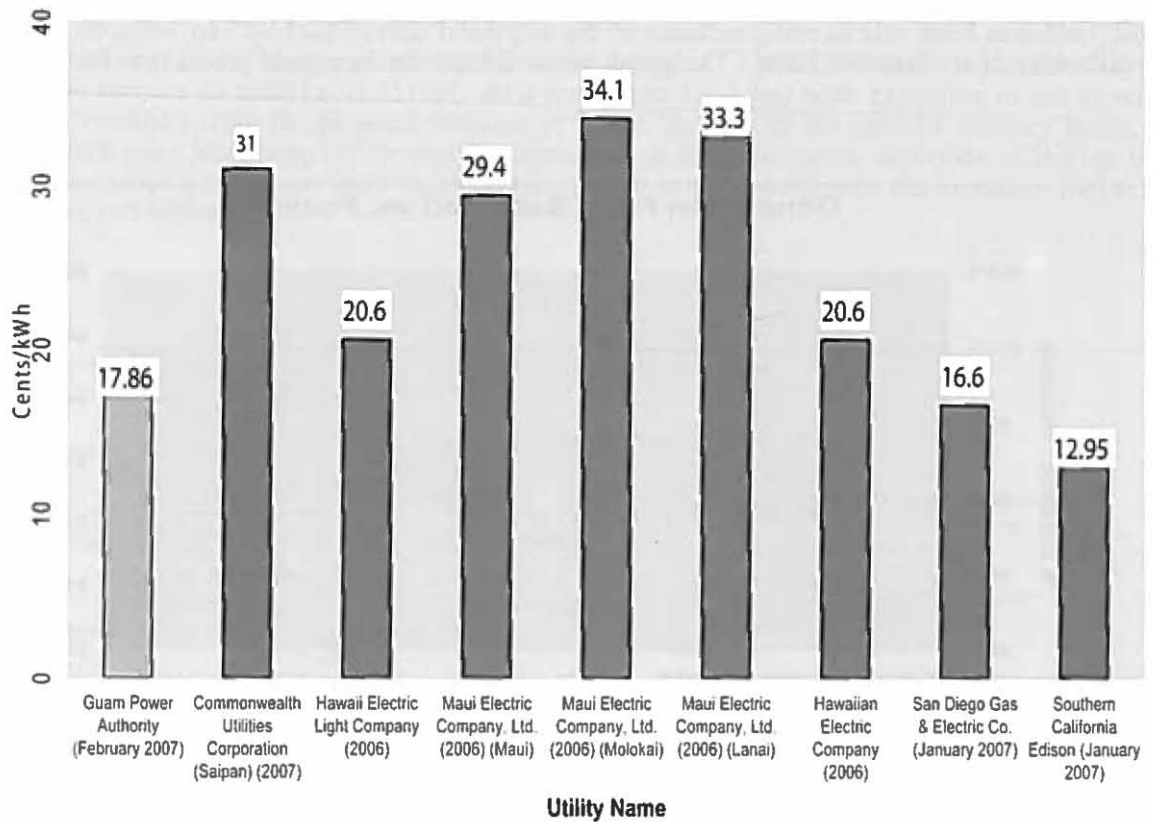


Figure 3, Regional Rate Comparisons

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2006

Customer Base

As the chart below shows, GPA's major customers include a fairly diverse base including the Department of Defense, the Guam Waterworks Authority, the Guam Public Schools System, the Guam International Airport Authority, the Hilton Hotel, the Hyatt Regency Hotel, the Micronesia Mall, the Marriot Hotel, the Pacific Islands Club, and others.

2006 kWh Sales

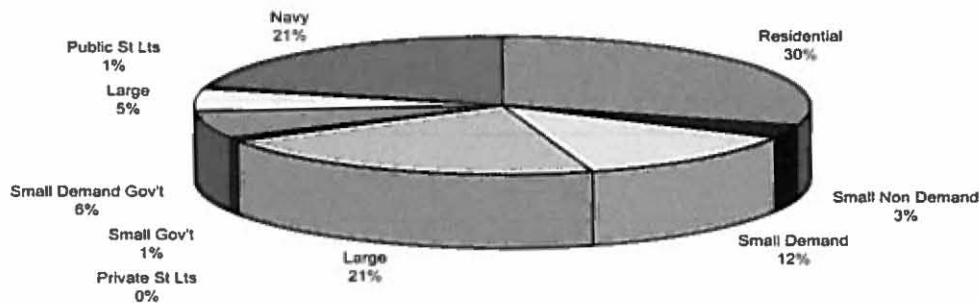


Figure 4, Percent Breakdown of FY 2006 Energy Sales

Accounts Receivable

GPA has been heartened by the conclusion of the recent United States Supreme Court Case related to an attempt to borrow funds by the Government of Guam. The Government has owed the Authority approximately \$30 million in past due power originating prior to the creation of the Consolidated Commission on Utilities to oversee GPA. The Governor of Guam attempted to issue bonds to cover this debt as well as many others he faced as he began his term in office. The law suit was filed because the Attorney General refused to sign off on the bond indenture agreement. The issue has been tied up in court for the last four years. GPA believes that with the closure of the case, the Authority is closer to receiving payment of these past due obligations. While the issue has been tied up in litigation, the Guam Public School System and the Guam Memorial Hospital have been making installment payments on the outstanding amounts.

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2006

Financial Highlights

Table 1 highlights financial comparisons between Fiscal Years 2004 through 2006. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

Table 1, Financial Data (in millions of dollars)

MILLIONS OF DOLLARS	2006	2005	2004
Assets			
Current Assets	\$ 152.4	\$ 143.9	\$ 149.2
Non-current investments	27.5	27.5	27.4
Other non-current Assets	48.5	45.3	47.6
Utility Plant	551.6	553.1	557.2
Liabilities			
Current Liabilities	82.5	64.3	67.7
Non-current Liabilities	547.3	553.8	562.5
Net Assets			
Invested in capital assets net of related debt	21.4	13.1	8.2
Restricted	53.3	54.4	56.1
Unrestricted	75.4	84.3	87.0

Results of Operations

MILLIONS OF DOLLARS	2006	2005	2004
Revenues	\$ 290.1	\$ 247.0	\$ 225.2
Total Operating and Maintenance expense	256.3	210.0	191.9
Operating earnings	33.8	37.0	33.3
Interest income	4.4	3.6	2.9
Other revenues and (expense)	(37.6)	(37.8)	(42.5)
Loss before capital contributions	(3.8)	(0.8)	(9.2)
Capital contributions	2.1	1.4	-
(Decrease) increase in net assets	(1.7)	0.6	(9.2)

Explanations of Variances

In general, most major accounts of the Authority had very little fluctuation during the three years. Explanations for the accounts that did have some significant changes are as follows:

- The changes in current assets is primarily due to the timing of GPA's payment for fuel. GPA had a payment pending the first week of October 2006 and therefore, cash on hand was higher than normal. There has been a general downward trend as GPA has been completing the final projects from its 1999 bond issuance. This also explains the increased amount of current liabilities as of September 30, 2006.

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2006

- The increase in Capital Assets Net of related debt results from decreasing debt outstanding as bond payments are made and assets are being brought into service.
- Revenues increased by \$41.9M or 17.4% over the previous year due primarily to the increase in world fuel prices.
- Total operating and maintenance expenses increased by \$46.3M or 22.0% which is primarily due to the increase in fuel oil costs. The average price per barrel purchased increased 46.3% over the previous year.
- Interest income in 2006 increased by \$.8M due to increasing interest rates available on short term investments and money market funds.
- Other expenses were unusually high in 2004 as a result of a loss on an oil spill of \$3.4 million.
- The capital contributions are due to a grant received from the Federal Emergency Management Agency to place some key transmission lines underground to additionally harden GPA's system against wind and storm risks.

GUAM POWER AUTHORITY

Statements of Net Assets September 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents:		
Held by trustee:		
Interest and principal funds for debt repayment	\$ 17,941,919	\$ 17,215,622
Bond indenture funds for restricted purposes	21,806,713	25,431,155
Held by Guam Power Authority:		
Bond indenture funds	19,220,350	14,230,359
Total cash and cash equivalents	58,968,982	56,877,136
Accounts receivable, net	43,273,912	40,722,746
Current installments of long-term receivables	4,865,940	6,675,390
Total current receivables	48,139,852	47,398,136
Materials and supplies inventory	13,421,024	14,392,880
Fuel inventory	29,500,641	23,045,896
Prepaid expenses	1,188,592	1,182,603
Current portion of deferred fuel costs	1,172,177	1,068,346
Total current assets	152,391,268	143,964,997
Utility plant, at cost:		
Electric plant in service	809,861,968	798,923,889
Construction work in progress	25,877,073	20,829,261
Less accumulated depreciation	(284,111,334)	(266,635,872)
Total utility plant	551,627,707	553,117,278
Other non-current assets:		
Bond reserve funds (trustee)	27,488,252	27,488,245
Long-term receivables, less current installments	29,790,578	30,265,272
Non-current deferred fuel costs	7,397,261	3,205,038
Unamortized debt issuance costs	4,623,285	4,790,490
Cancelled unit, net of amortization	868,706	990,881
Deferred asset, net	3,824,423	3,983,774
Other	1,951,195	2,049,218
Total other non-current assets	75,943,700	72,772,918
	<u>\$ 779,962,675</u>	<u>\$ 769,855,193</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Net Assets, Continued
September 30, 2006 and 2005

<u>LIABILITIES AND NET ASSETS</u>	<u>2006</u>	<u>2005</u>
Current liabilities:		
Short-term debt	\$ 20,000,000	\$ 20,000,000
Current maturities of long-term debt	6,480,000	6,200,000
Current obligations under capital leases	5,589,841	4,957,492
Current portion of deferred payment agreement	3,449,591	-
Accounts payable:		
Operations	14,502,766	14,065,010
Fuel	15,243,919	1,243,126
Accrued payroll and employees' benefits	1,089,336	1,124,114
Current portion of employees' annual leave	1,078,856	1,307,370
Interest payable	11,275,223	11,517,986
Customer deposits	<u>3,858,707</u>	<u>3,837,597</u>
Total current liabilities	82,568,239	64,252,695
Long-term debt, less current maturities	380,407,966	385,700,541
Deferred payment agreement, less current portion	1,101,681	-
DCRS sick leave liability	946,549	818,222
Employees' annual leave, less current portion	1,023,134	749,573
Retirement fund deferred contributions	9,105,058	7,717,882
Obligations under capital leases, less current portion	138,575,390	144,164,982
Provision for self-insurance	2,112,546	-
Deferred revenues, net	<u>14,016,423</u>	<u>14,600,440</u>
Total liabilities	<u>629,856,986</u>	<u>618,004,335</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	21,443,216	13,085,144
Restricted	53,270,777	54,415,012
Unrestricted	<u>75,391,696</u>	<u>84,350,702</u>
Total net assets	<u>150,105,689</u>	<u>151,850,858</u>
	<u>\$ 779,962,675</u>	<u>\$ 769,855,193</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets Years Ended September 30, 2006 and 2005

	2006	2005
Revenues:		
Sales of electricity	\$ 288,525,090	\$ 244,991,100
Miscellaneous	<u>1,673,629</u>	<u>2,076,028</u>
	290,198,719	247,067,128
Bad debt (expense) recovery	<u>(885,242)</u>	<u>278,627</u>
Total revenues	<u>289,313,477</u>	<u>247,345,755</u>
Operating and maintenance expenses:		
Production fuel	157,121,699	112,708,608
Other production	<u>18,644,308</u>	<u>19,386,793</u>
	175,766,007	132,095,401
Administrative and general	24,587,781	24,124,451
Depreciation and amortization	24,267,638	25,146,329
Energy conversion costs	17,981,177	16,936,394
Transmission and distribution	10,559,269	9,739,874
Customer accounting	<u>2,324,178</u>	<u>2,273,979</u>
Total operating and maintenance expenses	<u>255,486,050</u>	<u>210,316,428</u>
Operating earnings	<u>33,827,427</u>	<u>37,029,327</u>
Other revenues (expense):		
Interest revenue	4,421,404	3,591,565
Allowance for funds used during construction	580,861	1,285,834
COLA/supplemental annuities	(519,865)	(550,044)
Other expense	(275,505)	(16,205)
Interest expense	<u>(41,859,548)</u>	<u>(42,148,963)</u>
Total other expenses	<u>(37,652,653)</u>	<u>(37,837,813)</u>
Loss before capital contributions	(3,825,226)	(808,486)
Capital contributions:		
Grants from the United States Government	<u>2,080,057</u>	<u>1,426,669</u>
(Decrease) increase in net assets	(1,745,169)	618,183
Net assets at beginning of year	<u>151,850,858</u>	<u>151,232,675</u>
Net assets at end of year	<u>\$ 150,105,689</u>	<u>\$ 151,850,858</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 289,067,565	\$ 251,395,716
Cash payments to suppliers for goods and services	(194,213,410)	(163,881,345)
Cash payments to employees for services	(26,468,806)	(26,630,094)
Net cash provided by operating activities	<u>68,385,349</u>	<u>60,884,277</u>
Cash flows from investing activities:		
Change in bond reserve funds	(7)	(95,115)
Interest and dividends on investments and bank accounts	<u>3,837,386</u>	<u>2,821,071</u>
Net cash provided by investing activities	<u>3,837,379</u>	<u>2,725,956</u>
Cash flows from noncapital financing activities:		
Interest paid on short-term debt, deferred payment agreements and deposits	<u>(1,871,844)</u>	<u>(738,810)</u>
Net cash used in noncapital financing activities	<u>(1,871,844)</u>	<u>(738,810)</u>
Cash flows from capital and related financing activities:		
Additions to utility plant	(22,931,401)	(21,026,257)
Principal paid on bonds	(6,200,000)	(5,935,000)
Interest paid on bonds	(20,235,936)	(20,129,519)
Principal paid on capital leases	(4,957,243)	(4,397,922)
Interest paid on capital leases	(18,127,061)	(18,686,379)
Self insurance fund receipts	2,112,546	-
Typhoon expenditures	-	(598,917)
FEMA receipts	<u>2,080,057</u>	<u>308,337</u>
Net cash used in capital and related financing activities	<u>(68,259,038)</u>	<u>(70,465,657)</u>
Net change in cash and cash equivalents	2,091,846	(7,594,234)
Cash and cash equivalents at beginning of year	<u>56,877,136</u>	<u>64,471,370</u>
Cash and cash equivalents at end of year	<u>\$ 58,968,982</u>	<u>\$ 56,877,136</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued Years Ended September 30, 2006 and 2005

	2006	2005
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 33,827,427	\$ 37,029,327
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	24,267,638	25,146,329
Bad debt	885,242	-
Inventory obsolescence	103,001	-
COLA/supplemental annuities paid	(519,865)	(550,044)
Difference between retirement expense and funding	1,387,176	2,668,476
(Increase) decrease in assets:		
Accounts receivable	(1,152,264)	3,822,773
Materials and supplies inventory	868,855	1,454,948
Fuel inventory	(6,454,745)	(6,519,111)
Prepaid expenses	(5,989)	165,094
Deferred fuel costs	(4,068,677)	1,531,388
Other assets	98,023	134,704
Increase (decrease) in liabilities:		
Accounts payable - fuel	14,000,793	(2,841,656)
Accounts payable - operations	437,756	(968,988)
Deferred payment agreements	4,551,272	-
Accounts payable - Navy	-	(55,982)
Customer deposits	21,110	505,815
Accrued payroll and employees' benefits	(34,778)	(298,724)
Employees' annual and sick leave	173,374	(340,072)
Net cash provided by operating activities	<u>\$ 68,385,349</u>	<u>\$ 60,884,277</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(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 provides electrical services on Guam to residential, commercial and Government of Guam customers, and to the U.S. Navy under a customer supplier agreement. GPA is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. 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 of America 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.

Basis of Accounting

GPA utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting"* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. GPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Net Assets

Net assets represent the residual interest in GPA's assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All of GPA's restricted net assets are expendable. All other net assets are unrestricted.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies, Continued

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. Current policy is to capitalize items over \$500.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (5-50 years for plant assets).

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.

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 three months or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, up to 100 hours of excess annual leave existing at February 28, 2003 may be credited to sick leave and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies, Continued

Deferred Asset and Deferred Revenues

The deferred asset and deferred revenues arose as a result of the Bond Reserve Fund Forward Delivery Agreement entered into in September 2000. The deferred asset represents termination fees and closing costs and the deferred revenues represent the gross proceeds that will be deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds.

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. Unbilled receivables at September 30, 2006 and 2005 are \$6,666,521 and \$6,134,009, respectively.

Derivative Instruments

In June 2003, GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, was issued. Technical Bulletin 2003-1 adopts many of the definitions established in Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities.

Disclosures required by Technical Bulletin 2003-1 for GPA's fuel oil hedging activities are included in note 15.

Technical Bulletin 2003-1 also adopts the FASB 133 exception for certain derivative transactions that meet the criteria of "normal purchases and normal sales". Power purchase agreements generally meet the "normal purchases and normal sales" exception. Accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 11) are excluded from the Technical Bulletin requirements under the "normal purchases and normal sales" exception.

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 statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. Historically, GPA charged its customers for fuel as a separate line item, which was adjusted on a monthly basis. The LEAC resulted in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Cumulative unrecovered fuel costs are \$8,569,438 and \$4,273,384 at September 30, 2006 and 2005, respectively.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

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 1993 and Series 1999 bonds. 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.

New Accounting Standards

During fiscal year 2006, GPA implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying financial statements.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

Reclassifications

Certain account balances in the 2005 financial statements have been reclassified to correspond with the 2006 presentation.

(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, 2006 and 2005, GPA has cash deposits in bank accounts that 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. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy. The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(3) Cash and Investments

The bond indenture agreements for the 1993 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, 2006 and 2005, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	2006			
	Held By Trustee		Held By GPA	Total
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	
Construction funds	\$ -	\$ 16,672,617	\$ -	\$ 16,672,617
Interest and principal funds	17,941,919	-	-	17,941,919
Bond funds	-	5,134,096	-	5,134,096
Working capital funds	-	-	14,664,780	14,664,780
Self-insurance fund	-	-	1,741,498	1,741,498
Revenue funds	-	-	360,663	360,663
Operating funds	-	-	1,939,236	1,939,236
Surplus funds	-	-	514,173	514,173
	<u>17,941,919</u>	<u>21,806,713</u>	<u>19,220,350</u>	<u>58,968,982</u>
Bond Reserve Funds				<u>27,488,252</u>
				<u>\$ 86,457,234</u>

	2005			
	Held By Trustee		Held By GPA	Total
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	
Construction funds	\$ -	\$ 20,423,091	\$ -	\$ 20,423,091
Interest and principal funds	17,215,622	-	-	17,215,622
Bond funds	-	5,008,064	-	5,008,064
Working capital funds	-	-	12,666,667	12,666,667
Revenue funds	-	-	55,934	55,934
Operating funds	-	-	1,459,053	1,459,053
Surplus funds	-	-	48,705	48,705
	<u>17,215,622</u>	<u>25,431,155</u>	<u>14,230,359</u>	<u>56,877,136</u>
Bond Reserve Funds				<u>27,488,245</u>
				<u>\$ 84,365,381</u>

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2006 and 2005. Market values shown below implicitly include accrued interest for debt securities.

	2006	2005
Cash on hand, in demand and time deposits		
and money market accounts	\$ 58,968,982	\$ 56,877,136
Commercial paper	<u>27,488,252</u>	<u>27,488,245</u>
	<u>\$ 86,457,234</u>	<u>\$ 84,365,381</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(3) Cash and Investments, Continued

The deposits and investment policies of GPA are governed by 5 GCA 21, *Investments and Deposits* in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in or certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAAM or better by S&P.

A. Cash

GASB Statement No. 3 previously required government entities to categorize cash to give an indication of the level of risk assumed by the entity at year-end. The three categories are described below:

- Category 1 Insured or registered, or collateralized with securities held by GPA or its agent in GPA's name;
- Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GPA's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GPA does not have a deposit policy for custodial credit risk.

As of September 30, 2006 and 2005, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$58,968,982 and \$56,877,136, respectively, and the corresponding bank balances were \$59,077,822 and \$56,618,923, respectively. Of the bank balance amount, as of September 30, 2006 and 2005, \$3,789,575 and \$6,778,731, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount represents short-term investments held and administered by GPA's trustees and cash on hand. As of September 30, 2006 and 2005, bank deposits in the amount of \$503,774 and \$685,160, respectively, were FDIC insured. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GPA has not experienced any losses in such accounts.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(3) Cash and Investments, Continued

A. Cash, Continued

As of September 30, 2006 and 2005, short-term investments in the amount of \$39,748,631 and \$42,646,777, respectively, are held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by GPA or its agent in GPA's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in GPA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

As of September 30, 2006, GPA's investment in commercial paper, included in the bond reserve fund were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&P's Rating</u>
Bond Reserve Fund:			
Crimson Corporation	\$ 13,743,000	October 2, 2006	A-1+
Crown Point Capital Co.	13,742,000	October 2, 2006	A-1

As of September 30, 2005, GPA's investments in commercial paper, included in the Bond Reserve Fund were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Bond Reserve Fund:			
General Electric Corp.	\$ 13,742,000	October 3, 2005	Aaa
Crimson Corporation	13,743,086	October 3, 2005	Bal

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(3) Cash and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2006 and 2005, \$27,488,252 and \$27,488,245, respectively, is held in the name of a trustee for GPA.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2006, GPA's investments that exceeded 5% of total investments are as follows: Bayerische Landesbank (28.28%), Crimson Commercial Paper (22.06%), Crown PT Commercial paper (22.06%) and the Federal Debt Security Fund (27.07%). As of September 30, 2005, GPA's investments that exceeded 5% of total investments are as follows: Bayerische Landesbank (25.86%), Crimson Commercial Paper (21.04%), General Electric Commercial Paper (21.04%) and the Federal Debt Security Fund (31.55%).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. Maturities of investments in certain funds are limited to five years to limit interest rate risk. Maturities of investments in all funds may not be later than the dates that such moneys are expected to be required by the Trustees.

(4) Receivables

Accounts receivable at September 30, 2006 and 2005, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Customers:		
Private	\$ 38,554,624	\$ 33,874,465
Government	<u>10,320,508</u>	<u>12,353,824</u>
	48,875,132	46,228,289
U.S. Navy	4,201,763	2,372,305
Federal Emergency Management Agency	1,958,425	3,112,075
Interest	476,441	458,125
Others	<u>2,833,786</u>	<u>2,552,557</u>
	58,345,547	54,723,351
Less allowance for doubtful receivables	<u>(15,071,635)</u>	<u>(14,000,605)</u>
	\$ <u>43,273,912</u>	\$ <u>40,722,746</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(4) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Installment payment agreement receivable from the GovGuam Public School System (GPSS), payable in three \$500,000 payments in July, August, September 2004, thirteen monthly installments of \$100,000 starting October 2004, with monthly installments increasing by \$25,000 annually each November until payments reach \$200,000 in November 2008, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	\$ 13,223,349	\$ 13,964,139
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installment payment due in April 2007, uncollateralized.	10,910,791	10,447,168
Note receivable from the Guam Memorial Hospital Authority (GMHA), due in 29 monthly installments of \$43,483, beginning October 2005, including interest at 4.47% per annum, with a final installment payment due in February 2008, uncollateralized.	759,724	782,033
Receivable due from Guam Waterworks Authority, payable monthly from an 11.5% water rate surcharge, interest at 4.3%, uncollateralized.	<u>9,762,654</u>	<u>11,747,322</u>
	34,656,518	36,940,662
Less current portion	<u>(4,865,940)</u>	<u>(6,675,390)</u>
	\$ <u>29,790,578</u>	\$ <u>30,265,272</u>

The receivable from DPW is all classified as long-term at September 30, 2006 because no payment is anticipated in 2007. However, scheduled maturities of long-term receivables are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2007	\$ 19,456,952
2008	4,891,156
2009	1,953,398
2010	2,068,569
2011	2,162,952
2012-2013	<u>4,123,491</u>
	\$ <u>34,656,518</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(4) Receivables, Continued

Long-Term Receivables, Continued

The GPSS, DPW and GMHA receivables resulted from the conversion of past due receivables from these entities into notes receivable in 2001. In April 2002, the GPSS and DPW notes were renegotiated to convert the outstanding note balances plus current receivable balances into new agreements. In July 2004, the note receivable from GPSS was renegotiated again to convert the old note receivable plus current receivables of \$2,797,264 into a new installment agreement of \$15,855,083. In October 2005, GMHA renegotiated its note receivable plus current receivables of \$411,150 into a new installment agreement of \$1,193,183 payable over a period of 29 months.

In April 2003, Public Law 27-19, which authorized the Government of Guam (GovGuam) to borrow up to \$218 million including \$30 million to pay the GPA for past due notes and accounts receivable, was signed into law by the Governor of Guam. Shortly after passage of the law, the Attorney General of Guam asserted that the proposed borrowing would exceed GovGuam's debt ceiling based on the assessed value of real property on Guam and refused to approve the bond indenture agreement. The Guam Economic Development and Commerce Authority and the Governor of Guam challenged the Attorney General's position and obtained a favorable ruling from the Supreme Court of Guam. The Attorney General ultimately appealed the Supreme Court of Guam decision to the United States Supreme Court. On March 29, 2007, the U.S. Supreme Court issued an opinion stating that GovGuam's statutory debt ceiling should be determined based on the assessed value of the real property on Guam and that the bond borrowing would exceed that debt ceiling. No decision has been reached as to whether the Government of Guam will continue to pursue a bond borrowing in a lesser amount or if the calculation of the statutory debt ceiling may be revised. Either of these decisions may also be subject to legal challenge.

At September 30, 2006, the DPW receivables are significantly delinquent with only minimal payments made since its inception. In addition, questions have been raised as to whether the DPW note is legal and binding. No provision has been provided in the accompanying financial statements for this receivable.

On March 9, 2007, GovGuam was placed on a credit watch with negative implications by the Standards & Poors (S&P) rating agency. According to S&P, the Government of Guam has a "liquidity crisis." Collectibility of the GPSS and DPW receivables is completely dependent on adequate funding being provided by the Government of Guam's General Fund or on the issuance of the bonds discussed in the preceding paragraphs. Continuing GovGuam financial problems may result in these receivables becoming uncollectible. No adjustments have been recorded for this uncertainty.

(5) Short-Term Debt

Short-term debt at September 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Taxable commercial paper issued November 1, 2004, interest at 5.28% at September 30, 2006 and 4% at September 30, 2005.	\$ 20,000,000	\$ 20,000,000

The above notes are collateralized by a pledge of revenues subordinate to bondholders under GPA's bond issue.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(5) Short-Term Debt, Continued

Movements in GPA's short-term debt in 2006 and 2005 are as follows:

	Outstanding September 30, 2005	Increases	Decreases	Outstanding September 30, 2006
Taxable commercial paper	\$ 20,000,000	\$ -	\$ -	\$ 20,000,000
	Outstanding September 30, 2004	Increases	Decreases	Outstanding September 30, 2005
Taxable commercial paper	\$ -	\$ 20,000,000	\$ -	\$ 20,000,000
Tax exempt commercial paper	20,000,000	-	20,000,000	-
	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000

(6) Long-Term Debt

Long-term debt at September 30, 2006 and 2005, is as follows:

	2006	2005
Bonds:		
1999 Series, initial face value of \$349,178,601, 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.	\$ 329,563,601	\$ 333,163,601
1993 Series, initial face value of \$100 million, 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.	78,825,000	81,425,000
Less current maturities	408,388,601 (6,480,000)	414,588,601 (6,200,000)
Less discount on bonds	401,908,601 (5,521,271)	408,388,601 (5,829,098)
Loss on defeasance, net of \$6,010,585 and \$5,130,987 accumulated amortization in 2006 and 2005, respectively	396,387,330 (15,979,364)	402,559,503 (16,858,962)
Total bonds	\$ 380,407,966	\$ 385,700,541

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(6) Long-Term Debt, Continued

Deferred payment agreements:	<u>2006</u>	<u>2005</u>
Two deferred payment agreements with vendors, payable in monthly installments totaling \$343,728, including interest at 5% to 5.5%, due in September 2007 and June 2008.	\$ 4,551,272	\$ -
Less current maturities	<u>3,449,591</u>	<u>-</u>
	\$ <u>1,101,681</u>	\$ <u>-</u>

As of September 30, 2006, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 9,929,591	\$ 20,822,894	\$ 30,752,485
2008	7,871,681	20,426,173	28,297,854
2009	7,080,000	20,071,601	27,151,601
2010	7,373,601	19,361,100	26,734,701
2011	7,795,000	19,278,575	27,073,575
2012 through 2016	45,565,000	89,461,038	135,026,038
2017 through 2021	58,670,000	75,739,863	134,409,863
2022 through 2026	75,255,000	67,356,983	142,611,983
2027 through 2031	96,515,000	35,925,294	132,440,294
2032 through 2035	<u>96,885,000</u>	<u>7,954,800</u>	<u>104,839,800</u>
	\$ <u>412,939,873</u>	\$ <u>376,398,321</u>	\$ <u>789,338,194</u>

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

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 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 1993 and 1999 bond series are being amortized using the effective interest method over the lives of the bonds.

On September 28, 2000, GPA entered into a Bond Reserve Fund Forward Delivery Agreement (the agreement) with the US Bank Trust National Association and Bank of America. In connection with the agreement, GPA received cash totaling \$13.5 million in October 2000 representing the present value of interest income on certain invested bond proceeds.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(6) Long-Term Debt, Continued

Based on the terms of the agreement, gross proceeds totaled \$17,521,029 while GPA incurred termination fees and closing costs totaling \$3,530,000 and \$1,250,529, respectively. The \$13.5 million in net proceeds included \$759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds, net of amortization, is reflected as deferred revenue in the accompanying statements of net assets. The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

The following summarizes deferred revenues and deferred asset at September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Deferred revenues	\$ 17,521,029	\$ 17,521,029
Accumulated amortization	<u>(3,504,606)</u>	<u>(2,920,589)</u>
	\$ <u>14,016,423</u>	\$ <u>14,600,440</u>
Deferred asset	\$ 4,780,529	\$ 4,780,529
Accumulated amortization	<u>(956,106)</u>	<u>(796,755)</u>
	\$ <u>3,824,423</u>	\$ <u>3,983,774</u>

Changes in long-term liabilities are presented as follows:

	<u>Outstanding Sept. 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Sept. 30, 2006</u>	<u>Current</u>	<u>Noncurrent</u>
1993 Series bonds	\$ 81,425,000	\$ -	\$ 2,600,000	\$ 78,825,000	\$ 2,740,000	\$ 76,085,000
1999 Series bonds	333,163,601	-	3,600,000	329,563,601	3,740,000	325,823,601
Unamortized discount on bonds	(5,829,098)	-	(307,827)	(5,521,271)	-	(5,521,271)
Loss on defeasance of bonds	(16,858,962)	-	(879,598)	(15,979,364)	-	(15,979,364)
Obligations under capital leases	149,122,474	-	4,957,243	144,165,231	5,589,841	138,575,390
DCRS sick leave liability	818,222	128,327	-	946,549	-	946,549
Deferred payment agreements	-	6,369,778	1,818,506	4,551,272	3,449,591	1,101,681
Accrued annual leave	2,056,943	45,047	-	2,101,990	1,078,856	1,023,134
Accrued unfunded liability to retirement fund	7,717,882	1,387,176	-	9,105,058	-	9,105,058
Deferred revenues, net	<u>14,600,440</u>	<u>-</u>	<u>584,017</u>	<u>14,016,423</u>	<u>-</u>	<u>14,016,423</u>
	\$ <u>566,216,502</u>	\$ <u>7,930,328</u>	\$ <u>12,372,341</u>	\$ <u>561,774,489</u>	\$ <u>16,598,288</u>	\$ <u>545,176,201</u>

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(6) Long-Term Debt, Continued

	Outstanding Sept. 30, 2004	Increases	Decreases	Outstanding Sept. 30, 2005	Current	Noncurrent
1993 Series bonds	\$ 83,900,000	\$ -	\$ 2,475,000	\$ 81,425,000	\$ 2,600,000	\$ 78,825,000
1999 Series bonds	336,623,601	-	3,460,000	333,163,601	3,600,000	329,563,601
Unamortized discount on bonds	(6,136,925)	-	(307,827)	(5,829,098)	-	(5,829,098)
Loss on defeasance of bonds	(17,738,560)	-	(879,598)	(16,858,962)	-	(16,858,962)
Obligations under capital leases	153,520,396	-	4,397,922	149,122,474	4,957,492	144,164,982
DCRS sick leave liability	613,212	205,010	-	818,222	-	818,222
Accrued annual leave	2,397,014	-	340,071	2,056,943	1,307,370	749,573
Accrued unfunded liability to retirement fund	5,049,406	2,668,476	-	7,717,882	-	7,717,882
Deferred revenues, net	<u>15,184,459</u>	<u>-</u>	<u>584,019</u>	<u>14,600,440</u>	<u>-</u>	<u>14,600,440</u>
	<u>\$ 573,412,603</u>	<u>\$ 2,873,486</u>	<u>\$ 10,069,587</u>	<u>\$ 566,216,502</u>	<u>\$ 12,464,862</u>	<u>\$ 553,751,640</u>

(7) Defeased Debt

On May 1, 1999, GPA issued the 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 or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

(8) Employees' Retirement Plan

Employees of GPA hired on or 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 the Defined Contribution Retirement System (DCRS). Until December 31, 1999 and for several limited periods after December 31, 1999, those employees who were members of the Defined Benefit Plan (DBP) with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

The 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.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(8) Employees' Retirement Plan, Continued

As a result of an actuarial valuations performed as of September 30, 2004, 2003 and 2002, contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Normal costs (% of DB Plan payroll)	17.83%	18.30%	17.66%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.33%</u>	<u>8.80%</u>	<u>8.16%</u>
Employer portion of normal costs (% of total payroll)	4.64%	4.96%	4.58%
Unfunded liability cost (% of total payroll)	<u>21.36%</u>	<u>19.93%</u>	<u>16.23%</u>
Government contribution as a % of total payroll	<u>26.00%</u>	<u>24.89%</u>	<u>20.81%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>21.81%</u>	<u>20.81%</u>	<u>20.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	<u>2004 and 2003</u> <u>Actuarial Valuation</u>	<u>2002</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll growth	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuations performed as of September 30, 2004 and 2003, 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 sponsor, the accrued unfunded liability at September 30, 2006 and 2005 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.

Statutory employer contributions for DCRS employees for the years ended September 30, 2006 and 2005 are determined using the same rates as the DB plan. 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 amount is contributed towards the unfunded liability of the defined benefit plan.

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

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(8) Employees' Retirement Plan, Continued

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GPA has accrued an estimated liability of \$946,549 and \$818,222 at September 30, 2006 and 2005, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Retirement expense for the years ended September 30, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash contributions and accruals	\$ 5,333,252	\$ 4,198,248	\$ 3,934,842
Increase in accrued unfunded liability to the retirement fund	<u>1,387,176</u>	<u>2,668,476</u>	<u>1,557,290</u>
	<u>\$ 6,720,428</u>	<u>\$ 6,866,724</u>	<u>\$ 5,492,132</u>

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

(9) Commitments and Contingencies

Capital Commitments

The 2007 capital improvement project budget is approximately \$12.4 million. GPA has also entered into a three year agreement with an option to extend for two additional one year terms to purchase fuel from a supplier at prices yet to be determined.

Leases

On December 31, 2002, GPA entered into a lease agreement for its office building for an initial term of two years with a monthly rental of \$25,000, which has been extended for three additional one-year terms.

GPA entered into a ten-year lease of fuel storage tanks beginning in September 1998, with monthly rentals increasing to \$107,500 in March 2003. The lease has an option to renew for an additional 5-year period, expiring in September 2013, at an increased monthly rental of \$115,650.

At September 30, 2006, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2007	\$ 1,757,683
2008	1,532,683
2009	137,260
2010	134,945
2011	<u>118,376</u>
	<u>\$ 3,680,497</u>

Rent expense under the aforementioned agreements totaled \$1,793,426 and \$1,781,337 during the years ended September 30, 2006 and 2005, respectively.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(9) Commitments and Contingencies, Continued

Performance Management Contracts

On January 1, 2003 and 2005, GPA entered into Performance Management Contracts (PMC) with two companies, for the operation and maintenance of the Cabras 1 & 2 and Cabras 3 & 4 generators. PMC contracts are for a period of 5 years.

At September 30, 2006, the minimum management fees for the PMC above are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2007	\$ 2,892,098
2008	1,334,265
2009	1,374,298
2010	<u>346,095</u>
	\$ <u>5,946,756</u>

The above fees are subject to certain incentives and penalties, as agreed by both parties.

Letters of Credit

As of September 30, 2006, GPA has a \$10 million uncollateralized revolving documentary letter of credit for purchases of fuel.

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.

Environmental Remediation

On August 4, 2001, the Tanguisson pipeline in the Mongmong/Toto area ruptured spilling black oil, which contaminated an approximate 60,000 square foot area. The pipeline is operated by GPA and owned by the United States Navy. In 2004, GPA expensed clean-up costs totaling \$3,414,842. GPA has filed a claim with its insurance company for the costs of clean up less deductibles; however, reimbursement by the insurance company is considered unlikely.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2006. It is not possible for the management of GPA 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 (T&D) plant, because no insurance is available at reasonable rates.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(9) Commitments and Contingencies, Continued

Self-Insurance, Continued

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 transferred to the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant in the event of a natural catastrophe. The self-insurance fund, included in cash and cash equivalents held by GPA, is \$1,741,498 and \$0 at September 30, 2006 and 2005, respectively. In 2005, the PUC allowed GPA to recover certain prior year typhoon losses through the insurance charge. All self-insurance recoveries were recorded as income (see note 13).

FEMA Receivables

As of September 30, 2006 and 2005, GPA has recorded a total of \$1,958,425 and \$3,112,075 respectively, in outstanding FEMA receivables for hazard mitigation projects and typhoon damages.

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.

(10) 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 50 years.

During the years ended September 30, 2006 and 2005, GPA billed the Navy \$50,422,125 and \$39,060,585, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were \$4,201,763 and \$2,372,305 at September 30, 2006 and 2005, respectively.

(11) Energy Conversion Agreements

In September 1996, GPA entered into agreements to purchase electricity produced by generating plants constructed or refurbished and operated by three companies. The agreements have twenty year terms. At the end of the agreements, ownership of the plants and the plant improvements reverts to GPA. Under each of the agreements, GPA pays capacity and operation and maintenance costs.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(11) Energy Conversion Agreements, Continued

GPA has determined that the agreements to purchase electricity were in fact capital leases to acquire the plants and that the capacity payments made under the agreements were lease payments. The operations and maintenance payments under the agreements are reflected as energy conversion costs under operation and maintenance expenses.

The leases have effective interest rates ranging from 8.6% to 14.2%. Future capacity payments under these agreements are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2007	\$ 23,084,304
2008	23,084,304
2009	23,084,304
2010	23,084,304
2011	23,084,304
2012-2016	115,421,520
2017-2019	<u>48,046,221</u>
	278,889,261
Less amounts representing interest	<u>134,724,030</u>
	144,165,231
Less current portion	<u>5,589,841</u>
	\$ <u>138,575,390</u>

(12) Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by Public Law 26-49, GPA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(13) Self-Insurance Fund

In 2005, the PUC allowed GPA to recover \$2,841,249 of prior year typhoon losses against the self-insurance fund. Self-insurance fund recoveries from rate payers in 2005 of \$1,949,885 were recorded as part of sales of electricity. The reversal of the provision for self-insurance liability of \$891,364 at September 30, 2004 was recorded as other income in 2005.

(14) Transactions with Government of Guam Agencies

During the years ended September 30, 2006 and 2005, GPA billed Government of Guam agencies \$44,880,211 and \$37,821,037, respectively, for sales of electricity. Receivables (excluding long-term receivables) from Government of Guam agencies were \$10,320,508 and \$12,353,824 at September 30, 2006 and 2005, respectively.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(14) Transactions with Government of Guam Agencies, Continued

GPA provides electrical and administrative services to Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2006 and 2005 were \$5,917,154 and \$8,871,297, respectively. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to \$445,148 and \$93,507 in 2006 and 2005, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to \$1,194,187 and \$889,104 as of September 30, 2006 and 2005, respectively. In addition, GPA has a long-term receivable of \$9,762,654 and \$11,747,322 due from GWA at September 30, 2006 and 2005, respectively (see note 4).

(15) Derivatives

GPA is exposed to market price fluctuations on its purchases of fuel oil. GPA uses derivatives such as commodity swaps to protect itself from increases in market prices.

At September 30, 2006, GPA has entered into several commodity swaps for the first six months of fiscal year 2007 based on a notional amount of 269,000 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date.

At September 30, 2006, the commodity swaps had a negative fair value of approximately \$2.2 million. At September 30, 2006, GPA was not exposed to credit risk because the swaps had negative fair values. However, should implied forward prices increase and the fair value of the swaps become positive, GPA would be exposed to credit risk on the swap on the amount of their fair value. At September 30, 2006, the three swap counterparties were rated AA-, AA-, and AA by S&P.

(16) Restricted Net Assets

At September 30, 2006 and 2005, net assets are restricted for the following purposes:

	<u>2006</u>	<u>2005</u>
Debt Service	\$ 36,598,160	\$ 33,991,920
Capital Projects	<u>16,672,617</u>	<u>20,423,092</u>
	\$ <u>53,270,777</u>	\$ <u>54,415,012</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(17) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2006 and 2005 is as follows:

<u>2006</u>	Beginning Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Balance Sept. 30, 2006
<u>Depreciable:</u>				
Intangible plant	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	75,867,761	1,659,840	(60,839)	77,466,762
Other production plant	248,658,560	3,403,931	(2,315,543)	249,746,948
Transmission plant	116,088,664	1,365,828	(137,871)	117,316,621
Distribution plant	147,171,506	6,084,056	(61,085)	153,194,477
General plant	35,400,683	6,881,100	(5,881,338)	36,400,445
Production plant under capital lease	171,382,727	-	-	171,382,727
	798,923,889	19,394,755	(8,456,676)	809,861,968
Accumulated depreciation	(266,635,872)	(24,267,639)	6,792,177	(284,111,334)
	532,288,017	(4,872,884)	(1,664,499)	525,750,634
<u>Non-depreciable:</u>				
Construction work in progress	20,829,261	27,073,970	(22,026,158)	25,877,073
	<u>\$ 553,117,278</u>	<u>\$ 22,201,086</u>	<u>\$ (23,690,657)</u>	<u>\$ 551,627,707</u>
<u>2005</u>	Beginning Balance October 1, 2004	Transfers and Additions	Transfers and Deletions	Balance Sept. 30, 2005
<u>Depreciable:</u>				
Intangible plant	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	66,788,241	12,915,628	(3,836,108)	75,867,761
Other production plant	246,854,594	2,794,783	(990,817)	248,658,560
Transmission plant	111,869,910	4,630,841	(412,087)	116,088,664
Distribution plant	143,504,121	4,211,372	(543,987)	147,171,506
General plant	33,819,476	3,000,595	(1,419,388)	35,400,683
Production plant under capital lease	171,382,727	-	-	171,382,727
	778,573,057	27,553,219	(7,202,387)	798,923,889
Accumulated depreciation	(246,608,978)	(25,146,329)	5,119,435	(266,635,872)
	531,964,079	2,406,890	(2,082,952)	532,288,017
<u>Non-depreciable:</u>				
Construction work in progress	25,273,272	27,881,155	(32,325,166)	20,829,261
	<u>\$ 557,237,351</u>	<u>\$ 30,288,045</u>	<u>\$ (34,408,118)</u>	<u>\$ 553,117,278</u>

GUAM POWER AUTHORITY

Schedule 1 Schedule of Sales of Electricity Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Commercial	\$ 113,660,170	\$ 98,402,372
Residential	79,562,584	69,707,106
Government of Guam	44,880,211	37,821,037
U.S. Navy	<u>50,422,125</u>	<u>39,060,585</u>
	<u>\$ 288,525,090</u>	<u>\$ 244,991,100</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2 Schedule of Operating and Maintenance Expenses Years Ended September 30, 2006 and 2005

	2006	2005
Administrative and General:		
Salaries and wages:		
Regular pay	\$ 3,652,463	\$ 3,218,563
Overtime	84,636	72,227
Premium pay	4,908	2,936
Benefits	8,021,912	8,602,871
Total salaries and wages	<u>11,763,919</u>	<u>11,896,597</u>
Insurance	6,908,165	6,961,734
Contract	3,150,443	2,399,025
Communications	1,540,678	1,473,948
Overhead allocations	26,452	2,484
Operating supplies	131,573	156,128
Travel	207,843	184,126
Other administrative expenses	135,690	102,910
Training	237,594	186,014
Office supplies	37,633	27,795
Administrative and general capitalized	(79,010)	(185,033)
Miscellaneous	526,801	918,723
Total administrative and general	<u>\$ 24,587,781</u>	<u>\$ 24,124,451</u>
Customer Accounting:		
Salaries and wages:		
Regular pay	\$ 1,458,977	\$ 1,731,235
Overtime	82,868	226,141
Premium pay	231	4,461
Total salaries and wages	<u>1,542,076</u>	<u>1,961,837</u>
Communications	207,781	194,968
Overhead allocations	98,634	89,767
Completed work orders	387,326	(19,847)
Operating supplies	68,540	32,148
Contract	-	2,281
Office supplies	19,147	11,897
Miscellaneous	674	928
Total customer accounting	<u>\$ 2,324,178</u>	<u>\$ 2,273,979</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2 Schedule of Operating and Maintenance Expenses Years Ended September 30, 2006 and 2005

	2006	2005
Administrative and General:		
Salaries and wages:		
Regular pay	\$ 3,652,463	\$ 3,218,563
Overtime	84,636	72,227
Premium pay	4,908	2,936
Benefits	8,021,912	8,602,871
Total salaries and wages	<u>11,763,919</u>	<u>11,896,597</u>
Insurance	6,908,165	6,961,734
Contract	3,150,443	2,399,025
Communications	1,540,678	1,473,948
Overhead allocations	26,452	2,484
Operating supplies	131,573	156,128
Travel	207,843	184,126
Other administrative expenses	135,690	102,910
Training	237,594	186,014
Office supplies	37,633	27,795
Administrative and general capitalized	(79,010)	(185,033)
Miscellaneous	526,801	918,723
Total administrative and general	<u>\$ 24,587,781</u>	<u>\$ 24,124,451</u>
Customer Accounting:		
Salaries and wages:		
Regular pay	\$ 1,458,977	\$ 1,731,235
Overtime	82,868	226,141
Premium pay	231	4,461
Total salaries and wages	<u>1,542,076</u>	<u>1,961,837</u>
Communications	207,781	194,968
Overhead allocations	98,634	89,767
Completed work orders	387,326	(19,847)
Operating supplies	68,540	32,148
Contract	-	2,281
Office supplies	19,147	11,897
Miscellaneous	674	928
Total customer accounting	<u>\$ 2,324,178</u>	<u>\$ 2,273,979</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Fuel:		
Salaries and wages:		
Regular pay	\$ 90,135	\$ 8,392
Overtime	12,220	6,108
Premium pay	61	159
Total salaries and wages	<u>102,416</u>	<u>14,659</u>
Fuel	162,618,959	111,162,561
Deferred fuel costs	<u>(5,599,676)</u>	<u>1,531,388</u>
Total fuel costs	<u>\$ 157,121,699</u>	<u>\$ 112,708,608</u>
Other Production:		
Salaries and wages:		
Regular pay	\$ 7,494,812	\$ 7,125,532
Overtime	1,527,774	1,748,301
Premium pay	135,828	143,983
Total salaries and wages	<u>9,158,414</u>	<u>9,017,816</u>
Contract	7,601,507	6,605,419
Communications	1,900	18,465
Office supplies	10,253	20,276
Operating supplies	890,841	2,582,708
Overhead allocations	189,700	34,170
Completed work orders	582,706	1,017,248
Miscellaneous	208,987	90,691
Total other production	<u>\$ 18,644,308</u>	<u>\$ 19,386,793</u>
Transmission and Distribution:		
Salaries and wages:		
Regular pay	\$ 4,727,182	\$ 4,459,754
Overtime	954,179	1,033,685
Premium pay	51,943	57,095
Total salaries and wages	<u>5,733,304</u>	<u>5,550,534</u>
Contract	272,559	313,799
Office supplies	32,603	35,843
Operating supplies	1,007,979	532,532
Overhead allocations	1,600,605	1,282,216
Completed work orders	1,809,218	2,024,950
Provision for inventory obsolescence	103,001	-
Total transmission and distribution	<u>\$ 10,559,269</u>	<u>\$ 9,739,874</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY
Schedule 3
Schedule of Salaries and Wages
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salaries and wages:		
Regular pay	\$ 17,333,434	\$ 16,543,476
Overtime	2,661,677	3,086,462
Premium pay	192,969	208,634
Benefits	<u>8,015,349</u>	<u>8,602,871</u>
Total salaries and wages	<u>\$ 28,203,429</u>	<u>\$ 28,441,443</u>

See accompanying independent auditors' report.

Schedule 4
Employees by Department
Year Ended September 30, 2006

	<u>Full Time Employees</u>
Department:	
Administration	116
Customer Accounting	67
Transmission & Distribution	104
Generation	210
Engineering	<u>39</u>
Total full time employees	<u>536</u>

See accompanying independent auditors' report.



FINANCIAL SECTION 2007

GUAM POWER AUTHORITY

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

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the accompanying financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1-7 is not a required part of the basic financial statements but is supplementary information required by the *Government Accounting Standards Board* (GASB). This supplementary information is the responsibility of GPA's management. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 35 through 38, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of GPA's management. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2008, on our consideration of the GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

April 22, 2008

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2007

The major issue in the 2007 financial statements is the allowance of \$13.5 million being set up to cover the Department of Public Works past due streetlight receivable. The amount is not being written off from the Guam Power Authority's books, but a reserve is being established in the event the payment is written off at some point in the future. During the period from 1997 to 2002, four government accounts (the Guam Waterworks Authority, the Guam Public Schools System, the Guam Memorial Hospital Authority, and the Department of Public Works – Streetlights) accumulated significant balances in their liabilities owed to the Guam Power Authority (GPA). Because of the close relationship of the Authority to the four agencies (they all reported to the same Governor), it was very difficult for GPA to disconnect the power and demand payment.

It is believed that one of the primary motivations of the Guam Legislature in creating the Consolidated Commission on Utilities (CCU) was to create an independent body that was not directly accountable to the governor and did not have the same conflict as prior boards. When the Consolidated Commission on Utilities first took office in 2003, this receivable was a significant issue and the Commissioners immediately brought the matter to the attention of the Governor of Guam and the Legislature. An agreement was reached wherein the past due billings would be paid from the proceeds of a general obligation bond and future bills would be paid on a current basis. The CCU was successful in getting the governor and the legislature to include the receivable as part of a planned bond financing. When that happened, the auditors were satisfied that there was a potential payment source for the receivable. However, when the bond indenture agreement was brought to the Office of the Attorney General (AG) for signature as to the legality of the documents, the AG refused to sign as a result of concerns that the Government of Guam may have reached its maximum debt limitation. The Governor filed a writ of mandamus in the Superior Court of Guam and won, however the AG appealed to the ninth circuit court and later to the U.S. Supreme Court. Each year since the general obligation bond legislation was signed into law, an uncertainty with regard to the valuation of the receivable was included in the audit report on the GPA's financial statements. If the court found that the government had the authority to issue the bonds, there would be a viable repayment source. If the court found that the Government of Guam's debt capacity had been reached, then the only evidence of repayment would be the existing track record of non-payment by the government.

Because of the delays experienced by the judicial appeal process, GPA sought other means to collect the past due receivables. The Guam Waterworks Authority had a surcharge created to enable it to paydown its liability to GPA and payments began in 2003. In 2003, GPA negotiated a promissory note with the Guam Public School System which has been paid on a current basis since inception. GPA renegotiated a promissory note with the Guam Memorial Hospital Authority – this note was paid in full in 2007. However, GPA has not been able to enter into a promissory note for payment of past due streetlight billings.

The court finally ruled in May 2007 and essentially placed the ability to borrow in the hands of local elected officials. However, in November 2007, a bond was finally issued that did not include payment of the receivable. That action removed the bond issuance as the payment source of the receivable. When the auditors were evaluating the probability of collecting the amount, they were unable to find sufficient evidence of collectability. The major fact was that only about \$1.6 million of the receivable had been paid by the government in the last five years. For all other receivables, GPA maintain a bad debt reserve (allowance for doubtful accounts) if the amount is outstanding for more than 6 months. Because these amounts have been outstanding since 2002, GPA concurred with the auditors that the full amount of this receivable should be reserved.

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2007

The Authority has worked through this issue with its bond counsel and has determined there are two pertinent issues which preclude this situation from being in conflict with GPA's no free service clause in its bond indenture agreement:

- 1) The government has remained essentially current on its streetlight billings since February 2003. With a five year track record of paying current bills on current basis, it is likely that future billings will continue to be paid on a current basis; and
- 2) GPA and the CCU are vigorously committed to ensuring the receivable is paid in full by the government of Guam.

In its recent base rate petition, the CCU directed GPA to petition the Public Utilities Commission for a credit surcharge wherein GPA would file its cash based petition for a revenue adjustment assuming that no funds are collected by GPA for streetlight payments, however, in the event payments were made, they would be credited back to rate payers thereby reducing their monthly billings. It was the announcement of this surcharge plan that led to the payment of \$1.6 million discussed above.

Additionally, there has been legislation proposed providing options to the Governor to address this issue. There have been other bills introduced in the legislature addressing the issue of past due billings owed to GPA.

The Public Utilities Commission has also made this matter a significant agenda item. In addition to the Commission tying the paydown of the receivable to the recently approved base rate increase, the Commission is exploring alternatives to create a surcharge wherein this amount would be repaid by the other line agencies of the government of Guam.

Although establishment of the allowance for this receivable has a significant impact on GPA's financial statements, stakeholders should keep the following in mind:

- 1) This is a one time adjustment to GPA's financial statements and will not have negative impact in future years (all recoveries from the receivable will be recorded as additional revenue to the Authority)
- 2) The receivables in question were built up from 1997 to 2002. The CCU and GPA have ensured all billings since the new governance took office are paid on a timely basis.
- 3) The amount is being added to the allowance for doubtful accounts but is not being written off of GPA's books and GPA and the CCU are continuing to vigorously contest for payment of the amount.
- 4) The Governor of Guam, the Guam Legislature, and the Public Utilities Commission are all committed to ensuring this obligation is repaid to the Authority.

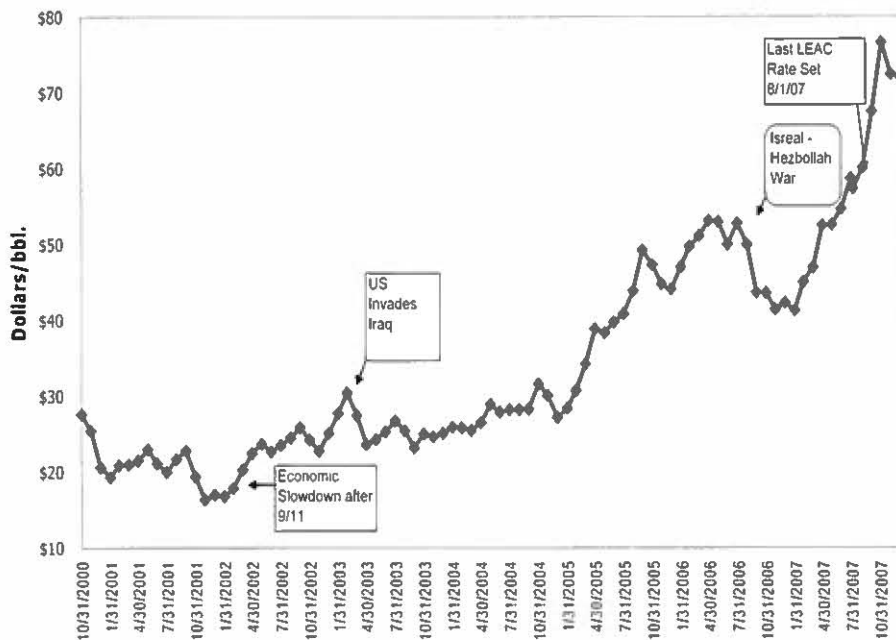
Increasing Cost of Fuel

The most significant operating issue facing the Authority continues to be the challenges related to the rising cost of fuel. As a 100% fossil fuel based utility, GPA customers have been significantly negatively impacted by the increase in world wide oil prices. The chart below shows the increase in spot market prices of the high sulfur fuel oil used in GPA's baseload plants:

GUAM POWER AUTHORITY

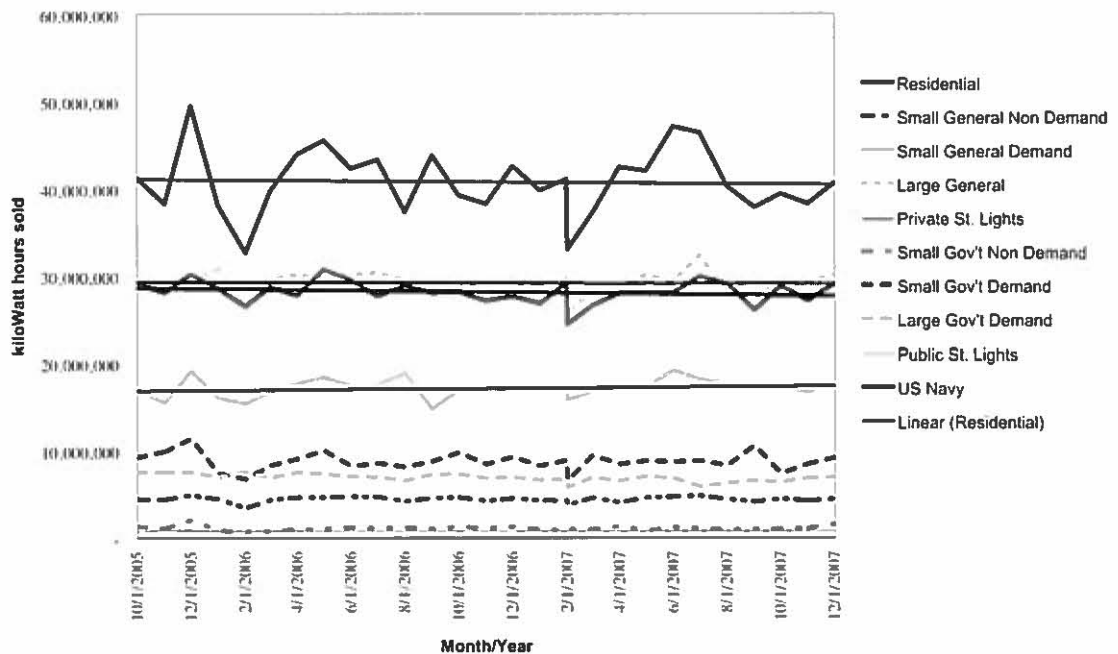
Management Discussion and Analysis Year Ended September 30, 2007

Platt's Fuel Price Activity HSFO 180 CST



The following chart describes the kiloWatt hour sales of the Utility over the last two years:

Sales Activity (kWh)

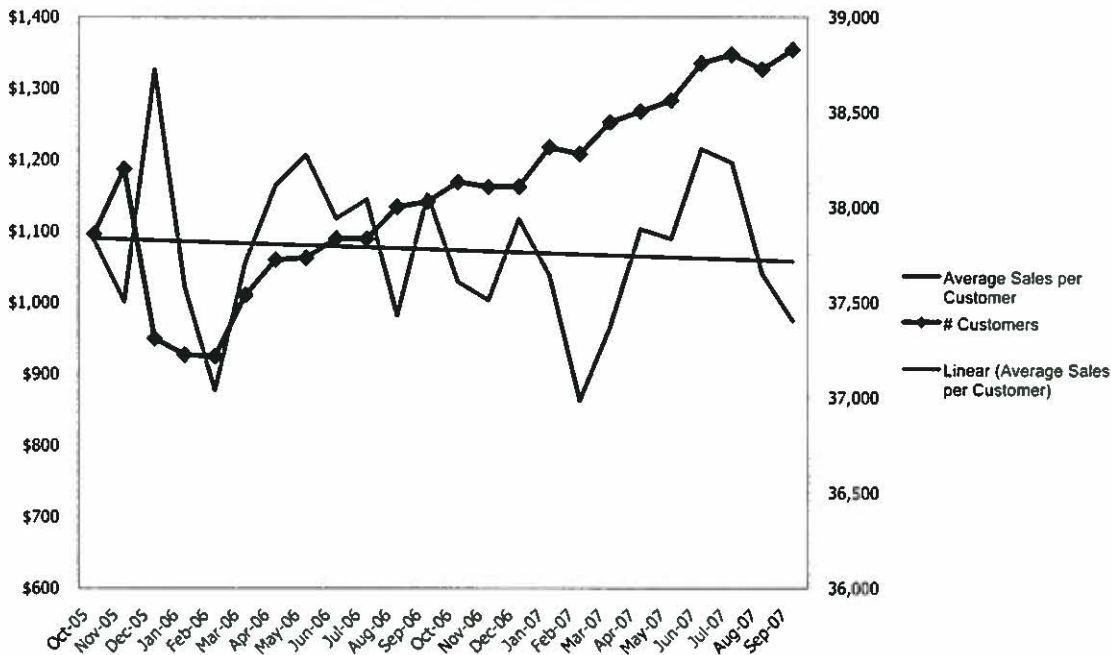


GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2007

As a result of these increases, GPA has seen the impact of the elasticity of demand for power on the island as GPA customers have been taking whatever measures are possible to reduce their power consumption. Below is a graph of power usage by customer for the residential class:

Residential Sales Analysis



The graph indicates that even though the trend has been for residential customers to conserve energy used in the home, there is an offset in that the number of residential customers which has been growing at the annual rate of approximately 2.6% over the last 20 months.

Military Buildup

The Guam Power Authority completed a 20 year revenue forecast during the fiscal year. The forecast is predicting significant sales growth over the next five to seven years due largely to the impending military buildup scheduled to take place on the island. Some estimates have indicated that up to \$15 billion will be invested in the island by the U.S. Department of Defense (DOD), approximately 8,000 marines will be re-located to the island along with approximately 9,000 support staff. GPA currently has substantial excess generating capacity on the island which should provide a planning buffer for the Authority in which to assess and address the electric power needs of the DOD.

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2007

Rate Increase

GPA has been trying to hold off on rate increases until the Authority begins to see the impact of the military buildup. However, during the year, it was determined that the slow sales growth caused by the increased cost of fuel and drain on GPA's cash flow of the carrying cost of fuel inventory stocks are requiring GPA to petition for a rate increase. GPA petitioned for a two phased rate increase with the first increase going into effect March 1 and the second phase going into effect June 1, 2009. GPA believes these increases will address GPA's cash issues and will enable the Authority to regain its investment grade bond rating.

Integrated Resource Planning

As the price of fuel continues to increase, alternative sources of energy are becoming more and more feasible to the Authority to explore. GPA is currently conducting an integrated resource plan to assist in planning to meet the needs of the island and to explore opportunities for diversification of its generation mix. This study is scheduled to be completed in July 2008.

Capital and Financing Activities

Due to GPA's cash flow limitations, GPA's capital projects were limited to new connections to the power system and some critical refurbishments at GPA's base load generating plants. GPA is not anticipating any major financing activities until fiscal year 2010.

For additional information on capital activities, please refer to Note 17. Please also refer to Note 5 and 6 for additional information concerning GPA's debt.

Financial Highlights

Table 1 highlights financial comparisons between Fiscal Years 2004 through 2006. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

Table 1, Financial Data (in millions of dollars)

MILLIONS OF DOLLARS	2007	2006	2005
Assets			
Current Assets	162.0	\$ 151.2	\$ 143.9
Non-current investments	27.5	27.5	27.5
Other non-current Assets	32.3	49.6	45.3
Utility Plant	534.3	551.6	553.1
Liabilities			
Current Liabilities	80.2	82.5	64.3
Non-current Liabilities	533.9	547.3	553.8
Net Assets			
Invested in capital assets net of related debt	14.9	21.5	13.1
Restricted	52.6	51.5	54.4
Unrestricted	74.5	77.1	84.3

GUAM POWER AUTHORITY

Management Discussion and Analysis Year Ended September 30, 2007

Results of Operations

MILLIONS OF DOLLARS	2007	2006	2005
Revenues	308.0	\$ 290.2	\$ 247.0
Total Operating and Maintenance expense	272.5	255.8	210.0
Operating earnings	35.5	34.4	37.0
Interest income	4.2	4.4	3.6
Other revenues and (expense)	(50.7)	(42.6)	(37.8)
Loss before capital contributions	(11.0)	(3.8)	(0.8)
Capital contributions	2.9	2.1	1.4
(Decrease) increase in net assets	(8.1)	(1.7)	0.6

Analysis of Variances

Current Assets increased at the end of FY2007 due to a fuel payment that was due the first week of FY2008. Actual activity is somewhat flat over the three year period.

Other Non-Current Assets decreased mostly as a result of the allowance for the Department of Public Works receivable.

Utility in Plant decreased as a result of decreased funds available for capital improvement projects.

Non-Current Liabilities are decreasing due mostly to normal amortizations of bonds and other debt agreements.

Revenues and Operating Expenses increased due mostly to the increased cost of fuel which is passed on to ratepayers through the Levelized Energy Adjustment Clause, which keeps GPA whole for fuel costs.

Other Revenues and Expenses are impacted by the creation of a \$4.5 million Regulatory Asset by the Guam Public Utilities Commission to enable GPA to recover funds expended in recent natural disasters but not recovered from insurance or the Federal Emergency Management Agency.

The Loss Before Capital Contributions and the Net Decrease in Net Assets is due to the \$13.4 million allowance for doubtful accounts established for the streetlight receivable due from the Department of Public Works.

Regional Rate Comparisons

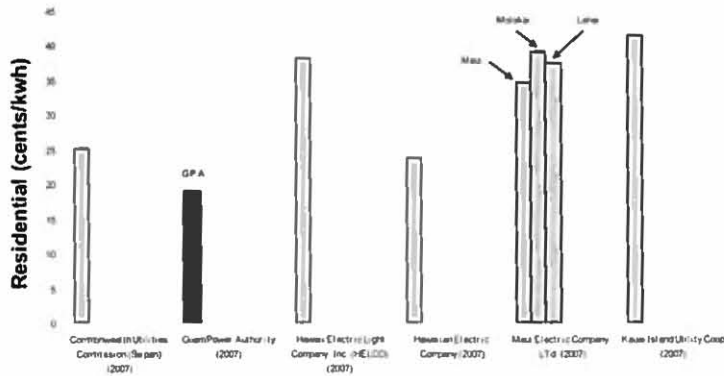
GPA continues to derive a 97-99% of energy production from its baseload generating units. This has enabled GPA to remain very competitive with other utilities with regard to the price of energy sold. The chart below reflects GPA's rates compared with other utilities in the region:

GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ended September 30, 2007

Regional Residential Rates

- <http://www.guampowerauthority.com/rates/comparisons.html>
- Guam Power Authority rates are very competitive with those of other regional utilities



Contacting GPA's Financial Management

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Authority's operations. This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the years ended September 30, 2006 and 2005 is set forth in the Authority's report on the audit of financial statements which is dated March 28, 2007. That Discussion and Analysis explains in more detail major factors impacting the 2006 and 2005 financial statements. A copy of that report can be obtained by contacting the Financial Controller or from the Authority's website at the addresses noted below.

For additional information about this report, please contact Mr. Randy Wiegand, Chief Financial Officer, Guam Power Authority, P.O. Box 2977, Hagatna, Guam 96932-2977 or visit the website at www.guampowerauthority.com.

GUAM POWER AUTHORITY

Statements of Net Assets September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents:		
Held by trustee:		
Interest and principal funds for debt repayment	\$ 18,696,315	\$ 17,941,919
Bond indenture funds for restricted purposes	19,343,598	21,806,713
Held by Guam Power Authority:		
Bond indenture funds	25,350,708	17,079,806
Self-insurance fund	1,032,628	2,140,544
Total cash and cash equivalents	<u>64,423,249</u>	<u>58,968,982</u>
Accounts receivable, net	46,704,368	43,273,912
Current installments of long-term receivables	4,095,488	4,865,940
Total current receivables	<u>50,799,856</u>	<u>48,139,852</u>
Materials and supplies inventory, net	12,421,030	13,421,024
Fuel inventory	33,583,554	29,500,641
Prepaid expenses	791,208	1,188,592
Total current assets	<u>162,018,897</u>	<u>151,219,091</u>
Utility plant, at cost:		
Electric plant in service	820,596,241	809,861,968
Construction work in progress	20,365,413	25,877,073
Less accumulated depreciation	<u>(306,590,392)</u>	<u>(284,111,334)</u>
Total utility plant	<u>534,371,262</u>	<u>551,627,707</u>
Regulatory assets:		
Deferred fuel costs	2,141,464	8,569,438
Deferred typhoon losses	3,970,992	-
Cancelled unit, net of amortization	746,531	868,706
Total regulatory assets	<u>6,858,987</u>	<u>9,438,144</u>
Other non-current assets:		
Bond reserve funds (trustee)	27,488,252	27,488,252
Long-term receivables, less current installments, net	15,432,427	29,790,578
Unamortized debt issuance costs	4,456,081	4,623,285
Deferred asset, net	3,665,072	3,824,423
Other	1,823,358	1,951,195
Total other non-current assets	<u>52,865,190</u>	<u>67,677,733</u>
	<u>\$ 756,114,336</u>	<u>\$ 779,962,675</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Net Assets, Continued September 30, 2007 and 2006

<u>LIABILITIES AND NET ASSETS</u>	<u>2007</u>	<u>2006</u>
Current liabilities:		
Short-term debt	\$ 20,000,000	\$ 20,000,000
Current maturities of long-term debt	6,770,000	6,480,000
Current obligations under capital leases	6,304,899	5,589,841
Current portion of deferred payment agreement	1,101,681	3,449,591
Accounts payable:		
Operations	10,663,625	14,502,766
Fuel	17,312,198	15,243,919
Accrued payroll and employees' benefits	1,123,992	1,089,336
Current portion of employees' annual leave	1,138,408	1,078,856
Interest payable	11,272,366	11,275,223
Customer deposits	4,480,789	3,858,707
Total current liabilities	80,167,958	82,568,239
Long-term debt, net of current maturities	374,825,390	380,407,966
Deferred payment agreement, net of current portion	-	1,101,681
Employees' annual leave, net of current portion	1,017,257	1,023,134
Obligations under capital leases, net of current portion	132,270,762	138,575,390
Provision for self-insurance	1,337,850	2,112,546
DCRS sick leave liability	1,041,974	946,549
Deferred revenues, net	13,432,405	14,016,423
Retirement fund deferred contributions	10,016,294	9,105,058
Total liabilities	614,109,890	629,856,986
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	14,946,742	21,443,216
Restricted	52,555,464	51,529,279
Unrestricted	74,502,240	77,133,194
Total net assets	142,004,446	150,105,689
	<u>\$ 756,114,336</u>	<u>\$ 779,962,675</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets Years Ended September 30, 2007 and 2006

	2007	2006
Revenues:		
Sales of electricity	\$ 305,868,889	\$ 288,525,090
Miscellaneous	2,176,746	1,673,629
	308,045,635	290,198,719
Bad debt expense	(1,394,582)	(885,242)
Total revenues	306,651,053	289,313,477
Operating and maintenance expenses:		
Production fuel	174,747,639	157,121,699
Other production	16,561,426	18,644,308
	191,309,065	175,766,007
Administrative and general	22,997,688	23,797,053
Depreciation and amortization	27,153,680	24,267,638
Energy conversion costs	18,276,393	17,981,177
Transmission and distribution	8,541,812	10,559,269
Customer accounting	2,868,179	2,558,782
Total operating and maintenance expenses	271,146,817	254,929,926
Operating earnings	35,504,236	34,383,551
Other revenues (expense):		
Provision for GovGuam receivable	(13,488,544)	-
Interest revenue	4,216,945	4,421,404
Establishment of regulatory asset	4,500,000	-
Allowance for funds used during construction	512,693	580,861
Prior year typhoon loss recoveries	708,346	-
COLA/supplemental annuities	(1,030,906)	(1,075,989)
Other expense	(738,184)	(275,505)
Interest expense	(41,236,109)	(41,859,548)
Total other expenses	(46,555,759)	(38,208,777)
Loss before capital contributions	(11,051,523)	(3,825,226)
Capital contributions:		
Grants from the United States Government	2,950,280	2,080,057
Decrease in net assets	(8,101,243)	(1,745,169)
Net assets at beginning of year	150,105,689	151,850,858
Net assets at end of year	\$ 142,004,446	\$ 150,105,689

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

**Statements of Cash Flows
Years Ended September 30, 2007 and 2006**

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 305,496,985	\$ 289,067,565
Cash payments to suppliers for goods and services	(218,229,776)	(194,213,410)
Cash payments to employees for services	(27,092,358)	(26,468,806)
Net cash provided by operating activities	<u>60,174,851</u>	<u>68,385,349</u>
Cash flows from investing activities:		
Change in bond reserve funds	-	(7)
Interest and dividends on investments and bank accounts	<u>3,632,928</u>	<u>3,837,386</u>
Net cash provided by investing activities	<u>3,632,928</u>	<u>3,837,379</u>
Cash flows from noncapital financing activities:		
Interest paid on short-term debt, deferred payment agreements and deposits	<u>(1,701,497)</u>	<u>(1,871,844)</u>
Net cash used in noncapital financing activities	<u>(1,701,497)</u>	<u>(1,871,844)</u>
Cash flows from capital and related financing activities:		
Additions to utility plant	(9,897,234)	(22,931,401)
Principal paid on bonds	(6,480,000)	(6,200,000)
Interest paid on bonds	(20,016,068)	(20,235,936)
Principal paid on capital leases	(5,589,570)	(4,957,243)
Interest paid on capital leases	(17,494,735)	(18,127,061)
Self insurance fund receipts	462,657	2,112,546
Oil spill clean-up and typhoon expenditures	(573,098)	-
FEMA receipts	<u>2,936,033</u>	<u>2,080,057</u>
Net cash used in capital and related financing activities	<u>(56,652,015)</u>	<u>(68,259,038)</u>
Net change in cash and cash equivalents	5,454,267	2,091,846
Cash and cash equivalents at beginning of year	<u>58,968,982</u>	<u>56,877,136</u>
Cash and cash equivalents at end of year	<u>\$ 64,423,249</u>	<u>\$ 58,968,982</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
Statements of Cash Flows, Continued
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 35,504,236	\$ 34,383,551
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	27,153,680	24,267,638
Bad debt	1,394,582	885,242
Difference between retirement expense and funding	911,236	1,387,176
COLA/supplemental annuities paid	(1,030,906)	(1,075,989)
Inventory obsolescence	-	103,001
(Increase) decrease in assets:		
Accounts receivable	(3,170,731)	(1,152,264)
Materials and supplies inventory	999,994	868,855
Fuel inventory	(4,082,913)	(6,454,745)
Prepaid expenses	397,384	(5,989)
Deferred fuel costs	6,427,975	(4,068,677)
Other assets	84,928	98,023
Increase (decrease) in liabilities:		
Accounts payable - fuel	2,068,279	14,000,793
Accounts payable - operations	(3,839,141)	437,756
Deferred payment agreements	(3,449,590)	4,551,272
Customer deposits	622,082	21,110
Accrued payroll and employees' benefits	34,656	(34,778)
Employees' annual and sick leave	149,100	173,374
Net cash provided by operating activities	<u>\$ 60,174,851</u>	<u>\$ 68,385,349</u>

Non-cash transactions:

During the year ended September 30, 2007, GPA established a regulatory asset of \$4.5 million for future recovery of costs incurred in natural disasters in previous years.

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(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 provides electrical services on Guam to residential, commercial and Government of Guam customers, and to the U.S. Navy under a customer supplier agreement. GPA is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. 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 of America 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.

Basis of Accounting

GPA utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting"* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. GPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Net Assets

Net assets represent the residual interest in GPA's assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All of GPA's restricted net assets are expendable. All other net assets are unrestricted.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

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. Current policy is to capitalize items over \$1,000 in 2007 and over \$500 in 2006.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (5-60 years for plant assets).

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.

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 three months or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, up to 100 hours of excess annual leave existing at February 28, 2003 may be credited to sick leave and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

Deferred Asset and Deferred Revenues

The deferred asset and deferred revenues arose as a result of the Bond Reserve Fund Forward Delivery Agreement entered into in September 2000. The deferred asset represents termination fees and closing costs and the deferred revenues represent the gross proceeds that will be deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds.

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. Unbilled receivables at September 30, 2007 and 2006 are \$8,027,101 and \$6,666,521, respectively.

Derivative Instruments

GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, adopts many of the definitions established in Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities.

Disclosures required by Technical Bulletin 2003-1 for GPA's fuel oil hedging activities are included in note 16.

Technical Bulletin 2003-1 also adopts the FASB 133 exception for certain derivative transactions that meet the criteria of "normal purchases and normal sales". Power purchase agreements generally meet the "normal purchases and normal sales" exception. Accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 11) are excluded from the Technical Bulletin requirements under the "normal purchases and normal sales" exception.

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 statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. The LEAC results in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Cumulative unrecovered fuel costs are \$2,141,464 and \$8,569,438 at September 30, 2007 and 2006, respectively.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

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 1993 and Series 1999 bonds. 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.

New Accounting Standards

During fiscal year 2007, GPA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The implementation of this Statement did not have a material effect on the financial statements of GPA.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. The effect, if any, of the implementation of this Statement on the financial statements of GPA has not been determined.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures and Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

Reclassifications

Certain account balances in the 2006 financial statements have been reclassified to correspond with the 2007 presentation.

(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, 2007 and 2006, GPA has cash deposits in bank accounts that 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. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy. The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2007 and 2006

(3) Cash and Investments

The bond indenture agreements for the 1993 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, 2007 and 2006, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

2007				
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	\$ -	\$ 15,908,918	\$ -	\$ 15,908,918
Interest and principal funds	18,696,315	-	-	18,696,315
Bond funds	-	3,434,680	-	3,434,680
Working capital funds	-	-	13,427,363	13,427,363
Self-insurance fund	-	-	1,032,628	1,032,628
Revenue funds	-	-	6,984,897	6,984,897
Operating funds	-	-	4,077,443	4,077,443
Surplus funds	-	-	861,005	861,005
	<u>18,696,315</u>	<u>19,343,598</u>	<u>26,383,336</u>	<u>64,423,249</u>
Bond Reserve Funds				<u>27,488,252</u>
				<u>\$ 91,911,501</u>

2006				
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	\$ -	\$ 16,672,617	\$ -	\$ 16,672,617
Interest and principal funds	17,941,919	-	-	17,941,919
Bond funds	-	5,134,096	-	5,134,096
Working capital funds	-	-	14,664,780	14,664,780
Self-insurance fund	-	-	2,140,544	2,140,544
Revenue funds	-	-	(38,383)	(38,383)
Operating funds	-	-	1,939,236	1,939,236
Surplus funds	-	-	514,173	514,173
	<u>17,941,919</u>	<u>21,806,713</u>	<u>19,220,350</u>	<u>58,968,982</u>
Bond Reserve Funds				<u>27,488,252</u>
				<u>\$ 86,457,234</u>

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2007 and 2006. Market values shown below implicitly include accrued interest for debt securities.

	2007	2006
Cash on hand, in demand and time deposits and money market accounts	\$ 64,423,249	\$ 58,968,982
Commercial paper	<u>27,488,252</u>	<u>27,488,252</u>
	<u>\$ 91,911,501</u>	<u>\$ 86,457,234</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(3) Cash and Investments, Continued

The deposits and investment policies of GPA are governed by 5 GCA 21, *Investments and Deposits* in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in or certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAAM or better by S&P.

A. Cash

GASB Statement No. 3 previously required government entities to categorize cash to give an indication of the level of risk assumed by the entity at year-end. The three categories are described below:

- Category 1 Insured or registered, or collateralized with securities held by GPA or its agent in GPA's name;
- Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GPA's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GPA does not have a deposit policy for custodial credit risk.

As of September 30, 2007 and 2006, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$64,423,249 and \$58,968,982, respectively, and the corresponding bank balances were \$60,860,827 and \$59,077,822, respectively. Of the bank balance amount as of September 30, 2007 and 2006, \$4,668,944 and \$3,789,575, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount represents short-term investments held and administered by GPA's trustees and cash on hand. As of September 30, 2007 and 2006, bank deposits in the amount of \$428,557 and \$503,774, respectively, were FDIC insured. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GPA has not experienced any losses in such accounts.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(3) Cash and Investments, Continued

A. Cash, Continued

As of September 30, 2007 and 2006, short-term investments in the amount of \$38,039,913 and \$39,748,631, respectively, are held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by GPA or its agent in GPA's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in GPA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

As of September 30, 2007, GPA's investment in commercial paper, included in the bond reserve fund were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&P's Rating</u>
Bond Reserve Fund:			
Crimson Corporation	\$ 13,743,087	October 1, 2007	A-1+
American General Finance Corp.	13,742,000	October 1, 2007	A-1

As of September 30, 2006, GPA's investments in commercial paper, included in the bond reserve fund were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Bond Reserve Fund:			
Crimson Corporation	\$ 13,743,087	October 2, 2006	A-1+
Crown Point Capital Co.	13,742,000	October 2, 2006	A-1

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2007 and 2006

(3) Cash and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2007 and 2006, \$27,488,252 is held in the name of a trustee for GPA.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2007, GPA's investments that exceeded 5% of total investments are as follows: Crimson Commercial Paper (22.06%), American General Finance Commercial Paper (22.06%), and short-term investments in First America Treasury (27.49%) and the Federal Debt Security Fund (25.86%). As of September 30, 2006, GPA's investments that exceeded 5% of total investments are as follows: Crimson Commercial Paper (22.06%), Crown Point Capital Co. Commercial paper (22.06%), and short-term investments in Bayerische Landesbank (28.28%) and the Federal Debt Security Fund (27.07%).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. Maturities of investments in certain funds are limited to five years to limit interest rate risk. Maturities of investments in all funds may not be later than the dates that such moneys are expected to be required by the Trustees.

(4) Receivables

Accounts receivable at September 30, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Customers:		
Private	\$ 30,076,732	\$ 38,554,624
Government	<u>12,428,097</u>	<u>10,320,508</u>
	42,504,829	48,875,132
U.S. Navy	3,842,884	4,201,763
Federal Emergency Management Agency	1,928,245	1,958,425
Interest	496,510	476,441
Others	<u>4,093,246</u>	<u>2,833,786</u>
	52,865,714	58,345,547
Less allowance for doubtful receivables	<u>(6,161,346)</u>	<u>(15,071,635)</u>
	\$ <u>46,704,368</u>	\$ <u>43,273,912</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(4) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Installment payment agreement receivable from the GovGuam Public School System (GPSS), payable in three \$500,000 payments in July, August, September 2004, thirteen monthly installments of \$100,000 starting October 2004, with monthly installments increasing by \$25,000 annually each November until payments reach \$200,000 in November 2008, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	\$ 12,023,185	\$ 13,223,349
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installment payment due in April 2007, uncollateralized.	11,394,293	10,910,791
Note receivable from the Guam Memorial Hospital Authority (GMHA), due in 29 monthly installments of \$43,483, beginning October 2005, including interest at 4.47% per annum, with a final installment payment due in February 2008, uncollateralized. The GMHA note was fully paid in June 2007.	-	759,724
Receivable due from Guam Waterworks Authority (GWA), payable monthly from a water rate surcharge of 8.5% in 2007 and 11.5% in 2006, interest at 4.3%, uncollateralized.	<u>7,504,730</u>	<u>9,762,654</u>
	30,922,208	34,656,518
Less current portion	<u>(4,095,488)</u>	<u>(4,865,940)</u>
	26,826,720	29,790,578
Less allowance for doubtful receivables	<u>(11,394,293)</u>	<u>-</u>
	\$ <u>15,432,427</u>	\$ <u>29,790,578</u>

Scheduled maturities of long-term receivables are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2008	\$ 15,489,781
2009	4,463,104
2010	4,682,884
2011	2,162,953
2012	2,261,642
2013	<u>1,861,844</u>
	\$ <u>30,922,208</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(4) Receivables, Continued

Long-Term Receivables, Continued

The GPSS, DPW and GMHA receivables resulted from the conversion of past due receivables from these entities into notes receivable in 2001. In April 2002, the GPSS and DPW notes were renegotiated to convert the outstanding note balances plus current receivable balances into new agreements. In July 2004, the note receivable from GPSS was again renegotiated to convert the old note receivable plus current receivables of \$2,797,264 into an installment agreement of \$15,855,083. In October 2005, GMHA renegotiated its note receivable plus current receivables of \$411,150 into an installment agreement of \$1,193,183 payable over a period of 29 months.

At September 30, 2007, GPA decided to establish an allowance for doubtful receivables against the entire DPW note receivable plus certain other accounts receivable due from DPW. GPA recorded a non-operating expense of \$13,488,544 during the year ended September 30, 2007 as a result of this action.

(5) Short-Term Debt

Short-term debt at September 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Taxable commercial paper issued November 1, 2004, interest at 5.37% at September 30, 2007 and 5.28% at September 30, 2006.	\$ 20,000,000	\$ 20,000,000

The above notes are collateralized by a pledge of revenues subordinate to bondholders under GPA's bond issue.

Movements in GPA's short-term debt in 2007 and 2006 are as follows:

	Outstanding September 30, <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2007</u>
Taxable commercial paper	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>
	Outstanding September 30, <u>2005</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2006</u>
Taxable commercial paper	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(6) Long-Term Debt

Long-term debt at September 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Bonds:		
1999 Series, initial face value of \$349,178,601, 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.	\$ 325,823,601	\$ 329,563,601
1993 Series, initial face value of \$100 million, 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.	<u>76,085,000</u>	<u>78,825,000</u>
	401,908,601	408,388,601
Less current maturities	<u>(6,770,000)</u>	<u>(6,480,000)</u>
	395,138,601	401,908,601
Less discount on bonds	<u>(5,213,445)</u>	<u>(5,521,271)</u>
	389,925,156	396,387,330
Loss on defeasance, net of \$6,890,183 and \$6,010,585 of accumulated amortization in 2007 and 2006, respectively	<u>(15,099,766)</u>	<u>(15,979,364)</u>
Total bonds	\$ <u>374,825,390</u>	\$ <u>380,407,966</u>
Deferred payment agreements:		
Two deferred vendor payment agreements, payable in monthly installments of \$343,728, including interest at 5% to 5.5%, due in September 2007 and June 2008.		
Less current maturities	<u>1,101,681</u>	<u>3,449,591</u>
	\$ <u>-</u>	\$ <u>1,101,681</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(6) Long-Term Debt, Continued

As of September 30, 2007, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 7,871,681	\$ 20,400,776	\$ 28,272,457
2009	7,080,000	20,071,601	27,151,601
2010	7,373,601	19,687,813	27,061,414
2011	7,795,000	19,278,575	27,073,575
2012	8,205,000	18,847,813	27,052,813
2013 through 2017	47,955,000	86,958,475	134,913,475
2018 through 2022	61,670,000	72,589,638	134,259,638
2023 through 2027	79,085,000	54,298,244	133,383,244
2028 through 2033	101,485,000	30,669,594	132,154,594
2034 through 2035	<u>74,490,000</u>	<u>4,044,072</u>	<u>78,534,072</u>
	<u>\$ 403,010,282</u>	<u>\$ 346,846,601</u>	<u>\$ 749,856,883</u>

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

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 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 1993 and 1999 bond series are being amortized using the effective interest method over the lives of the bonds.

On September 28, 2000, GPA entered into a Bond Reserve Fund Forward Delivery Agreement (the agreement) with the US Bank Trust National Association and Bank of America. In connection with the agreement, GPA received cash totaling \$13.5 million in October 2000 representing the present value of interest income on certain invested bond proceeds.

Based on the terms of the agreement, gross proceeds totaled \$17,521,029 while GPA incurred termination fees and closing costs totaling \$3,530,000 and \$1,250,529, respectively. The \$13.5 million in net proceeds included \$759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds, net of amortization, is reflected as deferred revenue in the accompanying statements of net assets. The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(6) Long-Term Debt, Continued

The following summarizes deferred revenues and deferred asset at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Deferred revenues	\$ 17,521,029	\$ 17,521,029
Accumulated amortization	<u>(4,088,624)</u>	<u>(3,504,606)</u>
	\$ <u>13,432,405</u>	\$ <u>14,016,423</u>
Deferred asset	\$ 4,780,529	\$ 4,780,529
Accumulated amortization	<u>(1,115,457)</u>	<u>(956,106)</u>
	\$ <u>3,665,072</u>	\$ <u>3,824,423</u>

Changes in long-term liabilities are presented as follows:

	<u>Outstanding Sept. 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Sept. 30, 2007</u>	<u>Current</u>	<u>Noncurrent</u>
1993 Series bonds	\$ 78,825,000	\$ -	\$ 2,740,000	\$ 76,085,000	\$ 2,880,000	\$ 73,205,000
1999 Series bonds	329,563,601	-	3,740,000	325,823,601	3,890,000	321,933,601
Unamortized discount on bonds	(5,521,271)	-	(307,826)	(5,213,445)	-	(5,213,445)
Loss on defeasance of bonds	(15,979,364)	-	(879,598)	(15,099,766)	-	(15,099,766)
Obligations under capital leases	144,165,231	-	5,589,570	138,575,661	6,304,899	132,270,762
DCRS sick leave liability	946,549	95,425	-	1,041,974	-	1,041,974
Deferred payment agreements	4,551,272	-	3,449,591	1,101,681	1,101,681	-
Employees annual leave	2,101,990	53,675	-	2,155,665	1,138,408	1,017,257
Retirement fund deferred contributions	9,105,058	911,236	-	10,016,294	-	10,016,294
Deferred revenues	14,016,423	-	584,018	13,432,405	-	13,432,405
Provision for self-insurance	<u>2,112,546</u>	<u>-</u>	<u>774,696</u>	<u>1,337,850</u>	<u>-</u>	<u>1,337,850</u>
	\$ <u>563,887,035</u>	\$ <u>1,060,336</u>	\$ <u>15,690,451</u>	\$ <u>549,256,920</u>	\$ <u>15,314,988</u>	\$ <u>533,941,932</u>

	<u>Outstanding Sept. 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Sept. 30, 2006</u>	<u>Current</u>	<u>Noncurrent</u>
1993 Series bonds	\$ 81,425,000	\$ -	\$ 2,600,000	\$ 78,825,000	\$ 2,740,000	\$ 76,085,000
1999 Series bonds	333,163,601	-	3,600,000	329,563,601	3,740,000	325,823,601
Unamortized discount on bonds	(5,829,098)	-	(307,827)	(5,521,271)	-	(5,521,271)
Loss on defeasance of bonds	(16,858,962)	-	(879,598)	(15,979,364)	-	(15,979,364)
Obligations under capital leases	149,122,474	-	4,957,243	144,165,231	5,589,841	138,575,390
DCRS sick leave liability	818,222	128,327	-	946,549	-	946,549
Deferred payment agreements	-	6,369,778	1,818,506	4,551,272	3,449,591	1,101,681
Employees annual leave	2,056,943	45,047	-	2,101,990	1,078,856	1,023,134
Retirement fund deferred contribution	7,717,882	1,387,176	-	9,105,058	-	9,105,058
Deferred revenues, net	14,600,440	-	584,017	14,016,423	-	14,016,423
Provision for self-insurance	<u>-</u>	<u>2,112,546</u>	<u>-</u>	<u>2,112,546</u>	<u>-</u>	<u>2,112,546</u>
	\$ <u>566,216,502</u>	\$ <u>10,042,874</u>	\$ <u>12,372,341</u>	\$ <u>563,887,035</u>	\$ <u>16,598,288</u>	\$ <u>547,288,747</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(7) Defeased Debt

On May 1, 1999, GPA issued the 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 or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

(8) Employees' Retirement Plan

Employees of GPA hired on or 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 the Defined Contribution Retirement System (DCRS). Until December 31, 1999 and for several limited periods after December 31, 1999, those employees who were members of the Defined Benefit Plan (DBP) with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

The 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. Statutory contribution rates are established by the Guam Legislature annually.

Defined Benefit Plan

As a result of an actuarial valuations performed as of September 30, 2005, 2004 and 2003, contribution rates required to fully fund the Retirement Fund liability as required by Guam law, for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Normal costs (% of DB Plan payroll)	18.21%	17.83%	18.30%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.71%</u>	<u>8.33%</u>	<u>8.80%</u>
Employer portion of normal costs (% of total payroll)	4.26%	4.64%	4.96%
Unfunded liability cost (% of total payroll)	<u>20.66%</u>	<u>21.36%</u>	<u>19.93%</u>
Government contribution as a % of total payroll	<u>24.92%</u>	<u>26.00%</u>	<u>24.89%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>22.94%</u>	<u>21.81%</u>	<u>20.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GUAM POWER AUTHORITY

Notes to Financial Statements September 30, 2007 and 2006

(8) Employees' Retirement Plan, Continued

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions for 2005, 2004 and 2003 actuarial valuations were:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuations performed as of September 30, 2005, 2004 and 2003, 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 sponsor, the accrued unfunded liability at September 30, 2007 and 2006 may be materially different than that recorded in the accompanying financial statements.

The actuarial valuations and contribution rates are based on estimates and assumptions. Changes in estimates and actuarial assumptions may result in revisions in actuarial valuations and contributions rates. The effects of such revisions are recognized in the period in which the revisions are determined.

Defined Contribution Plan

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.

Statutory employer contributions for DCRS employees for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. 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 amount is contributed towards the unfunded liability of the defined benefit plan.

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

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GPA has accrued an estimated liability of \$1,041,974 and \$946,549 at September 30, 2007 and 2006, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(8) Employees' Retirement Plan, Continued

Retirement Expense

Retirement expense for the years ended September 30, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash contributions and accruals	\$ 5,013,901	\$ 5,333,252	\$ 4,198,248
Increase in accrued unfunded liability to the retirement fund	<u>911,236</u>	<u>1,387,176</u>	<u>2,668,476</u>
	<u>\$ 5,925,137</u>	<u>\$ 6,720,428</u>	<u>\$ 6,866,724</u>

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

(9) Commitments and Contingencies

Capital Commitments

The 2008 capital improvement project budget is approximately \$20.3 million.

In February 2007 and December 2006, GPA has entered into agreements to purchase residual fuel oil and low sulfur diesel fuel oil, respectively. The agreements are for three years with an option to extend for two additional one year terms.

Leases

On December 31, 2002 GPA entered into a lease agreement for its office building for a period of five years, including extensions, with a monthly rental of \$25,000. On January 1, 2008, GPA renewed the lease agreement for an additional term of two years with a monthly rental of \$45,000, expiring on December 31, 2009. The renewed lease has an option to extend for an additional three years.

GPA entered into a ten-year lease of fuel storage tanks beginning in September 1998, with monthly rentals increasing to \$107,500 in March 2003. The lease has an option to renew for an additional 5-year period, expiring in September 2013, at an increased monthly rental of \$115,650.

At September 30, 2007, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2008	\$ 1,797,683
2009	617,260
2010	269,495
2011	<u>118,376</u>
	<u>\$ 2,802,814</u>

Rent expense under the aforementioned agreements totaled \$1,757,683 and \$1,793,426 during the years ended September 30, 2007 and 2006, respectively.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(9) Commitments and Contingencies, Continued

Performance Management Contracts

On January 1, 2003 and 2005, GPA entered into Performance Management Contracts (PMC) with two companies, for the operation and maintenance of the Cabras 1 & 2 and Cabras 3 & 4 generators. PMC contracts are for a period of 5 years.

At September 30, 2007, the minimum management fees for the PMC above are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2008	\$ 2,059,665
2009	1,374,298
2010	<u>346,095</u>
	\$ <u>3,780,058</u>

The above fees are subject to certain incentives and penalties, as agreed by both parties.

Letters of Credit

As of September 30, 2007, GPA has a \$10 million uncollateralized revolving documentary letter of credit for purchases of fuel.

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.

Environmental Remediation

On August 4, 2001, the Tanguisson pipeline in the Mongmong/Toto area ruptured spilling black oil, which contaminated an approximate 60,000 square foot area. The pipeline is operated by GPA and owned by the United States Navy. In 2004, GPA expensed clean-up costs totaling \$3,414,842. GPA has filed a claim with its insurance company for the costs of clean up less deductibles; however, reimbursement by the insurance company is considered unlikely.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2007. It is not possible for the management of GPA 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 (T&D) plant, because no insurance is available at reasonable rates.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(9) Commitments and Contingencies, Continued

Self-Insurance, Continued

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 transferred to the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant in the event of a natural catastrophe. The self-insurance fund, included in cash and cash equivalents held by GPA, is \$1,032,628 and \$2,140,544 at September 30, 2007 and 2006, respectively.

FEMA Receivables

As of September 30, 2007 and 2006, GPA has recorded a total of \$1,928,245 and \$1,958,425 respectively, in outstanding FEMA receivables for hazard mitigation projects and typhoon damages.

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.

(10) 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 50 years.

During the years ended September 30, 2007 and 2006, GPA billed the Navy \$51,402,192 and \$50,422,125, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were \$3,842,884 and \$4,201,763 at September 30, 2007 and 2006, respectively.

(11) Energy Conversion Agreements

In September 1996, GPA entered into agreements to purchase electricity produced by generating plants constructed or refurbished and operated by three companies. The agreements have twenty year terms. At the end of the agreements, ownership of the plants and the plant improvements reverts to GPA. Under each of the agreements, GPA pays capacity and operation and maintenance costs.

GPA has determined that the agreements to purchase electricity were in fact capital leases to acquire the plants and that the capacity payments made under the agreements were lease payments. The operations and maintenance payments under the agreements are reflected as energy conversion costs under operation and maintenance expenses.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(11) Energy Conversion Agreements, Continued

The leases have effective interest rates ranging from 8.6% to 14.2%. Future capacity payments under these agreements are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2008	\$ 23,084,304
2009	23,084,304
2010	23,084,304
2011	23,084,304
2012	23,084,304
2013-2017	115,263,675
2018-2019	<u>24,962,188</u>
	255,647,383
Less amounts representing interest	<u>117,071,722</u>
	138,575,661
Less current portion	<u>6,304,899</u>
	\$ <u>132,270,762</u>

(12) Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by Public Law 26-49, GPA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(13) Self-Insurance Fund

In 2007, GPA recovered the following costs against the self-insurance fund:

Prior years' typhoon expenditures	\$ 708,346
Generator fire	978,840
Regulatory asset (note 14)	529,008
Typhoon-related preparations	<u>252,043</u>
	\$ <u>2,468,237</u>

(14) Regulatory Asset

In May 2007, the PUC authorized GPA to establish a \$4.5 million regulatory asset to recover prior years' uninsured typhoon losses. Recoveries will be made through the insurance charge included in customer billings. The establishment of this regulatory asset is in full discharge of any and all uninsured GPA claims through August 2004.

(15) Transactions with Government of Guam Agencies

During the years ended September 30, 2007 and 2006, GPA billed the Government of Guam agencies \$46,839,342 and \$44,880,211, respectively, for sales of electricity. Receivables (excluding long-term receivables) from Government of Guam agencies were \$12,428,097 and \$10,320,508 at September 30, 2007 and 2006, respectively.

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(15) Transactions with Government of Guam Agencies, Continued

GPA provides electrical and administrative services to GWA, a component unit of the Government of Guam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2007 and 2006 were \$7,046,034 and \$5,917,154, respectively. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to \$610,834 and \$445,148 in 2007 and 2006, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to \$1,326,645 and \$1,194,187 as of September 30, 2007 and 2006, respectively. In addition, GPA has a long-term receivable of \$7,504,730 and \$9,762,654 due from GWA at September 30, 2007 and 2006, respectively (see note 4).

(16) Derivatives

GPA is exposed to market price fluctuations on its purchases of fuel oil. GPA uses derivatives such as commodity swaps to protect itself from increases in market prices.

At September 30, 2007, GPA has an outstanding commodity swap for the last six months of fiscal year 2007 based on a notional amount of 179,442 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date. At September 30, 2007, the commodity swaps had a negative fair value of approximately \$741,000. At September 30, 2007, the counterparty was rated AA- by S&P. At September 30, 2006, GPA has entered into several commodity swaps for the first six months of fiscal year 2007 based on a notional amount of 269,000 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date. At September 30, 2006, the three swap counterparties were rated AA-, AA-, and AA by S&P. At September 30, 2006, the commodity swaps had a negative fair value of approximately \$2.2 million. At September 30, 2007 and 2006, GPA was not exposed to credit risk because the swaps had negative fair values. However, should implied forward prices increase and the fair value of the swaps become positive, GPA would be exposed to credit risk on the swaps on the amount of their fair value.

(17) Restricted Net Assets

At September 30, 2007 and 2006, net assets are restricted for the following purposes:

	<u>2007</u>	<u>2006</u>
Debt Service	\$ 36,646,546	\$ 34,856,662
Capital Projects	<u>15,908,918</u>	<u>16,672,617</u>
	\$ <u>52,555,464</u>	\$ <u>51,529,279</u>

GUAM POWER AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(17) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2007 and 2006 is as follows:

<u>2007</u>	Beginning Balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Balance September 30, 2007
<u>Depreciable:</u>				
Intangible plant	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	77,466,762	6,915,862	(1,028,622)	83,354,002
Other production plant	249,746,948	4,289,543	(2,565,110)	251,471,381
Transmission plant	117,316,621	720,432	-	118,037,053
Distribution plant	153,194,477	3,467,468	(669,783)	155,992,162
General plant	36,400,445	462,980	(858,497)	36,004,928
Production plant under capital lease	171,382,727	-	-	171,382,727
	809,861,968	15,856,285	(5,122,012)	820,596,241
Accumulated depreciation	(284,111,334)	(27,153,680)	4,674,622	(306,590,392)
	525,750,634	(11,297,395)	(447,390)	514,005,849
<u>Non-depreciable:</u>				
Construction work in progress	25,877,073	13,241,566	(18,753,226)	20,365,413
	<u>\$ 551,627,707</u>	<u>\$ 1,944,171</u>	<u>\$ (19,200,616)</u>	<u>\$ 534,371,262</u>
<u>2006</u>	Beginning Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Balance September 30, 2006
<u>Depreciable:</u>				
Intangible plant	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	75,867,761	1,659,840	(60,839)	77,466,762
Other production plant	248,658,560	3,403,931	(2,315,543)	249,746,948
Transmission plant	116,088,664	1,365,828	(137,871)	117,316,621
Distribution plant	147,171,506	6,084,056	(61,085)	153,194,477
General plant	35,400,683	6,881,100	(5,881,338)	36,400,445
Production plant under capital lease	171,382,727	-	-	171,382,727
	798,923,889	19,394,755	(8,456,676)	809,861,968
Accumulated depreciation	(266,635,872)	(24,267,638)	6,792,176	(284,111,334)
	532,288,017	(4,872,883)	(1,664,500)	525,750,634
<u>Non-depreciable:</u>				
Construction work in progress	20,829,261	27,073,970	(22,026,158)	25,877,073
	<u>\$ 553,117,278</u>	<u>\$ 22,201,087</u>	<u>\$ (23,690,658)</u>	<u>\$ 551,627,707</u>

GUAM POWER AUTHORITY

Schedule 1 Schedule of Sales of Electricity Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Commercial	\$ 122,492,234	\$ 113,660,170
Residential	85,135,121	79,562,584
Government of Guam	46,839,342	44,880,211
U.S. Navy	<u>51,402,192</u>	<u>50,422,125</u>
	<u>\$ 305,868,889</u>	<u>\$ 288,525,090</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Administrative and General:		
Salaries and wages:		
Regular pay	\$ 3,570,970	\$ 3,406,851
Overtime	38,949	84,636
Premium pay	4,723	4,908
Benefits	<u>7,610,622</u>	<u>7,711,400</u>
Total salaries and wages	<u>11,225,264</u>	<u>11,207,795</u>
Insurance	6,889,167	6,908,165
Contract	2,558,515	3,150,443
Communications	1,521,067	1,540,678
Operating supplies	93,717	131,573
Training	80,826	237,594
Completed work orders	71,052	18,641
Other administrative expenses	54,943	135,690
Travel	46,182	207,843
Office supplies	11,065	37,633
Overhead allocations	1,049	26,452
Miscellaneous	<u>444,841</u>	<u>194,546</u>
Total administrative and general	<u>\$ 22,997,688</u>	<u>\$ 23,797,053</u>
Customer Accounting:		
Salaries and wages:		
Regular pay	\$ 1,394,879	\$ 1,362,751
Overtime	86,855	82,868
Premium pay	289	231
Benefits	<u>119,990</u>	<u>96,226</u>
Total salaries and wages	<u>1,602,013</u>	<u>1,542,076</u>
Collection fee	583,466	234,604
Completed work orders	382,538	387,326
Communications	226,736	207,781
Overhead allocations	59,627	98,634
Office supplies	9,410	19,147
Operating supplies	2,374	68,540
Miscellaneous	<u>2,015</u>	<u>674</u>
Total customer accounting	<u>\$ 2,868,179</u>	<u>\$ 2,558,782</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2

**Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Fuel:		
Salaries and wages:		
Regular pay	\$ 87,146	\$ 85,983
Overtime	13,377	12,220
Premium pay	227	61
Benefits	<u>4,679</u>	<u>4,152</u>
Total salaries and wages	<u>105,429</u>	<u>102,416</u>
Fuel	168,214,235	162,618,959
Deferred fuel costs	<u>6,427,975</u>	<u>(5,599,676)</u>
Total fuel costs	<u>\$ 174,747,639</u>	<u>\$ 157,121,699</u>
Other Production:		
Salaries and wages:		
Regular pay	\$ 6,835,794	\$ 6,941,821
Overtime	1,301,114	1,527,774
Premium pay	141,718	135,828
Benefits	<u>526,079</u>	<u>552,991</u>
Total salaries and wages	<u>8,804,705</u>	<u>9,158,414</u>
Contract	6,953,235	7,601,507
Completed work orders	316,169	582,706
Operating supplies	235,953	890,841
Overhead allocations	82,069	189,700
Office supplies	2,195	10,253
Communications	-	1,900
Miscellaneous	<u>167,100</u>	<u>208,987</u>
Total other production	<u>\$ 16,561,426</u>	<u>\$ 18,644,308</u>
Transmission and Distribution:		
Salaries and wages:		
Regular pay	\$ 4,367,976	\$ 4,373,782
Overtime	559,982	954,179
Premium pay	52,368	51,943
Benefits	<u>326,730</u>	<u>353,400</u>
Total salaries and wages	<u>5,307,056</u>	<u>5,733,304</u>
Overhead allocations	1,482,082	1,600,605
Completed work orders	1,035,600	1,809,218
Operating supplies	532,579	1,007,979
Contract	172,529	272,559
Office supplies	11,966	32,603
Provision for inventory obsolescence	<u>-</u>	<u>103,001</u>
Total transmission and distribution	<u>\$ 8,541,812</u>	<u>\$ 10,559,269</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY
Schedule 3
Schedule of Salaries and Wages
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Salaries and wages:		
Regular pay	\$ 16,256,765	\$ 16,171,188
Overtime	2,000,277	2,661,677
Premium pay	199,325	192,971
Benefits	8,588,100	8,718,169
Total salaries and wages	<u>\$ 27,044,467</u>	<u>\$ 27,744,005</u>

Schedule 4
Employees by Department
Year Ended September 30, 2007

	<u>Full Time Employees (b)</u>	<u>Category Personnel Services (a)</u>
Department:		
Board	2	\$ 167,216
Executive	9	430,326
Administration	35	1,943,087
Finance	24	1,415,460
Planning and Regulatory	6	340,676
Property and Facilities	10	385,713
Purchasing and Supply Management	17	482,940
Customer Service	63	2,482,866
Engineering	38	521,696
Generation	173	10,043,913
Strategic Planning and Operation Research and Development	6	468,468
Power System Control Center	25	1,509,569
Transporation	14	156,130
Transmission and Distribution	95	4,492,696
Total full time employees	<u>517</u>	<u>24,840,756</u>
Apprentice and summer engineering		1,292,475
Retirement fund accrual		911,236
		<u>\$ 27,044,467</u>

Note(s):

- (a) The amounts consists of total payroll charge to O & M for the year end funded by revenues.
(b) Filled positions at the end of the year, excluding apprentices.

See accompanying independent auditors' report.

acknowledgements

Honorable Felix P. Camacho, Governor of Guam
Michael W. Cruz, M.D., Lieutenant Governor of Guam

Consolidated Commission on Utilities

Simon A. Sanchez, II, Chairman
Gloria B. Nelson, CCU Vice Chairwoman & Secretary
Benigno M. Palomo, Vice Chairman Guam Power Authority
Tom C. Ada, Vice Chairman Guam Waterworks Authority & Treasurer
Eloy P. Hara, Commissioner

Guam Power Authority Management Team

John M. Benavente, P.E.	General Manager, Consolidated Utility Services
Joaquin C. Flores, P.E.	General Manager, GPA
Andriano E. Balajadia	Assistant General Manager-Operations
Randy V. Wiegand, C.P.A.	Chief Financial Officer
D. Graham Botha, Jr.	Staff Attorney
Artemio S. Perez	Communications Manager, Acting
John J. Cruz, Jr. P.E.	Strategic Planning & Operations Research Division Manager
Herbert S. Pinaula	Manager of Equipment Support Services
Vicente N. Mesa, P.E.	Manager of Power System Control Center
Melinda R. Camacho, P.E.	Manager of Engineering
Honorio Estira, Jr.	Assistant Manger of Generation
Ronald C. Okada	Manager of Transmission & Distribution
Simon R. Camacho, Jr.	Assistant Manager of Transmission & Distribution
Sylvia I. Tumaneng	Engineer Supervisor
Thomas G. Borja	Facilities Manager
Mercy A.F. Castro	Utility Services Administrator
Richard J. Bersamin	Assistant Customer Service Manager
Jamie L.C. Pangelinan	Supply Management Administrator
John C. Crisostomo	Safety Administrator
Julie L. Quinata	Personnel Services Administrator
Rudy Manibusan	Systems Manager, Acting
Corazon R. Montellano	Assistant Chief Financial Officer
Lenora M. Sanz	Controller
Pamela R. Aguigui	Chief Budget Officer
Arleen M. Sahagon	Internal Auditor, Acting

Affiliations

American Public Power Association
Pacific Power Association
Institute of Electrical & Electrical Engineering Incorporated
International Rights of Way Association
National Safety Council

Guam Power Authority Acknowledgements

Design & Editorial Support	Card & Card Advertising
Printing	Elite Printing
Photography	Card & Card Advertising
Project Organizers	Artemio S. Perez, Communications Manager, Acting Sherry D. Perez, Program Coordinator II

Special thanks to Marianas Variety for printing permission for use of headlines.



Guam Power Authority
P.O. Box 2977
Hagåtña, Guam 96932