Financial Statements

Guam Power Authority

Years ended September 30, 1999 and 1998
with Report of Independent Auditors

Guam Power Authority

Financial Statements

Years ended September 30, 1999 and 1998

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Independent Auditors' Report

The Board of Directors
Guam Power Authority

We have audited the accompanying balance sheet of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 1999 and the related statements of earnings and retained earnings and cash flows for the year 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 audit. The financial statements as of and for the year ended September 30, 1998 were audited by other auditors whose report dated April 16, 1999, expressed an unqualified opinion.

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

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

As discussed in Note 10 to the financial statements, the Governor of Guam has ordered that amounts due to Guam Power Authority by the government of Guam shall be held in abeyance until the matter regarding certain assessments mandated by law are resolved. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability or uncollectible accounts has been made in the accompanying financial statements.

The year 2000 supplementary information included in Note 13 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that GPA is or will become year 2000 compliant, that GPA's year 2000 remediation efforts will be successful in whole or in part, or that parties with which GPA does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report, not included herein, dated April 17, 2000 on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Ernst + Young LLP

April 17, 2000

Guam Power Authority

Balance Sheets

	September 30,	
Assets	1999	1998
Utility plant, at cost:		
Electric plant in service *(Notes 8 and 10)*	$510,278,887	$479,919,868
Construction work in progress	61,597,662	50,530,323
	571,876,549	530,450,191
Less accumulated depreciation	127,821,044	111,955,549
Total utility plant	444,055,505	418,494,642
Bond reserve funds (trustee) *(Note 3)*	28,836,490	27,022,127
Current assets:		
Cash and cash equivalents *(Notes 2 and 3)*:		
Held by trustee:		
Interest and principal funds for debt repayment	9,822,550	15,514,807
Bond indenture funds for restricted purposes	80,661,059	79,729,862
	90,483,609	95,244,669
Held by Guam Power Authority:		
Bond indenture funds	2,409,361	7,377,160
Self-insurance fund *(Note 10)*	2,498,067	1,017,175
	4,907,428	8,394,335
Total cash and cash equivalents	95,391,037	103,639,004
Accounts receivable *(Notes 2, 4 and 10)*	62,045,242	50,031,643
Materials and supplies inventory	18,560,056	19,615,755
Fuel inventory	12,106,648	9,405,768
Prepaid expenses	1,728,920	646,037
Deferred fuel costs	---	90,558
Total current assets	189,831,903	183,428,765
Unamortized debt issuance costs	6,120,029	6,663,117
Canceled unit, net of amortization	1,723,933	1,846,108
Other	2,613,000	2,661,809
Total other assets	10,456,962	11,171,034
Total assets	$673,180,860	$640,116,568

See accompanying notes.

	September 30, 1999	September 30, 1998
Capitalization and liabilities		
Capitalization:		
Contributed capital:		
Grants by Government of Guam	$ 27,898,440	$ 27,898,440
Grants by U.S. Government	12,866,000	12,866,000
Total contributed capital	40,764,440	40,764,440
Retained earnings	137,477,617	123,809,773
	178,242,057	164,574,213
Long-term debt, less current installments *(Note 6 and 7)*	414,141,680	333,337,563
Capital lease obligations, less current installments *(Note 8)*	2,923,148	2,689,152
Total capitalization	595,306,885	500,600,928
Current liabilities:		
Short-term debt *(Notes 5 and 7)*	26,217,174	71,217,174
Current installments of long-term debt *(Note 6 and 7)*	384,784	6,834,784
Current installments of capital lease obligations *(Note 8)*	1,013,000	668,363
Current portion of employees' annual leave	1,194,603	1,015,304
Accounts payable:		
Operations	16,392,549	14,824,632
Navy	129,258	2,176,511
Fuel	1,305,707	4,263,473
Interest payable	11,303,805	11,590,876
Customer deposits	3,032,778	2,838,176
Deferred credits	2,502,816	5,882,740
Deferred fuel costs	360,184	---
Accrued payroll and employees' benefits	404,179	1,863,995
Bank overdraft	---	1,359,650
Total current liabilities	64,240,837	124,535,678
Retirement fund deferred contributions *(Note 9)*	12,038,755	13,127,176
Employees' annual leave, less current portion	1,594,383	1,852,786
Total liabilities	77,873,975	139,515,640
Commitments and contingencies *(Note 10)*		
Total capitalization and liabilities	$673,180,860	$640,116,568

Guam Power Authority

Statements of Earnings and Retained Earnings

	Year ended September 30, 1999	Year ended September 30, 1998
Revenue *(Notes 5 and 6)*:		
Sales of electricity *(Note 11)*	$187,776,429	$179,774,048
Miscellaneous	1,229,419	1,282,683
Total revenue	189,005,848	181,056,731
Operating and maintenance expenses:		
Production fuel	48,788,752	57,190,572
Other production	24,068,019	35,995,922
	72,856,771	93,186,494
Energy conversion costs *(Note 10)*	26,697,876	9,273,805
Administrative and general *(Note 10)*	18,863,094	18,638,136
Depreciation	18,447,252	17,963,315
Transmission and distribution *(Note 11)*	13,651,230	13,084,889
Customer accounting	6,533,353	7,158,034
Total operating and maintenance expenses	157,049,576	159,304,673
Earnings from operations	31,956,272	21,752,058
Other income (expense):		
Interest income	6,142,562	4,507,822
Allowance for funds used during construction	964,870	800,052
Other expense	(241,469)	(731,201)
Interest expense	(25,154,391)	(22,787,705)
Total other expenses	(18,288,428)	(18,211,032)
Net earnings	13,667,844	3,541,026
Retained earnings at beginning of year	123,809,773	120,268,747
Retained earnings at end of year	$137,477,617	$123,809,773

See accompanying notes.

Guam Power Authority

Statements of Cash Flows

	Year ended September 30, 1999	Year ended September 30, 1998
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	$177,186,851	$162,171,158
Cash payments to suppliers and employees for goods and services	(150,516,673)	(129,186,860)
Net cash provided by operating activities	26,670,178	32,984,298
Cash flows from investing activities:		
Increase in bond reserve funds	(1,814,363)	(35,766)
Interest and dividends on investments and bank accounts	6,142,562	4,507,822
Net cash provided by investing activities	4,328,199	4,472,056
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	---	20,000,000
Principal paid on short-term debt	(45,000,000)	(19,797,801)
Interest paid on short-term debt and deposits	(2,035,218)	(2,022,929)
(Decrease) increase in bank overdraft	(1,359,650)	1,359,650
Net cash used in noncapital financing activities	(48,394,868)	(461,080)
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(42,707,612)	(20,553,170)
Principal paid on bonds and other long-term debt	(252,042,155)	(6,629,150)
Interest paid on bonds	(24,578,502)	(20,328,235)
Repayments of capital lease obligations	(722,020)	(115,890)
Proceeds from capital related short-term debt	---	45,000,000
Proceeds from bonds	349,178,601	---
Debt issuance costs/loss on defeasance	(19,979,788)	(832,879)
Net cash provided by (used in) capital and related financing activities	9,148,524	(3,459,324)
Net (decrease) increase in cash and cash equivalents	(8,247,967)	33,535,950
Cash and cash equivalents at beginning or year	103,639,004	70,103,054
Cash and cash equivalents at end of year	$ 95,391,037	$103,639,004

See accompanying notes.

Guam Power Authority

Statements of Cash Flows, continued

	Year ended September 30, 1999	1998
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$31,956,272	$21,752,058
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	18,447,252	25,372,354
Difference between retirement expense and funding	(1,088,421)	(656,359)
Other expense	(241,469)	(731,201)
Change in operating assets and liabilities:		
Accounts receivable	(12,013,599)	(18,887,315)
Materials and supplies inventory	1,055,699	(3,736,795)
Fuel inventory	(2,700,880)	1,940,948
Prepaid expenses	(1,082,883)	194,715
Deferred fuel costs	450,742	45,191
Other assets	48,809	15,489
Accounts payable - operations	1,567,917	2,644,549
Accounts payable - Navy	(2,047,253)	1,216,625
Accounts payable - fuel	(2,957,766)	30,036
Customer deposits	194,602	(336,224)
Deferred credits	(3,379,924)	5,025,917
Accrued payroll and employees' benefits	(1,459,816)	346,633
Other accrued liabilities	---	(1,530,447)
Employees' annual leave	(79,104)	278,124
Net cash provided by operating activities	$26,670,178	$32,984,298

Non-cash capital financing transaction:

GPA acquired and installed equipment and related software recorded as construction work-in progress of $1,300,653 and $3,473,405 and incurred capital lease obligations of the same amount during the years ended September 30, 1999 and 1998, respectively.

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

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

Accounting Estimates

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

Utility Plant

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

Depreciation

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

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Inventory Valuation

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

Contributed Capital

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

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

Compensated Absences

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

Deferred Credits

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

1. Organization and Summary of Significant Accounting Policies, continued

Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing and the actual cost of fuel.

Fuel Oil Costs

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

Allowance for Funds Used During Construction

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

Unamortized Debt Issuance Costs

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

Canceled Unit

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

Reclassifications

Certain reclassifications have been made to the 1998 financial statements for comparative purposes. Such reclassifications had no effect on the previously reported net earnings.

2. Concentrations of Credit Risk

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

At September 30, 1999, GPA has cash deposits in bank accounts which exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

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

3. Cash and Investments

The bond indenture agreements for the 1992, 1993, 1994 and 1999 series revenue bonds (Note 6) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction. At September 30, 1999 and 1998, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	1999	1998
Construction funds	$ 70,608,809	$ 51,875,453
Bond reserve funds	28,836,490	27,022,127
Principal and interest funds	9,822,550	15,514,807
Working capital fund	5,155,013	13,481,603
Capitalized interest fund	4,270,346	---
Self-insurance fund	2,498,067	1,017,175
Operating funds	2,409,361	7,377,160
Revenue fund	594,201	2,695,333
Surplus fund	32,690	9,468
Debt service fund	---	11,668,005
	$124,227,527	$130,661,131

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 1999 and 1998. Market values shown below implicitly include accrued interest for debt securities.

3. Cash and Investments, continued

	1999	1998
Cash on hand, in demand and time deposits and money market accounts	$ 96,215,527	$103,638,925
Federal National Mortgage Association discount notes	28,012,000	---
U.S. treasury notes	---	20,134,247
Repurchase agreements	---	80
Municipal bonds	---	6,887,879
	$124,227,527	$130,661,131

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

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

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

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

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

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled $2,020,903 as of September 30, 1999. Of this amount, $592,081 was covered by federal depository and national credit union administration insurance, $1,258,832 was uninsured and uncollateralized, and $141,059 and $28,931, respectively, is held on hand for the change fund and petty cash.

4. Accounts Receivable

Accounts receivable at September 30, 1999 and 1998, are summarized as follows:

	1999	1998
Customers:		
Private	$27,192,472	$20,572,223
Government	23,229,813	11,827,183
	50,422,285	32,399,406
Insurance and FEMA claims	12,259,229	16,495,156
Government subsidies	463,055	463,055
Others	1,916,467	3,210,552
	65,061,036	52,568,169
Less allowance for doubtful accounts	3,015,794	2,536,526
	$62,045,242	$50,031,643

5. Short-Term Debt

Short-term debt at September 30, 1999 and 1998, is as follows:

	1999	1998
Thirty-day notes payable drawn on a $15 million bank line of credit with interest at 6.85% at September 30, 1999 (7.56875% to 7.71625% at September 30, 1998), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues.	$ 6,217,174	$ 6,217,174
Tax exempt commercial paper notes issued in August 1998 with interest at 3.0% to 3.2% at September 30, 1999 (2.9% to 4% at September 30, 1998). The notes provide $20 million for working capital and $45 million for capital projects and are collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The notes had original maturity dates from October 7, 1998 through January 12, 1999, but have been subsequently rolled over with new maturity dates from June 9, 2000 through August 14, 2000.	20,000,000	65,000,000
	$26,217,174	$71,217,174

5. Short-Term Debt, continued

In addition, GPA has a $15 million bank line of credit agreement collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues. As of September 30, 1999 and 1998, no amounts were drawn against the line.

6. Long-Term Debt

Long-term debt at September 30, 1999 and 1998, is as follows:

***Bonds*:**	1999	1998
1999 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $2,950,000 in October 2000, increasing to $26,110,000 in October 2034.	$349,178,601	$ ---
1993 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $1,725,000 in October 1996, increasing to $6,535,000 in October 2023.	92,670,000	96,485,000
1992 Series, interest at varying rates from 2.65% to 6.375% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments with a payment of $1,880,000 in October 1993, increasing to $11,040,000 in October 2022.	---	146,365,000
1994 Series, interest at varying rates from 5.20% to 6.75% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $1,500,000 in October 1997, increasing to $7,630,000 in October 2024.	---	101,400,000
Subtotal brought forward	441,848,601	344,250,000

6. Long-Term Debt, continued

	1999	1998
Bonds subtotal carried forward	441,848,601	344,250,000
***Note payables*:**		
MDI Guam non-interest bearing note payable in exchange for funds received for the construction of Manenggon Hills substation. The note is being repaid by deducting 80% of MDI's non-fuel charges from future power billings.	2,292,568	2,754,723
	444,141,169	347,004,723
Less current maturities	(384,784)	(6,834,784)
	443,756,385	340,169,939
Less discount on bonds	(7,624,755)	(6,832,376)
	436,131,630	333,337,563
Loss on defeasance, net of $259,174 accumulated amortization in 1999	(21,989,950)	---
	$414,141,680	$333,337,563

At September 30, 1999, future maturities of long-term debt are as follows:

Year ending September 30,	
2000	$ 384,784
2001	5,374,784
2002	5,599,784
2003	5,824,784
2004	6,064,784
Thereafter	420,892,249
	$444,141,169

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

6. Long-Term Debt, continued

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

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

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

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

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

7. Defeased Debt

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

8. Capital Lease Obligations

During 1998 and 1999, GPA acquired an accounting and operating system through a long term financing arrangement which has been classified as a capital lease. The capitalized lease obligations reflect the present value of future lease payments, discounted at the interest rate implicit in the lease, which ranged from 4.45% to 7.82%. The capitalized cost of equipment, which totaled $4,744,058 on the date acquired by GPA is being amortized over its estimated useful life using the straight-line basis and is reflected as a component of electric plant in service in the accompanying 1999 and 1998 balance sheets.

Future minimum lease payments related to the aforementioned leases are as follows:

Year ending September 30,	Amount
2000	$1,194,000
2001	1,194,000
2002	1,194,000
2003	897,185
Total minimum lease payments	4,479,185
Less amount representing interest	543,037
Present value of net minimum capital lease payments	3,936,148
Less current installments	1,013,000
Capital lease obligations, less current installments	$2,923,148

9. Employees' Retirement Plan

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

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

9. Employees' Retirement Plan, continued

For the year ended September 30, 1998, based on the most recent actuarial valuation performed as of September 30, 1995, a minimum combined employer and employee contribution rate of 28.1% of covered DBP payroll was required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1998. The effect of GPA's prior year accruals for its share of pension underfunding reduced the actuarially determined employer contribution rate from 18.6% to an effective rate of 16.1% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 2.5% of covered payroll was necessary to reduce the unfunded liability based on the difference between the effective rate of 16.1 % and the employer's statutory rate of 18.6%.

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

The DBP utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% and 6.5% per annum, respectively, for the years ended September 30, 1999 and 1998. The September 30, 1998 and 1995 actuarial valuations did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net asset available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate entity, the accrued unfunded liability at September 30, 1999 and 1998, may be materially different than that recorded in the accompanying financial statements.

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

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

9. Employees' Retirement Plan, continued

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

The cost to GPA for retirement contributions for the years ended September 30, 1999 and 1998, is a follows:

	1999	1998
Cash contributions	$5,394,572	$5,898,706
Accruals	(1,088,421)	(656,359)
	$4,306,151	$5,242,347

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

10. Commitments and Contingencies

Capital Commitments

The 2000 capital improvement project budget is approximately $19 million. The four-year capital improvement project budget proposed by management for 2000 through 2003 is estimated to be $181 million. These budgets are subject to change by the Board of Directors.

GPA has approximately $64 million in purchase commitments as of September 30, 1999.

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

In March 1999, GPA acquired a turn-key gas turbine power plant for $11.2 million. GPA had previously leased the plant for $66,666 per month plus a variable payment based on the London Interbank Offer Rate (LIBOR) rate.

Leases

In October 1997, GPA entered into a lease agreement for its office building for an initial term of three years with an option to extend for an additional two year period. Monthly rent is $71,120 and increases to $78,231 if the option to extend is exercised.

10. Commitments and Contingencies, continued

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

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

At September 30, 1999, future minimum lease payments for the aformetioned leases are as follows:

Year ending September 30,	Amount
2000	$ 2,065,000
2001	2,140,000
2002	2,139,000
2003	1,253,000
2004	1,290,000
Thereafter	11,341,000
	$20,228,000

Rent expense under the aforementioned agreements totaled $1,565,434 and $2,065,434 during the years ended September 30, 1999 and 1998, respectively, which is included as a component of administrative and general expense in the accompanying statements of earnings and retained earnings.

Energy Conversion Agreements

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

The agreements have 20 year terms. Power purchases for the years ended September 30, 1999 and 1998 under such agreements were $24,737,385 and $9,271,687, respectively, which is included as a component of energy conversion costs in the accompanying statements of earnings and retained earnings.

Minimum power purchase commitments for the remaining years of such agreements are $37,218,000 in 2000 and $36,417,000 annually thereafter. Performance of the units and provisions for inflation included in the agreements may significantly impact these commitments.

10. Commitments and Contingencies, continued

Letters of Credit

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

As of September 30, 1999, GPA has outstanding letters of credit of approximately $2.9 million, and standby letters of credit of $250,000.

Environmental Protection Agency

On May 24, 1986, the administrator of the Environmental Protection Agency (EPA), granted a continuing exemption to GPA under the provisions of Section 325(b) of the Clean Air Act, as amended. The terms of the exemption require monitoring by EPA, certain commitments by GPA regarding fuel stocks and reporting and delineation of grounds for revocation of the exemption.

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

Typhoon Damages

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

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

As of September 30, 1999, GPA has approximately $12,259,000 in insurance and FEMA claims for typhoon damages included in accounts receivable. The amount ultimately to be collected against these claims is uncertain.

10. Commitments and Contingencies, continued

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 1999. It is not possible to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

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

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

Medicare

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

Hazardous Waste Assessment

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

10. Commitments and Contingencies, continued

Government of Guam General Fund

On March 21, 1997, legislation was enacted which requires GPA and three other component units of the Government of Guam to pay the Government of Guam General Fund, a combined amount of $23 million as payments in lieu of taxes for fiscal years 1986 to 1997. The law also requires that these component units be assessed a total of $3.5 million annually starting in fiscal year 1998. The $23 million may be paid immediately or over a five to ten year period with financing terms to be negotiated. Subsequently, legislation was enacted that allowed the Governor of Guam to assess and collect funds from autonomous agencies for past contributions of capital to the agencies, past transfers of physical assets, direct services supplied or a proportionate cost of services maintained by the government. On October 27, 1999, the Governor of Guam issued Executive Order No. 99-16 which orders the PUC to open a regulatory docket to determine the basis upon which an assessment shall be conducted for past transfers for which the government of Guam has not been compensated. Additionally, the order states that the claims of the government of Guam shall be held in abeyance until the matter of the assessment has been resolved. In April 2000, a bill was introduced in the Guam legislature which would appeal the public laws relative to the transfer of autonomous agency revenues related to such assessments. As the amount of the assessment has not been ultimately determined, no accrual for this contingent liability has been recorded as of September 30, 1999.

Government of Guam Receivables

As part of Executive order No. 99-16, the Governor of Guam ordered that GPA's claims against the government of Guam shall be held in abeyance until the issue of past transfers from the government of Guam to GPA has been resolved. As of September 30, 1999, amounts due from the Government of Guam, including autonomous agencies, totaled $23,229,813. No allowance for the uncollectibility of the government of Guam receivables has been accrued as of September 30, 1999 as the amount cannot be reasonably estimated.

Disputed Payable

GPA is disputing charges of approximately $2 million associated with one of its Energy Conversion Agreements. GPA has not recorded this amount in the accompanying financial statements at September 30, 1999.

Shared Savings Claim

GPA settled litigation brought against GPA by one of its subcontractors for alleged "shared savings" to which the claimants believed they were entitled under their contract. Subsequent to September 30, 1999, the litigation was settled for $995,000 after the Superior Court of Guam denied GPA's Motion for Summary Judgment. This amount has been recorded as a component of electric plant in service in the accompanying 1999 balance sheet.

10. Commitments and Contingencies, continued

Federal Awards

GPA has received federal awards for specific purposes that are subject to review and audit by the grantor agencies. As of September 30, 1999, questioned costs have resulted from such compliance audits in the amount of $2,196,167. No provision has been made in the accompanying financial statements for any liability which may ultimately result as management is unable to assess the ultimate resolution of this matter.

11. 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 fifty years.

During the years ended September 30, 1999 and 1998, GPA billed the Navy approximately $26,900,000 and $30,200,000, respectively, for sales of electricity under a customer/supplier agreement.

12. Related Party Transactions

A board member of GPA is the principal owner of a supplier who has been doing business with GPA in the past years. Transactions with this vendor during the years ended September 30, 1999 and 1998 approximate $1,627,257 and $1,424,259, respectively.

13. Year 2000 Issue (Unaudited)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect GPA's operations as early as fiscal year 1999. GPA has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue and has not yet determined the cost to upgrade such systems. GPA is currently in the remediation stage of addressing the Y2K issues.

Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Management cannot assure that GPA is or will be year 2000 ready, that GPA's remediation efforts will be successful in whole or in part, or that parties with whom GPA does business will be year 2000 ready.