

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE  
GOVERNMENT OF GUAM)**

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

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**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 33 through 37, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of GPA's management. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2011, on our consideration of the GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte & Touche LLP*

February 25, 2011

# **GUAM POWER AUTHORITY**

## **Management's Discussion and Analysis Year Ended September 30, 2010**

The following is a discussion and analysis of the Guam Power Authority's (GPA) financial performance for the fiscal year ending September 30, 2010.

### **Smart Grid Technology**

In July 2009, GPA submitted a grant request to the U.S. Department of Energy (DOE) to implement smart grid technology at the utility. Because approximately 2/3 of GPA's annual expenses arise from fuel costs, there are significant benefits that could be obtained by improving energy losses even by small amounts. GPA's smart grid project includes the installation of smart meters for every customer, implementing a meter data management system, implementing an outage management system, a mobile workforce management system, a distribution management system, substation automation, distribution automation, and Volt/VAR optimization, etc. In November 2009, GPA received word that it would likely be awarded a grant under the American Recovery and Reinvestment Act of 2009. The grant applied for was a 50/50 matching grant wherein half of the money needed for a \$33.2 million smart grid project would be funded via a DOE grant and GPA would fund the remainder. Thus, GPA began efforts to borrow its share of the smart grid project costs on the bond market.

### **Liquidity Matters**

As GPA was developing its strategy for approaching credit rating agencies and investors with a borrowing plan, it was recognized that some liquidity matters would need to be addressed by the bond issuance. The first matter was related to a \$20 million commercial paper loan under which GPA was in technical default. The loan was related to a \$20 million working capital commercial paper program that was initiated in 1998. GPA was working with the Public Utilities Commission to obtain rates to help pay down the debt when, in 2009, GPA became aware of problems marketing the paper. The marketability problems were tied to the bond insurer that GPA had used to make the program more attractive. GPA attempted to identify a replacement insurer but the ongoing credit crisis was affecting most providers of bond insurance. Because GPA was unable to market its paper, a line of credit supporting the program was drawn upon.

In November 2008, the insurer's credit rating dropped, which caused GPA to be in default on its credit agreement with the line of credit provider. GPA cured the default by amending its agreement with the credit provider and converting the line of credit to a three year loan. However, shortly after amending the agreement in April 2009, the bond insurer's credit rating was downgraded below investment grade and GPA was again placed in technical default on the loan. This time, GPA entered into a temporary rate agreement wherein the credit provider temporarily agreed not to charge the Authority the default interest rate. However, GPA remained in a situation where it could be declared in default on its loan agreement at any time.

GPA determined that its borrowing should include an amount needed to fully pay off this commercial paper loan in order to remedy the potential default situation. Because the loan was for working capital purposes, GPA sought to issue taxable bonds to pay off this loan.

# **GUAM POWER AUTHORITY**

## **Management's Discussion and Analysis Year Ended September 30, 2010**

The other matter outstanding was the Working Capital Fund. Under GPA's outstanding bond indenture agreement, GPA was required to maintain a Working Capital Fund to ensure GPA always had sufficient funds to pay operating and maintenance expenses during periods of interruption of operational activities. The funding requirement was 1/12 of the annual operating budget less depreciation expense. With the price of fuel rising throughout the decade, GPA was tying up more and more cash in its fuel inventory. Additionally, because fuel was the most significant factor in determining the Working Capital Requirement under the bond indenture, the required funding amount was growing each year. GPA had not been able to generate sufficient cash under these conditions to maintain a fully funded Working Capital Fund.

GPA also determined that the impending bond issuance should also include a remedy for this situation. GPA included the funding of its \$27.4 million Working Capital Requirement in its bond issuance. Because this item is also related to working capital, GPA sought to issue taxable bonds to fill this account as well.

### **Credit Rating Agencies**

In May 2010, GPA made presentations to each of its three credit rating agencies. The end result was a change in the Standard and Poor's Rating from BBB- to BBB, a change in the Fitch Rating from BB+ to BBB-, and the Moody's Ratings Service affirmed its Ba1 rating of GPA.

### **Bond Issuance**

With two of the three rating agencies assigning GPA investment grade ratings, GPA began to market its bond issuance to potential investors. As the process was moving forward, it was determined this would be a good opportunity to provide funding for some additional projects being undertaken by GPA. The most notable of the projects was a planned consolidated office complex. The Consolidated Commission on Utilities (CCU) – the governing body for GPA – is also the governing body for the Guam Waterworks Authority (GWA). Since the first commission was elected in 2002, the CCU has been exploring opportunities for gaining efficiencies by consolidating aspects of the two utilities. GPA has had a plan on the books for many years to build a permanent office facility to house its personnel. The CCU determined the plans should be expanded to include GWA as a first step towards taking advantage of areas where efforts were duplicative. This \$35 million construction project was added to the listing of projects to be funded by the bond issuance. Additionally, several other projects related to generation facilities as well as the transmission and distribution system were included in the bond issuance. The end result was the issuance of \$150,440,000 of tax exempt bonds for projects and \$56,115,000 of taxable subordinate bonds to pay off the commercial paper loan and complete the filling of the Working Capital Fund. The tax exempt bonds will be redeemed over the next thirty years and the taxable bonds will be paid off over a five year period.

### **Sales**

Prior to Fiscal Year 2010, GPA's sales had been flat but trending downward. In FY10, GPA saw small growth in sales for the first time in four years. While the number of customers is growing, the average usage is declining as a result of conservation efforts by many of GPA's customers. These conservation measures are the result of the steep increases in the fuel portion of the bill for the last few years. GPA expects the positive growth to continue as economic activity is stepped up in anticipation of the planned military build up on the island.

Some more detailed information regarding GPA's sales by class and year is shown below.

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## Management's Discussion and Analysis Year Ended September 30, 2010

### Annual Electric Sales

Rate Class	Consumption (in kilowatt hours)			2010 to 2009 Comparison	
	FY10	FY09	FY08	Increase/ (Decrease)	% Change
Residential	486,961,506	471,384,720	471,060,549	15,576,786	3.30%
Small General Non Demand	54,265,632	54,083,247	53,484,286	182,385	0.34%
Small General Demand	211,387,692	209,356,703	210,541,617	2,030,989	0.97%
Large General	308,456,638	323,331,267	350,006,359	(14,874,629)	-4.60%
Auxillary/Standby	3,584,400	-	-	3,584,400	100.00%
Private St. Lights'	651,616	630,549	604,433	21,067	3.34%
Small Gov't Non Demand	11,207,056	12,719,408	12,878,413	(1,512,352)	-11.89%
Small Gov't Demand	100,952,415	102,530,794	105,168,995	(1,578,379)	-1.54%
Large Gov't Demand	88,114,436	81,743,867	80,151,222	6,370,569	7.79%
Public St. Lights'	10,561,996	9,351,639	9,634,418	1,210,357	12.94%
US Navy	<u>361,518,349</u>	<u>359,520,521</u>	<u>341,392,577</u>	<u>1,997,828</u>	<u>0.56%</u>
Total	<u>1,637,661,736</u>	<u>1,624,652,715</u>	<u>1,634,922,869</u>	<u>13,009,021</u>	<u>0.80%</u>

The decline in the Large General customer class is driven by conservation measures being taken by large businesses, the loss of a customer as a primary power customer, and economic measures.

### Customer Count

Rate Class	Number of Customers			2010 to 2009 Comparison	
	FY10	FY09	FY08	Increase/ (Decrease)	% Change
Residential	41,108	40,254	39,418	854	2.12%
Small General Non Demand	3,088	3,078	3,073	10	0.32%
Small General Demand	1,582	1,573	1,550	9	0.57%
Large General	171	171	170	-	0.00%
Auxillary/Standby	1	-	-	1	100.00%
Private St. Lights'	569	563	555	6	1.07%
Small Gov't Non Demand	594	566	573	28	4.95%
Small Gov't Demand	449	439	440	10	2.28%
Large Gov't Demand	58	56	56	2	3.57%
Public St. Lights'	205	146	147	59	40.41%
US Navy	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>0.00%</u>
Total	<u>47,826</u>	<u>46,847</u>	<u>45,983</u>	<u>979</u>	<u>2.09%</u>

Even though individual customers have been taking measures to conserve energy, the total number of GPA's customers continues to increase. A new customer class was added in FY10 which was the result of one customer changing to a standby tariff created for customers for whom GPA is not their primary provider of power. The standby tariff has been in existence for about 25 years but has not been used before this year.

# **GUAM POWER AUTHORITY**

Management's Discussion and Analysis  
Year Ended September 30, 2010

## **Explanation of Net Decrease in Net Assets**

GPA was targeting a \$4.4 million loss after its petition to receive compression on its rate petition was denied by the Public Utilities Commission. Operating expenses were under budget by approximately the same amount. Sales were approximately \$2.7 million below the forecast. We believe the growth assumptions in the forecast were based on military growth that has not yet been realized. The bond issuance was not planned when the budget for the year was set. Although nearly \$3 million in interest costs were paid from a capitalized interest fund, the expense was reflected on GPA's books for the year. Additionally, the Guam Legislature passed a piece of legislation assessing approximately \$1.2 million in cost of living adjustments for FY07 to FY09 for costs which had previously been appropriated and paid by GovGuam's General Fund on behalf of GPA retirees. Finally, interest expense was lower than forecast by approximately \$600,000.

## **Rate Activity**

GPA filed a petition for a two phased rate implementation in October 2007. The Phase I rate relief went into effect on March 1, 2008. GPA filed an addendum to the Phase I petition in November 2009 and the Phase II rate relief of approximately 2.8% went into effect on March 1, 2010.

## **Future Borrowing**

GPA is exploring options for refinancing its energy conversion agreement with the Marianas Energy Corporation. GPA is also studying options for borrowing for the construction of windmills or other renewable energy technologies to provide a hedge against rising fuel prices.

## **Military Buildup**

GPA is working with the U.S. Department of Defense (DOD) in planning to ensure there is adequate capacity to serve the load of military projects targeted for the island. The current best estimate of the additional load from the buildup is 30 megawatts with an additional 25 megawatts of transient load. GPA believes there is sufficient generation capacity currently in the system to meet the planned load requirements. DOD has also expressed that a preferred solution to complement GPA's existing generation system is to re-condition up to five peaking/emergency combustion turbine units. GPA is working with DOD to identify transmission and distribution projects that would be required to meet the military service requirements. DOD has been committed to the principle of ensuring the civilian community is not negatively impacted by the cost of the buildup.

## **Financial Highlights**

Table 1 highlights financial comparisons from Fiscal Years 2008 through 2010. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

## GUAM POWER AUTHORITY

### Management's Discussion and Analysis Year Ended September 30, 2010

**Table 1. Financial Data (in millions)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 328.7	\$ 176.1	\$ 170.6
Non-current investments	45.1	27.5	27.5
Other assets	18.6	22.4	23.6
Utility plant	<u>492.5</u>	<u>511.1</u>	<u>522.4</u>
Total Assets	\$ <u>884.9</u>	\$ <u>737.1</u>	\$ <u>744.1</u>
Liabilities:			
Current liabilities	\$ 54.1	\$ 90.1	\$ 65.5
Non-current liabilities	<u>690.2</u>	<u>498.6</u>	<u>516.3</u>
Total Liabilities	<u>744.3</u>	<u>588.7</u>	<u>581.8</u>
Net Assets:			
Invested in capital assets net of related debt	16.1	16.3	14.7
Restricted	63.1	53.1	56.3
Unrestricted	<u>61.4</u>	<u>79.0</u>	<u>91.3</u>
Total Net Assets	<u>140.6</u>	<u>148.4</u>	<u>162.3</u>
	\$ <u>884.9</u>	\$ <u>737.1</u>	\$ <u>744.1</u>

### **Results of Operations (in millions)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues	\$ 365.7	\$ 388.9	\$ 370.6
Total operating and maintenance expense	<u>333.7</u>	<u>366.8</u>	<u>341.6</u>
Operating earnings	32.0	22.1	29.0
Interest income	1.5	2.1	3.5
Other revenues (expense)	<u>(41.3)</u>	<u>(41.8)</u>	<u>(27.1)</u>
Income (loss) before capital contributions	(7.8)	(17.6)	5.4
Capital contributions	<u>0.1</u>	<u>3.6</u>	<u>4.9</u>
(Decrease) increase in net assets	\$ <u>(7.7)</u>	\$ <u>(14.0)</u>	\$ <u>10.3</u>

### **Explanations of Variances**

The increase in current assets and non-current liabilities was caused by the bond issuance. The fully funded Working Capital Fund (\$27.4 million) is reflected in current assets. Similarly, the increase in non-current assets was caused by the increase in bond reserve funds associated with the bond issuance.

The Utility plant decreases are in line with prior trends and should be reversed by the planned expenditure of bond funds for capital projects.

The decrease in current liabilities is attributable to the paydown of the \$20 million commercial paper loan and the fact that a payment for fuel was made just after the close of Fiscal Year 2009 and just before the close of Fiscal Year 2010.

## **GUAM POWER AUTHORITY**

### **Management's Discussion and Analysis Year Ended September 30, 2010**

Although kWh sales were up for FY10, sales revenues were down because of the decreased price of fuel recovered through the Levelized Energy Adjustment Clause in FY10 as opposed to FY09.

Administrative and General expense was higher than normal. GPA incurred some significant costs associated with the commercial paper loan.

#### **Capital Asset Activities**

There were no major capital asset activities for FY10. Most of the capital activities were related to line extension and repair projects and minor plant improvement projects and initial expenditures for the smart grid project. We expect there to be a significant capital asset activities for FY11 as a result of the expenditure of bond funds. For additional information concerning GPA's capital assets, please refer to note 15 to the accompanying financial statements.

#### **Long Term Debt Activities**

As discussed previously, GPA issued \$206 million of bonds during the period. For additional information concerning GPA's long-term debt, please refer to note 6 to the accompanying financial statements.

#### **Commitments for Capital Expenditures**

There were no significant commitments for capital expenditures during the year.

#### **Other Matter**

On January 5, 2011, GPA was awarded \$5 million relative to a settlement agreement entered into between the Securities and Exchange Commission (SEC) and Bank of America (BOA) brought about by SEC's investigation into BOA's derivative activities.

#### **Contacting GPA's Financial Management**

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

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in GPA's report on the audit of financial statements which is dated February 27, 2010. That Discussion and Analysis explains in more detail major factors impacting the 2009 financial statements. A copy of that report can be obtained by contacting the CFO office at (671) 648-3066 or from GPA's website at the addresses noted below.

For additional information about this report, please contact Mr. Randall V. Wiegand, Chief Financial Officer, Guam Power Authority, P.O. Box 2977, Hagåtña, Guam 96932-2977 or visit the website at [www.guampowerauthority.com](http://www.guampowerauthority.com).

**GUAM POWER AUTHORITY**

Statements of Net Assets  
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents:		
Held by trustee for restricted purposes:		
Interest and principal funds	\$ 20,643,782	\$ 17,345,795
Bond indenture funds	170,340,036	32,435,531
Held by Guam Power Authority:		
Bond indenture funds	28,660,542	11,186,192
Self-insurance fund - restricted	7,065,846	3,609,565
Escrow account - restricted	-	1,953,743
Total cash and cash equivalents	<u>226,710,206</u>	<u>66,530,826</u>
Short-term investments held by trustee	<u>99,916</u>	<u>698,564</u>
Accounts receivable, net	35,459,239	36,788,152
Current installments of long-term receivables	<u>4,470,997</u>	<u>5,352,292</u>
Total current receivables	<u>39,930,236</u>	<u>42,140,444</u>
Materials and supplies inventory	12,046,199	12,365,580
Fuel inventory	48,947,057	53,693,177
Prepaid expenses	<u>972,373</u>	<u>698,049</u>
Total current assets	<u>328,705,987</u>	<u>176,126,640</u>
Regulatory assets:		
Deferred fuel costs, net	-	4,764,848
Cancelled unit, net of amortization	<u>380,005</u>	<u>502,180</u>
Total regulatory assets	<u>380,005</u>	<u>5,267,028</u>
Utility plant, at cost:		
Electric plant in service	868,791,171	856,904,413
Less accumulated depreciation	<u>(383,122,491)</u>	<u>(355,748,260)</u>
Total utility plant	<u>485,668,680</u>	<u>501,156,153</u>
Construction work in progress	<u>6,873,135</u>	<u>9,950,817</u>
Total utility plant	<u>492,541,815</u>	<u>511,106,970</u>
Other non-current assets:		
Investments - bond reserve funds held by trustee	45,134,634	27,488,268
Long-term receivables, less current installments	4,131,882	8,596,342
Unamortized debt issuance costs	9,934,791	4,121,672
Deferred asset, net	3,187,019	3,346,370
Other assets	<u>899,414</u>	<u>1,067,335</u>
Total other non-current assets	<u>63,287,740</u>	<u>44,619,987</u>
	<u>\$ 884,915,547</u>	<u>\$ 737,120,625</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Net Assets, Continued  
September 30, 2010 and 2009

<u>LIABILITIES AND NET ASSETS</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Current maturities of long-term debt	\$ 7,795,000	\$ 24,873,600
Current obligations under capital leases	9,064,045	8,028,667
Deferred payment agreement	255,792	3,485,380
Accounts payable:		
Operations	11,677,153	13,122,272
Fuel	209,017	21,302,544
Payable to federal government	554,350	872,021
Payable to Navy	3,410,727	-
Accrued payroll and employees' benefits	255,578	904,042
Current portion of employees' annual leave	1,838,093	1,385,384
Interest payable	13,556,572	10,866,041
Customer deposits	5,529,260	5,212,706
Total current liabilities	54,145,587	90,052,657
Regulatory liabilities:		
Deferred fuel revenue, net	1,981,805	-
Provision for self-insurance	7,383,869	3,609,565
Total regulatory liabilities	9,365,674	3,609,565
Long-term debt, net of current maturities	558,495,132	362,746,640
Employees' annual leave, net of current portion	803,086	1,384,415
Obligations under capital leases, net of current portion	108,065,350	117,129,040
DCRS sick leave liability	1,722,649	1,559,545
Deferred revenues	11,680,352	12,264,370
Total liabilities	744,277,830	588,746,232
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	16,057,294	16,331,203
Restricted	63,131,736	53,066,840
Unrestricted	61,448,687	78,976,350
Total net assets	140,637,717	148,374,393
	\$ 884,915,547	\$ 737,120,625

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Sales of electricity	\$ 364,889,888	\$ 388,004,036
Miscellaneous	1,449,273	1,520,926
	<u>366,339,161</u>	<u>389,524,962</u>
Bad debt expense	(671,900)	(577,333)
Total revenues	<u>365,667,261</u>	<u>388,947,629</u>
Operating and maintenance expenses:		
Production fuel	219,861,507	254,372,323
Other production	23,669,640	24,630,931
	<u>243,531,147</u>	<u>279,003,254</u>
Administrative and general	27,583,537	26,682,265
Depreciation and amortization	28,443,290	27,596,710
Energy conversion costs	19,484,007	19,180,679
Transmission and distribution	11,228,100	11,140,950
Customer accounting	3,404,006	3,241,855
Total operating and maintenance expenses	<u>333,674,087</u>	<u>366,845,713</u>
Operating earnings	<u>31,993,174</u>	<u>22,101,916</u>
Non-operating revenues (expense):		
Interest revenue	1,541,432	2,063,111
Other income	759,585	-
Other expense	(1,505,781)	(1,456,985)
Interest expense	(40,622,793)	(40,339,759)
Total non-operating revenues (expense), net	<u>(39,827,557)</u>	<u>(39,733,633)</u>
Loss before capital contributions	(7,834,383)	(17,631,717)
Capital contributions:		
Grants from the United States Government	<u>97,707</u>	<u>3,620,654</u>
Change in net assets	(7,736,676)	(14,011,063)
Net assets at beginning of year	<u>148,374,393</u>	<u>162,385,456</u>
Net assets at end of year	<u>\$ 140,637,717</u>	<u>\$ 148,374,393</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2010 and 2009

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 383,086,641	\$ 394,514,331
Cash payments to suppliers for goods and services	(291,061,557)	(301,444,542)
Cash payments to employees for services	(33,372,785)	(29,583,850)
Cash payments for retiree benefits	<u>(2,234,700)</u>	<u>(1,927,116)</u>
Net cash provided by operating activities	<u>56,417,599</u>	<u>61,558,823</u>
Cash flows from investing activities:		
Withdrawal from short-term investments	598,648	1,285,485
Deposit to bond reserve funds	(17,640,372)	-
Interest and dividends on investments and bank accounts	<u>1,137,644</u>	<u>1,462,991</u>
Net cash (used in) provided by investing activities	<u>(15,904,080)</u>	<u>2,748,476</u>
Cash flows from noncapital financing activities:		
Self insurance fund receipts	3,774,304	3,846,723
Payment of short-term debt	(17,499,999)	(2,500,001)
Net proceeds from bond issuance	54,888,678	-
Interest paid on short-term debt, deferred payment agreements and deposits	(1,309,126)	(2,269,202)
Contribution to the Government of Guam	<u>(1,178,100)</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>38,675,757</u>	<u>(922,480)</u>
Cash flows from capital and related financing activities:		
Additions to utility plant	(10,083,641)	(17,616,761)
Principal paid on bonds	(7,373,601)	(7,080,000)
Interest paid on bonds	(19,916,098)	(20,622,156)
Principal paid on capital leases	(8,028,312)	(7,113,352)
Interest paid on capital leases	(15,055,992)	(15,970,951)
Net proceeds from bond issuance	141,350,000	-
Receipts from federal government	<u>97,748</u>	<u>7,247,496</u>
Net cash provided by (used in) capital and related financing activities	<u>80,990,104</u>	<u>(61,155,724)</u>
Net change in cash and cash equivalents	160,179,380	2,229,095
Cash and cash equivalents at beginning of year	<u>66,530,826</u>	<u>64,301,731</u>
Cash and cash equivalents at end of year	<u>\$ 226,710,206</u>	<u>\$ 66,530,826</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**

Statements of Cash Flows, Continued  
Years Ended September 30, 2010 and 2009

	2010	2009
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 31,993,174	\$ 22,101,916
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	28,443,290	27,596,710
Bad debts	671,900	577,333
(Increase) decrease in assets:		
Accounts receivable	912,662	4,821,476
Long-term receivables	5,345,755	1,939,436
Materials and supplies inventory	319,381	267,350
Fuel inventory	4,746,120	(12,702,864)
Prepaid expenses	(274,324)	31,913
Deferred fuel costs	4,764,848	(4,764,848)
Other assets	167,921	646,012
Increase (decrease) in liabilities:		
Accounts payable - fuel	(21,093,527)	20,444,108
Accounts payable - operations	(1,445,119)	478,398
Payable to Navy	3,410,727	-
Deferred payment agreement	(3,229,588)	3,485,380
Customer deposits	316,554	651,877
Deferred fuel revenue	1,981,805	(4,580,169)
Accrued payroll and employees' benefits	(648,464)	(130,559)
Employees' annual and sick leave	34,484	695,354
Net cash provided by operating activities	\$ 56,417,599	\$ 61,558,823

See accompanying notes to financial statements.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

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

### Organization

The Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). GPA provides electrical services on Guam to residential, commercial and Government of Guam customers and to the U.S. Navy under a customer supplier agreement. GPA is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. GPA is subject to the regulations of the Public Utilities Commission of Guam (PUC) and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Because of the rate-making process, certain differences arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

### Basis of Accounting

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

### Net Assets

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

### Accounting Estimates

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

### Income Taxes

As an instrumentality of GovGuam, GPA and all property acquired by or for GPA, and all revenues and income there from are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

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

### Utility Plant

Utility plant is stated at cost. Cost includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. Contributions in aid of construction are deducted from the cost of the utility plant. Current policy is to capitalize items over \$1,000.

### Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets.

### 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. During the year ended September 30, 2010, obsolete materials and supplies inventories of approximately \$1,044,000 were written off and included as a component of other production expense in the accompanying statements of revenues, expenses and changes in net assets.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, money market accounts and U.S. treasury bills with original maturities of three months or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund.

### Investments

GPA values its investments based on fair values in accordance with GASB Statement No. 31.

### Compensated Absences

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

### Deferred Asset and Deferred Revenues

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

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

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

### Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2010 and 2009 are \$8,453,268 and \$7,986,423, respectively.

### Allowance for Doubtful Receivables

The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

### Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of GPA. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

### Derivative Instruments

During fiscal year 2010, GPA adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which superseded GASB Technical Bulletin No 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. GASB Statement No. 53 requires that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value.

Disclosures required by GASB Statement No. 53 for GPA's fuel oil hedging activities are included in note 13.

GASB Statement No. 53 excludes "normal purchases and normal sales contracts". Power purchase agreements generally meet the "normal purchases and normal sales" exception. Accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 10) are excluded from the GASB Statement No. 53 requirements under the "normal purchases and normal sales" exception.

### Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or deferred fuel revenue liabilities, respectively, in the accompanying statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. The LEAC results in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Cumulative unrecovered fuel costs amount to \$2,798,172 and \$6,921,597 at September 30, 2010 and 2009, respectively.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

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

### Fuel Oil Costs, Continued

During the year ended September 30, 2009, PUC approved new fuel surcharges to recover the cost difference between fuel inventory on hand against a base year. At September 30, 2010 and 2009, cumulative unrecovered fuel inventory costs amount to \$184,387 and \$78,475 and surcharges that have been billed but not yet earned amounted to \$4,964,364 and \$2,235,224, respectively. The net amounts of \$4,779,977 and \$2,156,749 are presented as components of deferred fuel revenues, net and deferred fuel costs, net at September 30, 2010 and 2009, respectively.

### 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, Series 1999 and Series 2010 bonds. These costs are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

### New Accounting Standards

During fiscal year 2010, GPA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

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

### New Accounting Standards, Continued

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GPA.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GPA.

## (2) Concentrations of Credit Risk

Financial instruments which potentially subject GPA to concentrations of credit risk consist principally of cash and cash equivalents, investments and accounts receivable.

At September 30, 2010 and 2009, GPA has cash deposits in bank accounts that exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy. Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

(3) Cash and Investments

The bond indenture agreements for the 1993, 1999 and 2010 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, 2010 and 2009, cash and cash equivalents and short-term investments held by trustees and by GPA in these funds and accounts are as follows:

	2010				
	Held By Trustee		Held By GPA		Total
	Interest and Principal Funds	Bond Indenture Funds	Other Restricted Funds	Bond Indenture Funds	
Construction funds	\$ -	\$ 120,656,062	\$ -	\$ -	
Interest and principal funds	20,643,782	-	-	-	20,643,782
Bond funds	-	22,303,416	-	-	22,303,416
Working capital funds	-	27,480,474	-	-	27,480,474
Self-insurance fund	-	-	7,065,846	-	7,065,846
Revenue funds	-	-	-	11,681,440	11,681,440
Operating funds	-	-	-	13,724,806	13,724,806
Surplus funds	-	-	-	3,254,296	3,254,296
	<u>\$ 20,643,782</u>	<u>\$ 170,439,952</u>	<u>\$ 7,065,846</u>	<u>\$ 28,660,542</u>	<u>\$ 226,810,122</u>

  

	2009				
	Held By Trustee		Held By GPA		Total
	Interest and Principal Funds	Bond Indenture Funds	Other Restricted Funds	Bond Indenture Funds	
Construction funds	\$ -	\$ 16,314,828	\$ -	\$ -	
Interest and principal funds	17,345,795	-	-	-	17,345,795
Bond funds	-	2,232,491	-	-	2,232,491
Escrow account	-	-	1,953,743	-	1,953,743
Working capital funds	-	14,586,776	-	3,000,000	17,586,776
Self-insurance fund	-	-	3,609,565	-	3,609,565
Revenue funds	-	-	-	6,236,073	6,236,073
Operating funds	-	-	-	1,695,449	1,695,449
Surplus funds	-	-	-	254,670	254,670
	<u>\$ 17,345,795</u>	<u>\$ 33,134,095</u>	<u>\$ 5,563,308</u>	<u>\$ 11,186,192</u>	<u>\$ 67,229,390</u>

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

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

## (3) Cash and Investments, Continued

### A. Cash and Cash Equivalents

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

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

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

As of September 30, 2010 and 2009, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$226,810,122 and \$67,229,390, respectively, and the corresponding bank balances were \$227,465,041 and \$67,310,332, respectively. Of the bank balance amount as of September 30, 2010 and 2009, \$12,572,849 and \$4,135,581 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$1,387,171 and \$2,171,052, respectively, were FDIC insured. Bank balances as of September 30, 2010 and 2009, also include \$214,712,193 and \$54,529,056, respectively, representing cash and short-term investments held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2010 and 2009, \$10,710,758 and \$10,610,224, respectively, of cash and cash equivalents are subject to custodial credit risk.

### B. Investments

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

- Category 1 Investments that are insured or registered, or securities held by GPA or its agent in GPA's name;
- Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in GPA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GPA's name.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

(3) Cash and Investments, Continued

B. Investments, Continued

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

As of September 30, 2010, GPA's investment in debt securities, included in the bond reserve fund, were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Bond Reserve Fund:			
US Bank Money Market Account (cash equivalents)	\$ 17,649,634	-	-
General Electric Capital Corp. Commercial Paper (CP)	13,743,000	October 1, 2010	A-1+
Natixis U.S. Finance Co. LLC (CP)	<u>13,742,000</u>	October 1, 2010	A-1
	<u>\$ 45,134,634</u>		

As of September 30, 2009, GPA's investment in debt securities, included in the bond reserve fund, were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Bond Reserve Fund:			
First America Treasury (cash equivalents)	\$ 13,746,268	-	Aaa
HSBC Finance CP	<u>13,742,000</u>	October 1, 2009	A3
	<u>\$ 27,488,268</u>		

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2010 and 2009, \$45,134,634 and \$27,488,268, respectively, is held in the name of a trustee for GPA, classified as category 3 and are subject to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2010, GPA's investments, including those classified as cash equivalents, that exceeded 5% of total investments are as follows: General Electric Capital Corp. CP (5.87%), Natixis U.S. Finance Co. LLC CP (5.87%), and First American Treasury (5.35%). As of September 30, 2009, GPA's investments, including those classified as cash equivalents, that exceeded 5% of total investments are as follows: First America Treasury (36.94%) and HSBC Finance CP (16.32%).

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

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (4) Receivables

Accounts receivable at September 30, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Customers:		
Private	\$ 28,265,161	\$ 27,745,789
Government	<u>5,004,039</u>	<u>5,403,926</u>
	33,269,200	33,149,715
U.S. Navy	3,505,408	4,308,442
Federal Emergency Management Agency	441,873	-
Interest	372,330	558,554
Others	<u>1,942,922</u>	<u>2,347,747</u>
	39,531,733	40,364,458
Less allowance for doubtful receivables	<u>(4,072,494)</u>	<u>(3,576,306)</u>
	<u>\$ 35,459,239</u>	<u>\$ 36,788,152</u>

### Long-Term Receivables

Long-term receivables at September 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Installment payment agreement receivable from Guam Department of Education, resulting from conversion of past due receivable, payable in varying amounts starting in July 2004, currently at \$200,000 per month, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	\$ 6,447,691	\$ 8,325,628
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installments payment due in April 2007, uncollateralized.	390,377	390,377
Receivable due from Guam Waterworks Authority (GWA), payable monthly from a water rate surcharge, interest at 4.3% per annum, uncollateralized.	1,547,818	3,998,968
Receivable due from GWA under a memorandum of understanding (see note 12), with monthly installments of \$25,688, non-interest bearing, starting October 2009.	<u>216,993</u>	<u>1,233,661</u>
	8,602,879	13,948,634
Less current portion	<u>(4,470,997)</u>	<u>(5,352,292)</u>
	<u>\$ 4,131,882</u>	<u>\$ 8,596,342</u>

Scheduled maturities of long-term receivables are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2011	\$ 4,470,997
2012	2,285,574
2013	<u>1,846,308</u>
	<u>\$ 8,602,879</u>

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (5) Deferred Payment Agreement

At September 30, 2010 and 2009, deferred payments of \$255,792 and \$3,485,380, respectively, are due to a vendor, payable in various monthly installments including interest at 4% to 5% per annum, due in September 2010.

### (6) Long-Term Debt

#### Note Payable to Bank:

At September 30, 2009, current maturities of long-term debt included \$17,499,999, which was the balance due on a \$20 million three-year term loan. The term loan was converted from a \$20 million demand loan in March 2009. However, due to default status resulting from a ratings downgrade of GPA's bond insurer declared on April 24, 2009, the note was presented as a current liability in the 2009 statement of net assets. The loan was fully repaid during the year ended September 30, 2010 with the 2010 bond proceeds.

Other long-term debt at September 30, 2010 and 2009, is as follows:

#### Bonds:

	<u>2010</u>	<u>2009</u>
2010 Series Senior Revenue Bonds, initial face value of \$150,440,000, interest at varying rates from 5.0% to 5.5% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$225,000 in October 2022, increasing to \$17,215,000 in October 2040.	\$ 150,440,000	\$ -
2010 Series Subordinated Revenue Bonds, initial face value of \$56,115,000, interest at varying rates from 6.0% to 7.5% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$4,435,000 in October 2011, increasing to \$14,155,000 in October 2015.	56,115,000	-
1999 Series Revenue Bonds, initial face value of \$349,178,601, interest at varying rates from 5.0% to 5.25% per annum 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.	313,700,000	317,883,601
1993 Series Revenue Bonds, initial face value of \$100,000,000, interest at 5.25% per annum 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>66,985,000</u>	<u>70,175,000</u>
	587,240,000	388,058,601
Less current maturities	<u>(7,795,000)</u>	<u>(7,373,601)</u>

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Long-Term Debt, Continued

Bonds, Continued:

	579,445,000	380,685,000
Less discount on bonds	<u>(8,488,896)</u>	<u>(4,597,790)</u>
	570,956,104	376,087,210
Loss on defeasance, net of \$9,528,977 and \$8,649,379 of accumulated amortization in 2010 and 2009, respectively	<u>(12,460,972)</u>	<u>(13,340,570)</u>
Total bonds	\$ <u>558,495,132</u>	\$ <u>362,746,640</u>

As of September 30, 2010, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 7,795,000	\$ 22,283,450	\$ 30,078,450
2012	12,640,000	30,867,313	43,507,313
2013	20,815,000	30,147,875	50,962,875
2014	21,290,000	28,878,950	50,168,950
2015	22,710,000	27,461,788	50,171,788
2016 through 2020	69,965,000	119,794,388	189,759,388
2021 through 2025	80,050,000	101,905,675	181,955,675
2026 through 2030	116,555,000	75,997,088	192,552,088
2031 through 2035	150,310,000	40,740,238	191,050,238
2036 through 2040	67,895,000	16,709,775	84,604,775
2041	<u>17,215,000</u>	<u>946,825</u>	<u>18,161,825</u>
	\$ <u>587,240,000</u>	\$ <u>495,733,365</u>	\$ <u>1,082,973,365</u>

Proceeds of the 1993 Series Revenue Bonds, face value of \$100,000,000, were used to finance acquisitions of additional generating capacity, to construct additional transmission facilities, and to upgrade and refurbish existing equipment.

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

Proceeds of the 2010 Series Senior Revenue Bonds, face value of \$150,440,000, are restricted to finance capital projects, generally consisting of a new administration building and various generation, transmission and distribution. Additionally, proceeds were used to make a deposit to the Bond Reserve Fund, to provide capitalized interest through October 1, 2013, and to pay cost of issuances.

Proceeds of the 2010 Series Subordinated Revenue Bonds, face value of \$56,115,000, were used to make a deposit to the Working Capital Fund, Bond Reserve Fund, to provide capitalized interest through April 1, 2011, and to pay cost of issuances.

All gross revenues of GPA have been pledged to repay the 1993, 1999 and 2010 series bond principal and interest. The debt service for the 1993 and 1999 series bonds was \$27,061,414 and \$27,151,587 for the years ended September 30, 2010 and 2009, respectively, or approximately 7.4% and 7.0%, respectively, of pledged gross revenues for those years. The debt service for the 2010 series bonds will commence in 2011.

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Notes to Financial Statements  
September 30, 2010 and 2009

## (6) Long-Term Debt, Continued

Discounts associated with 1993, 1999 and 2010 bond series are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

On May 1, 1999, GPA issued the 1999 Series bonds of \$349,178,601 to finance 1999 projects; to retire \$45 million in tax exempt commercial paper notes; to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of \$143,660,000 and \$99,820,000, respectively; and to pay the amount currently due on the 1993 bonds totaling \$1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

On September 28, 2000, GPA entered into a Bond Reserve Fund Forward Delivery Agreement (the agreement) with the US Bank Trust National Association and Bank of America. In connection with the agreement, GPA received cash, totaling \$13.5 million, in October 2000 representing the present value of interest income on certain invested bond proceeds. Based on the terms of the agreement, gross proceeds totaled \$17,521,029 while GPA incurred termination fees and closing costs totaling \$3,530,000 and \$1,250,529, respectively. The \$13.5 million in net proceeds included \$759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds, net of amortization, are reflected as deferred revenue in the accompanying statements of net assets. The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

The following summarizes deferred revenues and deferred asset at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Deferred revenues	\$ 17,521,029	\$ 17,521,029
Accumulated amortization	<u>(5,840,677)</u>	<u>(5,256,659)</u>
	<u>\$ 11,680,352</u>	<u>\$ 12,264,370</u>
Deferred asset	\$ 4,780,529	\$ 4,780,529
Accumulated amortization	<u>(1,593,510)</u>	<u>(1,434,159)</u>
	<u>\$ 3,187,019</u>	<u>\$ 3,346,370</u>

## GUAM POWER AUTHORITY

### Notes to Financial Statements September 30, 2010 and 2009

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

Changes in long-term liabilities are presented as follows:

	<u>Outstanding</u> <u>October 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>September 30, 2010</u>	<u>Current</u>
1993 Series bonds	\$ 70,175,000	\$ -	\$ (3,190,000)	\$ 66,985,000	\$ 3,360,000
1999 Series bonds	317,883,601	-	(4,183,601)	313,700,000	4,435,000
2010 Series bonds	-	206,555,000	-	206,555,000	-
Unamortized discount on bonds	(4,597,790)	(4,240,661)	349,555	(8,488,896)	-
Note payable to Bank	17,499,999	-	(17,499,999)	-	-
Loss on defeasance of bonds	(13,340,570)	-	879,598	(12,460,972)	-
Obligations under capital leases (see note 10)	125,157,707	-	(8,028,312)	117,129,395	9,064,045
DCRS sick leave liability	1,559,545	163,104	-	1,722,649	-
Deferred payment agreements	3,485,380	-	(3,229,588)	255,792	255,792
Employees annual leave	2,769,799	1,533,003	(1,661,623)	2,641,179	1,838,093
Deferred revenues	<u>12,264,370</u>	<u>-</u>	<u>(584,018)</u>	<u>11,680,352</u>	<u>-</u>
	<u>\$ 532,857,041</u>	<u>\$ 204,010,446</u>	<u>\$ (37,147,988)</u>	<u>\$ 699,719,499</u>	<u>\$ 18,952,930</u>

	<u>Outstanding</u> <u>October 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>September 30, 2009</u>	<u>Current</u>
1993 Series bonds	\$ 73,205,000	\$ -	\$ (3,030,000)	\$ 70,175,000	\$ 3,190,000
1999 Series bonds	321,933,601	-	(4,050,000)	317,883,601	4,183,601
Unamortized discount on bonds	(4,905,617)	-	307,827	(4,597,790)	-
Loss on defeasance of bonds	(14,220,168)	-	879,598	(13,340,570)	-
Note payable to Bank	-	20,000,000	(2,500,001)	17,499,999	17,499,999
Obligations under capital leases (see note 10)	132,271,059	-	(7,113,352)	125,157,707	8,028,667
DCRS sick leave liability	1,292,473	267,072	-	1,559,545	-
Deferred payment agreements	-	3,485,380	-	3,485,380	3,485,380
Employees annual leave	2,341,517	1,877,938	(1,449,656)	2,769,799	1,385,384
Deferred revenues	<u>12,848,388</u>	<u>-</u>	<u>(584,018)</u>	<u>12,264,370</u>	<u>-</u>
	<u>\$ 524,766,253</u>	<u>\$ 25,630,390</u>	<u>\$ (17,539,602)</u>	<u>\$ 532,857,041</u>	<u>\$ 37,773,031</u>

#### (7) Employees' Retirement Plan

##### Defined Benefit Plan

##### Plan Description:

GPA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GPA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

(7) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website-[www.ggrf.com](http://www.ggrf.com).

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2008, 2007, and 2006, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2010, 2009 and 2008, respectively, have been determined as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Normal costs (% of DB Plan payroll)	18.34%	17.36%	17.94%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.84%</u>	<u>7.86%</u>	<u>8.44%</u>
Employer portion of normal costs (% of total payroll)	3.73%	3.70%	3.99%
Unfunded liability cost (% of total payroll)	<u>22.69%</u>	<u>19.68%</u>	<u>20.75%</u>
Government contribution as a % of total payroll	<u>26.42%</u>	<u>23.38%</u>	<u>24.74%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>26.04%</u>	<u>25.20%</u>	<u>24.07%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GPA's contributions to the DB Plan for the years ending September 30, 2010, 2009 and 2008 were \$2,793,428, \$2,705,933 and \$2,547,415, respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Plan

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2010 and 2009, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GPA's contributions to the DCRS plan for the years ended September 30, 2010, 2009 and 2008 were \$3,595,455, \$3,127,292, and \$2,557,142, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$664,528, \$596,622 and \$507,827 were contributed toward the unfunded liability of the DB Plan at September 30, 2010, 2009 and 2008, respectively.

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Notes to Financial Statements  
September 30, 2010 and 2009

## (7) Employees' Retirement Plan, Continued

### Defined Contribution Plan, Continued

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GPA has accrued an estimated liability of \$1,722,649 and \$1,559,545 at September 30, 2010 and 2009, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

### Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

For the years ended September 30, 2010, 2009 and 2008, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Supplemental benefits	\$ 852,325	\$ 359,528	\$ 484,590
Medical and dental	<u>1,382,375</u>	<u>1,567,588</u>	<u>1,521,423</u>
	<u>\$ 2,234,700</u>	<u>\$ 1,927,116</u>	<u>\$ 2,006,013</u>

## (8) Commitments and Contingencies

### Fuel Purchase Contracts

In March 2010, GPA has entered into an agreement to purchase residual fuel oil and low sulfur fuel oil. The agreement is for three years with an option to extend for two additional one year terms, renewable annually.

### Operating Leases

On December 31, 2002, GPA entered into a lease agreement for its office building for a period of five years, including extensions, with a monthly rental of \$25,000. On January 1, 2008, GPA renewed the lease agreement with a monthly rental of \$45,000, which expired on December 31, 2009 and renewed for an additional one three year term through December 31, 2010.

GPA entered into a ten-year lease of fuel storage tanks beginning in September 1998, with monthly rentals increasing to \$107,500 in March 2003. The lease has an option to renew for an additional 5-year period, expiring in September 2013, at an increased monthly rental of \$115,650. On February 8, 2008, GPA renewed the agreement for an additional five year term from March 1, 2008 to February 28, 2013.

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (8) Commitments and Contingencies, Continued

#### Operating Leases

GPA entered into a commercial space lease beginning July 1, 2010, with monthly rentals of \$4,495. The lease has an option to renew for an additional term of five years.

At September 30, 2010, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2011	\$ 1,636,196
2012	1,501,196
2013	752,040
2014	53,935
2015	<u>40,451</u>
	\$ <u>3,983,818</u>

Rent expense under the aforementioned agreements totaled \$1,716,756 and \$2,061,756 during the years ended September 30, 2010 and 2009, respectively.

#### Performance Management Contracts

During the year ended September 30, 2010, GPA entered into two new Performance Management Contracts (PMC) with two companies for the operation and maintenance of Cabras 1 and 2 and Cabras 3 and 4 generators, which became effective on October 1, 2010 and July 1, 2010, respectively. These PMCs are for a period of five years with an option to extend for another five-year term.

At September 30, 2010, the minimum future management fees are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2011	\$ 2,516,930
2012	2,587,404
2013	2,659,801
2014	2,734,177
2015	<u>2,526,743</u>
	\$ <u>13,025,055</u>

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

#### Environmental Protection Agency

On May 24, 1986, the administrator of the U.S. 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  
September 30, 2010 and 2009

### (8) Commitments and Contingencies, Continued

#### Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2010. 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 accompanying financial statements.

#### Self-Insurance

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

As the result of a PUC Decision and Order, GPA added an insurance charge of \$.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self-insurance fund balance of \$2.5 million is established. On February 12, 2008, PUC has approved the amendment of self-insurance program to be effective March 1, 2008 to reflect the following: (1) increase in surcharge ceiling from \$2.5 million to \$10 million; (2) increase in the surcharge from \$0.00145 per kWh to \$0.00290 per kWh for civilian ratepayers and from \$0.00035 per kWh to \$0.00070 per kWh for the U.S. Navy. As required by the Decision and Order, GPA records the insurance charge as sales revenue and offsets a corresponding self-insurance expense of the same amount. Insurance charge proceeds are transferred to the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant in the event of a natural catastrophe. The self-insurance fund, included in cash and cash equivalents held by GPA, is \$7,065,846 and \$3,609,565 at September 30, 2010 and 2009, respectively.

#### 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.

### (9) 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, 2010 and 2009, GPA billed the Navy \$69,123,041 and \$81,373,460, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were \$3,505,408 and \$4,308,442 at September 30, 2010 and 2009, respectively.

On July 12, 2010, the PUC adopted and approved the Joint Stipulation of Settlement between the Navy and GPA wherein GPA will refund the amount of \$4,117,098 covering the period October 2008 through April 2010 to account for the error in the calculation of unit fuel cost charged to the Navy. GPA will credit the Navy the amount of the refund in equal installments over one year beginning in August 2010. As of September 30, 2010, the balance due is \$3,410,727 and is presented as payable to the Navy in the accompanying statements of net assets.

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

(10) Obligations Under Capital Leases

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

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

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

<u>Year ending September 30,</u>	<u>Amount</u>
2011	\$ 23,084,304
2012	23,084,304
2013	23,084,304
2014	23,084,304
2015	23,084,304
2016-2019	<u>71,131,775</u>
	186,553,295
Less amounts representing interest	<u>69,423,900</u>
	117,129,395
Less current portion	<u>9,064,045</u>
	\$ <u>108,065,350</u>

(11) Self-Insurance Fund

During the years ended September 30, 2010 and 2009, GPA recovered the following costs against the self-insurance fund:

	<u>2010</u>	<u>2009</u>
Typhoon-related preparations	\$ 166,960	\$ 71,949
Regulatory asset	<u>-</u>	<u>2,470,992</u>
	\$ <u>166,960</u>	\$ <u>2,542,941</u>

(12) Related Party Transactions

During the years ended September 30, 2010 and 2009, GPA billed GovGuam agencies \$54,466,058 and \$55,005,422, respectively, for sales of electricity. Receivables (excluding long-term receivables) from GovGuam agencies were \$5,004,039 and \$5,403,926 at September 30, 2010 and 2009, respectively.

## GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (12) Related Party Transactions, Continued

GPA provides electrical and administrative services to GWA, a component unit of the GovGuam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2010 and 2009 were \$14,169,237 and \$14,935,862, respectively.

On June 23, 2009, GPA and GWA entered into a Memorandum of Understanding (MOU) where each agency agrees to provide administrative, operational, maintenance, repair and other specified services on behalf of the other agency and each will reimburse the other for their actual costs for providing said services. The MOU also covers the repayment period for prior services rendered by GPA. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to \$818,616 and \$567,991 in 2010 and 2009, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to \$310,264 and \$1,549,355 as of September 30, 2010 and 2009, respectively. Additionally, at September 30, 2010 and 2009, GPA has long-term receivables due from GWA totaling \$1,764,811 and \$5,232,629, respectively, under the MOU and for a prior water surcharge (see note 4).

During the year ended September 30, 2010, GPA recognized certain on-behalf payments as a transfer to GovGuam of \$1,178,100 pursuant to Public Law 30-101, which mandated the reimbursement of Cost of Living Allowance payments made by GovGuam in fiscal years 2007, 2008 and 2009 to eligible retirees. The amount is included in non-operating other expense in the accompanying statements of revenues, expenses and changes in net assets.

### (13) Derivatives

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

At September 30, 2010 and 2009, GPA has an outstanding commodity swap for the fiscal years 2011 and 2010 fuel requirements based on a notional amount of 59,814 and 69,783 metric tons of low sulfur and high sulfur fuel oil, respectively. Payment is based on current spot prices at the settlement date.

At September 30, 2010, the commodity swaps had a positive fair value of approximately \$156,000, which is recorded as a component of deferred fuel costs in accordance with GASB Statement No. 53 as discussed in note 1. At September 30, 2010, there are three counterparties, rated as A-1 and A-1+ by S&P.

At September 30, 2009, the commodity swaps had a negative fair value of approximately \$337,000. At September 30, 2009, there are two counterparties, rated as AA and A-1 by S&P.

At September 30, 2010, the commodity swaps' fair value of \$156,000 is subject to credit risk. At September 30, 2009, GPA was not exposed to credit risk because the swaps had negative fair values.

# GUAM POWER AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

## (14) Restricted Net Assets

At September 30, 2010 and 2009, net assets are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Debt Service	\$ 46,799,071	\$ 31,189,894
Capital Projects	16,332,665	16,314,828
Escrow Deposit	<u>-</u>	<u>5,562,118</u>
	\$ <u>63,131,736</u>	\$ <u>53,066,840</u>

**GUAM POWER AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

**(15) Utility Plant**

A summary of changes in capital assets for the years ended September 30, 2010 and 2009 is as follows:

		Beginning			
	Estimated Useful	Balance	Transfers and	Transfers and	Balance
<u>2010</u>	<u>Lives in Years</u>	<u>October 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2010</u>
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	25 - 50	92,703,050	732,786	(547,247)	92,888,589
Other production plant	25	253,686,334	1,715,018	(445,229)	254,956,123
Transmission plant	30 - 45	139,548,593	4,279,746	(221,077)	143,607,262
Distribution plant	25 - 45	165,622,814	6,441,924	(397,818)	171,666,920
General plant	3 - 60	29,606,907	871,297	(542,642)	29,935,562
Production plant under capital lease	20 - 40	<u>171,382,727</u>	<u>-</u>	<u>-</u>	<u>171,382,727</u>
		856,904,413	14,040,771	(2,154,013)	868,791,171
Accumulated depreciation		<u>(355,748,260)</u>	<u>(28,443,290)</u>	<u>1,069,059</u>	<u>(383,122,491)</u>
		501,156,153	(14,402,519)	(1,084,954)	485,668,680
<u>Non-depreciable:</u>					
Construction work in progress		<u>9,950,817</u>	<u>12,986,458</u>	<u>(16,064,140)</u>	<u>6,873,135</u>
		<u>\$ 511,106,970</u>	<u>\$ (1,416,061)</u>	<u>\$ (17,149,094)</u>	<u>\$ 492,541,815</u>
		Beginning			
	Estimated Useful	Balance	Transfers and	Transfers and	Balance
<u>2009</u>	<u>Lives in Years</u>	<u>October 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2009</u>
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	25 - 50	92,298,256	1,443,874	(1,039,080)	92,703,050
Other production plant	25	253,709,773	718,239	(741,678)	253,686,334
Transmission plant	30 - 45	125,225,351	11,130,750	3,192,492	139,548,593
Distribution plant	25 - 45	158,338,938	7,775,241	(491,365)	165,622,814
General plant	3 - 60	32,447,480	1,305,111	(4,145,684)	29,606,907
Production plant under capital lease	20 - 40	<u>171,382,727</u>	<u>-</u>	<u>-</u>	<u>171,382,727</u>
		837,756,513	22,373,215	(3,225,315)	856,904,413
Accumulated depreciation		<u>(329,522,068)</u>	<u>(27,596,710)</u>	<u>1,370,518</u>	<u>(355,748,260)</u>
		508,234,445	(5,223,495)	(1,854,797)	501,156,153
<u>Non-depreciable:</u>					
Construction work in progress		<u>14,187,283</u>	<u>21,845,995</u>	<u>(26,082,461)</u>	<u>9,950,817</u>
		<u>\$ 522,421,728</u>	<u>\$ 16,622,500</u>	<u>\$ (27,937,258)</u>	<u>\$ 511,106,970</u>

**GUAM POWER AUTHORITY**

Schedule 1  
Schedule of Sales of Electricity  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Commercial	\$ 139,408,993	\$ 147,652,770
Residential	101,891,796	103,972,384
Government of Guam	54,466,058	55,005,422
U.S. Navy	<u>69,123,041</u>	<u>81,373,460</u>
	<u>\$ 364,889,888</u>	<u>\$ 388,004,036</u>

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 2  
 Schedule of Operating and Maintenance Expenses  
 Years Ended September 30, 2010 and 2009

	2010	2009
<b>Administrative and General:</b>		
Salaries and wages:		
Regular pay	\$ 4,010,918	\$ 4,053,431
Overtime	70,994	86,151
Premium pay	3,574	2,586
Benefits	8,593,074	7,824,459
Total salaries and wages	12,678,560	11,966,627
Retiree COLA/supplemental benefits	2,234,700	1,927,116
Insurance	6,390,846	6,079,887
Contract	3,474,115	3,709,812
Communications	1,365,035	1,193,125
Trustee fee	54,333	947,698
Operating supplies	159,652	162,696
Training	351,761	327,294
Completed work orders	47,469	(169,641)
Other administrative expenses	138,152	103,495
Travel	201,560	144,916
Office supplies	55,111	31,956
Overhead allocations	18,811	21,918
Miscellaneous	413,432	235,366
Total administrative and general	\$ 27,583,537	\$ 26,682,265
<b>Customer Accounting:</b>		
Salaries and wages:		
Regular pay	\$ 1,503,090	\$ 1,491,371
Overtime	75,230	119,042
Premium pay	119	24
Benefits	166,422	113,743
Total salaries and wages	1,744,861	1,724,180
Collection fee	864,764	730,703
Completed work orders	409,114	434,624
Communications	274,199	252,444
Overhead allocations	52,876	60,937
Office supplies	15,656	13,366
Operating supplies	40,822	24,372
Miscellaneous	1,714	1,229
Total customer accounting	\$ 3,404,006	\$ 3,241,855

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 2

Schedule of Operating and Maintenance Expenses, Continued  
Years Ended September 30, 2010 and 2009

	2010	2009
Fuel:		
Salaries and wages:		
Regular pay	\$ 46,124	\$ 80,484
Overtime	8,986	10,965
Premium pay	253	292
Benefits	-	2,428
Total salaries and wages	55,363	94,169
Fuel	212,965,221	264,039,831
Deferred fuel costs	6,840,923	(9,761,677)
Total fuel costs	\$ 219,861,507	\$ 254,372,323
Other Production:		
Salaries and wages:		
Regular pay	\$ 8,236,183	\$ 8,305,158
Overtime	1,400,061	1,359,372
Premium pay	171,036	157,727
Benefits	1,045,152	645,947
Total salaries and wages	10,852,432	10,468,204
Contract	10,004,623	12,579,731
Completed work orders	1,735,199	802,437
Operating supplies	709,690	533,142
Overhead allocations	193,313	76,954
Office supplies	5,007	3,351
Training	2,272	
Miscellaneous	167,104	167,112
Total other production	\$ 23,669,640	\$ 24,630,931
Transmission and Distribution:		
Salaries and wages:		
Regular pay	\$ 4,873,047	\$ 4,803,330
Overtime	561,680	653,287
Premium pay	53,832	54,262
Benefits	556,655	384,586
Total salaries and wages	6,045,214	5,895,465
Overhead allocations	1,539,634	1,503,483
Completed work orders	1,613,128	1,975,317
Operating supplies	828,583	699,389
Contract	1,180,909	1,050,045
Office supplies	20,632	17,251
Total transmission and distribution	\$ 11,228,100	\$ 11,140,950

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 3  
Schedule of Salaries and Wages  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Salaries and wages:		
Regular pay	\$ 18,669,362	\$ 18,733,774
Overtime	2,116,951	2,228,817
Premium pay	228,814	214,891
Benefits	<u>10,361,303</u>	<u>8,971,163</u>
Total salaries and wages	<u>\$ 31,376,430</u>	<u>\$ 30,148,645</u>

Schedule 4  
Employees by Department  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	
	Full Time Employees (b)	PL 28-150 Section 45b Category Personnel
Department:		
Board	2	\$ 194,896
Executive	14	646,440
Administration	26	2,196,950
Finance	24	1,647,989
Planning and Regulatory	6	452,523
Property and Facilities	10	478,619
Purchasing and Supply Management	16	585,929
Customer Service	59	2,516,470
Engineering	36	620,565
Generation	177	13,020,596
Strategic Planning and Operation Research and Development	6	572,196
Power System Control Center	26	1,722,165
Transportation	13	179,620
Transmission and Distribution	<u>107</u>	<u>5,741,197</u>
Total full time employees	<u>522</u>	30,576,155
Apprentice and summer engineering		<u>800,275</u>
		<u>\$ 31,376,430</u>

Note(s):

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

See accompanying independent auditors' report.

**GUAM POWER AUTHORITY**

Schedule 4, Continued  
 Employees by Department  
 Years Ended September 30, 2010 and 2009

	2009	
	Full Time	PL 28-150 Section 45b
Department:	Employees (b)	Category Personnel
Board	2	\$ 188,171
Executive	14	614,398
Administration	28	2,014,321
Finance	24	1,662,085
Planning and Regulatory	6	427,288
Property and Facilities	9	437,170
Purchasing and Supply Management	17	571,438
Customer Service	62	2,574,030
Engineering	35	595,073
Generation	184	11,985,016
Strategic Planning and Operation Research and Development	6	632,671
Power System Control Center	24	1,638,163
Transportation	13	162,123
Transmission and Distribution	110	5,214,266
	<u>534</u>	<u>28,716,213</u>
Total full time employees	<u>534</u>	<u>28,716,213</u>
Apprentice and summer engineering		<u>1,432,432</u>
		<u>\$ 30,148,645</u>

Note(s):

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

See accompanying independent auditors' report.