GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Deloitte.

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

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, 2007 and 2006, 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 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1-7 is not a required part of the basic financial statements but is supplementary information required by the *Government Accounting Standards Board* (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 35 through 38, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of GPA's management. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2008, 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

April 22, 2008

GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ended September 30, 2007

The major issue in the 2007 financial statements is the allowance of $13.5 million being set up to cover the Department of Public Works past due streetlight receivable. The amount is not being written off from the Guam Power Authority's books, but a reserve is being established in the event the receivable is written off at some point in the future. During the period from 1997 to 2002, four government accounts (the Guam Waterworks Authority, the Guam Public School System, the Guam Memorial Hospital Authority, and the Department of Public Works – Streetlights) accumulated significant balances in their liabilities owed to the Guam Power Authority (GPA). Because of the close relationship of the Authority to the four agencies (they all reported to the same Governor), it was very difficult for GPA to disconnect the power and demand payment.

It is believed that one of the primary motivations of the Guam Legislature in creating the Consolidated Commission on Utilities (CCU) was to create an independent body that was not directly accountable to the governor and did not have the same conflict as prior boards. When the Consolidated Commission on Utilities first took office in 2003, this receivable was a significant issue and the Commissioners immediately brought the matter to the attention of the Governor of Guam and the Legislature. An agreement was reached wherein the past due billings would be paid from the proceeds of a general obligation bond and future bills would be paid on a current basis. The CCU was successful in getting the governor and the legislature to include the receivable as part of a planned bond financing. When that happened, the auditors were satisfied that there was a potential payment source for the receivable. However, when the bond indenture agreement was brought to the Office of the Attorney General (AG) for signature as to the legality of the documents, the AG refused to sign as a result of concerns that the Government of Guam may have reached its maximum debt limitation. The Governor file a writ of mandamus in the Superior Court of Guam and won; however, the AG appealed to the ninth circuit court and later to the U.S. Supreme Court. Each year since the general obligation bond legislation was signed into law, an uncertainty with regard to the valuation of the receivable was included in the audit report on the GPA's financial statements. If the court found that the government had the authority to issue the bonds, there would be a viable repayment source. If the court found that the Government of Guam's debt capacity had been reached, then the only evidence of repayment would be the existing track record of non-payment by the government.

Because of the delays experienced by the judicial appeal process, GPA sought other means to collect the past due receivables. The Guam Waterworks Authority had a surcharge created to enable it to paydown its liability to GPA and payments began in 2003. In 2003, GPA negotiated a promissory note with the Guam Public School System which has been paid on a current basis since inception. GPA renegotiated a promissory note with the Guam Memorial Hospital Authority – this note was paid in full in 2007. However, GPA has not been able to enter into a promissory note for payment of past due streetlight billings.

The court finally ruled in May 2007, and essentially placed the ability to borrow in the hands of local elected officials. However, in November 2007, a bond was finally issued that did not include payment of the receivable. That action removed the bond issuance as the payment source of the receivable. When the auditors were evaluating the probability of collecting the amount, they were unable to find sufficient evidence of collectability. The major fact was that only about $1.6 million of the receivable had been paid by the government in the last five years. For all other receivables, GPA maintains a bad debt reserve (allowance for doubtful accounts) if the amount is outstanding for more than 6 months. Because these amounts have been outstanding since 2002, GPA concurred with the auditors that the full amount of this receivable should be reserved.

The Authority has worked through this issue with its bond counsel and has determined there are two pertinent issues which preclude this situation from being in conflict with GPA's no free service clause in its bond indenture agreement:

1) The government has remained essentially current on its streetlight billings since February 2003. With a five year track record of paying current bills on current basis, it is likely that future billings will continue to be paid on a current basis; and
2) GPA and the CCU are vigorously committed to ensuring the receivable is paid in full by the Government of Guam.

In its recent base rate petition, the CCU directed GPA to petition the Public Utilities Commission for a credit surcharge wherein GPA would file its cash based petition for a revenue adjustment assuming that no funds are collected by GPA for streetlight payments; however, in the event payments were made, they would be credited back to rate payers thereby reducing their monthly billings. It was the announcement of this surcharge plan that led to the payment of $1.6 million discussed above.

Additionally, there has been legislation proposed providing options to the Governor to address this issue. There have been other bills introduced in the legislature addressing the issue of past due billings owed to GPA.

The Public Utilities Commission has also made this matter a significant agenda item. In addition to the Commission tying the paydown of the receivable to the recently approved base rate increase, the Commission is exploring alternatives to create a surcharge wherein this amount would be repaid by the other line agencies of the Government of Guam.

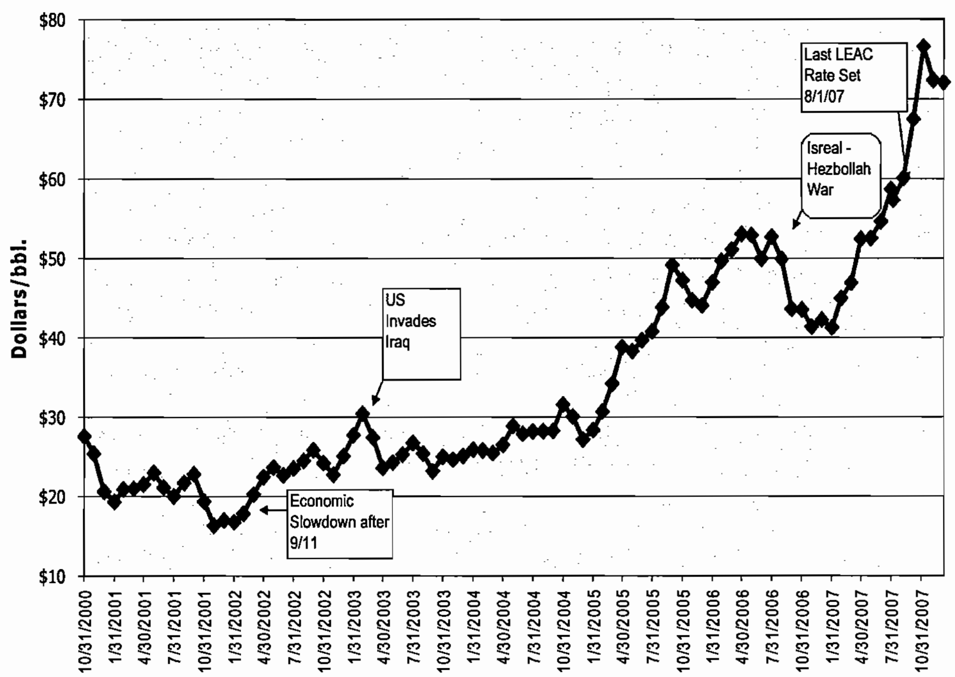
Although establishment of the allowance for this receivable has a significant impact on GPA's financial statements, stakeholders should keep the following in mind:

1) This is a one time adjustment to GPA's financial statements and will not have negative impact in future years (all recoveries from the receivable will be recorded as additional revenue to the Authority).
2) The receivables in question were built up from 1997 to 2002. The CCU and GPA have ensured all billings since the new governance took office are paid on a timely basis.
3) The amount is being added to the allowance for doubtful accounts but is not being written off of GPA's books and GPA and the CCU are continuing to vigorously contest for payment of the amount.
4) The Governor of Guam, the Guam Legislature, and the Public Utilities Commission are all committed to ensuring this obligation is repaid to the Authority.

Increasing Cost of Fuel

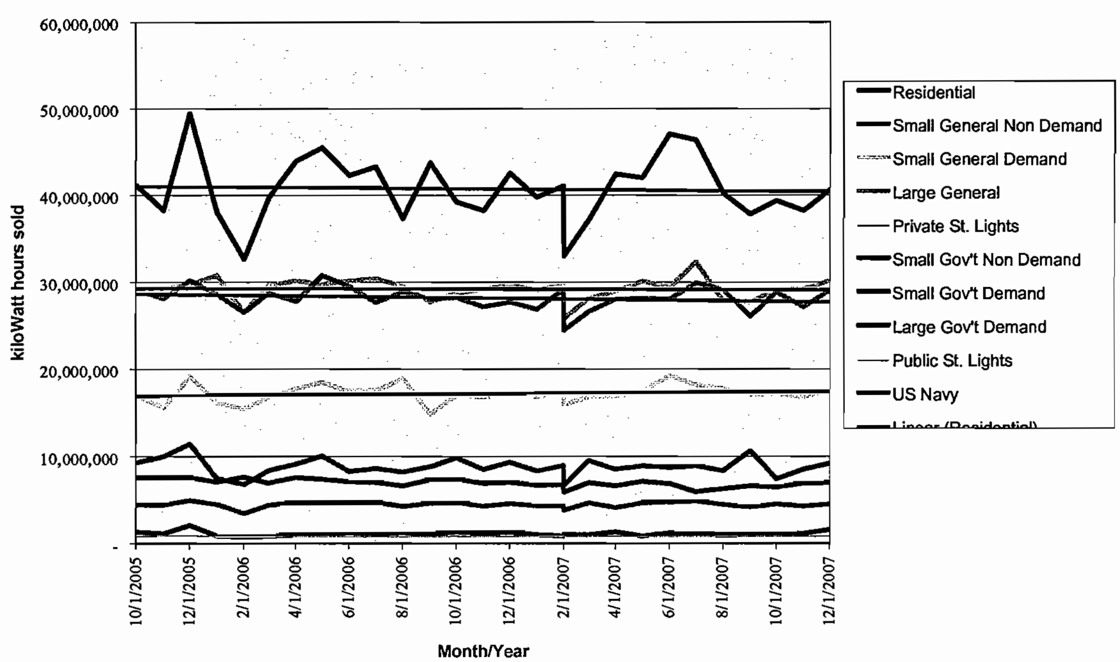
The most significant operating issue facing the Authority continues to be the challenges related to the rising cost of fuel. As a 100% fossil fuel based utility, GPA customers have been significantly negatively impacted by the increase in world wide oil prices. The chart below shows the increase in spot market prices of the high sulfur fuel oil used in GPA's baseload plants:

Platt's Fuel Price Activity HSFO 180 CST

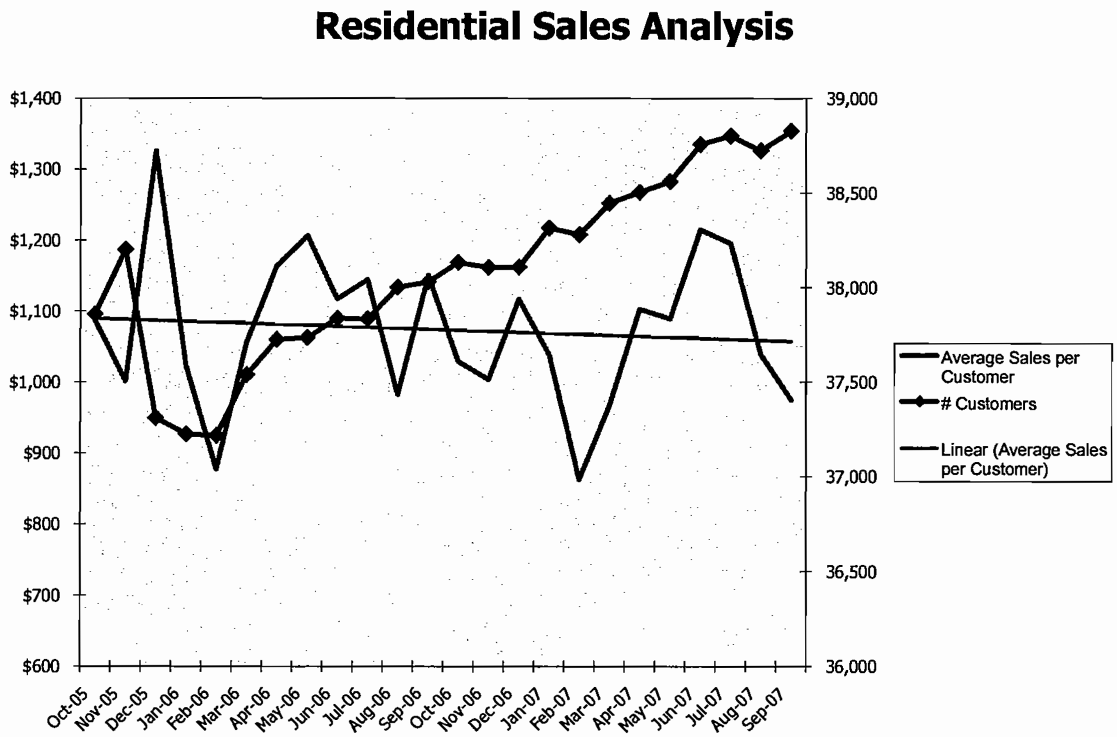


The following chart describes the kiloWatt hour sales of the Utility over the last two years:

Sales Activity (kWh)



As a result of these increases, GPA has seen the impact of the elasticity of demand for power on the island as GPA customers have been taking whatever measures are possible to reduce their power consumption. Below is a graph of power usage by customer for the residential class:



The graph indicates that even though the trend has been for residential customers to conserve energy used in the home, there is an offset in that the number of residential customers which has been growing at the annual rate of approximately 2.6% over the last 20 months.

Military Buildup

The Guam Power Authority completed a 20 year revenue forecast during the fiscal year. The forecast is predicting significant sales growth over the next five to seven years due largely to the impending military buildup scheduled to take place on the island. Some estimates have indicated that up to $15 billion will be invested in the island by the U.S. Department of Defense (DOD), approximately 8,000 Marines will be re-located to the island along with approximately 9,000 support staff. GPA currently has substantial excess generating capacity on the island which should provide a planning buffer for the Authority in which to assess and address the electric power needs of the DOD.

Rate Increase

GPA has been trying to hold off on rate increases until the Authority begins to see the impact of the military buildup. However, during the year, it was determined that the slow sales growth caused by the increased cost of fuel and drain on GPA's cash flow of the carrying cost of fuel inventory stocks are requiring GPA to petition for a rate increase. GPA petitioned for a two phased rate increase with the first increase going into effect March 1, 2009 and the second phase going into effect June 1, 2009. GPA believes these increases will address GPA's cash issues and will enable the Authority to regain its investment grade bond rating.

Integrated Resource Planning

As the price of fuel continues to increase, alternative sources of energy are becoming more and more feasible to the Authority to explore. GPA is currently conducting an integrated resource plan to assist in planning to meet the needs of the island and to explore opportunities for diversification of its generation mix. This study is scheduled to be completed in July 2008.

Capital and Financing Activities

Due to GPA's cash flow limitations, GPA's capital projects were limited to new connections to the power system and some critical refurbishments at GPA's base load generating plants. GPA is not anticipating any major financing activities until fiscal year 2010.

For additional information on capital activities, please refer to Note 17. Please also refer to Note 5 and 6 for additional information concerning GPA's debt.

Financial Highlights

Table 1 highlights financial comparisons between Fiscal Years 2005 through 2007. 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	2007	2006	2005
Assets			
Current Assets	$ 162.0	$ 151.2	$ 143.9
Non-current investments	27.5	27.5	27.5
Other non-current Assets	32.3	49.6	45.3
Utility Plant	534.3	551.6	553.1
Liabilities			
Current Liabilities	80.2	82.5	64.3
Non-current Liabilities	533.9	547.3	553.8
Net Assets			
Invested in capital assets net of related debt	14.9	21.5	13.1
Restricted	52.6	51.5	54.4
Unrestricted	74.5	77.1	84.3

Results of Operations

MILLIONS OF DOLLARS	2007	2006	2005
Revenues	$ 308.0	$ 290.2	$ 247.0
Total Operating and Maintenance expense	272.5	255.8	210.0
Operating earnings	35.5	34.4	37.0
Interest income	4.2	4.4	3.6
Other revenues and (expense)	(50.7)	(42.6)	(37.8)
Loss before capital contributions	(11.0)	(3.8)	(0.8)
Capital contributions	2.9	2.1	1.4
(Decrease) increase in net assets	(8.1)	(1.7)	0.6

Analysis of Variances

Current Assets increased at the end of FY2007 due to a fuel payment that was due the first week of FY2008. Actual activity is somewhat flat over the three year period.

Other Non-Current Assets decreased mostly as a result of the allowance for the Department of Public Works receivable.

Utility in Plant decreased as a result of decreased funds available for capital improvement projects.

Non-Current Liabilities are decreasing due mostly to normal amortizations of bonds and other debt agreements.

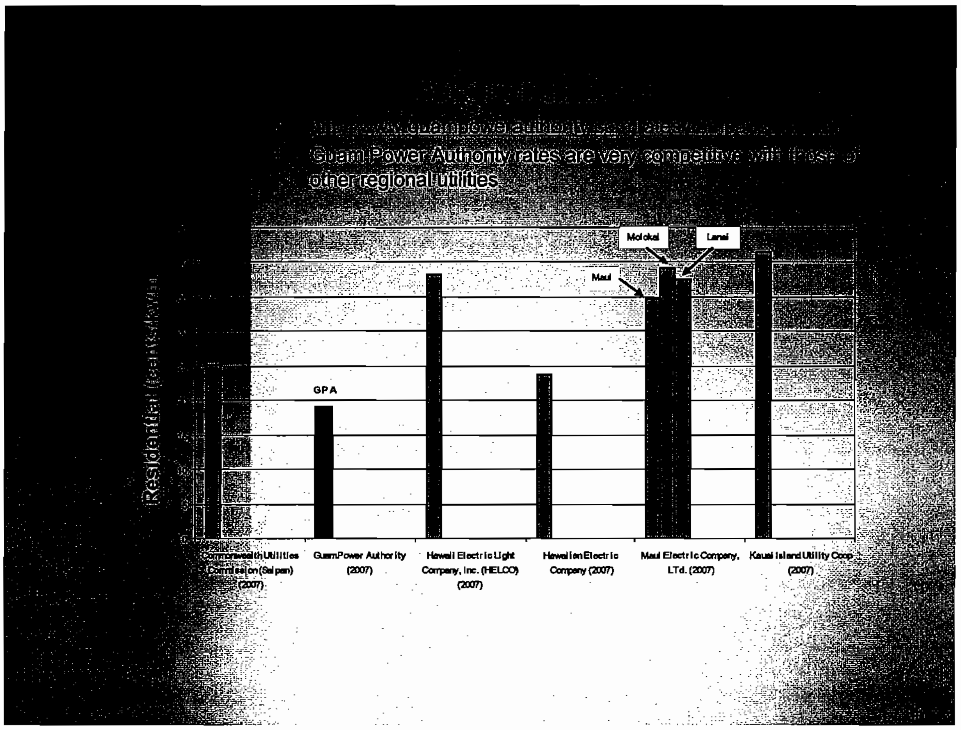
Revenues and Operating Expenses increased due mostly to the increased cost of fuel, which is passed on to ratepayers through the Levelized Energy Adjustment Clause, which keeps GPA whole for fuel costs.

Other Revenues and Expenses are impacted by the creation of a $4.5 million regulatory asset by the Guam Public Utilities Commission to enable GPA to recover funds expended in recent natural disasters but not recovered from insurance or the Federal Emergency Management Agency.

The Loss Before Capital Contributions and the Net Decrease in Net Assets is due to the $13.4 million allowance for doubtful accounts established for the streetlight receivable due from the Department of Public Works.

Regional Rate Comparisons

GPA continues to derive 97-99% of energy production from its baseload generating units. This has enabled GPA to remain very competitive with other utilities with regard to the price of energy sold. The chart below reflects GPA's rates compared with other utilities in the region:



Contacting GPA's Financial Management

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

Management's Discussion and Analysis for the years ended September 30, 2006 and 2005 is set forth in the Authority's report on the audit of financial statements which is dated March 28, 2007. That Discussion and Analysis explains in more detail major factors impacting the 2006 and 2005 financial statements. A copy of that report can be obtained by contacting the Financial Controller or from the Authority's website at the addresses noted below.

For additional information about this report, please contact Mr. Randy Wiegand, Chief Financial Officer, Guam Power Authority, P.O. Box 2977, Hagatna, Guam 96932-2977 or visit the website at www.guampowerauthority.com.

GUAM POWER AUTHORITY

Statements of Net Assets
September 30, 2007and 2006

ASSETS	2007	2006
Current assets:		
Cash and cash equivalents:		
Held by trustee:		
Interest and principal funds for debt repayment	$ 18,696,315	$ 17,941,919
Bond indenture funds for restricted purposes	19,343,598	21,806,713
Held by Guam Power Authority:		
Bond indenture funds	25,350,708	17,079,806
Self-insurance fund	1,032,628	2,140,544
Total cash and cash equivalents	64,423,249	58,968,982
Accounts receivable, net	46,704,368	43,273,912
Current installments of long-term receivables	4,095,488	4,865,940
Total current receivables	50,799,856	48,139,852
Materials and supplies inventory, net	12,421,030	13,421,024
Fuel inventory	33,583,554	29,500,641
Prepaid expenses	791,208	1,188,592
Total current assets	162,018,897	151,219,091
Utility plant, at cost:		
Electric plant in service	820,596,241	809,861,968
Construction work in progress	20,365,413	25,877,073
Less accumulated depreciation	(306,590,392)	(284,111,334)
Total utility plant	534,371,262	551,627,707
Regulatory assets:		
Deferred fuel costs	2,141,464	8,569,438
Deferred typhoon losses	3,970,992	-
Cancelled unit, net of amortization	746,531	868,706
Total regulatory assets	6,858,987	9,438,144
Other non-current assets:		
Bond reserve funds (trustee)	27,488,252	27,488,252
Long-term receivables, less current installments, net	15,432,427	29,790,578
Unamortized debt issuance costs	4,456,081	4,623,285
Deferred asset, net	3,665,072	3,824,423
Other	1,823,358	1,951,195
Total other non-current assets	52,865,190	67,677,733
	$ 756,114,336	$ 779,962,675

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Net Assets, Continued
September 30, 2007 and 2006

LIABILITIES AND NET ASSETS	2007	2006
Current liabilities:		
Short-term debt	$ 20,000,000	$ 20,000,000
Current maturities of long-term debt	6,770,000	6,480,000
Current obligations under capital leases	6,304,899	5,589,841
Current portion of deferred payment agreement	1,101,681	3,449,591
Accounts payable:		
Operations	10,663,625	14,502,766
Fuel	17,312,198	15,243,919
Accrued payroll and employees' benefits	1,123,992	1,089,336
Current portion of employees' annual leave	1,138,408	1,078,856
Interest payable	11,272,366	11,275,223
Customer deposits	4,480,789	3,858,707
Total current liabilities	80,167,958	82,568,239
Long-term debt, net of current maturities	374,825,390	380,407,966
Deferred payment agreement, net of current portion	-	1,101,681
Employees' annual leave, net of current portion	1,017,257	1,023,134
Obligations under capital leases, net of current portion	132,270,762	138,575,390
Provision for self-insurance	1,337,850	2,112,546
DCRS sick leave liability	1,041,974	946,549
Deferred revenues, net	13,432,405	14,016,423
Retirement fund deferred contributions	10,016,294	9,105,058
Total liabilities	614,109,890	629,856,986
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	14,946,742	21,443,216
Restricted	52,555,464	51,529,279
Unrestricted	74,502,240	77,133,194
Total net assets	142,004,446	150,105,689
	$ 756,114,336	$ 779,962,675

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Revenues:		
Sales of electricity	$ 305,868,889	$ 288,525,090
Miscellaneous	2,176,746	1,673,629
	308,045,635	290,198,719
Bad debt expense	(1,394,582)	(885,242)
Total revenues	306,651,053	289,313,477
Operating and maintenance expenses:		
Production fuel	174,747,639	157,121,699
Other production	16,561,426	18,644,308
	191,309,065	175,766,007
Administrative and general	22,997,688	23,797,053
Depreciation and amortization	27,153,680	24,267,638
Energy conversion costs	18,276,393	17,981,177
Transmission and distribution	8,541,812	10,559,269
Customer accounting	2,868,179	2,558,782
Total operating and maintenance expenses	271,146,817	254,929,926
Operating earnings	35,504,236	34,383,551
Other revenues (expense):		
Provision for GovGuam receivable	(13,488,544)	-
Interest revenue	4,216,945	4,421,404
Establishment of regulatory asset	4,500,000	-
Allowance for funds used during construction	512,693	580,861
Prior year typhoon loss recoveries	708,346	-
COLA/supplemental annuities	(1,030,906)	(1,075,989)
Other expense	(738,184)	(275,505)
Interest expense	(41,236,109)	(41,859,548)
Total other expenses	(46,555,759)	(38,208,777)
Loss before capital contributions	(11,051,523)	(3,825,226)
Capital contributions:		
Grants from the United States Government	2,950,280	2,080,057
Decrease in net assets	(8,101,243)	(1,745,169)
Net assets at beginning of year	150,105,689	151,850,858
Net assets at end of year	$ 142,004,446	$ 150,105,689

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

Increase (decrease) in cash and cash equivalents	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 305,496,985	$ 289,067,565
Cash payments to suppliers for goods and services	(218,229,776)	(194,213,410)
Cash payments to employees for services	(27,092,358)	(26,468,806)
Net cash provided by operating activities	60,174,851	68,385,349
Cash flows from investing activities:		
Change in bond reserve funds	-	(7)
Interest and dividends on investments and bank accounts	3,632,928	3,837,386
Net cash provided by investing activities	3,632,928	3,837,379
Cash flows from noncapital financing activities:		
Interest paid on short-term debt, deferred payment agreements and deposits	(1,701,497)	(1,871,844)
Net cash used in noncapital financing activities	(1,701,497)	(1,871,844)
Cash flows from capital and related financing activities:		
Additions to utility plant	(9,897,234)	(22,931,401)
Principal paid on bonds	(6,480,000)	(6,200,000)
Interest paid on bonds	(20,016,068)	(20,235,936)
Principal paid on capital leases	(5,589,570)	(4,957,243)
Interest paid on capital leases	(17,494,735)	(18,127,061)
Self insurance fund receipts	462,657	2,112,546
Oil spill clean-up and typhoon expenditures	(573,098)	-
FEMA receipts	2,936,033	2,080,057
Net cash used in capital and related financing activities	(56,652,015)	(68,259,038)
Net change in cash and cash equivalents	5,454,267	2,091,846
Cash and cash equivalents at beginning of year	58,968,982	56,877,136
Cash and cash equivalents at end of year	$ 64,423,249	$ 58,968,982

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2007 and 2006

		2007		2006
Reconciliation of operating earnings to net cash provided by operating activities:				
Operating earnings	$	35,504,236	$	34,383,551
Adjustments to reconcile operating earnings to net cash provided by operating activities:				
Depreciation and amortization		27,153,680		24,267,638
Bad debt		1,394,582		885,242
Difference between retirement expense and funding		911,236		1,387,176
COLA/supplemental annuities paid		(1,030,906)		(1,075,989)
Inventory obsolescence		-		103,001
(Increase) decrease in assets:				
Accounts receivable		(3,170,731)		(1,152,264)
Materials and supplies inventory		999,994		868,855
Fuel inventory		(4,082,913)		(6,454,745)
Prepaid expenses		397,384		(5,989)
Deferred fuel costs		6,427,975		(4,068,677)
Other assets		84,928		98,023
Increase (decrease) in liabilities:				
Accounts payable - fuel		2,068,279		14,000,793
Accounts payable - operations		(3,839,141)		437,756
Deferred payment agreements		(3,449,590)		4,551,272
Customer deposits		622,082		21,110
Accrued payroll and employees' benefits		34,656		(34,778)
Employees' annual and sick leave		149,100		173,374
Net cash provided by operating activities	$	60,174,851	$	68,385,349

Non-cash transactions:

During the year ended September 30, 2007, GPA established a regulatory asset of $4.5 million for future recovery of costs incurred in natural disasters in previous years.

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 $1,000 in 2007 and over $500 in 2006.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (5-60 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. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, up to 100 hours of excess annual leave existing at February 28, 2003 may be credited to sick leave and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

(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, 2007 and 2006 are $8,027,101 and $6,666,521, respectively.

Derivative Instruments

GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, 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 16.

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. The LEAC results in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Cumulative unrecovered fuel costs are $2,141,464 and $8,569,438 at September 30, 2007 and 2006, respectively.

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

Allowance for Funds Used During Construction

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1993 and Series 1999 bonds. 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 2007, GPA implemented GASB 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 implementation of this Statement did not have a material effect on the financial statements of GPA.

In July 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. The effect, if any, of the implementation of this Statement on the financial statements of GPA has not been determined.

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.

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

New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 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 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. 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 2006 financial statements have been reclassified to correspond with the 2007 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, 2007 and 2006, 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, 2007 and 2006, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	2007			
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 15,908,918	$ -	$ 15,908,918
Interest and principal funds	18,696,315	-	-	18,696,315
Bond funds	-	3,434,680	-	3,434,680
Working capital funds	-	-	13,427,363	13,427,363
Self-insurance fund	-	-	1,032,628	1,032,628
Revenue funds	-	-	6,984,897	6,984,897
Operating funds	-	-	4,077,443	4,077,443
Surplus funds	-	-	861,005	861,005
	18,696,315	19,343,598	26,383,336	64,423,249
Bond Reserve Funds				27,488,252
				$ 91,911,501

	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	-	-	2,140,544	2,140,544
Revenue funds	-	-	(38,383)	(38,383)
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

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2007 and 2006. Market values shown below implicitly include accrued interest for debt securities.

	2007	2006
Cash on hand, in demand and time deposits and money market accounts	$ 64,423,249	$ 58,968,982
Commercial paper	27,488,252	27,488,252
	$ 91,911,501	$ 86,457,234

(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 certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAAm or better by S&P.

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, 2007 and 2006, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was $64,423,249 and $58,968,982, respectively, and the corresponding bank balances were $60,860,827 and $59,077,822, respectively. Of the bank balance amount as of September 30, 2007 and 2006, $4,668,944 and $3,789,575, 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, 2007 and 2006, bank deposits in the amount of $428,557 and $503,774, 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, 2007 and 2006, short-term investments in the amount of $38,039,913 and $39,748,631, 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, 2007, 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	$ 13,743,087	October 1, 2007	A-1+
American General Finance Corp.	13,742,000	October 1, 2007	A-1

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

	Amount	Maturity	Moody's Rating
Bond Reserve Fund:			
Crimson Corporation	$ 13,743,087	October 2, 2006	A-1+
Crown Point Capital Co.	13,742,000	October 2, 2006	A-1

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 Aa1/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, 2007 and 2006, $27,488,252 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, 2007, GPA's investments that exceeded 5% of total investments are as follows: Crimson Commercial Paper (22.06%), American General Finance Commercial Paper (22.06%), and short-term investments in First America Treasury (27.49%) and the Federal Debt Security Fund (25.86%). As of September 30, 2006, GPA's investments that exceeded 5% of total investments are as follows: Crimson Commercial Paper (22.06%), Crown Point Capital Co. Commercial paper (22.06%), and short-term investments in Bayerische Landesbank (28.28%) and the Federal Debt Security Fund (27.07%).

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, 2007 and 2006, are summarized as follows:

	2007	2006
Customers:		
Private	$ 30,076,732	$ 38,554,624
Government	12,428,097	10,320,508
	42,504,829	48,875,132
U.S. Navy	3,842,884	4,201,763
Federal Emergency Management Agency	1,928,245	1,958,425
Interest	496,510	476,441
Others	4,093,246	2,833,786
	52,865,714	58,345,547
Less allowance for doubtful receivables	(6,161,346)	(15,071,635)
	$ 46,704,368	$ 43,273,912

(4) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2007 and 2006 consisted of the following:

	2007	2006
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.	\$ 12,023,185	\$ 13,223,349
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.	11,394,293	10,910,791
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. The GMHA note was fully paid in June 2007.	-	759,724
Receivable due from Guam Waterworks Authority (GWA), payable monthly from a water rate surcharge of 8.5% in 2007 and 11.5% in 2006, interest at 4.3%, uncollateralized.	7,504,730	9,762,654
	30,922,208	34,656,518
Less current portion	(4,095,488)	(4,865,940)
	26,826,720	29,790,578
Less allowance for doubtful receivables	(11,394,293)	-
	\$ 15,432,427	\$ 29,790,578

Scheduled maturities of long-term receivables are as follows:

Year ending September 30,	Amount
2008	\$ 15,489,781
2009	4,463,104
2010	4,682,884
2011	2,162,953
2012	2,261,642
2013	1,861,844
	\$ 30,922,208

(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 again renegotiated to convert the old note receivable plus current receivables of $2,797,264 into an installment agreement of $15,855,083. In October 2005, GMHA renegotiated its note receivable plus current receivables of $411,150 into an installment agreement of $1,193,183 payable over a period of 29 months.

At September 30, 2007, GPA decided to establish an allowance for doubtful receivables against the entire DPW note receivable plus certain other accounts receivable due from DPW. GPA recorded a non-operating expense of $13,488,544 during the year ended September 30, 2007 as a result of this action.

(5) Short-Term Debt

Short-term debt at September 30, 2007 and 2006, is as follows:

	2007	2006
Taxable commercial paper issued November 1, 2004, interest at 5.37% at September 30, 2007 and 5.28% at September 30, 2006.	$ 20,000,000	$ 20,000,000

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

Movements in GPA's short-term debt in 2007 and 2006 are as follows:

	Outstanding September 30, 2006	Increases	Decreases	Outstanding September 30, 2007
Taxable commercial paper	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000

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

(6) Long-Term Debt

Long-term debt at September 30, 2007 and 2006, is as follows:

	2007	2006
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.	$ 325,823,601	$ 329,563,601
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.	76,085,000	78,825,000
	401,908,601	408,388,601
Less current maturities	(6,770,000)	(6,480,000)
	395,138,601	401,908,601
Less discount on bonds	(5,213,445)	(5,521,271)
	389,925,156	396,387,330
Loss on defeasance, net of $6,890,183 and $6,010,585 of accumulated amortization in 2007 and 2006, respectively	(15,099,766)	(15,979,364)
Total bonds	$ 374,825,390	$ 380,407,966
Deferred payment agreements:		
Two deferred vendor payment agreements, payable in monthly installments of $343,728, including interest at 5% to 5.5%, due in September 2007 and June 2008.		
Less current maturities	1,101,681	3,449,591
	$ -	$ 1,101,681

(6) Long-Term Debt, Continued

As of September 30, 2007, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2008	$ 7,871,681	$ 20,400,776	$ 28,272,457
2009	7,080,000	20,071,601	27,151,601
2010	7,373,601	19,687,813	27,061,414
2011	7,795,000	19,278,575	27,073,575
2012	8,205,000	18,847,813	27,052,813
2013 through 2017	47,955,000	86,958,475	134,913,475
2018 through 2022	61,670,000	72,589,638	134,259,638
2023 through 2027	79,085,000	54,298,244	133,383,244
2028 through 2033	101,485,000	30,669,594	132,154,594
2034 through 2035	74,490,000	4,044,072	78,534,072
	$ 403,010,282	$ 346,846,601	$ 749,856,883

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.

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.

(6) Long-Term Debt, Continued

The following summarizes deferred revenues and deferred asset at September 30, 2007 and 2006:

	2007	2006
Deferred revenues	$ 17,521,029	$ 17,521,029
Accumulated amortization	(4,088,624)	(3,504,606)
	$ 13,432,405	$ 14,016,423
Deferred asset	$ 4,780,529	$ 4,780,529
Accumulated amortization	(1,115,457)	(956,106)
	$ 3,665,072	$ 3,824,423

Changes in long-term liabilities are presented as follows:

	Outstanding Sept. 30, 2006	Increases	Decreases	Outstanding Sept. 30, 2007	Current	Noncurrent
1993 Series bonds	$ 78,825,000	$ -	$ 2,740,000	$ 76,085,000	$ 2,880,000	$ 73,205,000
1999 Series bonds	329,563,601	-	3,740,000	325,823,601	3,890,000	321,933,601
Unamortized discount on bonds	(5,521,271)	-	(307,826)	(5,213,445)	-	(5,213,445)
Loss on defeasance of bonds	(15,979,364)	-	(879,598)	(15,099,766)	-	(15,099,766)
Obligations under capital leases	144,165,231	-	5,589,570	138,575,661	6,304,899	132,270,762
DCRS sick leave liability	946,549	95,425	-	1,041,974	-	1,041,974
Deferred payment agreements	4,551,272	-	3,449,591	1,101,681	1,101,681	-
Employees annual leave	2,101,990	53,675	-	2,155,665	1,138,408	1,017,257
Retirement fund deferred contributions	9,105,058	911,236	-	10,016,294	-	10,016,294
Deferred revenues	14,016,423	-	584,018	13,432,405	-	13,432,405
Provision for self-insurance	2,112,546	-	774,696	1,337,850	-	1,337,850
	$ 563,887,035	$ 1,060,336	$ 15,690,451	$ 549,256,920	$ 15,314,988	$ 533,941,932

	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
Employees annual leave	2,056,943	45,047	-	2,101,990	1,078,856	1,023,134
Retirement fund deferred contribution	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
Provision for self-insurance	-	2,112,546	-	2,112,546	-	2,112,546
	$ 566,216,502	$ 10,042,874	$ 12,372,341	$ 563,887,035	$ 16,598,288	$ 547,288,747

(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. Statutory contribution rates are established by the Guam Legislature annually.

Defined Benefit Plan

As a result of an actuarial valuations performed as of September 30, 2005, 2004 and 2003, contribution rates required to fully fund the Retirement Fund liability as required by Guam law, for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	2007	2006	2005
Normal costs (% of DB Plan payroll)	18.21%	17.83%	18.30%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
Employer portion of normal costs (% of DB Plan payroll)	8.71%	8.33%	8.80%
Employer portion of normal costs (% of total payroll)	4.26%	4.64%	4.96%
Unfunded liability cost (% of total payroll)	20.66%	21.36%	19.93%
Government contribution as a % of total payroll	24.92%	26.00%	24.89%
Statutory contribution rates as a % of DB Plan payroll			
Employer	22.94%	21.81%	20.81%
Employee	9.50%	9.50%	9.50%

(8) Employees' Retirement Plan, Continued

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions for 2005, 2004 and 2003 actuarial valuations were:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuations performed as of September 30, 2005, 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, 2007 and 2006 may be materially different than that recorded in the accompanying financial statements.

The actuarial valuations and contribution rates are based on estimates and assumptions. Changes in estimates and actuarial assumptions may result in revisions in actuarial valuations and contributions rates. The effects of such revisions are recognized in the period in which the revisions are determined.

Defined Contribution Plan

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, 2007 and 2006 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.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GPA has accrued an estimated liability of $1,041,974 and $946,549 at September 30, 2007 and 2006, 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.

(8) Employees' Retirement Plan, Continued

Retirement Expense

Retirement expense for the years ended September 30, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Cash contributions and accruals	$ 5,013,901	$ 5,333,252	$ 4,198,248
Increase in accrued unfunded liability to the retirement fund	911,236	1,387,176	2,668,476
	$ 5,925,137	$ 6,720,428	$ 6,866,724

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 2008 capital improvement project budget is approximately $20.3 million.

In February 2007 and December 2006, GPA has entered into agreements to purchase residual fuel oil and low sulfur diesel fuel oil, respectively. The agreements are for three years with an option to extend for two additional one year terms.

Leases

On December 31, 2002 GPA entered into a lease agreement for its office building for a period of five years, including extensions, with a monthly rental of $25,000. On January 1, 2008, GPA renewed the lease agreement for an additional term of two years with a monthly rental of $45,000, expiring on December 31, 2009. The renewed lease has an option to extend for an additional three years.

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, 2007, future minimum lease payments for operating leases are as follows:

Year ending September 30,	Amount
2008	$ 1,797,683
2009	617,260
2010	269,495
2011	118,376
	$ 2,802,814

Rent expense under the aforementioned agreements totaled $1,757,683 and $1,793,426 during the years ended September 30, 2007 and 2006, 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, 2007, the minimum management fees for the PMC above are as follows:

Year ending September 30,	Amount
2008	$ 2,059,665
2009	1,374,298
2010	346,095
	$ 3,780,058

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

Letters of Credit

As of September 30, 2007, 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, 2007. 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 $1,032,628 and $2,140,544 at September 30, 2007 and 2006, respectively.

FEMA Receivables

As of September 30, 2007 and 2006, GPA has recorded a total of $1,928,245 and $1,958,425 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, 2007 and 2006, GPA billed the Navy $51,402,192 and $50,422,125, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were $3,842,884 and $4,201,763 at September 30, 2007 and 2006, 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.

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.

(11) Energy Conversion Agreements, Continued

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
2008	$ 23,084,304
2009	23,084,304
2010	23,084,304
2011	23,084,304
2012	23,084,304
2013-2017	115,263,675
2018-2019	24,962,188
	255,647,383
Less amounts representing interest	117,071,722
	138,575,661
Less current portion	6,304,899
	$ 132,270,762

(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 2007, GPA recovered the following costs against the self-insurance fund:

Prior years' typhoon expenditures	$ 708,346
Generator fire	978,840
Regulatory asset (note 14)	529,008
Typhoon-related preparations	252,043
	$ 2,468,237

(14) Regulatory Asset

In May 2007, the PUC authorized GPA to establish a $4.5 million regulatory asset to recover prior years' uninsured typhoon losses. Recoveries will be made through the insurance charge included in customer billings. The establishment of this regulatory asset is in full discharge of any and all uninsured GPA claims through August 2004.

(15) Transactions with Government of Guam Agencies

During the years ended September 30, 2007 and 2006, GPA billed the Government of Guam agencies $46,839,342 and $44,880,211, respectively, for sales of electricity. Receivables (excluding long-term receivables) from Government of Guam agencies were $12,428,097 and $10,320,508 at September 30, 2007 and 2006, respectively.

(15) Transactions with Government of Guam Agencies, Continued

GPA provides electrical and administrative services to 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, 2007 and 2006 were \$7,046,034 and \$5,917,154, respectively. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to \$610,834 and \$445,148 in 2007 and 2006, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to \$1,326,645 and \$1,194,187 as of September 30, 2007 and 2006, respectively. In addition, GPA has a long-term receivable of \$7,504,730 and \$9,762,654 due from GWA at September 30, 2007 and 2006, respectively (see note 4).

(16) 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, 2007, GPA has an outstanding commodity swap for the last six months of fiscal year 2007 based on a notional amount of 179,442 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date. At September 30, 2007, the commodity swaps had a negative fair value of approximately \$741,000. At September 30, 2007, the counterparty was rated AA- by S&P. 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 three swap counterparties were rated AA-, AA-, and AA by S&P. At September 30, 2006, the commodity swaps had a negative fair value of approximately \$2.2 million. At September 30, 2007 and 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 swaps on the amount of their fair value.

(17) Restricted Net Assets

At September 30, 2007 and 2006, net assets are restricted for the following purposes:

	2007	2006
Debt Service	\$ 36,646,546	\$ 34,856,662
Capital Projects	15,908,918	16,672,617
	\$ 52,555,464	\$ 51,529,279

(17) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2007 and 2006 is as follows:

2007	Beginning Balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Balance September 30, 2007
Depreciable:				
Intangible plant	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	77,466,762	6,915,862	(1,028,622)	83,354,002
Other production plant	249,746,948	4,289,543	(2,565,110)	251,471,381
Transmission plant	117,316,621	720,432	-	118,037,053
Distribution plant	153,194,477	3,467,468	(669,783)	155,992,162
General plant	36,400,445	462,980	(858,497)	36,004,928
Production plant under capital lease	171,382,727	-	-	171,382,727
	809,861,968	15,856,285	(5,122,012)	820,596,241
Accumulated depreciation	(284,111,334)	(27,153,680)	4,674,622	(306,590,392)
	525,750,634	(11,297,395)	(447,390)	514,005,849
Non-depreciable:				
Construction work in progress	25,877,073	13,241,566	(18,753,226)	20,365,413
	$ 551,627,707	$ 1,944,171	$ (19,200,616)	$ 534,371,262

2006	Beginning Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Balance September 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)	(24,267,638)	6,792,176	(284,111,334)
	532,288,017	(4,872,883)	(1,664,500)	525,750,634
Non-depreciable:				
Construction work in progress	20,829,261	27,073,970	(22,026,158)	25,877,073
	$ 553,117,278	$ 22,201,087	$ (23,690,658)	$ 551,627,707

GUAM POWER AUTHORITY

Schedule 1
Schedule of Sales of Electricity
Years Ended September 30, 2007 and 2006

	2007	2006
Commercial	$ 122,492,234	$ 113,660,170
Residential	85,135,121	79,562,584
Government of Guam	46,839,342	44,880,211
U.S. Navy	51,402,192	50,422,125
	$ 305,868,889	$ 288,525,090

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2007 and 2006

	2007	2006
Administrative and General:		
Salaries and wages:		
Regular pay	$ 3,570,970	$ 3,406,851
Overtime	38,949	84,636
Premium pay	4,723	4,908
Benefits	7,610,622	7,711,400
Total salaries and wages	11,225,264	11,207,795
Insurance	6,889,167	6,908,165
Contract	2,558,515	3,150,443
Communications	1,521,067	1,540,678
Operating supplies	93,717	131,573
Training	80,826	237,594
Completed work orders	71,052	18,641
Other administrative expenses	54,943	135,690
Travel	46,182	207,843
Office supplies	11,065	37,633
Overhead allocations	1,049	26,452
Miscellaneous	444,841	194,546
Total administrative and general	$ 22,997,688	$ 23,797,053
Customer Accounting:		
Salaries and wages:		
Regular pay	$ 1,394,879	$ 1,362,751
Overtime	86,855	82,868
Premium pay	289	231
Benefits	119,990	96,226
Total salaries and wages	1,602,013	1,542,076
Collection fee	583,466	234,604
Completed work orders	382,538	387,326
Communications	226,736	207,781
Overhead allocations	59,627	98,634
Office supplies	9,410	19,147
Operating supplies	2,374	68,540
Miscellaneous	2,015	674
Total customer accounting	$ 2,868,179	$ 2,558,782

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2007 and 2006

	2007	2006
Fuel:		
Salaries and wages:		
Regular pay	$ 87,146	$ 85,983
Overtime	13,377	12,220
Premium pay	227	61
Benefits	4,679	4,152
Total salaries and wages	105,429	102,416
Fuel	168,214,235	162,618,959
Deferred fuel costs	6,427,975	(5,599,676)
Total fuel costs	$ 174,747,639	$ 157,121,699
Other Production:		
Salaries and wages:		
Regular pay	$ 6,835,794	$ 6,941,821
Overtime	1,301,114	1,527,774
Premium pay	141,718	135,828
Benefits	526,079	552,991
Total salaries and wages	8,804,705	9,158,414
Contract	6,953,235	7,601,507
Completed work orders	316,169	582,706
Operating supplies	235,953	890,841
Overhead allocations	82,069	189,700
Office supplies	2,195	10,253
Communications	-	1,900
Miscellaneous	167,100	208,987
Total other production	$ 16,561,426	$ 18,644,308
Transmission and Distribution:		
Salaries and wages:		
Regular pay	$ 4,367,976	$ 4,373,782
Overtime	559,982	954,179
Premium pay	52,368	51,943
Benefits	326,730	353,400
Total salaries and wages	5,307,056	5,733,304
Overhead allocations	1,482,082	1,600,605
Completed work orders	1,035,600	1,809,218
Operating supplies	532,579	1,007,979
Contract	172,529	272,559
Office supplies	11,966	32,603
Provision for inventory obsolescence	-	103,001
Total transmission and distribution	$ 8,541,812	$ 10,559,269

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 3
Schedule of Salaries and Wages
Years Ended September 30, 2007 and 2006

		2007		2006
Salaries and wages:				
Regular pay	$	16,256,765	$	16,171,188
Overtime		2,000,277		2,661,677
Premium pay		199,325		192,971
Benefits		8,588,100		8,718,169
Total salaries and wages	$	27,044,467	$	27,744,005

Schedule 4
Employees by Department
Year Ended September 30, 2007

	Full Time Employees (b)		Category Personnel Services (a)
Department:			
Board	2	$	167,216
Executive	9		430,326
Administration	35		1,943,087
Finance	24		1,415,460
Planning and Regulatory	6		340,676
Property and Facilities	10		385,713
Purchasing and Supply Management	17		482,940
Customer Service	63		2,482,866
Engineering	38		521,696
Generation	173		10,043,913
Strategic Planning and Operation Research and Development	6		468,468
Power System Control Center	25		1,509,569
Transporation	14		156,130
Transmission and Distribution	95		4,492,696
Total full time employees	517		24,840,756
Apprentice and summer engineering			1,292,475
Retirement fund accrual			911,236
		$	27,044,467

Note(s):

(a) The amounts consists of total payroll charge to O & M for the year end funded by revenues.

(b) Filled positions at the end of the year, excluding apprentices.

See accompanying independent auditors' report.