



GPA Financial Statements

Sept. 30, 2000 to 1999
With Report of Independent Auditors

Financial Statements

Guam Power Authority

*Years ended September 30, 2000 and 1999
with Report of Independent Auditors*

Guam Power Authority

Financial Statements

Years ended September 30, 2000 and 1999

Contents

Report of Independent Auditors	1
Audited Financial Statements	
Balance Sheets	2
Statements of Earnings and Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	7

Independent Auditors' Report

The Board of Directors
Guam Power Authority

We have audited the accompanying balance sheets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2000 and 1999, and the related statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the above mentioned financial statements present fairly, in all material respects, the financial position of Guam Power Authority as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 9 to the financial statements, ultimate collection of the receivables due from the Government of Guam agencies at September 30, 2000 cannot presently be determined.

In accordance with Government Auditing Standards, we have also issued our report, not included herein, dated March 23, 2001 on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Ernst & Young LLP

March 23, 2001

	September 30,	
	<u>2000</u>	<u>1999</u>
Capitalization and liabilities		
Capitalization:		
Contributed capital:		
Grants by Government of Guam	\$ 27,898,440	\$ 27,898,440
Grants by U.S. Government	<u>12,866,000</u>	<u>12,866,000</u>
Total contributed capital	40,764,440	40,764,440
Retained earnings	<u>147,841,440</u>	<u>137,477,617</u>
	188,605,880	178,242,057
Long-term debt, less current installments (<i>Notes 6 and 7</i>)	<u>411,647,696</u>	<u>417,064,828</u>
Total capitalization	<u>600,253,576</u>	<u>595,306,885</u>
Current liabilities:		
Short-term debt (<i>Notes 5 and 7</i>)	29,917,174	26,217,174
Current installments of long-term debt (<i>Notes 6 and 7</i>)	6,792,604	1,397,784
Current portion of employees' annual leave	1,025,416	1,194,603
Accounts payable:		
Operations	22,705,823	16,392,549
Fuel	10,299,405	1,305,707
Navy	---	129,258
Interest payable	12,751,285	11,303,805
Customers deposits	3,112,624	3,032,778
Deferred credits	2,503,674	2,502,816
Accrued payroll and employees' benefits	621,474	404,179
Deferred fuel costs	<u>---</u>	<u>360,184</u>
Total current liabilities	89,729,479	64,240,837
Retirement fund deferred contributions (<i>Note 8</i>)	10,928,131	12,038,755
Employees' annual leave, less current portion	<u>1,616,592</u>	<u>1,594,383</u>
Total liabilities	<u>102,274,202</u>	<u>77,873,975</u>
Commitments and contingencies (<i>Note 9</i>)		
Total capitalization and liabilities	<u>\$702,527,778</u>	<u>\$673,180,860</u>

Guam Power Authority

Statements of Earnings and Retained Earnings

	Year ended September 30,	
	<u>2000</u>	<u>1999</u>
Revenue (<i>Notes 5 and 6</i>):		
Sales of electricity (<i>Note 10</i>)	\$217,738,445	\$187,776,429
Miscellaneous	<u>4,271,891</u>	<u>1,229,419</u>
Total revenue	<u>222,010,336</u>	<u>189,005,848</u>
Operating and maintenance expenses:		
Production fuel	78,099,606	48,788,752
Other production	<u>20,865,219</u>	<u>24,068,019</u>
	98,964,825	72,856,771
Energy conversion costs (<i>Note 9</i>)	38,995,034	26,697,876
Depreciation	18,925,143	18,447,252
Administrative and general (<i>Notes 8 and 9</i>)	17,218,221	18,863,094
Transmission and distribution (<i>Note 10</i>)	14,688,897	13,651,230
Customer accounting	<u>4,039,293</u>	<u>6,533,353</u>
Total operating and maintenance expenses	<u>192,831,413</u>	<u>157,049,576</u>
Earnings from operations	<u>29,178,923</u>	<u>31,956,272</u>
Other income (expense):		
Interest income	6,145,422	6,142,562
Allowance for funds used during construction	647,053	964,870
Other expense	(122,175)	(241,469)
Interest expense	<u>(25,485,400)</u>	<u>(25,154,391)</u>
Total other expenses	<u>(18,815,100)</u>	<u>(18,288,428)</u>
Net earnings	10,363,823	13,667,844
Retained earnings at beginning of year	<u>137,477,617</u>	<u>123,809,773</u>
Retained earnings at end of year	<u>\$147,841,440</u>	<u>\$137,477,617</u>

See accompanying notes.

Guam Power Authority
Statements of Cash Flows

	Year ended September 30,	
	<u>2000</u>	<u>1999</u>
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	\$202,210,056	\$177,186,851
Cash payments to suppliers and employees for goods and services	(178,309,297)	(150,516,673)
Net cash provided by operating activities	<u>23,900,759</u>	<u>26,670,178</u>
Cash flows from investing activities:		
Interest and dividends on investments and bank accounts	6,145,422	6,142,562
Increase in bond reserve funds	<u>548,490</u>	(1,814,363)
Net cash provided by investing activities	<u>6,693,912</u>	<u>4,328,199</u>
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	3,700,000	---
Interest paid on short-term debt and deposits	(1,287,106)	(2,035,218)
Principal paid on short-term debt	---	(45,000,000)
Decrease in bank overdraft	<u>---</u>	(1,359,650)
Net cash provided by (used in) noncapital financing activities	<u>2,412,894</u>	(48,394,868)
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(21,994,114)	(42,707,612)
Interest paid on bonds and other long-term debt	(20,991,655)	(24,578,502)
Principal paid on bonds and other long-term debt	(1,521,345)	(252,764,175)
Debt issuance costs/loss on defeasance	483,400	(19,979,788)
Proceeds from bonds	<u>---</u>	<u>349,178,601</u>
Net cash (used in) provided by capital and related financing activities	(44,023,714)	<u>9,148,524</u>
Net decrease in cash and cash equivalents	(11,016,149)	(8,247,967)
Cash and cash equivalents at beginning or year	<u>95,391,037</u>	<u>103,639,004</u>
Cash and cash equivalents at end of year	<u>\$ 84,374,888</u>	<u>\$ 95,391,037</u>

See accompanying notes.

Guam Power Authority

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2000</u>	<u>1999</u>
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$29,178,923	\$31,956,272
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	18,925,143	18,447,252
Difference between retirement expense and funding	(1,110,624)	(1,088,421)
Other expense	122,175	(241,469)
Change in operating assets and liabilities:		
Accounts receivable	(19,800,280)	(12,013,599)
Materials and supplies inventory	(869,624)	1,055,699
Fuel inventory	(11,156,280)	(2,700,880)
Prepaid expenses	1,169,402	(1,082,883)
Deferred fuel costs	(7,707,442)	450,742
Other assets	(179,369)	48,809
Accounts payable - operations	6,313,274	1,567,917
Accounts payable - fuel	8,993,698	(2,957,766)
Accounts payable - Navy	(129,258)	(2,047,253)
Customer deposits	79,846	194,602
Deferred credits	858	(3,379,924)
Accrued payroll and employees' benefits	217,295	(1,459,816)
Employees' annual leave	(146,978)	(79,104)
Net cash provided by operating activities	<u>\$23,900,759</u>	<u>\$26,670,178</u>

See accompanying notes.

Guam Power Authority

Notes to Financial Statements

September 30, 2000 and 1999

1. Organization and Summary of Significant Accounting Policies

Organization

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

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant

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

Depreciation

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

Guam Power Authority

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Inventory Valuation

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

Contributed Capital

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

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

Compensated Absences

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

Deferred Credits

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

Guam Power Authority

Notes to Financial Statements, continued

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 and the actual cost of fuel.

Fuel Oil Costs

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

Allowance for Funds Used During Construction

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

Unamortized Debt Issuance Costs

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

Canceled Unit

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

Reclassifications

Certain reclassifications have been made to the 1999 financial statements for comparative purposes. Such reclassifications had no effect on the previously reported net earnings.

Guam Power Authority

Notes to Financial Statements, continued

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, 2000, GPA has cash deposits in bank accounts which exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

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

3. Cash and Investments

The bond indenture agreements for the 1992, 1993, 1994 and 1999 series revenue bonds (Note 6) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction. At September 30, 2000 and 1999, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	<u>2000</u>	<u>1999</u>
Construction funds	\$ 55,086,568	\$ 70,608,809
Bond reserve funds	28,288,000	28,836,490
Interest and principal funds	16,822,661	9,822,550
Bond indenture funds	4,477,481	2,409,361
Revenue fund	4,245,069	594,201
Self-insurance fund	2,498,067	2,498,067
Capitalized interest fund	987,846	4,270,346
Working capital fund	222,742	5,155,013
Surplus fund	<u>34,454</u>	<u>32,690</u>
	<u>\$112,662,888</u>	<u>\$124,227,527</u>

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2000 and 1999. Market values shown below implicitly include accrued interest for debt securities.

Guam Power Authority

Notes to Financial Statements, continued

3. Cash and Investments, continued

	<u>2000</u>	<u>1999</u>
Cash on hand, in demand and time deposits and money market accounts	\$ 84,374,888	\$ 96,215,527
Federal National Mortgage Association discount notes	<u>28,288,000</u>	<u>28,012,000</u>
	<u>\$112,662,888</u>	<u>\$124,227,527</u>

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

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

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

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

Demand and time deposits and money market accounts held in GPA's name are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. As of September 30, 2000 and 1999, funds held by trustees amounting to \$16,822,661 and \$37,831,384, respectively, are classified as Category 1 investments in accordance with GASB No. 3. As of September 30, 2000 and 1999, funds held by trustees amounting to \$28,288,000 and \$827,655, respectively, are classified as Category 3 investments in accordance with GASB No. 3. The Category 3 investments are held and registered in the name of U.S. Bank as Co-Trustee for GPA. The balance of the investments are classified as Category 2 investments in accordance with GASB No. 3.

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled \$4,323,353 and \$2,020,903 as of September 30, 2000 and 1999, respectively. Of this amount, \$672,371 and \$592,081 were covered by federal depository and national credit union administration insurance, respectively, \$3,477,637 and \$1,258,832 were uninsured and uncollateralized, and \$173,345 and \$169,990, respectively, are held on hand for the change fund and petty cash.

Guam Power Authority

Notes to Financial Statements, continued

4. Accounts Receivable

Accounts receivable at September 30, 2000 and 1999, are summarized as follows:

	<u>2000</u>	<u>1999</u>
Customers:		
Private	\$29,489,376	\$27,192,472
Government	<u>41,901,294</u>	<u>23,229,813</u>
	71,390,670	50,422,285
Insurance and FEMA claims	10,262,920	12,259,229
Others	2,125,627	1,916,467
Interest from construction fund	1,184,330	---
Navy	780,586	---
Government subsidies	<u>---</u>	<u>463,055</u>
	85,744,133	65,061,036
Less allowance for doubtful accounts	<u>3,898,611</u>	<u>3,015,794</u>
	81,845,522	62,045,242
Less current portion	<u>51,845,522</u>	<u>62,045,242</u>
Long-term receivables (<i>Notes 9</i>)	<u>\$30,000,000</u>	<u>\$ ---</u>

5. Short-Term Debt

Short-term debt at September 30, 2000 and 1999, is as follows:

	<u>2000</u>	<u>1999</u>
Thirty-day notes payable drawn on a \$15 million bank fuel line of credit and a \$15 million working capital line of credit with interest at 8.1% at September 30, 2000 (6.85% at September 30, 1999), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues.	\$ 9,917,174	\$ 6,217,174

Guam Power Authority

Notes to Financial Statements, continued

5. Short-Term Debt, continued

Tax exempt commercial paper notes issued in August 1998 with interest at 3.95% to 4.0% at September 30, 2000 (3.0% to 3.2% at September 30, 1999). The notes provide \$20 million for working capital and \$45 million for capital projects and are collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The notes had original maturity dates from October 7, 1998 through January 12, 1999, but have been subsequently rolled over with new maturity dates from March 6, 2001 through June 20, 2001.

<u>20,000,000</u>	<u>20,900,000</u>
<u>\$29,917,174</u>	<u>\$26,217,174</u>

6. Long-Term Debt

Long-term debt at September 30, 2000 and 1999, is as follows:

Bonds:

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

\$349,178,601	\$349,178,601
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1993 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023.

<u>92,670,000</u>	<u>92,670,000</u>
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Subtotal brought forward

441,848,601	441,848,601
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Guam Power Authority

Notes to Financial Statements, continued

6. Long-Term Debt, continued

	<u>2000</u>	<u>1999</u>
Bonds subtotal carried forward	441,848,601	441,848,601
<i>Note payables:</i>		
IBM interest bearing notes payable in exchange for an accounting operating system acquired through a financing arrangement.	3,346,030	3,936,148
MDI Guam non-interest bearing note payable in exchange for funds received for the construction of Manenggon Hills substation. The note is being repaid by deducting 80% of MDI's non-fuel charges from future power billings.	<u>1,672,950</u>	<u>2,292,568</u>
	446,867,581	448,077,317
Less current maturities	(<u>6,792,604</u>)	(<u>1,397,784</u>)
	440,074,977	446,679,533
Less discount on bonds	(<u>7,316,929</u>)	(<u>7,624,755</u>)
	432,758,048	439,054,778
Loss on defeasance, net of \$1,138,772 accumulated amortization in 2000 (\$259,174 in 1999)	(<u>21,110,352</u>)	(<u>21,989,950</u>)
	<u>\$411,647,696</u>	<u>\$417,064,828</u>

At September 30, 2000, future maturities of long-term debt are as follows:

Year ending September 30,

2001	\$ 6,792,604
2002	6,793,784
2003	7,018,784
2004	6,460,235
2005	5,935,000
Thereafter	<u>413,867,174</u>
	<u>\$446,867,581</u>

Guam Power Authority

Notes to Financial Statements, continued

6. Long-Term Debt, continued

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

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

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

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

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

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

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 approximately amounting to \$13.5 million in October 2000 which mainly represents the present value amount of interest income on certain bond proceeds invested by GPA.

Guam Power Authority

Notes to Financial Statements, continued

7. Defeased Debt

On May 1, 1999, GPA issued 1999 Series bonds of \$349,178,601 to finance 1999 projects, to retire \$45 million in tax exempt commercial paper notes, to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of \$143,660,000 and \$99,820,000, respectively, and to pay the amount currently due on the 1993 bonds totaling \$1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity of the 1992, 1993 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds, and the principal currently due on the 1993 bonds was removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$22,249,124 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss will be deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying balance sheets.

8. Employees' Retirement Plan

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

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

As a result of the most recent actuarial valuation performed as of September 30, 1998, it has been determined that for the years ended September 30, 2000 and 1999, a minimum combined employer and employee contribution rate of 15.34% of covered DBP payroll and an employer contribution of 10.53% of covered DBP payroll plus DCRS payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the years ended September 30, 2000 and 1999. During 2000 and 1999, GPA made statutory contributions to the plan based on the September 30, 1998 and 1995 actuarial valuation rates. The effect of the September 30, 1998 actuarial valuation resulted in a reduction of the unfunded liability by \$1,110,624 and \$1,088,421, respectively, as of September 30, 2000 and 1999, respectively.

Guam Power Authority

Notes to Financial Statements, continued

8. Employees' Retirement Plan, continued

The DBP utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% and 6.5% per annum, respectively, for the years ended September 30, 2000 and 1999. The September 30, 1998 actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net asset available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate entity, the accrued unfunded liability at September 30, 2000 and 1999, may be materially different than that recorded in the accompanying financial statements.

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

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

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

The cost to GPA for retirement contributions for the years ended September 30, 2000 and 1999, is as follows:

	<u>2000</u>	<u>1999</u>
Cash contributions	\$4,241,733	\$5,394,572
Accruals	(1,110,624)	(1,088,421)
	<u>\$3,131,109</u>	<u>\$4,306,151</u>

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

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies

Capital Commitments

The 2001 capital improvement project budget is approximately \$13.9 million. The two-year capital improvement project budget proposed by management for 2002 through 2003 is estimated to be \$26.6 million. These budgets are subject to change by the Board of Directors.

GPA has approximately \$18,073,350 in purchase commitments as of September 30, 2000.

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

In March 1999, GPA acquired a turn-key gas turbine power plant for \$11.2 million. GPA had previously leased the plant for \$66.666 per month plus a variable payment based on the London Interbank Offer Rate (LIBOR) rate.

Leases

In October 1997, GPA entered into a lease agreement for its office building for an initial term of three years with an option to extend for an additional two year period. Upon extension of the lease on October 2000, monthly rent as increased from \$71,120 to \$78,231.

In May 1993, GPA entered into an agreement to sublease a parcel of land for an initial term of 12 years commencing, retroactively, on November 1, 1989 and expiring on October 31, 2001. The lease calls for monthly lease payments of \$1,000 per month.

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

At September 30, 2000, future minimum lease payments for the aforementioned leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2001	\$ 2,140,000
2002	2,139,000
2003	1,253,000
2004	1,290,000
2005	1,290,000
Thereafter	<u>10,051,100</u>
	<u>\$18,163,100</u>

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

Rent expense under the aforementioned agreements totaled \$2,086,773 and \$1,565,434 during the years ended September 30, 2000 and 1999, respectively, which is included as a component of administrative and general expense in the accompanying statements of earnings and retained earnings.

Energy Conversion Agreements

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

The agreements have 20 year terms. Power purchases for the years ended September 30, 2000 and 1999 under such agreements were \$38,071,134 and \$24,737,385, respectively, which is included as a component of energy conversion costs in the accompanying statements of earnings and retained earnings.

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

Letters of Credit

As of September 30, 2000, GPA had available a \$2.5 million bank line of credit which was reduced to \$1.5 million on November 1, 1999 for purchases of parts and supplies, which is 100% collateralized by deposits in a savings account maintained by GPA. As disclosed in Note 5, GPA also has available a \$15 million bank fuel line of credit. However, while the working capital portion of the tax exempt commercial paper notes are outstanding, GPA is legally restricted from drawing more than \$10 million against this line of credit.

As of September 30, 2000, GPA has outstanding letters of credit of approximately \$2.8 million.

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.

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

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

Typhoon Damages

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

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

As of September 30, 2000, GPA has approximately \$10,262,920 in insurance and FEMA claims for typhoon damages included in accounts receivable. The amount ultimately to be collected against these claims is uncertain.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2000. It is not possible to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

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

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

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

Medicare

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

Hazardous Waste Assessment

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

Disputed Payable

GPA is disputing charges of approximately \$2 million associated with one of its Energy Conversion Agreements. GPA has not recorded this amount in the accompanying financial statements at September 30, 2000.

Federal Awards

GPA has received federal awards for specific purposes that are subject to review and audit by the grantor agencies. As of September 30, 2000, questioned costs have resulted from such compliance audits in the amount of \$581,534. No provision has been made in the accompanying financial statements for any liability which may ultimately result as management is unable to assess the ultimate resolution of this matter.

Insurance Claims

In August 1999, the Authority sustained fire damage to one of its power plants. The Authority has filed claims for damages under its "business interruption and extra expenses" and "property damages" insurance policies. However, the Authority's potential recovery for such damages cannot be reasonably estimated as of September 30, 2000.

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

Government of Guam Receivables

As part of Executive Order No. 99-16 dated October 27, 1999, the Governor of Guam ordered that GPA's claims against the government of Guam shall be held in abeyance until the issue of past transfers of assets, direct services provided or proportionate costs incurred by the government of Guam to GPA has been resolved. This executive order was later rescinded in addition to the repeal of two public laws authorizing claims of the government of Guam for in-lieu of taxes and past contributions by General Fund Agencies. During 2000 and 1999, certain agencies, including autonomous agencies did not remit full, timely payments of their power billings. As of September 30, 2000 and 1999, amounts due from the government of Guam, including autonomous agencies, totaled \$41,901,294 and \$23,229,813.

The Public Utilities Commission of Guam ("the Commission") has instituted a proceeding to enable the Guam Waterworks Authority (GWA), an autonomous agency, to meet its obligations to GPA. The Commission has indicated it will intervene through a possible increase in the rates of GWA to ensure payment of the power billings. Two government line agencies, the Department of Education and the Department of Public Works (street lights) owed receivables totaling \$7 million and \$9 million, respectively, as of September 30, 2000. Appropriations for the government agencies for fiscal year ending September 30, 2001 are insufficient to pay current power billings and do not provide funds for payment of delinquent balances as of September 30, 2000. The Governor of Guam and the Guam Legislature have recognized the problem and are actively working to resolve the delinquency issue.

It is reasonably possible that the government receivables may be impaired as of September 30, 2000 and 1999. Although the amount of the impairment cannot be reasonably estimated, it could range as high as \$30 million. No provision for uncollectible accounts due from the Government of Guam agencies has been recorded in the accompanying financial statements. Management contends that the delinquent billings from government agencies will be ultimately collected; however, it is not presently known when the payments will be received. As of September 30, 2000, \$30 million has been reclassified as long-term as it is uncertain that this amount will be collected by September 30, 2001.

Guam Power Authority

Notes to Financial Statements, continued

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, 2000 and 1999, GPA billed the Navy approximately \$34,200,000 and \$26,900,000, respectively, for sales of electricity under a customer/supplier agreement.

11. Related Party Transactions

A former board member of GPA is the principal owner of a supplier who has been doing business with GPA in the past years. Transactions with this vendor during the year ended September 30, 1999 totaled \$1,627,257.