GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2006 and 2005, 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.

As discussed in note 4 to the financial statements, there are substantial accounts receivable balances from Government of Guam agencies that have been outstanding for several years. At September 30, 2006, collectibility of receivables totaling $30 million from two of the agencies is completely dependent on adequate funding from the Government of Guam's General Fund. At present, the ability of the Government of Guam's General Fund to repay these receivables is not determinable. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 34 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2007, on our consideration of the GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

March 28, 2007

GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ended September 30, 2006

Introduction

The biggest challenge facing the Guam Power Authority (GPA) continues to be the high cost of fuel. Shortly after the end of the fiscal year, GPA passed on another increase in the Levelized Energy Adjustment Clause (LEAC) of approximately 6.5% of total sales. The LEAC is the adjustable rate that allows GPA to recover its actual cost of fuel. At a time when GPA has been expecting to see increases in kWh sales resulting from the planned addition of 8,000 Marines to the island's military bases, the Authority's kWh sales have been flat or slightly decreasing as the table below describes. GPA has been finding that many of its customers have begun to take strong actions to mitigate the impact of fuel prices on their homes and businesses.

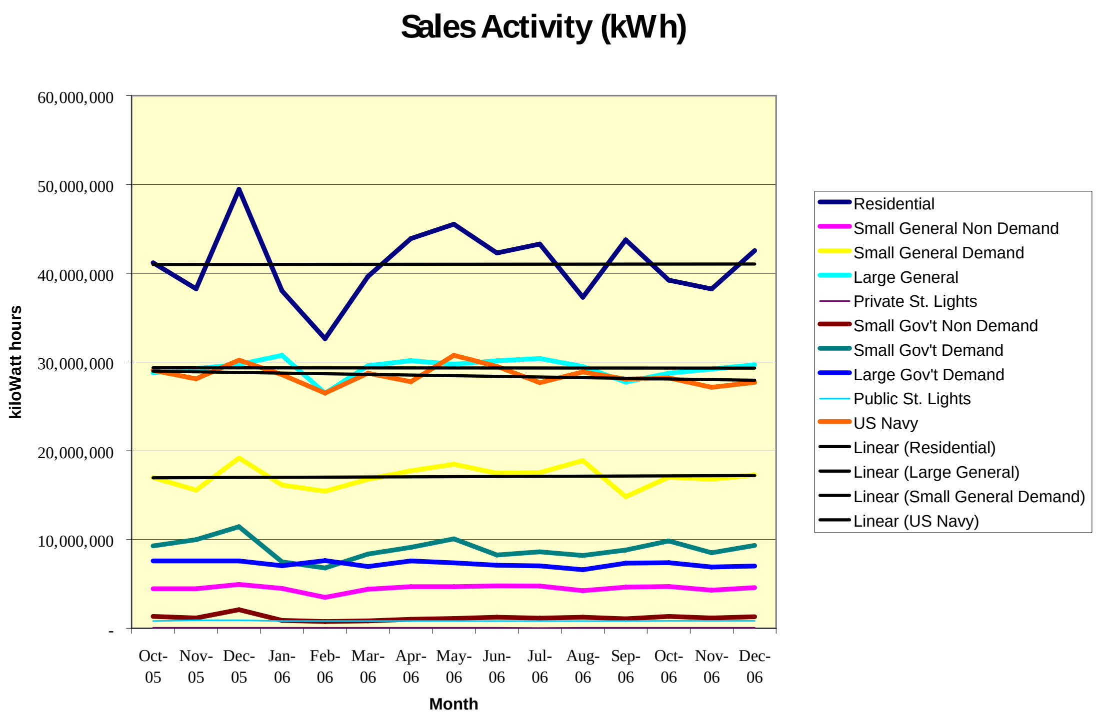

Figure 1, Energy Sales by Rate Class

GPA's system is dependent upon fossil fuels as the Authority's generation plants burn either high sulfur oil or diesel fuel – both of which have been impacted by the increased worldwide demand for petroleum products. GPA is currently developing an integrated resource plan to evaluate the feasibility of using alternative energy sources to enable the Authority to diversify its energy utilization as well as studying options for converting its existing plants to support alternative fuel types. GPA is also continuing to examine its options for constructing a sea water air cooling system in Tumon Bay to serve many of the island's largest hotels. The cold sea water would be used to replace the air conditioning load of several of the hotels lining Tumon Bay. However, even under the best case scenario, this new plant would impact less than 5% of GPA's load. Thus, finding solutions to protect customers from the high cost of energy has proven challenging.

GPA's baseload units continue to perform exceptionally well. GPA's system is made up of 351.6 megawatts of baseload units that burn high sulfur fuel oil and 200.8 megawatts of peaking units that burn diesel fuel. Because the cost of diesel fuel is sometimes as high as 200% of the cost of high sulfur fuel oil, GPA has been able to mitigate some of the increased cost of fuel by improving the reliability and availability of its baseload units. The graph below details the increased production from baseload units.

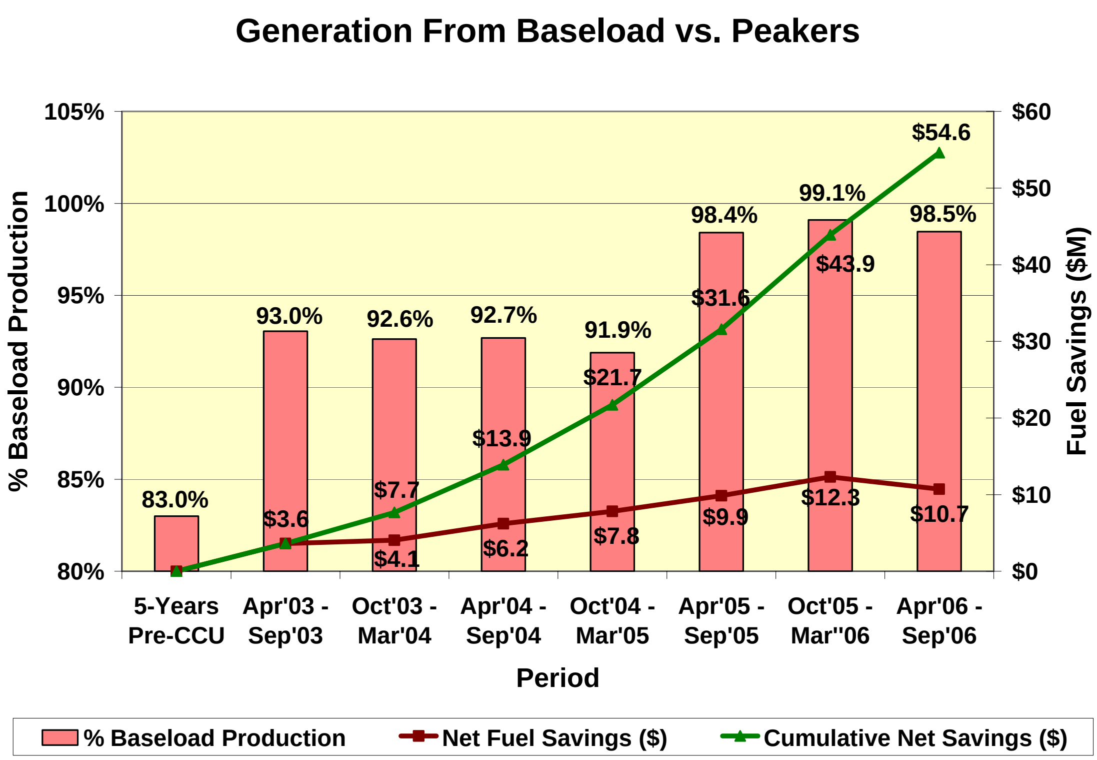

Figure 2, Baseload Production and Fuel Savings by Current Management over Prior Management

In the five years prior to the CCU taking office, the average percentage of generation from baseload production was 83%. Since that time, the percentage of generation from baseload plants has risen dramatically. If the 83% level had been held constant the last four years, GPA ratepayers would have had to bear nearly $55 million in additional fuel costs due to the differential between high sulfur oil and diesel fuel.

Regional Comparisons

The high percentage of generation from baseload plants has put GPA in a position in which its rates have been very competitive in comparison with other island utilities that are dependent upon diesel fired generation units and even some mainland utilities that don't have some of the same constraints that GPA faces. The chart below shows a comparison of residential rates charged by the other utilities:

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Management Discussion and Analysis
Year Ended September 30, 2006

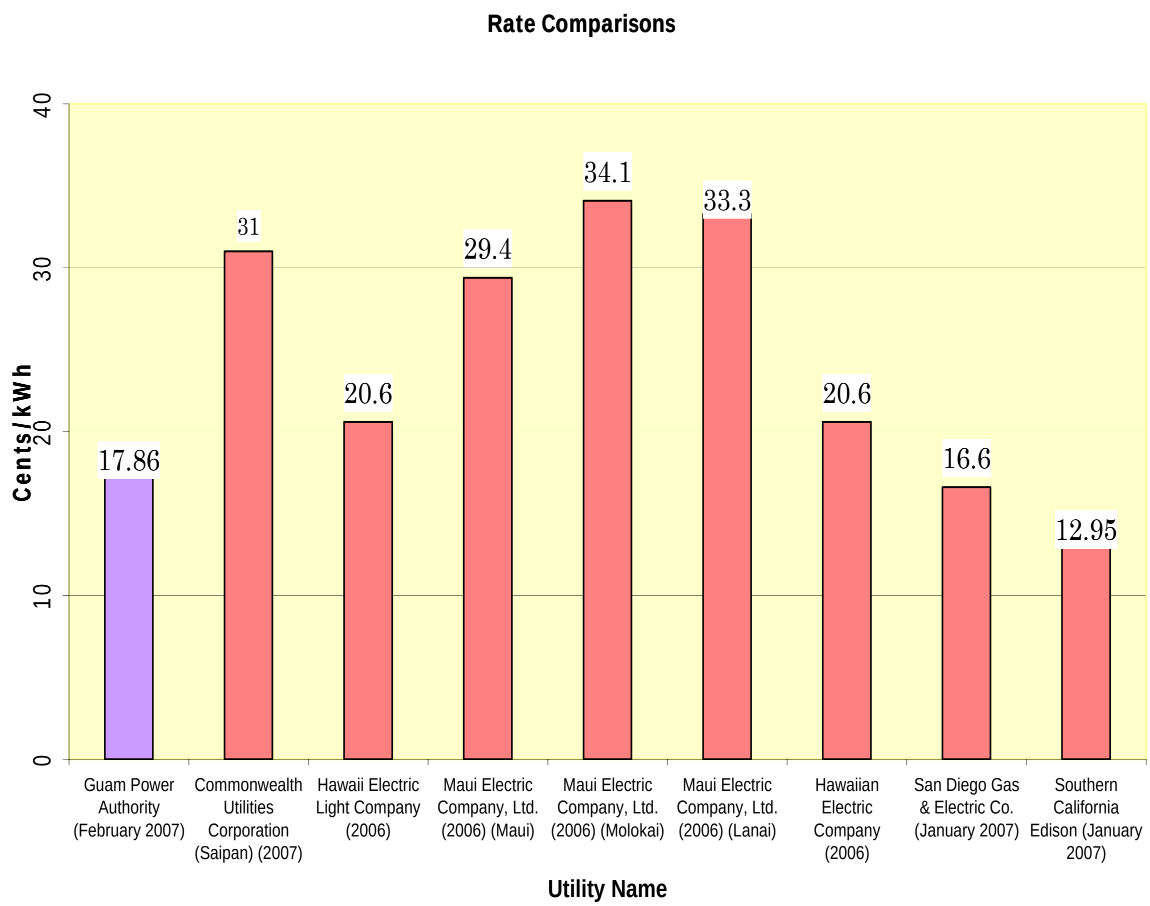

Figure 3, Regional Rate Comparisons

Customer Base

As the chart below shows, GPA's major customers include a fairly diverse base including the Department of Defense, the Guam Waterworks Authority, the Guam Public Schools System, the Guam International Airport Authority, the Hilton Hotel, the Hyatt Regency Hotel, the Micronesia Mall, the Marriot Hotel, the Pacific Islands Club, and others.

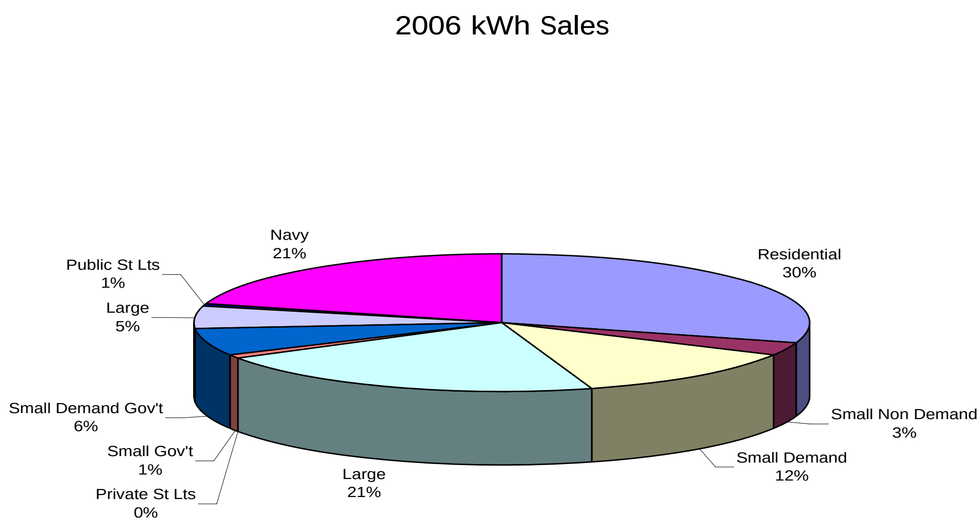

Figure 4, Percent Breakdown of FY 2006 Energy Sales

Accounts Receivable

GPA has been heartened by the conclusion of the recent United States Supreme Court Case related to an attempt to borrow funds by the Government of Guam. The Government has owed the Authority approximately $30 million in past due power originating prior to the creation of the Consolidated Commission on Utilities to oversee GPA. The Governor of Guam attempted to issue bonds to cover this debt as well as many others he faced as he began his term in office. The law suit was filed because the Attorney General refused to sign off on the bond indenture agreement. The issue has been tied up in court for the last four years. GPA believes that with the closure of the case, the Authority is closer to receiving payment of these past due obligations. While the issue has been tied up in litigation, the Guam Public School System and the Guam Memorial Hospital have been making installment payments on the outstanding amounts.

Financial Highlights

Table 1 highlights financial comparisons between Fiscal Years 2004 through 2006. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

Table 1, Financial Data (in millions of dollars)

MILLIONS OF DOLLARS	2006	2005	2004
Assets			
Current Assets	$ 152.4	$ 143.9	$ 149.2
Non-current investments	27.5	27.5	27.4
Other non-current Assets	48.5	45.3	47.6
Utility Plant	551.6	553.1	557.2
Liabilities			
Current Liabilities	82.5	64.3	67.7
Non-current Liabilities	547.3	553.8	562.5
Net Assets			
Invested in capital assets net of related debt	21.4	13.1	8.2
Restricted	53.3	54.4	56.1
Unrestricted	75.4	84.3	87.0

Results of Operations

MILLIONS OF DOLLARS	2006	2005	2004
Revenues	$ 290.1	$ 247.0	$ 225.2
Total Operating and Maintenance expense	256.3	210.0	191.9
Operating earnings	33.8	37.0	33.3
Interest income	4.4	3.6	2.9
Other revenues and (expense)	(37.6)	(37.8)	(42.5)
Loss before capital contributions	(3.8)	(0.8)	(9.2)
Capital contributions	2.1	1.4	-
(Decrease) increase in net assets	(1.7)	0.6	(9.2)

Explanations of Variances

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

- The changes in current assets is primarily due to the timing of GPA's payment for fuel. GPA had a payment pending the first week of October 2006 and therefore, cash on hand was higher than normal. There has been a general downward trend as GPA has been completing the final projects from its 1999 bond issuance. This also explains the increased amount of current liabilities as of September 30, 2006.

- The increase in Capital Assets Net of related debt results from decreasing debt outstanding as bond payments are made and assets are being brought into service.

- Revenues increased by $41.9M or 17.4% over the previous year due primarily to the increase in world fuel prices.

- Total operating and maintenance expenses increased by $46.3M or 22.0% which is primarily due to the increase in fuel oil costs. The average price per barrel purchased increased 46.3% over the previous year.

- Interest income in 2006 increased by $.8M due to increasing interest rates available on short term investments and money market funds.

- Other expenses were unusually high in 2004 as a result of a loss on an oil spill of $3.4 million.

- The capital contributions are due to a grant received from the Federal Emergency Management Agency to place some key transmission lines underground to additionally harden GPA's system against wind and storm risks.

GUAM POWER AUTHORITY

Statements of Net Assets
September 30, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents:		
Held by trustee:		
Interest and principal funds for debt repayment	$ 17,941,919	$ 17,215,622
Bond indenture funds for restricted purposes	21,806,713	25,431,155
Held by Guam Power Authority:		
Bond indenture funds	19,220,350	14,230,359
Total cash and cash equivalents	58,968,982	56,877,136
Accounts receivable, net	43,273,912	40,722,746
Current installments of long-term receivables	4,865,940	6,675,390
Total current receivables	48,139,852	47,398,136
Materials and supplies inventory	13,421,024	14,392,880
Fuel inventory	29,500,641	23,045,896
Prepaid expenses	1,188,592	1,182,603
Current portion of deferred fuel costs	1,172,177	1,068,346
Total current assets	152,391,268	143,964,997
Utility plant, at cost:		
Electric plant in service	809,861,968	798,923,889
Construction work in progress	25,877,073	20,829,261
Less accumulated depreciation	(284,111,334)	(266,635,872)
Total utility plant	551,627,707	553,117,278
Other non-current assets:		
Bond reserve funds (trustee)	27,488,252	27,488,245
Long-term receivables, less current installments	29,790,578	30,265,272
Non-current deferred fuel costs	7,397,261	3,205,038
Unamortized debt issuance costs	4,623,285	4,790,490
Cancelled unit, net of amortization	868,706	990,881
Deferred asset, net	3,824,423	3,983,774
Other	1,951,195	2,049,218
Total other non-current assets	75,943,700	72,772,918
	$ 779,962,675	$ 769,855,193

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Net Assets, Continued
September 30, 2006 and 2005

LIABILITIES AND NET ASSETS	2006	2005
Current liabilities:		
Short-term debt	$ 20,000,000	$ 20,000,000
Current maturities of long-term debt	6,480,000	6,200,000
Current obligations under capital leases	5,589,841	4,957,492
Current portion of deferred payment agreement	3,449,591	-
Accounts payable:		
Operations	14,502,766	14,065,010
Fuel	15,243,919	1,243,126
Accrued payroll and employees' benefits	1,089,336	1,124,114
Current portion of employees' annual leave	1,078,856	1,307,370
Interest payable	11,275,223	11,517,986
Customer deposits	3,858,707	3,837,597
Total current liabilities	82,568,239	64,252,695
Long-term debt, less current maturities	380,407,966	385,700,541
Deferred payment agreement, less current portion	1,101,681	-
DCRS sick leave liability	946,549	818,222
Employees' annual leave, less current portion	1,023,134	749,573
Retirement fund deferred contributions	9,105,058	7,717,882
Obligations under capital leases, less current portion	138,575,390	144,164,982
Provision for self-insurance	2,112,546	-
Deferred revenues, net	14,016,423	14,600,440
Total liabilities	629,856,986	618,004,335
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	21,443,216	13,085,144
Restricted	53,270,777	54,415,012
Unrestricted	75,391,696	84,350,702
Total net assets	150,105,689	151,850,858
	$ 779,962,675	$ 769,855,193

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	2006	2005
Revenues:		
Sales of electricity	$ 288,525,090	$ 244,991,100
Miscellaneous	1,673,629	2,076,028
	290,198,719	247,067,128
Bad debt (expense) recovery	(885,242)	278,627
Total revenues	289,313,477	247,345,755
Operating and maintenance expenses:		
Production fuel	157,121,699	112,708,608
Other production	18,644,308	19,386,793
	175,766,007	132,095,401
Administrative and general	24,587,781	24,124,451
Depreciation and amortization	24,267,638	25,146,329
Energy conversion costs	17,981,177	16,936,394
Transmission and distribution	10,559,269	9,739,874
Customer accounting	2,324,178	2,273,979
Total operating and maintenance expenses	255,486,050	210,316,428
Operating earnings	33,827,427	37,029,327
Other revenues (expense):		
Interest revenue	4,421,404	3,591,565
Allowance for funds used during construction	580,861	1,285,834
COLA/supplemental annuities	(519,865)	(550,044)
Other expense	(275,505)	(16,205)
Interest expense	(41,859,548)	(42,148,963)
Total other expenses	(37,652,653)	(37,837,813)
Loss before capital contributions	(3,825,226)	(808,486)
Capital contributions:		
Grants from the United States Government	2,080,057	1,426,669
(Decrease) increase in net assets	(1,745,169)	618,183
Net assets at beginning of year	151,850,858	151,232,675
Net assets at end of year	$ 150,105,689	$ 151,850,858

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

Increase (decrease) in cash and cash equivalents	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 289,067,565	$ 251,395,716
Cash payments to suppliers for goods and services	(194,213,410)	(163,881,345)
Cash payments to employees for services	(26,468,806)	(26,630,094)
Net cash provided by operating activities	68,385,349	60,884,277
Cash flows from investing activities:		
Change in bond reserve funds	(7)	(95,115)
Interest and dividends on investments and bank accounts	3,837,386	2,821,071
Net cash provided by investing activities	3,837,379	2,725,956
Cash flows from noncapital financing activities:		
Interest paid on short-term debt, deferred payment agreements and deposits	(1,871,844)	(738,810)
Net cash used in noncapital financing activities	(1,871,844)	(738,810)
Cash flows from capital and related financing activities:		
Additions to utility plant	(22,931,401)	(21,026,257)
Principal paid on bonds	(6,200,000)	(5,935,000)
Interest paid on bonds	(20,235,936)	(20,129,519)
Principal paid on capital leases	(4,957,243)	(4,397,922)
Interest paid on capital leases	(18,127,061)	(18,686,379)
Self insurance fund receipts	2,112,546	-
Typhoon expenditures	-	(598,917)
FEMA receipts	2,080,057	308,337
Net cash used in capital and related financing activities	(68,259,038)	(70,465,657)
Net change in cash and cash equivalents	2,091,846	(7,594,234)
Cash and cash equivalents at beginning of year	56,877,136	64,471,370
Cash and cash equivalents at end of year	$ 58,968,982	$ 56,877,136

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2006 and 2005

	2006	2005
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 33,827,427	$ 37,029,327
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	24,267,638	25,146,329
Bad debt	885,242	-
Inventory obsolescence	103,001	-
COLA/supplemental annuities paid	(519,865)	(550,044)
Difference between retirement expense and funding	1,387,176	2,668,476
(Increase) decrease in assets:		
Accounts receivable	(1,152,264)	3,822,773
Materials and supplies inventory	868,855	1,454,948
Fuel inventory	(6,454,745)	(6,519,111)
Prepaid expenses	(5,989)	165,094
Deferred fuel costs	(4,068,677)	1,531,388
Other assets	98,023	134,704
Increase (decrease) in liabilities:		
Accounts payable - fuel	14,000,793	(2,841,656)
Accounts payable - operations	437,756	(968,988)
Deferred payment agreements	4,551,272	-
Accounts payable - Navy	-	(55,982)
Customer deposits	21,110	505,815
Accrued payroll and employees' benefits	(34,778)	(298,724)
Employees' annual and sick leave	173,374	(340,072)
Net cash provided by operating activities	$ 68,385,349	$ 60,884,277

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

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

Net Assets

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

Accounting Estimates

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

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

Utility Plant

Utility Plant is stated at cost which, as to certain plant transferred from the power division of the Public Utility Agency of Guam in 1969, is based on estimated cost as determined by an independent appraiser. Cost includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. 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. Current policy is to capitalize items over $500.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (5-50 years for plant assets).

Inventory Valuation

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

Cash and Cash Equivalents

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

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave 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.

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

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.

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, 2006 and 2005 are $6,666,521 and $6,134,009, respectively.

Derivative Instruments

In June 2003, GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, was issued. Technical Bulletin 2003-1 adopts many of the definitions established in Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities.

Disclosures required by Technical Bulletin 2003-1 for GPA's fuel oil hedging activities are included in note 15.

Technical Bulletin 2003-1 also adopts the FASB 133 exception for certain derivative transactions that meet the criteria of "normal purchases and normal sales". Power purchase agreements generally meet the "normal purchases and normal sales" exception. Accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 11) are excluded from the Technical Bulletin requirements under the "normal purchases and normal sales" exception.

Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or 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. Historically, GPA charged its customers for fuel as a separate line item, which was adjusted on a monthly basis. The LEAC resulted in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Cumulative unrecovered fuel costs are $8,569,438 and $4,273,384 at September 30, 2006 and 2005, respectively.

(1) Summary of Significant Accounting Policies, Continued

Allowance for Funds Used During Construction

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1993 and Series 1999 bonds. 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.

New Accounting Standards

During fiscal year 2006, GPA implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.

- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

- GASB Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.

- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

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

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GPA.

Reclassifications

Certain account balances in the 2005 financial statements have been reclassified to correspond with the 2006 presentation.

(2) Concentrations of Credit Risk

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

At September 30, 2006 and 2005, GPA has cash deposits in bank accounts that exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy. The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

(3) Cash and Investments

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

At September 30, 2006 and 2005, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	2006			
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 16,672,617	$ -	$ 16,672,617
Interest and principal funds	17,941,919	-	-	17,941,919
Bond funds	-	5,134,096	-	5,134,096
Working capital funds	-	-	14,664,780	14,664,780
Self-insurance fund	-	-	1,741,498	1,741,498
Revenue funds	-	-	360,663	360,663
Operating funds	-	-	1,939,236	1,939,236
Surplus funds	-	-	514,173	514,173
	17,941,919	21,806,713	19,220,350	58,968,982
Bond Reserve Funds				27,488,252
				$ 86,457,234

	2005			
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 20,423,091	$ -	$ 20,423,091
Interest and principal funds	17,215,622	-	-	17,215,622
Bond funds	-	5,008,064	-	5,008,064
Working capital funds	-	-	12,666,667	12,666,667
Revenue funds	-	-	55,934	55,934
Operating funds	-	-	1,459,053	1,459,053
Surplus funds	-	-	48,705	48,705
	17,215,622	25,431,155	14,230,359	56,877,136
Bond Reserve Funds				27,488,245
				$ 84,365,381

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2006 and 2005. Market values shown below implicitly include accrued interest for debt securities.

	2006	2005
Cash on hand, in demand and time deposits and money market accounts	$ 58,968,982	$ 56,877,136
Commercial paper	27,488,252	27,488,245
	$ 86,457,234	$ 84,365,381

(3) Cash and Investments, Continued

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

A. Cash

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

Category 1 Insured or registered, or collateralized with securities held by GPA or its agent in GPA's name;

Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GPA's name; or

Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GPA's name.

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

As of September 30, 2006 and 2005, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was $58,968,982 and $56,877,136, respectively, and the corresponding bank balances were $59,077,822 and $56,618,923, respectively. Of the bank balance amount, as of September 30, 2006 and 2005, $3,789,575 and $6,778,731, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount represents short-term investments held and administered by GPA's trustees and cash on hand. As of September 30, 2006 and 2005, bank deposits in the amount of $503,774 and $685,160, respectively, were FDIC insured. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GPA has not experienced any losses in such accounts.

(3) Cash and Investments, Continued

A. Cash, Continued

As of September 30, 2006 and 2005, short-term investments in the amount of $39,748,631 and $42,646,777, respectively, are held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures.

B. Investments

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

Category 1 Investments that are insured or registered, or securities held by GPA or its agent in GPA's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in GPA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GPA's name.

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

As of September 30, 2006, GPA's investment in commercial paper, included in the bond reserve fund were as follows:

	Amount	Maturity	S&P's Rating
Bond Reserve Fund:			
Crimson Corporation	$ 13,743,000	October 2, 2006	A-1+
Crown Point Capital Co.	13,742,000	October 2, 2006	A-1

As of September 30, 2005, GPA's investments in commercial paper, included in the Bond Reserve Fund were as follows:

	Amount	Maturity	Moody's Rating
Bond Reserve Fund:			
General Electric Corp.	$ 13,742,000	October 3, 2005	Aaa
Crimson Corporation	13,743,086	October 3, 2005	Bal

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aal/P-1 by Moody's.

(3) Cash and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2006 and 2005, $27,488,252 and $27,488,245, respectively, is held in the name of a trustee for GPA.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2006, GPA's investments that exceeded 5% of total investments are as follows: Bayerische Landesbank (28.28%), Crimson Commercial Paper (22.06%), Crown PT Commercial paper (22.06%) and the Federal Debt Security Fund (27.07%). As of September 30, 2005, GPA's investments that exceeded 5% of total investments are as follows: Bayerische Landesbank (25.86%), Crimson Commercial Paper (21.04%), General Electric Commercial Paper (21.04%) and the Federal Debt Security Fund (31.55%).

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

(4) Receivables

Accounts receivable at September 30, 2006 and 2005, are summarized as follows:

	2006	2005
Customers:		
Private	$ 38,554,624	$ 33,874,465
Government	10,320,508	12,353,824
	48,875,132	46,228,289
U.S. Navy	4,201,763	2,372,305
Federal Emergency Management Agency	1,958,425	3,112,075
Interest	476,441	458,125
Others	2,833,786	2,552,557
	58,345,547	54,723,351
Less allowance for doubtful receivables	(15,071,635)	(14,000,605)
	$ 43,273,912	$ 40,722,746

(4) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2006 and 2005 consisted of the following:

	2006	2005
Installment payment agreement receivable from the GovGuam Public School System (GPSS), payable in three $500,000 payments in July, August, September 2004, thirteen monthly installments of $100,000 starting October 2004, with monthly installments increasing by $25,000 annually each November until payments reach $200,000 in November 2008, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	$ 13,223,349	$ 13,964,139
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of $75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installment payment due in April 2007, uncollateralized.	10,910,791	10,447,168
Note receivable from the Guam Memorial Hospital Authority (GMHA), due in 29 monthly installments of $43,483, beginning October 2005, including interest at 4.47% per annum, with a final installment payment due in February 2008, uncollateralized.	759,724	782,033
Receivable due from Guam Waterworks Authority, payable monthly from an 11.5% water rate surcharge, interest at 4.3%, uncollateralized.	9,762,654	11,747,322
	34,656,518	36,940,662
Less current portion	(4,865,940)	(6,675,390)
	$ 29,790,578	$ 30,265,272

The receivable from DPW is all classified as long-term at September 30, 2006 because no payment is anticipated in 2007. However, scheduled maturities of long-term receivables are as follows:

Year ending September 30,	Amount
2007	$ 19,456,952
2008	4,891,156
2009	1,953,398
2010	2,068,569
2011	2,162,952
2012-2013	4,123,491
	$ 34,656,518

(4) Receivables, Continued

Long-Term Receivables, Continued

The GPSS, DPW and GMHA receivables resulted from the conversion of past due receivables from these entities into notes receivable in 2001. In April 2002, the GPSS and DPW notes were renegotiated to convert the outstanding note balances plus current receivable balances into new agreements. In July 2004, the note receivable from GPSS was renegotiated again to convert the old note receivable plus current receivables of $2,797,264 into a new installment agreement of $15,855,083. In October 2005, GMHA renegotiated its note receivable plus current receivables of $411,150 into a new installment agreement of $1,193,183 payable over a period of 29 months.

In April 2003, Public Law 27-19, which authorized the Government of Guam (GovGuam) to borrow up to $218 million including $30 million to pay the GPA for past due notes and accounts receivable, was signed into law by the Governor of Guam. Shortly after passage of the law, the Attorney General of Guam asserted that the proposed borrowing would exceed GovGuam's debt ceiling based on the assessed value of real property on Guam and refused to approve the bond indenture agreement. The Guam Economic Development and Commerce Authority and the Governor of Guam challenged the Attorney General's position and obtained a favorable ruling from the Supreme Court of Guam. The Attorney General ultimately appealed the Supreme Court of Guam decision to the United States Supreme Court. On March 29, 2007, the U.S. Supreme Court issued an opinion stating that GovGuam's statutory debt ceiling should be determined based on the assessed value of the real property on Guam and that the bond borrowing would exceed that debt ceiling. No decision has been reached as to whether the Government of Guam will continue to pursue a bond borrowing in a lesser amount or if the calculation of the statutory debt ceiling may be revised. Either of these decisions may also be subject to legal challenge.

At September 30, 2006, the DPW receivables are significantly delinquent with only minimal payments made since its inception. In addition, questions have been raised as to whether the DPW note is legal and binding. No provision has been provided in the accompanying financial statements for this receivable.

On March 9, 2007, GovGuam was placed on a credit watch with negative implications by the Standards & Poors (S&P) rating agency. According to S&P, the Government of Guam has a "liquidity crisis." Collectibility of the GPSS and DPW receivables is completely dependent on adequate funding being provided by the Government of Guam's General Fund or on the issuance of the bonds discussed in the preceding paragraphs. Continuing GovGuam financial problems may result in these receivables becoming uncollectible. No adjustments have been recorded for this uncertainty.

(5) Short-Term Debt

Short-term debt at September 30, 2006 and 2005, is as follows:

	2006	2005
Taxable commercial paper issued November 1, 2004, interest at 5.28% at September 30, 2006 and 4% at September 30, 2005.	$ 20,000,000	$ 20,000,000

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

(5) Short-Term Debt, Continued

Movements in GPA's short-term debt in 2006 and 2005 are as follows:

	Outstanding September 30, 2005	Increases	Decreases	Outstanding September 30, 2006
Taxable commercial paper	$ 20,000,000	$ -	$ -	$ 20,000,000

	Outstanding September 30, 2004	Increases	Decreases	Outstanding September 30, 2005
Taxable commercial paper	$ -	$ 20,000,000	$ -	$ 20,000,000
Tax exempt commercial paper	20,000,000	-	20,000,000	-
	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000

(6) Long-Term Debt

Long-term debt at September 30, 2006 and 2005, is as follows:

	2006	2005
Bonds:		
1999 Series, initial face value of $349,178,601, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $2,950,000 in October 2000, increasing to $26,110,000 in October 2034.	$ 329,563,601	$ 333,163,601
1993 Series, initial face value of $100 million, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $1,725,000 in October 1996, increasing to $6,535,000 in October 2023.	78,825,000	81,425,000
	408,388,601	414,588,601
Less current maturities	(6,480,000)	(6,200,000)
	401,908,601	408,388,601
Less discount on bonds	(5,521,271)	(5,829,098)
	396,387,330	402,559,503
Loss on defeasance, net of $6,010,585 and $5,130,987 accumulated amortization in 2006 and 2005, respectively	(15,979,364)	(16,858,962)
Total bonds	$ 380,407,966	$ 385,700,541

(6) Long-Term Debt, Continued

Deferred payment agreements:	2006	2005
Two deferred payment agreements with vendors, payable in monthly installments totaling $343,728, including interest at 5% to 5.5%, due in September 2007 and June 2008.	$ 4,551,272	$ -
Less current maturities	3,449,591	-
	$ 1,101,681	$ -

As of September 30, 2006, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2007	$ 9,929,591	$ 20,822,894	$ 30,752,485
2008	7,871,681	20,426,173	28,297,854
2009	7,080,000	20,071,601	27,151,601
2010	7,373,601	19,361,100	26,734,701
2011	7,795,000	19,278,575	27,073,575
2012 through 2016	45,565,000	89,461,038	135,026,038
2017 through 2021	58,670,000	75,739,863	134,409,863
2022 through 2026	75,255,000	67,356,983	142,611,983
2027 through 2031	96,515,000	35,925,294	132,440,294
2032 through 2035	96,885,000	7,954,800	104,839,800
	$ 412,939,873	$ 376,398,321	$ 789,338,194

Proceeds of the 1993 series bonds, face value of $100 million, were used to finance acquisitions of additional generating capacity, to construct additional transmission facilities, and to upgrade and refurbish existing equipment.

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

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

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

On September 28, 2000, GPA entered into a Bond Reserve Fund Forward Delivery Agreement (the agreement) with the US Bank Trust National Association and Bank of America. In connection with the agreement, GPA received cash totaling $13.5 million in October 2000 representing the present value of interest income on certain invested bond proceeds.

(6) Long-Term Debt, Continued

Based on the terms of the agreement, gross proceeds totaled $17,521,029 while GPA incurred termination fees and closing costs totaling $3,530,000 and $1,250,529, respectively. The $13.5 million in net proceeds included $759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds, net of amortization, is reflected as deferred revenue in the accompanying statements of net assets. The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

The following summarizes deferred revenues and deferred asset at September 30, 2006 and 2005:

	2006	2005
Deferred revenues	$ 17,521,029	$ 17,521,029
Accumulated amortization	(3,504,606)	(2,920,589)
	$ 14,016,423	$ 14,600,440
Deferred asset	$ 4,780,529	$ 4,780,529
Accumulated amortization	(956,106)	(796,755)
	$ 3,824,423	$ 3,983,774

Changes in long-term liabilities are presented as follows:

	Outstanding Sept. 30, 2005	Increases	Decreases	Outstanding Sept. 30, 2006	Current	Noncurrent
1993 Series bonds	$ 81,425,000	$ -	$ 2,600,000	$ 78,825,000	$ 2,740,000	$ 76,085,000
1999 Series bonds	333,163,601	-	3,600,000	329,563,601	3,740,000	325,823,601
Unamortized discount on bonds	(5,829,098)	-	(307,827)	(5,521,271)	-	(5,521,271)
Loss on defeasance of bonds	(16,858,962)	-	(879,598)	(15,979,364)	-	(15,979,364)
Obligations under capital leases	149,122,474	-	4,957,243	144,165,231	5,589,841	138,575,390
DCRS sick leave liability	818,222	128,327	-	946,549	-	946,549
Deferred payment agreements	-	6,369,778	1,818,506	4,551,272	3,449,591	1,101,681
Accrued annual leave	2,056,943	45,047	-	2,101,990	1,078,856	1,023,134
Accrued unfunded liability to retirement fund	7,717,882	1,387,176	-	9,105,058	-	9,105,058
Deferred revenues, net	14,600,440	-	584,017	14,016,423	-	14,016,423
	$ 566,216,502	$ 7,930,328	$ 12,372,341	$ 561,774,489	$ 16,598,288	$ 545,176,201

(6) Long-Term Debt, Continued

	Outstanding Sept. 30, 2004	Increases	Decreases	Outstanding Sept. 30, 2005	Current	Noncurrent
1993 Series bonds	$ 83,900,000	$ -	$ 2,475,000	$ 81,425,000	$ 2,600,000	$ 78,825,000
1999 Series bonds	336,623,601	-	3,460,000	333,163,601	3,600,000	329,563,601
Unamortized discount on bonds	(6,136,925)	-	(307,827)	(5,829,098)	-	(5,829,098)
Loss on defeasance of bonds	(17,738,560)	-	(879,598)	(16,858,962)	-	(16,858,962)
Obligations under capital leases	153,520,396	-	4,397,922	149,122,474	4,957,492	144,164,982
DCRS sick leave liability	613,212	205,010	-	818,222	-	818,222
Accrued annual leave	2,397,014	-	340,071	2,056,943	1,307,370	749,573
Accrued unfunded liability to retirement fund	5,049,406	2,668,476	-	7,717,882	-	7,717,882
Deferred revenues, net	15,184,459	-	584,019	14,600,440	-	14,600,440
	$ 573,412,603	$ 2,873,486	$ 10,069,587	$ 566,216,502	$ 12,464,862	$ 553,751,640

(7) Defeased Debt

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

(8) Employees' Retirement Plan

Employees of GPA hired on or 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 the Defined Contribution Retirement System (DCRS). Until December 31, 1999 and for several limited periods after December 31, 1999, those employees who were members of the Defined Benefit Plan (DBP) with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

The 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.

(8) Employees' Retirement Plan, Continued

As a result of an actuarial valuations performed as of September 30, 2004, 2003 and 2002, contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

	2006	2005	2004
Normal costs (% of DB Plan payroll)	17.83%	18.30%	17.66%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
Employer portion of normal costs (% of DB Plan payroll)	8.33%	8.80%	8.16%
Employer portion of normal costs (% of total payroll)	4.64%	4.96%	4.58%
Unfunded liability cost (% of total payroll)	21.36%	19.93%	16.23%
Government contribution as a % of total payroll	26.00%	24.89%	20.81%
Statutory contribution rates as a % of DB Plan payroll			
Employer	21.81%	20.81%	20.81%
Employee	9.50%	9.50%	9.50%

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	2004 and 2003 Actuarial Valuation	2002 Actuarial Valuation
Interest rate and rate of return	7.0%	7.5%
Payroll growth	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuations performed as of September 30, 2004 and 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate sponsor, the accrued unfunded liability at September 30, 2006 and 2005 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.

Statutory employer contributions for DCRS employees for the years ended September 30, 2006 and 2005 are determined using the same rates as the DB plan. 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 amount is contributed towards the unfunded liability of the defined benefit plan.

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

(8) Employees' Retirement 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 $946,549 and $818,222 at September 30, 2006 and 2005, 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.

Retirement expense for the years ended September 30, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Cash contributions and accruals	$ 5,333,252	$ 4,198,248	$ 3,934,842
Increase in accrued unfunded liability to the retirement fund	1,387,176	2,668,476	1,557,290
	$ 6,720,428	$ 6,866,724	$ 5,492,132

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

(9) Commitments and Contingencies

Capital Commitments

The 2007 capital improvement project budget is approximately $12.4 million. GPA has also entered into a three year agreement with an option to extend for two additional one year terms to purchase fuel from a supplier at prices yet to be determined.

Leases

On December 31, 2002, GPA entered into a lease agreement for its office building for an initial term of two years with a monthly rental of $25,000, which has been extended for three additional one-year terms.

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.

At September 30, 2006, future minimum lease payments for operating leases are as follows:

Year ending September 30,	Amount
2007	$ 1,757,683
2008	1,532,683
2009	137,260
2010	134,945
2011	118,376
	$ 3,680,497

Rent expense under the aforementioned agreements totaled $1,793,426 and $1,781,337 during the years ended September 30, 2006 and 2005, respectively.

(9) Commitments and Contingencies, Continued

Performance Management Contracts

On January 1, 2003 and 2005, GPA entered into Performance Management Contracts (PMC) with two companies, for the operation and maintenance of the Cabras 1 & 2 and Cabras 3 & 4 generators. PMC contracts are for a period of 5 years.

At September 30, 2006, the minimum management fees for the PMC above are as follows:

Year ending September 30,	Amount
2007	$ 2,892,098
2008	1,334,265
2009	1,374,298
2010	346,095
	$ 5,946,756

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

Letters of Credit

As of September 30, 2006, GPA has a $10 million uncollateralized revolving documentary letter of credit for purchases of fuel.

Environmental Protection Agency

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

Environmental Remediation

On August 4, 2001, the Tanguisson pipeline in the Mongmong/Toto area ruptured spilling black oil, which contaminated an approximate 60,000 square foot area. The pipeline is operated by GPA and owned by the United States Navy. In 2004, GPA expensed clean-up costs totaling $3,414,842. GPA has filed a claim with its insurance company for the costs of clean up less deductibles; however, reimbursement by the insurance company is considered unlikely.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2006. It is not possible for the management of GPA to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

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

(9) Commitments and Contingencies, Continued

Self-Insurance, Continued

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 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 $1,741,498 and $0 at September 30, 2006 and 2005, respectively. In 2005, the PUC allowed GPA to recover certain prior year typhoon losses through the insurance charge. All self-insurance recoveries were recorded as income (see note 13).

FEMA Receivables

As of September 30, 2006 and 2005, GPA has recorded a total of $1,958,425 and $3,112,075 respectively, in outstanding FEMA receivables for hazard mitigation projects and typhoon damages.

Hazardous Waste Assessment

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

(10) Agreements with the United States Navy

On September 15, 1996, a lease agreement was entered into between GPA and the U.S. Navy (Navy) to transfer to GPA the operations, maintenance and custody of certain Navy-owned electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with the associated land interest. The facilities are leased to GPA at no cost for a period of 50 years.

During the years ended September 30, 2006 and 2005, GPA billed the Navy $50,422,125 and $39,060,585, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were $4,201,763 and $2,372,305 at September 30, 2006 and 2005, respectively.

(11) Energy Conversion Agreements

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

(11) Energy Conversion Agreements, Continued

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:

Year ending September 30,	Amount
2007	$ 23,084,304
2008	23,084,304
2009	23,084,304
2010	23,084,304
2011	23,084,304
2012-2016	115,421,520
2017-2019	48,046,221
	278,889,261
Less amounts representing interest	134,724,030
	144,165,231
Less current portion	5,589,841
	$ 138,575,390

(12) Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by Public Law 26-49, GPA must pay to the Government of Guam Retirement Fund certain supplemental benefits for retirees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered Plan benefits.

(13) Self-Insurance Fund

In 2005, the PUC allowed GPA to recover $2,841,249 of prior year typhoon losses against the self-insurance fund. Self-insurance fund recoveries from rate payers in 2005 of $1,949,885 were recorded as part of sales of electricity. The reversal of the provision for self-insurance liability of $891,364 at September 30, 2004 was recorded as other income in 2005.

(14) Transactions with Government of Guam Agencies

During the years ended September 30, 2006 and 2005, GPA billed Government of Guam agencies $44,880,211 and $37,821,037, respectively, for sales of electricity. Receivables (excluding long-term receivables) from Government of Guam agencies were $10,320,508 and $12,353,824 at September 30, 2006 and 2005, respectively.

(14) Transactions with Government of Guam Agencies, Continued

GPA provides electrical and administrative services to Guam Waterworks Authority (GWA), a component unit of the Government of Guam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2006 and 2005 were $5,917,154 and $8,871,297, respectively. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to $445,148 and $93,507 in 2006 and 2005, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to $1,194,187 and $889,104 as of September 30, 2006 and 2005, respectively. In addition, GPA has a long-term receivable of $9,762,654 and $11,747,322 due from GWA at September 30, 2006 and 2005, respectively (see note 4).

(15) 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, 2006, GPA has entered into several commodity swaps for the first six months of fiscal year 2007 based on a notional amount of 269,000 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date.

At September 30, 2006, the commodity swaps had a negative fair value of approximately $2.2 million. At September 30, 2006, GPA was not exposed to credit risk because the swaps had negative fair values. However, should implied forward prices increase and the fair value of the swaps become positive, GPA would be exposed to credit risk on the swap on the amount of their fair value. At September 30, 2006, the three swap counterparties were rated AA-, AA-, and AA by S&P.

(16) Restricted Net Assets

At September 30, 2006 and 2005, net assets are restricted for the following purposes:

	2006	2005
Debt Service	$ 36,598,160	$ 33,991,920
Capital Projects	16,672,617	20,423,092
	$ 53,270,777	$ 54,415,012

(17) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2006 and 2005 is as follows:

2006	Beginning Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Balance Sept. 30, 2006
Depreciable:				
Intangible plant	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	75,867,761	1,659,840	(60,839)	77,466,762
Other production plant	248,658,560	3,403,931	(2,315,543)	249,746,948
Transmission plant	116,088,664	1,365,828	(137,871)	117,316,621
Distribution plant	147,171,506	6,084,056	(61,085)	153,194,477
General plant	35,400,683	6,881,100	(5,881,338)	36,400,445
Production plant under capital lease	171,382,727	-	-	171,382,727
	798,923,889	19,394,755	(8,456,676)	809,861,968
Accumulated depreciation	(266,635,872)	(24,267,639)	6,792,177	(284,111,334)
	532,288,017	(4,872,884)	(1,664,499)	525,750,634
Non-depreciable:				
Construction work in progress	20,829,261	27,073,970	(22,026,158)	25,877,073
	$ 553,117,278	$ 22,201,086	$ (23,690,657)	$ 551,627,707

2005	Beginning Balance October 1, 2004	Transfers and Additions	Transfers and Deletions	Balance Sept. 30, 2005
Depreciable:				
Intangible plant	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	66,788,241	12,915,628	(3,836,108)	75,867,761
Other production plant	246,854,594	2,794,783	(990,817)	248,658,560
Transmission plant	111,869,910	4,630,841	(412,087)	116,088,664
Distribution plant	143,504,121	4,211,372	(543,987)	147,171,506
General plant	33,819,476	3,000,595	(1,419,388)	35,400,683
Production plant under capital lease	171,382,727	-	-	171,382,727
	778,573,057	27,553,219	(7,202,387)	798,923,889
Accumulated depreciation	(246,608,978)	(25,146,329)	5,119,435	(266,635,872)
	531,964,079	2,406,890	(2,082,952)	532,288,017
Non-depreciable:				
Construction work in progress	25,273,272	27,881,155	(32,325,166)	20,829,261
	$ 557,237,351	$ 30,288,045	$ (34,408,118)	$ 553,117,278

GUAM POWER AUTHORITY

Schedule 1
Schedule of Sales of Electricity
Years Ended September 30, 2006 and 2005

	2006	2005
Commercial	$ 113,660,170	$ 98,402,372
Residential	79,562,584	69,707,106
Government of Guam	44,880,211	37,821,037
U.S. Navy	50,422,125	39,060,585
	$ 288,525,090	$ 244,991,100

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2006 and 2005

	2006	2005
Administrative and General:		
Salaries and wages:		
Regular pay	$ 3,652,463	$ 3,218,563
Overtime	84,636	72,227
Premium pay	4,908	2,936
Benefits	8,021,912	8,602,871
Total salaries and wages	11,763,919	11,896,597
Insurance	6,908,165	6,961,734
Contract	3,150,443	2,399,025
Communications	1,540,678	1,473,948
Overhead allocations	26,452	2,484
Operating supplies	131,573	156,128
Travel	207,843	184,126
Other administrative expenses	135,690	102,910
Training	237,594	186,014
Office supplies	37,633	27,795
Administrative and general capitalized	(79,010)	(185,033)
Miscellaneous	526,801	918,723
Total administrative and general	$ 24,587,781	$ 24,124,451
Customer Accounting:		
Salaries and wages:		
Regular pay	$ 1,458,977	$ 1,731,235
Overtime	82,868	226,141
Premium pay	231	4,461
Total salaries and wages	1,542,076	1,961,837
Communications	207,781	194,968
Overhead allocations	98,634	89,767
Completed work orders	387,326	(19,847)
Operating supplies	68,540	32,148
Contract	-	2,281
Office supplies	19,147	11,897
Miscellaneous	674	928
Total customer accounting	$ 2,324,178	$ 2,273,979

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2006 and 2005

	2006	2005
Fuel:		
Salaries and wages:		
Regular pay	$ 90,135	$ 8,392
Overtime	12,220	6,108
Premium pay	61	159
Total salaries and wages	102,416	14,659
Fuel	162,618,959	111,162,561
Deferred fuel costs	(5,599,676)	1,531,388
Total fuel costs	$ 157,121,699	$ 112,708,608
Other Production:		
Salaries and wages:		
Regular pay	$ 7,494,812	$ 7,125,532
Overtime	1,527,774	1,748,301
Premium pay	135,828	143,983
Total salaries and wages	9,158,414	9,017,816
Contract	7,601,507	6,605,419
Communications	1,900	18,465
Office supplies	10,253	20,276
Operating supplies	890,841	2,582,708
Overhead allocations	189,700	34,170
Completed work orders	582,706	1,017,248
Miscellaneous	208,987	90,691
Total other production	$ 18,644,308	$ 19,386,793
Transmission and Distribution:		
Salaries and wages:		
Regular pay	$ 4,727,182	$ 4,459,754
Overtime	954,179	1,033,685
Premium pay	51,943	57,095
Total salaries and wages	5,733,304	5,550,534
Contract	272,559	313,799
Office supplies	32,603	35,843
Operating supplies	1,007,979	532,532
Overhead allocations	1,600,605	1,282,216
Completed work orders	1,809,218	2,024,950
Provision for inventory obsolescence	103,001	-
Total transmission and distribution	$ 10,559,269	$ 9,739,874

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 3
Schedule of Salaries and Wages
Years Ended September 30, 2006 and 2005

	2006	2005
Salaries and wages:		
Regular pay	$ 17,333,434	$ 16,543,476
Overtime	2,661,677	3,086,462
Premium pay	192,969	208,634
Benefits	8,015,349	8,602,871
Total salaries and wages	$ 28,203,429	$ 28,441,443

See accompanying independent auditors' report.

Schedule 4
Employees by Department
Year Ended September 30, 2006

	Full Time Employees
Department:	
Administration	116
Customer Accounting	67
Transmission & Distribution	104
Generation	210
Engineering	39
Total full time employees	536

See accompanying independent auditors' report.