

Financial Statements

Guam Power Authority

*Years ended September 30, 2001 and 2000
with Report of Independent Auditors*

Guam Power Authority

Financial Statements

Years ended September 30, 2001 and 2000

Contents

Report of Independent Auditors	1
Audited Financial Statements	
Balance Sheets	2
Statements of Operations and Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Other Financial Information	
Schedules of Sales of Electricity	26
Schedules of Operating and Maintenance Expenses	27

Independent Auditors' Report

The Board of Directors
Guam Power Authority

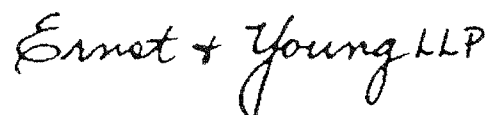
We have audited the accompanying balance sheets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2001 and 2000, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility 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, 2001 and 2000, 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.

In accordance with Government Auditing Standards, we have also issued our report, not included herein, dated March 22, 2002 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of sales of electricity and operating and maintenance expenses for the years ended September 30, 2001 and 2000 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audits 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.



March 22, 2002, except for Note 4,
as to which the date is May 15, 2002

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	September 30,	
	<u>2001</u>	<u>2000</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>139,550,668</u>	<u>147,841,440</u>
	180,315,108	188,605,880
Long-term debt, less current installments (<i>Notes 6 and 7</i>)	<u>405,132,541</u>	<u>411,647,696</u>
Total capitalization	<u>585,447,649</u>	<u>600,253,576</u>
Current liabilities:		
Short-term debt (<i>Notes 5 and 7</i>)	26,217,174	29,917,174
Current installments of long-term debt (<i>Notes 6 and 7</i>)	6,634,000	6,792,604
Current portion of employees' annual leave	1,095,177	1,025,416
Accounts payable:		
Operations	12,018,568	22,705,823
Fuel	8,426,803	10,299,405
Navy	127,304	---
Interest payable	12,682,454	12,751,285
Customers deposits	3,165,564	3,112,624
Deferred credits	2,507,526	2,503,674
Accrued payroll and employees' benefits	607,423	621,474
Deferred revenues (<i>Note 6</i>)	16,936,511	---
Bank overdraft	<u>2,200,460</u>	<u>---</u>
Total current liabilities	92,618,964	89,729,479
Retirement fund deferred contributions (<i>Note 8</i>)	11,036,475	10,928,131
Employees' annual leave, less current portion	<u>1,712,968</u>	<u>1,616,592</u>
Total liabilities	<u>105,368,407</u>	<u>102,274,202</u>
Commitments and contingencies (<i>Note 9</i>)		
Total capitalization and liabilities	<u>\$690,816,056</u>	<u>\$702,527,778</u>

Guam Power Authority

Statements of Operations and Retained Earnings

	Year ended September 30,	
	<u>2001</u>	<u>2000</u>
Revenue (<i>Notes 5 and 6</i>):		
Sales of electricity (<i>Note 10</i>)	\$231,129,912	\$218,211,211
Miscellaneous	<u>1,669,243</u>	<u>4,271,891</u>
Total revenue	<u>232,799,155</u>	<u>222,483,102</u>
Operating and maintenance expenses:		
Production fuel	92,868,289	78,099,606
Other production	<u>21,966,974</u>	<u>20,865,219</u>
	114,835,263	98,964,825
Energy conversion costs (<i>Note 9</i>)	40,248,951	38,995,034
Administrative and general (<i>Notes 8 and 9</i>)	20,728,533	17,690,987
Depreciation	19,234,960	18,925,143
Transmission and distribution (<i>Note 10</i>)	12,324,705	14,688,897
Customer accounting	<u>8,493,659</u>	<u>4,039,293</u>
Total operating and maintenance expenses	<u>215,866,071</u>	<u>193,304,179</u>
Earnings from operations	<u>16,933,084</u>	<u>29,178,923</u>
Other income (expense):		
Interest income (<i>Note 6</i>)	4,288,781	6,145,422
Allowance for funds used during construction	43,698	647,053
Other expense	(122,175)	(122,175)
Construction projects expensed (<i>Note 11</i>)	(3,669,506)	---
Interest expense (<i>Note 6</i>)	<u>(25,764,654)</u>	<u>(25,485,400)</u>
Total other expenses	<u>(25,223,856)</u>	<u>(18,815,100)</u>
Net (loss) earnings	<u>(8,290,772)</u>	<u>10,363,823</u>
Retained earnings at beginning of year	<u>147,841,440</u>	<u>137,477,617</u>
Retained earnings at end of year	<u>\$139,550,668</u>	<u>\$147,841,440</u>

See accompanying notes.

Guam Power Authority
Statements of Cash Flows

	Year ended September 30,	
	<u>2001</u>	<u>2000</u>
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	\$231,413,234	\$202,210,056
Cash payments to suppliers and employees for goods and services	(194,194,040)	(178,431,472)
Net cash provided by operating activities	<u>37,219,194</u>	<u>23,778,584</u>
Cash flows from investing activities:		
Interest and dividends on investments and bank accounts	4,288,781	6,145,422
Decrease in bond reserve funds	<u>750,680</u>	<u>548,490</u>
Cash provided by investing activities	<u>5,039,461</u>	<u>6,693,912</u>
Cash flows from noncapital financing activities:		
Bank overdraft	2,200,460	---
(Principal paid on) proceeds from short-term debt	(3,700,000)	3,700,000
Interest paid on short-term debt and deposits	(1,556,136)	(1,287,106)
Net cash (used in) provided by noncapital financing activities	(3,055,676)	<u>2,412,894</u>
Cash flows from capital and related financing activities:		
Net deferred liability	12,740,500	---
Interest paid on bonds and other long-term debt	(22,602,032)	(20,991,655)
Acquisition of utility plant	(18,441,989)	(21,994,114)
Principal paid on bonds and other long-term debt	(6,822,090)	(1,521,345)
Debt issuance costs/loss on defeasance	(427,285)	<u>605,575</u>
Net cash used in capital and related financing activities	(35,552,896)	(43,901,539)
Net increase (decrease) in cash and cash equivalents	3,650,083	(11,016,149)
Cash and cash equivalents at beginning or year	<u>84,374,888</u>	<u>95,391,037</u>
Cash and cash equivalents at end of year	\$ <u>88,024,971</u>	\$ <u>84,374,888</u>

See accompanying notes.

Guam Power Authority

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2001</u>	<u>2000</u>
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$16,933,084	\$29,178,923
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	19,234,960	18,925,143
Difference between retirement expense and funding	108,344	(1,110,624)
Change in operating assets and liabilities:		
Accounts receivable	4,561,139	(19,800,280)
Materials and supplies inventory	3,777,984	(869,624)
Fuel inventory	1,536,226	(11,156,280)
Prepaid expenses	(576,378)	1,169,402
Deferred fuel costs	3,758,856	(7,707,442)
Other assets	108,654	(179,369)
Accounts payable - operations	(10,687,255)	6,313,274
Accounts payable - fuel	(1,872,602)	8,993,698
Accounts payable - Navy	127,304	(129,258)
Customer deposits	52,940	79,846
Deferred credits	3,852	858
Accrued payroll and employees' benefits	(14,051)	217,295
Employees' annual leave	<u>166,137</u>	<u>(146,978)</u>
Net cash provided by operating activities	<u>\$37,219,194</u>	<u>\$23,778,584</u>

See accompanying notes.

Guam Power Authority

Notes to Financial Statements

September 30, 2001 and 2000

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 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).

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.

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.

Contributed Capital

GPA commenced operations in April, 1969 when assets and liabilities with a net value of \$7,898,440 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 Asset and Deferred Revenue

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

Deferred Credits

The deferred credits resulted from PUC orders to defer recognition of certain revenues to offset 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.

Derivative Instruments

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* (SFAS 133), which was subsequently amended in June 2000 by SFAS 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities"*. These statements establish accounting and reporting requirements for derivative instruments and for hedging activities. These standards require that an entity recognize the fair value of all derivative instruments as either assets or liabilities in the balance sheet with the offsetting gains or losses recognized in earnings. These standards permit the deferral of hedge gains and losses, under specific hedge accounting provisions, until the hedged transaction is realized. These statements also provide an exception for certain derivative transactions that meet the criteria of "normal purchases and normal sales". Transactions that can be excepted from these statements are those that provide for the purchase or sale of something other than a financial or derivative instrument that will be delivered in quantities expected to be used or sold by the entity over a reasonable period in the normal course of business.

GPA implemented these statements on October 1, 2000. Transactions entered into during the year qualified for the "normal purchases and normal sales" exception and include commodity transactions for the purchase of fuel. The implementation of these statements will not have a significant impact on the financial position or results of operations of the Authority since all transactions will be excluded under the "normal purchases and sales" exception.

Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or liabilities, respectively, in the accompanying balance sheets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. Historically, GPA charged its customers for fuel as a separate line item, which was adjusted on a monthly basis. The LEAC resulted in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel costs – no more and no less.

Guam Power Authority

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Allowance for Funds Used During Construction

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1993 and Series 1999 bonds 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 2000 financial statements for comparative purposes. Such reclassifications had no effect on previously reported net earnings.

2. Concentrations of Credit Risk

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

At September 30, 2001, 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.

Guam Power Authority

Notes to Financial Statements, continued

3. Cash and Investments

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

At September 30, 2001 and 2000, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	<u>2001</u>	<u>2000</u>
Construction funds	\$44,558,805	\$ 55,086,568
Bond reserve funds	27,537,320	28,288,000
Interest and principal funds	16,873,932	16,822,661
Working capital fund	16,206,428	222,742
Revenue fund	4,844,674	4,245,069
Self-insurance fund	2,498,067	2,498,067
Bond indenture funds	1,953,635	4,477,481
Surplus fund	1,089,430	34,454
Capitalized interest fund	<u>---</u>	<u>987,846</u>
	<u>\$115,562,291</u>	<u>\$112,662,888</u>

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2001 and 2000. Market values shown below implicitly include accrued interest for debt securities.

	<u>2001</u>	<u>2000</u>
Cash on hand, in demand and time deposits and money market accounts	\$ 88,024,971	\$ 84,374,888
Federal National Mortgage Association discount notes	<u>27,537,320</u>	<u>28,288,000</u>
	<u>\$115,562,291</u>	<u>\$112,662,888</u>

Guam Power Authority

Notes to Financial Statements, continued

3. Cash and Investments, continued

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

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

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

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

Demand and time deposits and money market accounts held in GPA's name are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. As of September 30, 2001 and 2000, funds held by trustees amounting to \$16,160,751 and \$16,822,661, respectively, are classified as Category 1 investments in accordance with GASB No. 3. As of September 30, 2001 and 2000, funds held by trustees amounting to \$28,250,500 and \$28,288,000, 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 \$11,170,691 and \$4,323,353 as of September 30, 2001 and 2000, respectively. Of this amount, \$1,360,603 and \$672,371 were covered by federal depository and national credit union administration insurance, respectively, \$9,638,722 and \$3,477,637 were uninsured and uncollateralized, and \$171,366 and \$173,345, respectively, are held on hand for the change fund and petty cash.

Guam Power Authority

Notes to Financial Statements, continued

4. Receivables

Accounts receivable at September 30, 2001 and 2000, are summarized as follows:

	<u>2001</u>	<u>2000</u>
Customers:		
Private	\$29,604,265	\$29,489,376
Government	<u>21,814,208</u>	<u>41,901,294</u>
	51,418,473	71,390,670
FEMA claims	10,209,382	10,262,920
Others	1,040,181	2,125,627
Interest from construction fund	469,160	1,184,330
Navy	<u>191,961</u>	<u>780,586</u>
	63,329,157	85,744,133
Less allowance for doubtful accounts	<u>3,357,165</u>	<u>3,898,611</u>
	59,971,992	81,845,522
Less current portion	<u>42,471,336</u>	<u>51,845,522</u>
Long-term receivables	<u>\$17,500,656</u>	<u>\$30,000,000</u>

On September 30, 2001, GPA reclassified its receivables from GWA totaling \$18,400,656 as long-term based upon a surcharge ordered to be implemented by the PUC in its September 1, 2001 regulatory session. The PUC Order established an 11.5% regulatory surcharge effective for meters read after October 1, 2001, to enable GWA to retire its obligations to both GPA and the Guam Telephone Authority (GTA). The Order stipulated that GWA should establish a separate interest bearing bank account for deposit of revenues collected and that monthly payments be made to both GTA and GPA. Payments to GPA should be no less than \$75,000 per month, after the required \$50,000 payment to GTA, payment of the PUC's annual administrative assessments and payment of PUC invoices in excess of 60 days. Additionally, any funds remaining after all of the aforementioned payments are made shall be paid to GPA until GWA's past due obligations are paid in full.

Collectibility of the GWA receivables is contingent upon GWA remitting to GPA collections from the surcharge and upon the PUC ensuring that GWA has adequate funding. A portion of the \$18,400,656 was included in the \$30 million classified as long-term in the accompanying 2000 balance sheet. At September 30, 2001, \$900,000 is classified as current the remaining \$17,500,656 is classified as long-term.

Guam Power Authority

Notes to Financial Statements, continued

4. Receivables, continued

Subsequent to year end, on May 9, 2002, the Guam Legislature passed Guam Public Law 26-81. The law established a one year moratorium of the 11.5% surcharge, wherein GWA is prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order to allow GPA to collect its debt from GWA, the law appropriated \$2.75 million to GPA from a recent re-financing of the GWA bonds. The surcharge is expected to continue after the one year moratorium period.

During 2001, GPA converted to notes receivable \$23,312,391 in past due government receivables. A portion of the \$23,312,391 was classified as long-term in the accompanying 2000 balance sheet. Notes receivable at September 30, 2001 consisted of the following:

Note receivable from the Department of Education (DOE), due in 60 monthly installments of \$238,095, beginning October 2001, including interest at 4.47% per annum, with the final installment payment due on September 2006, unsecured	\$12,780,622
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Note receivables from the Department of Public Works (DPW), due in 60 monthly installments of \$158,162, beginning October 2001, including interest at 4.35%, per annum, with the final installment payment due on September 2006, unsecured	8,514,877
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Note receivable from the Guam Memorial Hospital Authority (GMH), due in 48 monthly installments of \$45,695, beginning October 13, 2001, including interest at 4.47% per annum, with a final installment payment due on September 2005, unsecured	<u>2,016,892</u>
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	23,312,391
Less allowance for doubtful receivables	<u>6,000,000</u>

	17,312,391
Less current portion	<u>4,362,000</u>
	<u>\$12,950,391</u>

Guam Power Authority

Notes to Financial Statements, continued

4. Receivables, continued

Future maturities of notes receivable is summarized as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2002	\$ 4,362,000
2003	4,560,000
2004	4,766,000
2005	4,982,000
2006	<u>4,642,391</u>
	<u>\$23,312,391</u>

Collectibility of the GMH note is contingent upon GMH providing adequate funding over the term of the note. Collectibility of the DOE and DPW notes is contingent upon the Government of Guam, including the Guam Legislature and the Office of the Governor providing adequate funding over the term of the notes.

Subsequent to year end, on April 24, 2002, the note receivable from DOE was re-negotiated to convert the outstanding note receivable balance plus current accounts receivable to a new note receivable totaling \$13,359,484. The new note is payable in 84 monthly installments of \$100,000, including interest at 4.47% per annum, beginning May 2002, with a final balloon payment of \$7,868,952 due in April 2009.

Subsequent to year end, on April 24, 2002, the notes receivable from DPW were re-negotiated to convert the outstanding note receivable balance plus current accounts receivable to a new note receivable totaling \$9,290,744. The new note is payable in 60 monthly installments of \$75,000, including interest at 4.35% per annum, beginning May 2002, with a final balloon payment of \$5,247,013 due in April 2007.

Guam Power Authority

Notes to Financial Statements, continued

5. Short-Term Debt

Short-term debt at September 30, 2001 and 2000, is as follows:

	<u>2001</u>	<u>2000</u>
Thirty-day notes payable drawn on a \$15 million bank line of credit with interest at 5.08% at September 30, 2001 (8.10% at September 30, 2000), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues	\$ 6,217,174	\$ 9,917,174
Tax exempt commercial paper notes issued in August 1998 with interest at 1.05% to 1.20% at September 30, 2001 (3.95% to 4.0% at September 30, 2000). The notes provide \$20 million for working capital and \$45 million for capital projects and are collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The notes had original maturity dates from October 7, 1998 through January 12, 1999, but have been subsequently rolled over with new maturity dates from May 9, 2002 through July 11, 2002	<u>20,000,000</u>	<u>20,000,000</u>
	<u>\$26,217,174</u>	<u>\$29,917,174</u>

6. Long-Term Debt

Long-term debt at September 30, 2001 and 2000, is as follows:

<i>Bonds:</i>	<u>2001</u>	<u>2000</u>
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	\$346,228,601	\$349,178,601
1993 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023	<u>90,630,000</u>	<u>92,670,000</u>
Subtotal brought forward	<u>436,858,601</u>	<u>441,848,601</u>

Guam Power Authority

Notes to Financial Statements, continued

6. Long-Term Debt, continued

	<u>2001</u>	<u>2000</u>
Bonds subtotal carried forward	436,858,601	441,848,601
<i>Note payables:</i>		
IBM interest bearing notes payable in exchange for an accounting operating system acquired through a financing arrangement	2,147,795	3,346,030
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>---</u>	<u>1,672,950</u>
	439,006,396	446,867,581
Less current maturities	(<u>6,634,000</u>)	(<u>6,792,604</u>)
	432,372,396	440,074,977
Less discount on bonds	(<u>7,009,101</u>)	(<u>7,316,929</u>)
	425,363,295	432,758,048
Loss on defeasance, net of \$2,018,370 accumulated amortization in 2001 (\$1,138,772 in 2000)	(<u>20,230,754</u>)	(<u>21,110,352</u>)
	<u>\$405,132,541</u>	<u>\$411,647,696</u>

At September 30, 2001, future maturities of long-term debt are as follows:

Year ending September 30,

2002	\$ 6,634,000
2003	6,634,000
2004	5,935,000
2005	6,200,000
2006	6,480,000
Thereafter	<u>407,123,396</u>
	<u>\$439,006,396</u>

Guam Power Authority

Notes to Financial Statements, continued

6. Long-Term Debt, continued

During 2001, GPA offset \$633,855 in MDI's non-fuel charges against the note payable to MDI and wrote-off the remaining note payable of \$1,039,095 in accordance with the terms of the agreement entered into in June of 1992. The write-off resulted in a reduction in the electric plant in service account by the same amount.

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 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 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 amount of interest income on certain bond proceeds invested by GPA.

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 received included \$759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs will be deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds net of the current year amortization of \$584,518 is reflected as deferred revenue in the accompanying 2001 balance sheet. The termination fees and closing costs net of current year amortization totaling \$159,352 are reflected as deferred asset in the accompanying 2001 balance sheet. The current year amortization of deferred revenue and deferred asset are reflected as components of interest income and interest expense, respectively, in the accompanying 2001 statement of operations and retained earnings.

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 or earlier redemption 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, 2000 and September 30, 1998, it has been determined that for the year ended September 30, 2001 and 2000, respectively, a minimum combined employer and employee contribution rate of 15.15% and 15.34%, respectively, of covered DBP payroll and an employer contribution of 18.58% and 10.53%, respectively, 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% for the years ended September 30, 2001 and 2000. During the years ended September 30, 2001 and 2000, GPA made statutory contributions to the plan based on the September 30, 2000 and September 30, 1998 actuarial valuation rates, respectively. The effect of the September 30, 2000 actuarial valuation resulted in an increase in the unfunded liability by \$108,344 as of September 30, 2001. The effect of the September 30, 1998 actuarial valuation resulted in a reduction of the unfunded liability by \$1,110,624 as of September 30, 2000.

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% per annum, for the year ended September 30, 2000. The September 30, 2000 actuarial valuation resulted in a change in the assumed salary scale increase of 5.5% per annum, to a schedule of increase based on service with the Government and ranging from 8.5% per annum for shorter service employees to 4% per annum for longer service employees. The September 30, 2000 and September 30, 1998 actuarial valuations did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net asset available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate entity, the accrued unfunded liability at September 30, 2001 and 2000, 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, 2001 and 2000, is as follows:

	<u>2001</u>	<u>2000</u>
Cash contributions	\$4,597,071	\$4,241,733
Accruals	<u>108,344</u>	<u>(1,110,624)</u>
	<u>\$4,705,415</u>	<u>\$3,131,109</u>

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

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies

Capital Commitments

The 2002 capital improvement project budget is approximately \$10.6 million.

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 was 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 beginning September 1998, 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, expiring on September 2013, at an increased monthly lease fee of \$115,650.

At September 30, 2001, future minimum lease payments for the aforementioned leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2002	\$ 2,139,000
2003	1,253,000
2004	1,290,000
2005	1,290,000
2006	1,290,000
Thereafter	<u>8,761,000</u>
	<u>\$16,023,000</u>

Guam Power Authority

Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

Rent expense under the aforementioned agreements totaled \$2,139,777 and \$2,086,773 during the years ended September 30, 2001 and 2000, respectively, which is included as a component of administrative and general expense in the accompanying statements of operations 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, 2001 and 2000 under such agreements were \$40,248,951 and \$38,995,034, respectively, which are reflected as energy conversion costs in the accompanying statements of operations 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, 2001, GPA had available a \$1.5 million bank line of credit for purchases of parts and supplies, which is 100% collateralized by deposits in a savings account maintained by GPA. As disclosed in Note 5, GPA also has available a \$15 million bank fuel line of credit. However, in accordance with Guam Public Law 24-65 at no time will the outstanding balance borrowed from the tax exempt commercial paper notes and the bank fuel line of credit exceed \$30 million without approval from the PUC.

As of September 30, 2001, GPA has outstanding letters of credit of approximately \$7.4 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

Environmental Remediation

On August 4, 2001, the Tanguisson Pipeline in the Mongmong/Toto area ruptured spilling black oil which contaminated an approximately 60,000 square foot area. The pipeline is operated by GPA and owned by the United States Navy. The cause of the rupture has not yet been determined and GPA has engaged in a substantial clean-up effort of the affected area.

GPA has a claim for the mitigation and remediation of the oil spill. The total estimated costs for complete clean-up of the affected area is expected to range from \$2 million to \$10 million depending on the method for treatment and disposal of the contaminated soil. The insurance adjuster for GPA's insurance policy has raised issues as to whether the cost of remediation will be covered by insurance contending that clean-up or remediation costs ordered by environmental authorities such as EPA and the USEPA, are not covered under the insurance policy. Thus, GPA could potentially incur substantial cost if there is no insurance coverage. However, management of GPA contends that these costs are covered under the insurance policy. Certain claims against GPA have been filed for damage to property totaling \$800,000. These claims are currently pending with the insurance company. No provision for any liability that may result from these claims has been made in the financial statements.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2001. It is not possible for the management of GPA to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

GPA self-insures its transmission and distribution 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

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, 2001, GPA has a total of \$17,951,947 in outstanding FEMA claims for typhoon damages of which \$10,209,382 of the outstanding claims are included in accounts receivable. The amount ultimately to be collected against these claims is uncertain.

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 the Government of Guam that payment of this health insurance component was 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.

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, 2001 and 2000, GPA billed the Navy approximately \$35,000,000 and \$34,200,000, respectively, for sales of electricity under a customer supplier agreement.

11. Construction Projects Expense

During 2001, GPA performed a review of its detail listing of construction work in progress. Based on its review, GPA identified work orders totaling \$3,669,506 which do not qualify for classification as utility plant in the accompanying 2001 balance sheet. The work orders were opened in prior years, dating as far back as 1996. As a result, GPA expensed \$3,669,506 in CIP, which is reflected as construction projects expensed in the accompanying 2001 statement of operations and retained earnings.

12. Subsequent Events

On February 6, 2002, there was an explosion at the Cabras 3 plant which is still under investigation. GPA is expected to incur substantial costs, probably in the range of \$5-7 million, to effectuate repairs to the plant. It appears that the costs will be covered by insurance.

Other Financial Information

Guam Power Authority

Schedules of Sales of Electricity

	Year ended September	
	<u>2001</u>	<u>2000</u>
Commercial	\$ 92,091,900	\$ 85,205,486
Residential	65,025,676	59,893,039
Government of Guam	38,979,581	38,865,851
U. S. Navy	<u>35,032,755</u>	<u>34,246,835</u>
Total sales of electricity	<u>\$231,129,912</u>	<u>\$218,211,211</u>

Guam Power Authority

Schedules of Operating and Maintenance Expenses

	Year ended September	
	<u>2001</u>	<u>2000</u>
Fuel costs	\$ 92,868,290	\$ 78,099,606
Energy conversion costs	40,248,951	38,995,034
Salaries and wages	26,576,286	23,443,460
Depreciation	19,234,960	18,925,143
Contractual agreements	12,144,849	12,661,317
Maintenance	5,861,488	6,598,792
Operating and office supplies	5,764,616	7,315,940
Bad debt	5,352,820	735,732
Insurance	4,998,781	4,183,490
Utilities	1,574,493	1,649,199
PUC fees	565,497	152,937
Miscellaneous	551,135	467,623
Travel and training	<u>123,905</u>	<u>75,906</u>
Total operating and maintenance expenses	<u>\$215,866,071</u>	<u>\$193,304,179</u>