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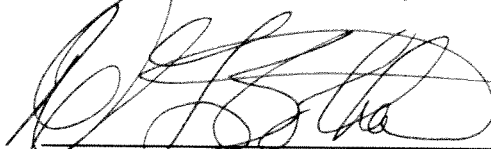
8  
9 *Attorney for the Guam Power Authority*

10  
11 **BEFORE THE PUBLIC UTILITIES COMMISSION**

12  
13 IN THE MATTER OF ) DOCKET NO.94-04  
14 )  
15 The Guam Power Authority's Filing )  
16 of Financial Report )  
17 )  
18 )  
19 \_\_\_\_\_ )

20 **COMES NOW**, GUAM POWER AUTHORITY and hereby files GPA's FY2008  
21 Audited Financial Report and reports indicating Historical Customers, Energy Sales, Peak  
22 Demand and Revenues for FY 2004 - FY 2008 (Table 1) and Historical Debt Service Coverage  
23 for FY 2004 to FY 2008.

24 **RESPECTFULLY SUBMITTED** this 24<sup>h</sup> day of April, 2009, by:

25   
26 \_\_\_\_\_  
27 **D. GRAHAM BOTHA, ESQ.**  
28 **Legal Counsel for the Guam Power Authority**

COPY



# GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN  
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

22 April 2009

Mr. Frederick J. Horecky, Legal Counsel  
Public Utilities Commission  
643 Chalan San Antonio, Suite 102B  
Tamuning, Guam 96913

**SUBJECT: Guam Power Authority – FY 2008 Audited Financials**

Dear Mr. Horecky:

For Public Utilities Commission's perusal, accompanying the GPA – FY 2008 Audited Financial Statements are the following:

- a) Historical Customers, Energy Sales, Peak Demand and Revenues for Fiscal Year 2004 through Fiscal Year 2008 (See Table 1)
- b) Historical Debt Service Coverage for Fiscal Year 2004 through 2008 (See Table 2)

Should you have any questions, please contact Ms. Corazon Montellano, Assistant Chief Financial Officer at (671) 648-3119 or Email: [cmontellano@gpagwa.com](mailto:cmontellano@gpagwa.com).

Sincerely,

RANDALL V. WIEGAND  
Chief Financial Officer

cc: File/CFO 094 09

/Enclosures

**GUAM POWER AUTHORITY**

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

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**YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

## **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, 2008 and 2007, 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, 2008 and 2007, 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 1-5 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 39, 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 March 31, 2009, 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 31, 2009

# GUAM POWER AUTHORITY

## Management Discussion and Analysis Year Ended September 30, 2008

The credit crisis in the United States financial markets has had a significant impact on the Authority. During the year, the Authority became unable to market its \$20 million commercial paper program. The line of credit facility that was backing up the program was fully drawn. GPA negotiated the conversion of the line of credit into a three year loan with annual principal payments of \$5 million per year.

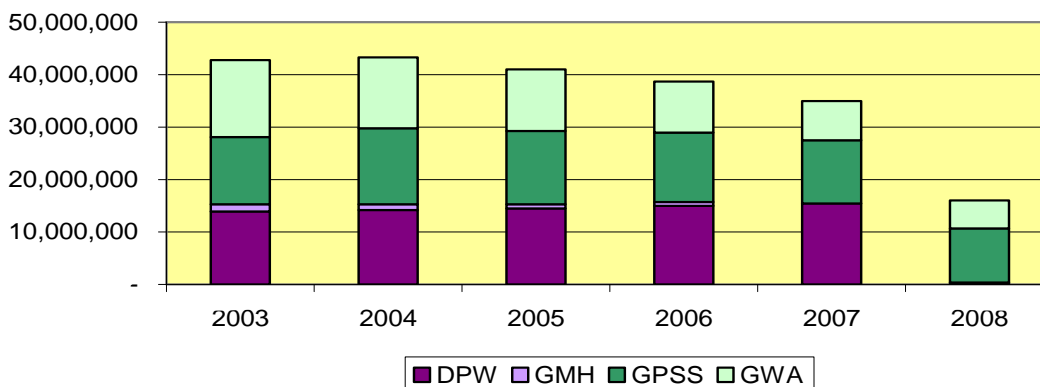
The crash in fuel market prices has also impacted the Authority through its fuel risk management program. In 2007, the Authority modified its strategy from hedging 100% of its fuel risk to decrease the hedged amounts to 50% of the fuel purchased by the Authority. Because GPA has used a collared approach to hedging, the Authority is obligated to pay higher prices for nearly 50% of its fuel supply. One of GPA's hedge providers has issued margin calls to the Authority which has hindered the Authority's ability to maintain healthy cash balances.

Notwithstanding these challenges, the Authority overall credit profile continues to improve. In June 2008, Fitch Ratings Service increased the Authority's credit rating to BB+ Positive Outlook. In December 2008, Standard and Poor's upgraded GPA's credit rating to BBB- Stable Outlook – the first time the Authority has had an investment grade rating since 2003.

During the year, the Authority submitted a petition to the Public Utilities Commission for its first base rate increase in nearly 10 years. The petition included a two phased rate increase; \$17.9 million immediately and \$9 million during FY09. The Authority was awarded an increase of the equivalent of \$16.3 million. The second phase of the increase is conditional upon a limited scope filing from the Authority.

One of the most positive developments was the collection of a \$13.4 million streetlight receivable from the Government of Guam. The amount had been a contingent receivable of the Authority for the preceding four years after the Government had passed legislation to repay the Authority through an issuance of bonds. The bond issuance had been tied up in litigation for four years until the U.S. Supreme Court placed the matter in the hands of local elected officials. However, subsequent to the court ruling, the Government issued a bond and did not include the streetlight receivable. GPA's auditors questioned the collectibility of the receivable in light of the fact that the repayment commitment appeared to be diminished. GPA wrote off the receivable prior to the issuance of the Fiscal Year 2007 audit report. The Consolidated Commission on Utilities, out of concern of a potential bond covenant violation, ordered the Authority to begin disconnecting streetlights. A month later, the Government renewed its commitment to payoff the receivable balance. The Government took out a loan and repaid the \$13.4 million obligation to the Authority. The table below shows the dramatic decrease in past due receivables since the Consolidated Commission on Utilities assumed governance of the Authority:

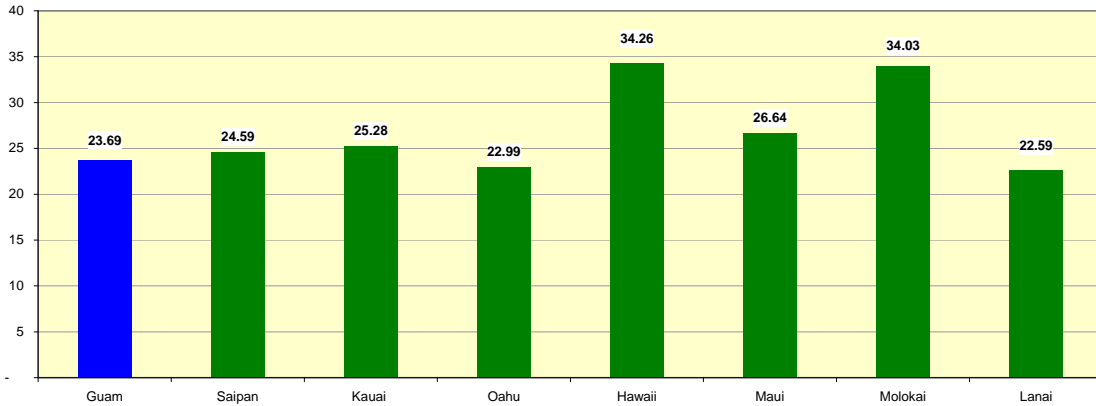
**Gov't Rec'bles Trending Downward**



# GUAM POWER AUTHORITY

## Management Discussion and Analysis Year Ended September 30, 2008

### Regional Rate Comparison



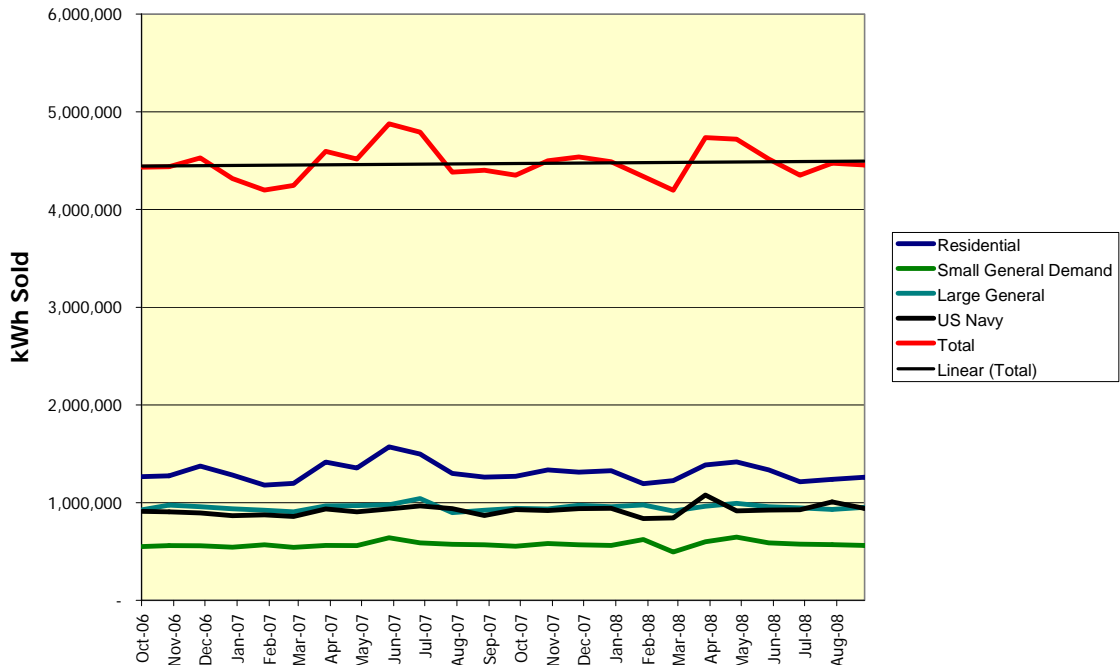
**Sources:**

GPA: Guam Power Authority website [guampowerauthority.com](http://guampowerauthority.com)  
 SAIPAN/CUC: [http://mvarietynews.com/index.php?option=com\\_content&view=article&id=14076:cuc-may-still-raise-power-rate-despite-leac&catid=1:local-news&Itemid=2](http://mvarietynews.com/index.php?option=com_content&view=article&id=14076:cuc-may-still-raise-power-rate-despite-leac&catid=1:local-news&Itemid=2)  
 HECO, HELCO, MECO: <http://www.heco.com/vcmcontent/StaticFiles/FileScan/PDF/EnergyServices/Tariffs/HECO/EFFRATESJAN09.pdf>  
 KAUAI: [http://www.kiuc.coop/pdf/ratedata\\_2009.pdf](http://www.kiuc.coop/pdf/ratedata_2009.pdf)

Despite the Authority's dependence on fossil fuel and record fuel prices during the year, GPA remained competitive with other utilities in the region as the chart above depicts.

Another positive trend is the continued growth in kWh sales. Many of the Authority's customers have taken significant steps to reduce their power consumption and mitigate the impact of high fuel prices on their home and office budgets. However, even with these measures aimed at reducing power costs, GPA's sales grew .1% over Fiscal Year 2007. The chart below reflects the trends of average daily consumption for the Authority in total and from GPA's larger rate classes:

### Daily kWh Sales by Major Rate Class

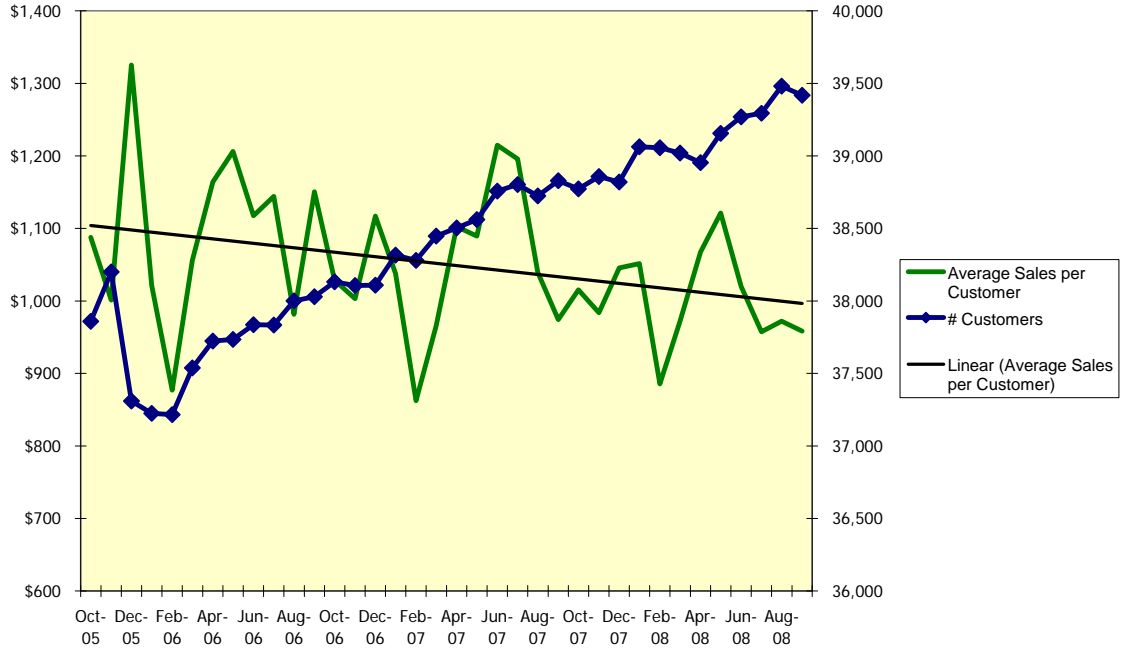


# GUAM POWER AUTHORITY

## Management Discussion and Analysis Year Ended September 30, 2008

Sales have remained strong even as fuel prices reached all time highs this past summer. Even though the average use per residential customer went down, the impact was offset by new customers coming onto the electric grid. This conservation/customer growth offset is reflected in the following chart:

**Residential Sales Analysis**



### Integrated Resource Planning

GPA completed an Integrated Resource Plan during the year. The purpose was to help the Authority determine the timing of the next baseload unit required by the Authority and to evaluate the impact of introducing renewable energy into the Authority's generation mix. GPA expects to add a renewable resource to the grid by Fiscal Year 2010.

### Capital and Financing Activities

Due to GPA's cashflow limitations, GPA's capital projects were limited to new connections to the system and some critical refurbishments at GPA's baseload generating plants. GPA is not anticipating any major financing activities until Fiscal Year 2010. Please see the notes to financial statements for additional information regarding GPA's capital and financing activities during 2008.

### Outlook

#### Military Buildup

The Department of Defense is still working towards the relocation of 8,000 Marines from a base in Okinawa to Guam in the year 2014. This should provide benefits to GPA and its ratepayers through greater economies of scale. Details of the planned buildup are not available at this time.

# GUAM POWER AUTHORITY

## Management Discussion and Analysis Year Ended September 30, 2008

### Financial Highlights

Table 1 highlights financial comparisons between Fiscal Years 2006 through 2008. 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	2008	2007	2006
Assets			
Current Assets	\$ 170.6	\$ 162.0	\$ 151.2
Non-current investment	27.5	27.5	27.5
Other non-current assets	23.6	32.2	49.6
Utility plant	<u>522.4</u>	<u>534.4</u>	<u>551.6</u>
Total Assets	<u>744.1</u>	<u>756.1</u>	<u>779.9</u>
Liabilities			
Current liabilities	65.5	80.2	82.5
Non-current liabilities	<u>527.0</u>	<u>533.9</u>	547.3
Total Liabilities	<u>592.5</u>	<u>614.1</u>	629.8
Net assets			
Investment in capital assets net of related debt	14.8	15.0	21.5
Restricted	56.3	51.5	51.5
Unrestricted	<u>80.5</u>	<u>75.5</u>	<u>77.1</u>
Total Net Assets	<u>151.6</u>	<u>142.0</u>	<u>150.1</u>

### Results of Operations

MILLIONS OF DOLLARS	2008	2007	2006
Revenues	\$ 370.6	\$ 306.7	\$ 289.3
Total Operating and maintenance expense	340.3	271.2	254.9
Operating earnings	30.3	35.5	34.4
Interest income	3.5	4.2	4.4
Other revenues and (expenses)	(29.1)	(50.8)	(42.6)
Loss before capital contributions	4.7	(11.1)	(3.8)
Capital contributions	4.9	(12.3)	2.1
(Decrease) increase in net assets	9.6	(8.1)	(1.7)

### Explanations of Variances

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

- The changes in current assets are primarily due to the higher carrying cost for fuel. There was also a slight increase in cash due mainly to the increase in the self-insurance fund as a result of a 100% increase in the Self-insurance surcharge during the year.
- The increase in Total Net Assets is primarily due to the reversal of the streetlight write off from Fiscal Year 2007.
- Revenues increased by \$63.9M or 20.8% over the previous year due primarily to the dramatic increases in the world fuel market during the summer of 2008.

## **GUAM POWER AUTHORITY**

### **Management Discussion and Analysis Year Ended September 30, 2008**

- Total operating and maintenance expenses increased by \$69.1M or 25.5% which is primarily due to the increase in fuel oil costs. The average price per barrel purchased increased 55.6% over the previous year.
- Interest income in 2008 decreased by \$0.7M due to decreasing interest rates available on short term investments and money market funds.
- The decrease of \$21.7M in other expenses, net of other revenue, is the direct result of the recovery of a Government of Guam receivable in the amount of \$13.5M that was provided for in the previous fiscal year and the regulatory asset to recover part of the unreimbursed losses from prior years' natural disasters that was recorded in FY07.
- The capital contributions are due to a grant received from the Federal Emergency Management Agency to continue placing some key transmission lines underground to additionally harden GPA's system against wind and storm risks.

#### **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, 2007 and 2006 is set forth in the Authority's report on the audit of financial statements which is dated April 22, 2008. That Discussion and Analysis explains in more detail major factors impacting the 2007 and 2006 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](http://www.guampowerauthority.com).

**GUAM POWER AUTHORITY**

Statements of Net Assets  
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents:		
Held by trustee:		
Interest and principal funds for debt repayment	\$ 17,592,267	\$ 18,696,315
Bond indenture funds for restricted purposes	19,159,000	19,343,598
Held by Guam Power Authority:		
Bond indenture funds	19,816,630	25,350,708
Escrow account	5,500,000	-
Self-insurance fund	2,233,834	1,032,628
Total cash and cash equivalents	<u>64,301,731</u>	<u>64,423,249</u>
Short-term investments held by trustee	<u>1,984,049</u>	<u>-</u>
Accounts receivable, net	45,102,705	46,704,368
Current installments of long-term receivables	<u>4,811,962</u>	<u>4,095,488</u>
Total current receivables	49,914,667	50,799,856
Materials and supplies inventory, net	12,632,930	12,421,030
Fuel inventory	40,990,313	33,583,554
Prepaid expenses	<u>729,962</u>	<u>791,208</u>
Total current assets	<u>170,553,652</u>	<u>162,018,897</u>
Regulatory assets:		
Deferred fuel costs	-	2,141,464
Deferred typhoon losses	2,470,992	3,970,992
Cancelled unit, net of amortization	<u>624,356</u>	<u>746,531</u>
Total regulatory assets	<u>3,095,348</u>	<u>6,858,987</u>
Utility plant, at cost:		
Electric plant in service	837,756,513	820,596,241
Construction work in progress	14,187,283	20,365,413
Less accumulated depreciation	<u>(329,522,068)</u>	<u>(306,590,392)</u>
Total utility plant	<u>522,421,728</u>	<u>534,371,262</u>
Other non-current assets:		
Bond reserve funds held by trustee	27,488,268	27,488,252
Long-term receivables, less current installments, net	11,076,108	15,432,427
Unamortized debt issuance costs	4,288,877	4,456,081
Deferred asset, net	3,505,720	3,665,072
Other	<u>1,713,347</u>	<u>1,823,358</u>
Total other non-current assets	<u>48,072,320</u>	<u>52,865,190</u>
	<u>\$ 744,143,048</u>	<u>\$ 756,114,336</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Net Assets, Continued  
September 30, 2008 and 2007

<u>LIABILITIES AND NET ASSETS</u>	<u>2008</u>	<u>2007</u>
<b>Current liabilities:</b>		
Short-term debt	\$ 20,000,000	\$ 20,000,000
Current maturities of long-term debt	7,080,000	6,770,000
Current obligations under capital leases	7,113,678	6,304,899
Current portion of deferred payment agreement	-	1,101,681
<b>Accounts payable:</b>		
Operations	12,643,874	10,663,625
Fuel	858,436	17,312,198
Payable to federal government	177,025	-
Accrued payroll and employees' benefits	1,034,601	1,123,992
Current portion of employees' annual leave	1,116,800	1,138,408
Interest payable	10,902,571	11,272,366
Customer deposits	4,560,829	4,480,789
Total current liabilities	65,487,814	80,167,958
<b>Regulatory liabilities:</b>		
Deferred fuel revenue	4,580,169	-
Provision for self-insurance	2,233,834	1,337,850
Total regulatory liabilities	6,814,003	1,337,850
Long-term debt, net of current maturities	368,932,816	374,825,390
Employees' annual leave, net of current portion	1,224,717	1,017,257
Obligations under capital leases, net of current portion	125,157,381	132,270,762
DCRS sick leave liability	1,292,473	1,041,974
Deferred revenues, net	12,848,388	13,432,405
Retirement fund deferred contributions	10,720,832	10,016,294
Total liabilities	592,478,424	614,109,890
<b>Commitments and contingencies</b>		
<b>Net assets:</b>		
Invested in capital assets, net of related debt	14,762,209	14,946,742
Restricted	56,331,082	51,522,836
Unrestricted	80,571,333	75,534,868
Total net assets	151,664,624	142,004,446
	\$ 744,143,048	\$ 756,114,336

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2008 and 2007

	2008	2007
Revenues:		
Sales of electricity	\$ 368,957,936	\$ 305,868,889
Miscellaneous	2,586,523	2,176,746
	371,544,459	308,045,635
Bad debt expense	(920,484)	(1,394,582)
Total revenues	370,623,975	306,651,053
Operating and maintenance expenses:		
Production fuel	237,062,567	174,747,639
Other production	20,083,143	16,561,426
	257,145,710	191,309,065
Administrative and general	23,852,732	22,997,688
Depreciation and amortization	27,169,664	27,153,680
Energy conversion costs	18,882,846	18,276,393
Transmission and distribution	10,283,950	8,541,812
Customer accounting	2,979,209	2,868,179
Total operating and maintenance expenses	340,314,111	271,146,817
Operating earnings	30,309,864	35,504,236
Other revenues (expense):		
Recovery of (provision for) GovGuam receivable	13,488,544	(13,488,544)
Interest revenue	3,500,762	4,216,945
Establishment of regulatory asset	-	4,500,000
Allowance for funds used during construction	686,341	512,693
Prior year typhoon loss recoveries	-	708,346
COLA/supplemental annuities	(2,006,013)	(1,030,906)
Other expense	(1,774,370)	(738,184)
Interest expense	(39,470,978)	(41,236,109)
Total other expenses	(25,575,714)	(46,555,759)
Income (loss) before capital contributions	4,734,150	(11,051,523)
Capital contributions:		
Grants from the United States Government	4,926,028	2,950,280
Increase (decrease) in net assets	9,660,178	(8,101,243)
Net assets at beginning of year	142,004,446	150,105,689
Net assets at end of year	\$ 151,664,624	\$ 142,004,446

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2008 and 2007

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 389,434,071	\$ 305,496,985
Cash payments to suppliers for goods and services	(298,476,073)	(218,229,776)
Cash payments to employees for services	<u>(30,583,274)</u>	<u>(27,092,358)</u>
Net cash provided by operating activities	<u>60,374,724</u>	<u>60,174,851</u>
Cash flows from investing activities:		
Change in bond reserve funds	(16)	-
Short-term investments	(1,984,049)	-
Interest and dividends on investments and bank accounts	<u>2,916,745</u>	<u>3,632,928</u>
Net cash provided by investing activities	<u>932,680</u>	<u>3,632,928</u>
Cash flows from noncapital financing activities:		
Self insurance fund receipts	895,984	462,657
Interest paid on short-term debt, deferred payment agreements and deposits	<u>(1,361,252)</u>	<u>(1,701,497)</u>
Net cash used in noncapital financing activities	<u>(465,268)</u>	<u>(1,238,840)</u>
Cash flows from capital and related financing activities:		
Additions to utility plant	(16,862,434)	(9,897,234)
Principal paid on bonds	(6,770,000)	(6,480,000)
Interest paid on bonds	(19,172,944)	(20,016,068)
Principal paid on capital leases	(6,304,602)	(5,589,570)
Interest paid on capital leases	(16,779,702)	(17,494,735)
Oil spill clean-up and typhoon expenditures	-	(573,098)
FEMA receipts	<u>4,926,028</u>	<u>2,936,033</u>
Net cash used in capital and related financing activities	<u>(60,963,654)</u>	<u>(57,114,672)</u>
Net change in cash and cash equivalents	(121,518)	5,454,267
Cash and cash equivalents at beginning of year	<u>64,423,249</u>	<u>58,968,982</u>
Cash and cash equivalents at end of year	<u>\$ 64,301,731</u>	<u>\$ 64,423,249</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Cash Flows, Continued  
Years Ended September 30, 2008 and 2007

	2008	2007
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 30,309,864	\$ 35,504,236
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Recovery of bad debt	13,488,544	-
Depreciation and amortization	27,169,664	27,153,680
Bad debt	920,484	1,394,582
Difference between retirement expense and funding	704,538	911,236
COLA/supplemental annuities paid	(2,006,013)	(1,030,906)
(Increase) decrease in assets:		
Accounts receivable	4,321,027	(3,170,731)
Materials and supplies inventory	(211,899)	999,994
Fuel inventory	(7,406,758)	(4,082,913)
Prepaid expenses	61,246	397,384
Deferred fuel costs	2,141,464	6,427,975
Other assets	1,273,563	84,928
Increase (decrease) in liabilities:		
Accounts payable - fuel	(16,453,762)	2,068,279
Accounts payable - operations	2,157,275	(3,839,141)
Deferred payment agreements	(1,101,681)	(3,449,590)
Customer deposits	80,040	622,082
Deferred fuel revenue	4,580,169	-
Accrued payroll and employees' benefits	(89,392)	34,656
Employees' annual and sick leave	436,351	149,100
Net cash provided by operating activities	\$ 60,374,724	\$ 60,174,851

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, 2008 and 2007

## (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, 2008 and 2007

## (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. Contributions in aid of construction are deducted from the cost of the utility plant. Current policy is to capitalize items over \$1,000.

### 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.

### 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.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

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

### 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, 2008 and 2007 are \$9,268,449 and \$8,027,101, 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 deferred fuel revenue 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 amount to \$2,141,464 at September 30, 2007. Over recoveries of fuel cost amounted to \$4,580,160 at September 30, 2008.

### 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.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

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

### 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 2008, GPA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The Government of Guam has determined that implementation of GASB Statement No 45 does not have a material effect on its financial statements or on the financial statements of its component units.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

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 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.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

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

### New Accounting Standards, Continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GPA has not been determined.

### Reclassifications

Certain account balances in the 2007 financial statements have been reclassified to correspond with the 2008 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, 2008 and 2007, 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.

## (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.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

**(3) Cash and Investments, Continued**

At September 30, 2008 and 2007, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	2008				Total
	Held By Trustee		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Other Restricted Funds	Bond Indenture Funds	
Construction funds	\$ -	\$ 16,324,057	\$ -	\$ -	\$ 16,324,057
Interest and principal funds	17,592,267	-	-	-	17,592,267
Bond funds	-	4,818,992	-	-	4,818,992
Escrow account	-	-	5,500,000	-	5,500,000
Working capital funds	-	-	-	8,522,744	8,522,744
Self-insurance fund	-	-	2,233,834	-	2,233,834
Revenue funds	-	-	-	5,142,405	5,142,405
Operating funds	-	-	-	5,878,275	5,878,275
Surplus funds	-	-	-	273,206	273,206
	<u>17,592,267</u>	<u>21,143,049</u>	<u>7,733,834</u>	<u>19,816,630</u>	66,285,780
Bond Reserve Funds					<u>27,488,268</u>
					\$ <u>93,774,048</u>

	2007				Total
	Held By Trustee		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Other Restricted Funds	Bond Indenture Funds	
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>1,032,628</u>	<u>25,350,708</u>	64,423,249
Bond Reserve Funds					<u>27,488,252</u>
					\$ <u>91,911,501</u>

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2008 and 2007. Market values shown below implicitly include accrued interest for debt securities.

	<u>2008</u>	<u>2007</u>
Cash on hand, in demand and time deposits and money market accounts	\$ 64,301,731	\$ 64,423,249
Short-term investments, mainly time deposits	1,984,049	-
Commercial paper	<u>27,488,268</u>	<u>27,488,252</u>
	\$ <u>93,774,048</u>	\$ <u>91,911,501</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (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, 2008 and 2007, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$66,285,780 and \$64,423,249, respectively, and the corresponding bank balances were \$64,799,789 and \$64,059,850, respectively. Of the bank balance amount as of September 30, 2008 and 2007, \$10,089,550 and \$1,486,580 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount of \$2,629,162 and \$567,307, respectively, were FDIC insured. Bank balances as of September 30, 2008 and 2007, also include \$50,291,168 and \$59,359,631, respectively, representing cash and short-term investments held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2008 and 2007, \$11,879,459 and \$4,132,912, respectively, of cash and cash equivalents are subject to custodial credit risk.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

(3) Cash and Investments, Continued

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, 2008, GPA's investment in commercial paper, included in the bond reserve fund were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&amp;P's Rating</u>
Bond Reserve Fund:			
Crimson Corporation	\$ 13,743,087	October 1, 2008	A-1+
UBS Finance Delaware	13,742,000	October 1, 2008	A-1

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

	<u>Amount</u>	<u>Maturity</u>	<u>S&amp;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

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (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, 2008 and 2007, \$27,488,268 and \$27,488,252, 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, 2008, GPA's investments that exceeded 5% of total investments are as follows: UBS Finance Delaware (22.31%), Crimson Commercial paper (22.31%), and First American Treasury (28.56%). 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%).

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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Customers:		
Private	\$ 33,662,426	\$ 30,076,732
Government	<u>5,087,395</u>	<u>12,428,097</u>
	38,749,821	42,504,829
U.S. Navy	3,482,473	3,842,884
Federal Emergency Management Agency	2,931,846	2,276,657
Interest	542,452	496,510
Others	<u>4,057,569</u>	<u>3,744,834</u>
	49,764,161	52,865,714
Less allowance for doubtful receivables	<u>(4,661,456)</u>	<u>(6,161,346)</u>
	\$ <u>45,102,705</u>	\$ <u>46,704,368</u>

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

(4) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</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.	\$ 10,288,409	\$ 12,023,185
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. DPW paid the principal balance in July 2008.	390,375	11,394,293
Receivable due from Guam Waterworks Authority (GWA), payable monthly from a water rate surcharge, interest at 4.3%, uncollateralized.	<u>5,209,286</u>	<u>7,504,730</u>
	15,888,070	30,922,208
Less current portion	<u>(4,811,962)</u>	<u>(4,095,488)</u>
	11,076,108	26,826,720
Less allowance for doubtful receivables	<u>-</u>	<u>(11,394,293)</u>
	<u>\$ 11,076,108</u>	<u>\$ 15,432,427</u>

Scheduled maturities of long-term receivables are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2009	\$ 4,811,962
2010	4,789,666
2011	2,162,952
2012	2,261,642
2013	<u>1,861,848</u>
	<u>\$ 15,888,070</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (4) Receivables, Continued

#### Long-Term Receivables, Continued

The GPSS and DPW receivables resulted from the conversion of past due receivables from these entities into notes receivable in 2001. In April 2002, the 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.

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. In July 2008, GPA was able to collect the principal balance of the DPW receivable. The recovery was recorded as part of nonoperating income.

### (5) Short-Term Debt

Short-term debt at September 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Note payable with a bank, interest of 7% at September 30, 2008.	\$ 20,000,000	\$ -
Taxable commercial paper issued November 1, 2004, interest of 5.37% at September 30, 2007.	-	<u>20,000,000</u>
	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

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

Movements in GPA's short-term debt in 2008 and 2007 are as follows:

	<u>Outstanding September 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding September 30, 2008</u>
Note payable	\$ -	\$ 20,000,000	\$ -	\$ 20,000,000
Taxable commercial paper	<u>20,000,000</u>	-	<u>20,000,000</u>	-
	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>
	<u>Outstanding September 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding September 30, 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>

As of September 30, 2008, the Authority has paid off all the outstanding commercial paper using the proceeds from the note payable with a bank.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

**(6) Long-Term Debt**

Long-term debt at September 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
<b>Bonds:</b>		
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.	\$ 321,933,601	\$ 325,823,601
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>73,205,000</u>	<u>76,085,000</u>
	395,138,601	401,908,601
Less current maturities	<u>(7,080,000)</u>	<u>(6,770,000)</u>
	388,058,601	395,138,601
Less discount on bonds	<u>(4,905,617)</u>	<u>(5,213,445)</u>
	383,152,984	389,925,156
Loss on defeasance, net of \$7,769,781 and \$6,890,183 of accumulated amortization in 2008 and 2007, respectively	<u>(14,220,168)</u>	<u>(15,099,766)</u>
Total bonds	\$ <u>368,932,816</u>	\$ <u>374,825,390</u>
 At September 30, 2007, deferred payment agreements:		
Deferred vendor payment agreement, payable in monthly installments of \$343,728, including interest at 5% to 5.5%, due in June 2008.	\$ -	\$ 1,101,681
Less current maturities	<u>-</u>	<u>1,101,681</u>
	\$ <u>-</u>	\$ <u>-</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (6) Long-Term Debt, Continued

As of September 30, 2008, 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>
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	8,635,000	18,394,475	27,029,475
2014 through 2018	50,455,000	84,340,488	134,795,488
2019 through 2023	64,820,000	69,278,413	134,098,413
2024 through 2028	83,115,000	50,060,763	133,175,763
2029 through 2033	106,740,000	25,115,113	131,855,113
2034 through 2035	<u>50,920,000</u>	<u>1,370,775</u>	<u>52,290,775</u>
	<u>\$ 395,138,601</u>	<u>\$ 326,445,826</u>	<u>\$ 721,584,427</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. The debt service for the 1993 and 1999 series bonds was \$27,326,108 and \$27,338,178 for the years ended September 30, 2008 and 2007, respectively, or approximately 7.3% and 8.7%, respectively, of pledged gross revenues for those years.

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, 2008 and 2007

(6) Long-Term Debt, Continued

The following summarizes deferred revenues and deferred asset at September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Deferred revenues	\$ 17,521,029	\$ 17,521,029
Accumulated amortization	<u>(4,672,641)</u>	<u>(4,088,624)</u>
	\$ <u>12,848,388</u>	\$ <u>13,432,405</u>
Deferred asset	\$ 4,780,529	\$ 4,780,529
Accumulated amortization	<u>(1,274,809)</u>	<u>(1,115,457)</u>
	\$ <u>3,505,720</u>	\$ <u>3,665,072</u>

Changes in long-term liabilities are presented as follows:

	<u>Outstanding</u> <u>Sept. 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>Sept. 30, 2008</u>	<u>Current</u>	<u>Noncurrent</u>
1993 Series bonds	\$ 76,085,000	\$ -	\$ 2,880,000	\$ 73,205,000	\$ 3,030,000	\$ 70,175,000
1999 Series bonds	325,823,601	-	3,890,000	321,933,601	4,050,000	317,883,601
Unamortized discount on bonds	(5,213,445)	-	(307,828)	(4,905,617)	-	(4,905,617)
Loss on defeasance of bonds	(15,099,766)	-	(879,598)	(14,220,168)	-	(14,220,168)
Obligations under capital leases	138,575,661	-	6,304,602	132,271,059	7,113,678	125,157,381
DCRS sick leave liability	1,041,974	250,499	-	1,292,473	-	1,292,473
Deferred payment agreements	1,101,681	-	1,101,681	-	-	-
Employees annual leave	2,155,665	185,852	-	2,341,517	1,116,800	1,224,717
Retirement fund deferred contributions	10,016,294	704,538	-	10,720,832	-	10,720,832
Deferred revenues	<u>13,432,405</u>	<u>-</u>	<u>584,017</u>	<u>12,848,388</u>	<u>-</u>	<u>12,848,388</u>
	\$ <u>547,919,070</u>	\$ <u>1,140,889</u>	\$ <u>13,572,874</u>	\$ <u>535,487,085</u>	\$ <u>15,310,478</u>	\$ <u>520,176,607</u>

	<u>Outstanding</u> <u>Sept. 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>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	<u>14,016,423</u>	<u>-</u>	<u>584,018</u>	<u>13,432,405</u>	<u>-</u>	<u>13,432,405</u>
	\$ <u>561,774,489</u>	\$ <u>1,060,336</u>	\$ <u>14,915,755</u>	\$ <u>547,919,070</u>	\$ <u>15,314,988</u>	\$ <u>532,604,082</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (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

#### Defined Benefit Plan

##### Plan Description:

The GovGuam Defined Benefit (DB) Plan is a single-employer defined benefit contributory pension plan administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of qualifying payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. All new employees whose employment commences on or after October 1, 1995, are required to participate in the new Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – [www.ggrf.com](http://www.ggrf.com)

##### Funding Policy:

As a result of actuarial valuations performed as of September 30, 2006, 2005, and 2004, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined as follows:

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.94%	18.21%	17.83%
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>8.44%</u>	<u>8.71%</u>	<u>8.33%</u>
Employer portion of normal costs (% of total payroll)	3.99%	4.26%	4.64%
Unfunded liability cost (% of total payroll)	<u>20.75%</u>	<u>20.66%</u>	<u>21.36%</u>
Government contribution as a % of total payroll	<u>24.74%</u>	<u>24.92%</u>	<u>26.00%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GPA's required and actual contributions for the years ended September 30, 2008, 2007 and 2006 (including DCRS plan contributions) were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Required contributions	\$ <u>5,696,607</u>	\$ <u>5,511,955</u>	\$ <u>6,003,508</u>
Actual contributions	\$ <u>4,992,069</u>	\$ <u>4,600,719</u>	\$ <u>4,616,331</u>

Annual Pension Cost and Net Pension Obligation:

GPA's annual pension cost and net pension obligation to the DB Plan for the year ended September 30, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 5,294,818	\$ 5,155,612	\$ 5,797,906
Interest on Net Pension Obligation	701,141	637,354	540,252
Adjustment to Annual Required Contribution	<u>(807,178)</u>	<u>(733,744)</u>	<u>(621,956)</u>
Annual pension cost	5,188,781	5,059,222	5,716,202
Contributions made	<u>(4,484,243)</u>	<u>(4,147,986)</u>	<u>(4,329,025)</u>
Increase in Net Pension Obligation	704,538	911,236	1,387,177
Net Pension Obligation beginning of year	<u>10,016,294</u>	<u>9,105,058</u>	<u>7,717,881</u>
Net Pension Obligation end of year	\$ <u>10,720,832</u>	\$ <u>10,016,294</u>	\$ <u>9,105,058</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (8) Employees' Retirement Plan, Continued

The Annual Required Contribution for the years ended September 30, 2008, 2007 and 2006 was determined as part of the September 30, 2006, 2005 and 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

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

The assumptions did not include cost-of-living adjustments, which have been funded by GPA when granted through annual legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of total payroll through May 1, 2031. The remaining amortization period at September 30, 2008 was 22.58 years.

The actuarial valuations performed as of September 30, 2006, 2005, and 2004, 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 for September 30, 2008 and 2007, may be materially different than that recorded in the accompanying financial statements.

### Defined Contribution Plan

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2008 and 2007, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

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 \$1,292,473 and \$1,041,974 at September 30, 2008 and 2007, 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, 2008 and 2007

## (9) Commitments and Contingencies

### Capital Commitments

The 2009 capital improvement project budget is approximately \$18.5 million.

### Fuel Purchase Contracts

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

### Operating 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.

On February 8, 2008, GPA renewed the agreement for an additional five year term from March 1, 2008 to February 28, 2013.

At September 30, 2008, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2009	\$ 2,061,756
2010	1,716,756
2011	1,565,637
2012	1,447,261
2013	<u>698,105</u>
	\$ <u>7,489,515</u>

Rent expense under the aforementioned agreements totaled \$1,812,999 and \$1,757,683 during the years ended September 30, 2008 and 2007, respectively.

### 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, respectively. PMC contracts are for a period of 5 years. On December 31, 2008, GPA extended the PMC contract for the Cabras 1 & 2 power plants to complete the maintenance and repair overhauls and to continue management and operations for both plants for period not to exceed six months from January 1, 2009 to July 31, 2009.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (9) Commitments and Contingencies, Continued

### Performance Management Contracts, Continued

At September 30, 2008, the minimum future management fees for the PMC above are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2009	\$ 1,374,298
2010	<u>346,095</u>
	\$ <u>1,720,393</u>

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

### Letters of Credit

As of September 30, 2008, GPA has a \$20 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. On May 30, 2008, GPA entered into a Settlement Agreement and Mutual Release with the insurance company pertaining to the aforementioned case. The insurance company has offered to pay and GPA has agreed to accept in full the settlement amount of \$375,000 in satisfaction of present and future liability of the insurance company.

### Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2008. 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.

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (9) Commitments and Contingencies, Continued

#### Self-Insurance

GPA self-insures its transmission and distribution (T&D) plant, because no insurance is available at reasonable rates.

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. On February 12, 2008, PUC has approved the amendment of self-insurance program to be effective March 1, 2008 to reflect the following: (1) increase in surcharge ceiling from \$2.5 million to \$10 million; (2) increase in the surcharge from \$0.00145 per kWh to \$0.00290 per kWh for civilian ratepayers and from \$0.00035 per kWh to \$0.00070 per kWh for Navy. 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 \$2,233,834 and \$1,032,628 at September 30, 2008 and 2007, respectively.

#### FEMA Receivables

As of September 30, 2008 and 2007, GPA has recorded a total of \$2,931,846 and \$2,276,657 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, 2008 and 2007, GPA billed the Navy \$67,546,040 and \$51,402,192, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were \$3,482,473 and \$3,842,884 at September 30, 2008 and 2007, respectively.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (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.

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>
2009	\$ 23,084,304
2010	23,084,304
2011	23,084,304
2012	23,084,304
2013	23,084,304
2014-2018	111,222,057
2019	<u>6,077,645</u>
	232,721,222
Less amounts representing interest	<u>100,450,163</u>
	132,271,059
Less current portion	<u>7,113,678</u>
	\$ <u>125,157,381</u>

## (12) Supplemental/COLA Annuities

As required by Public Law 27-106, 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. Supplemental benefits include the following for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Supplemental benefits	\$ 484,590	\$ 501,906
Medical and dental	<u>1,521,423</u>	<u>529,000</u>
	\$ <u>2,006,013</u>	\$ <u>1,030,906</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

### (13) Self-Insurance Fund

During the years ended September 30, 2008 and 2007, GPA recovered the following costs against the self-insurance fund:

	<u>2008</u>	<u>2007</u>
Regulatory asset (note 14)	\$ 1,500,000	\$ 529,008
Generator fire	771,591	978,840
Prior years' typhoon expenditures	-	708,346
Typhoon-related preparations	<u>-</u>	<u>252,043</u>
	\$ <u>2,271,591</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, 2008 and 2007, GPA billed the Government of Guam agencies \$52,988,852 and \$46,839,342, respectively, for sales of electricity. Receivables (excluding long-term receivables) from Government of Guam agencies were \$5,087,395 and \$12,428,097 at September 30, 2008 and 2007, respectively.

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, 2008 and 2007 were \$14,528,245 and \$11,955,504, respectively. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to \$280,851 and \$610,834 in 2008 and 2007, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to \$1,322,476 and \$1,326,645 as of September 30, 2008 and 2007, respectively. In addition, GPA has a long-term receivable of \$5,209,285 and \$7,504,730 due from GWA at September 30, 2008 and 2007, 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, 2008, GPA has outstanding commodity swaps for the fiscal year 2009 fuel requirements based on notional amount of 69,783 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date. At September 30, 2008, the commodity swaps had a negative fair value of approximately \$20,800,000. At September 30, 2008, two of the three counterparties were rated A- by S&P and one counterparty was rated AA- by S&P.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2008 and 2007

## (16) Derivatives, Continued

At September 30, 2008, a counterparty required GPA to deposit into an escrow account a cash deposit amounting to \$5.5 million to cover future margin calls on outstanding hedge contracts.

At September 30, 2007, GPA has an outstanding commodity swap for the last month of fiscal year 2007 based on a notional amount of 9,969 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, 2008 and 2007, 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, 2008 and 2007, net assets are restricted for the following purposes:

	<u>2008</u>	<u>2007</u>
Debt Service	\$ 34,507,025	\$ 35,613,918
Capital Projects	16,324,057	15,908,918
Escrow Deposit	<u>5,500,000</u>	<u>-</u>
	\$ <u>56,331,082</u>	\$ <u>51,522,836</u>

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2008 and 2007

**(18) Utility Plant**

A summary of changes in capital assets for the years ended September 30, 2008 and 2007 is as follows:

	Beginning Balance October 1, 2007	Transfers and Additions	Transfers and Deletions	Balance September 30, 2008
<b>2008</b>				
<u>Depreciable:</u>				
Intangible plant	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	83,354,002	10,322,447	(813,822)	92,862,627
Other production plant	251,471,381	1,735,596	(61,577)	253,145,400
Transmission plant	118,037,053	7,282,448	(94,150)	125,225,351
Distribution plant	155,992,162	4,269,875	(1,566,660)	158,695,377
General plant	36,004,928	380,522	(4,294,407)	32,091,043
Production plant under capital lease	171,382,727	-	-	171,382,727
	820,596,241	23,990,888	(6,830,616)	837,756,513
Accumulated depreciation	<u>(306,590,392)</u>	<u>(27,169,644)</u>	<u>4,237,968</u>	<u>(329,522,068)</u>
	514,005,849	(3,178,756)	(2,592,648)	508,234,445
<u>Non-depreciable:</u>				
Construction work in progress	20,365,413	19,618,904	(25,797,034)	14,187,283
	<u>\$ 534,371,262</u>	<u>\$ 16,440,148</u>	<u>\$ (28,389,682)</u>	<u>\$ 522,421,728</u>
	Beginning Balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Balance September 30, 2007
<b>2007</b>				
<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	<u>(284,111,334)</u>	<u>(27,153,680)</u>	<u>4,674,622</u>	<u>(306,590,392)</u>
	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>

**(19) Subsequent Events**

**Credit Agreement**

Under the terms of the Authority's credit agreement underlying its \$20 million commercial paper program, the Authority was required to maintain insurance from a provider with a credit rating of AA or higher. In November 2008, GPA's insurer had its credit rating downgraded below AA and GPA was unable to identify an alternative insurer with a satisfactory credit rating. GPA was declared in default on its \$20 million note payable to a bank. In March 2009, GPA cured the default condition by negotiating an amendment to the credit agreement wherein the \$20 million amount outstanding was converted to a three year loan with annual principal payments of \$5 million per year at an interest rate of the bank's prime rate plus 2% with a floor of 6.5%. The loan is secured by a pledge of revenues subordinate to the revenue pledge under the 1993 and 1999 Bond Series indentures, and a pledge of \$5 million required to be deposited in a collateral account with the bank.

**GUAM POWER AUTHORITY**

Schedule 1  
Schedule of Sales of Electricity  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Commercial	\$ 146,909,566	\$ 122,492,234
Residential	101,513,478	85,135,121
Government of Guam	52,988,852	46,839,342
U.S. Navy	<u>67,546,040</u>	<u>51,402,192</u>
	<u>\$ 368,957,936</u>	<u>\$ 305,868,889</u>

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 2

Schedule of Operating and Maintenance Expenses  
Years Ended September 30, 2008 and 2007

	2008	2007
<b>Administrative and General:</b>		
Salaries and wages:		
Regular pay	\$ 3,857,559	\$ 3,570,970
Overtime	53,271	38,949
Premium pay	5,218	4,723
Benefits	7,759,178	7,610,622
Total salaries and wages	11,675,226	11,225,264
Insurance	6,966,474	6,889,167
Contract	2,863,827	2,558,515
Communications	1,035,030	1,521,067
Operating supplies	108,649	93,717
Training	168,526	80,826
Completed work orders	(106,069)	71,052
Other administrative expenses	64,054	54,943
Travel	77,529	46,182
Office supplies	33,670	11,065
Overhead allocations	34,580	1,049
Miscellaneous	931,236	444,841
Total administrative and general	\$ 23,852,732	\$ 22,997,688
<b>Customer Accounting:</b>		
Salaries and wages:		
Regular pay	\$ 1,430,775	\$ 1,394,879
Overtime	63,179	86,855
Premium pay	22	289
Benefits	156,585	119,990
Total salaries and wages	1,650,561	1,602,013
Collection fee	516,065	583,466
Completed work orders	408,355	382,538
Communications	231,250	226,736
Overhead allocations	67,471	59,627
Office supplies	8,638	9,410
Operating supplies	48,100	2,374
Miscellaneous	48,769	2,015
Total customer accounting	\$ 2,979,209	\$ 2,868,179

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 2

Schedule of Operating and Maintenance Expenses, Continued  
Years Ended September 30, 2008 and 2007

	2008	2007
Fuel:		
Salaries and wages:		
Regular pay	\$ 93,755	\$ 87,146
Overtime	12,238	13,377
Premium pay	298	227
Benefits	10	4,679
Total salaries and wages	106,301	105,429
Fuel	230,234,632	168,214,235
Deferred fuel costs	6,721,634	6,427,975
Total fuel costs	\$ 237,062,567	\$ 174,747,639
Other Production:		
Salaries and wages:		
Regular pay	\$ 7,739,961	\$ 6,835,794
Overtime	2,085,658	1,301,114
Premium pay	159,438	141,718
Benefits	757,916	526,079
Total salaries and wages	10,742,973	8,804,705
Contract	7,804,070	6,953,235
Completed work orders	668,499	316,169
Operating supplies	577,392	235,953
Overhead allocations	109,286	82,069
Office supplies	6,417	2,195
Miscellaneous	174,506	167,100
Total other production	\$ 20,083,143	\$ 16,561,426
Transmission and Distribution:		
Salaries and wages:		
Regular pay	\$ 4,446,868	\$ 4,367,976
Overtime	531,495	559,982
Premium pay	49,834	52,368
Benefits	352,207	326,730
Total salaries and wages	5,380,404	5,307,056
Overhead allocations	1,667,848	1,482,082
Completed work orders	1,625,551	1,035,600
Operating supplies	653,114	532,579
Contract	941,050	172,529
Office supplies	15,983	11,966
Total transmission and distribution	\$ 10,283,950	\$ 8,541,812

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 3  
Schedule of Salaries and Wages  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Salaries and wages:		
Regular pay	\$ 17,568,918	\$ 16,256,765
Overtime	2,745,841	2,000,277
Premium pay	214,810	199,325
Benefits	<u>9,025,896</u>	<u>8,588,100</u>
Total salaries and wages	\$ <u>29,555,465</u>	\$ <u>27,044,467</u>

Schedule 4  
Employees by Department  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	
	Full Time Employees (b)	PL 28-150 Section 45b Category Personnel
Department:		
Board	2	\$ 179,189
Executive	13	628,704
Administration	28	1,890,665
Finance	24	1,526,850
Planning and Regulatory	6	402,108
Property and Facilities	10	409,643
Purchasing and Supply Management	17	523,209
Customer Service	64	2,506,182
Engineering	35	530,910
Generation	181	11,418,720
Strategic Planning and Operation Research and Development	7	548,440
Power System Control Center	23	1,595,597
Transportation	14	151,755
Transmission and Distribution	<u>101</u>	<u>4,491,578</u>
Total full time employees	<u>525</u>	<u>26,803,550</u>
Apprentice and summer engineering		2,047,377
Retirement fund accrual		<u>704,538</u>
		\$ <u>29,555,465</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.

**GUAM POWER AUTHORITY**

Schedule 4, Continued  
 Employees by Department  
 Year Ended September 30, 2008 and 2007

	<u>2007</u>	
	PL 28-150 Section 45b	
	Full Time	Category
Department:	<u>Employees (b)</u>	<u>Personnel</u>
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	468,648
Power System Control Center	25	1,509,569
Transportation	14	156,130
Transmission and Distribution	95	4,492,696
	<u>517</u>	<u>24,840,936</u>
Apprentice and summer engineering		1,292,475
Retirement fund accrual		<u>911,236</u>
		<u>\$ 27,044,647</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.

**Table 1**  
**GUAM POWER AUTHORITY**  
**Historical Customers, Energy Sales, Peak Demand and Revenues**

Fiscal Year Ending September 30,	2004	2005	2006	2007	2008
<b>Number of Customers (Average)</b>					
Residential	37,736	37,887	37,709	38,464	39,097
Small Commercial (1)	5,770	5,778	5,709	5,623	5,631
Large Commercial (2)	210	197	223	226	225
Navy	1	1	1	1	1
Other (3) (7)	1,920	2,000	1,087	747	710
<b>Total Customers</b>	<u>45,637</u>	<u>45,863</u>	<u>44,729</u>	<u>45,061</u>	<u>45,664</u>
<b>Energy Requirements (MWh)</b>					
Energy Sales					
Residential	495,609	505,219	495,229	485,931	472,873
Small Commercial (1)	363,977	368,758	379,535	380,650	383,043
Large Commercial (2)	429,946	432,649	439,747	427,306	428,880
Other (3)	10,860	10,814	10,622	10,458	10,229
Total Authority Energy Sales	1,300,392	1,317,440	1,325,133	1,304,345	1,295,025
Total Navy Energy Sales	288,458	327,100	343,868	330,277	341,766
<b>Total Energy Sales before DSM</b>	1,588,850	1,644,540	1,669,001	1,634,622	1,636,791
System Losses (4)	172,165	146,396	136,475	132,752	127,510
Energy Requirements before DSM	1,761,015	1,790,936	1,805,476	1,767,374	1,764,301
Less DSM Savings	-	-	-	-	-
Total IWPS Energy Requirements (5)	<u>1,761,015</u>	<u>1,790,936</u>	<u>1,805,476</u>	<u>1,767,374</u>	<u>1,764,301</u>
<b>Peak Demand (kW) (6)</b>	267,000	273,000	275,000	269,000	268,000
Less DSM Savings	-	-	-	-	-
Total Peak Demand	<u>267,000</u>	<u>273,000</u>	<u>275,000</u>	<u>269,000</u>	<u>268,000</u>
<b>Revenues From Energy Sales (\$000)</b>					
Residential	\$ 64,545	\$ 69,196	\$ 79,563	\$ 85,135	\$ 101,513
Small Commercial (1)	60,205	63,531	74,489	80,852	95,176
Large Commercial (2)	63,835	67,940	79,365	83,650	99,545
Navy	33,113	39,061	50,422	51,402	67,546
Other (3)	4,050	4,521	4,686	4,830	5,178
Revenues from Energy Sales Before DSM	\$ 225,748	\$ 244,249	\$ 288,525	\$ 305,869	\$ 368,958
Less: DSM Reductions	-	-	-	-	-
Total Revenues from Energy Sales	<u>\$ 225,748</u>	<u>\$ 244,249</u>	<u>\$ 288,525</u>	<u>\$ 305,869</u>	<u>\$ 368,958</u>

- (1) Includes the Authority's small general non-demand, small general demand, small government non-demand and small government demand categories
- (2) Includes the Authority's large general and large government categories. Most hotels are included in this category.
- (3) Includes the Authority's private and government public street/outdoor lighting categories.
- (4) Includes IWPS transmission losses and Authority distribution losses.
- (5) Reflects total net generation of the IWPS excluding station use.
- (6) Reflects total gross peak demand of the IWPS.
- (7) The decrease in "Other" is due to the consolidation of the public street light accounts in the new billing program that was implemented in fiscal year 2006 and further consolidations in fiscal year 2007. The decrease in fiscal year 2008 is attributed to the islandwide disconnection of public streetlights in an attempt to collect prior year balances from the Government of Guam Department of Public Works.

**TABLE 2**  
**GUAM POWER AUTHORITY**  
**Historical Debt Service Coverage (1) (2)**  
**\$ 000**

Fiscal Year Ended September 30,	2004	2005	2006	2007	2008
Total Operating Revenues	\$ 226,376	\$ 247,346	\$ 289,314	\$ 306,651	\$ 370,624
Add: Investment Income (6)	\$ 2,172	\$ 2,523	\$ 3,019	\$ 2,835	\$ 2,459
	<u>228,548</u>	<u>249,869</u>	<u>292,333</u>	<u>309,486</u>	<u>373,083</u>
Total Operating Expenses (5)	168,475	185,170	230,662	243,993	313,144
Net Operating Revenues	\$ 60,073	\$ 64,699	\$ 61,671	\$ 65,493	\$ 59,939
Total Debt Service (3)	\$ 27,484	\$ 27,482	\$ 27,485	\$ 27,481	\$ 27,481
Debt Service Coverage (4)	2.19 x	2.35 x	2.24 x	2.38 x	2.18 x

(1) Derived from audited information provided by authority.

(2) Calculated on cash basis (excluding depreciation).

(3) Reflects debt service on the 1993 and 1999 Bonds, but excludes debt service on Commercial Paper Notes.

(4) Calculated on a net revenue basis.

(5) Operating Expenses excludes IPP capital costs.

(6) Investment income is net of Construction Fund interest income and amortization of deferred interest on the Bond Reserve Fund Forward Purchase Agreement.