GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying balance sheets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 Guam Power Authority as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4 to the financial statements, two agencies of the Government of Guam have substantial notes and accounts receivable balances with GPA that have been outstanding for several years. These receivables total over $32 million at September 30, 2003. Collection of these receivables is dependent on the successful issuance of bonds by the Government of Guam. At present, the likelihood of a successful bond issuance by the Government of Guam is not determinable. The write down of the receivables at September 30, 2003 would likely place GPA in technical default on its outstanding bonds payable. A bond default would raise substantial doubt about GPA's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in note 8, GPA adopted Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as of October 1, 2002. The accompanying 2002 financial statements have been restated to reflect the changes required by the adoption of this Statement.

The Management's Discussion and Analysis on pages 1-5 is not a required part of the basic financial statements but is supplementary information required by the GASB. 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 29 through 31, for the years ended September 30, 2003 and 2002, 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 May 19, 2004, on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

May 19, 2004

GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ending September 30, 2003

Introduction

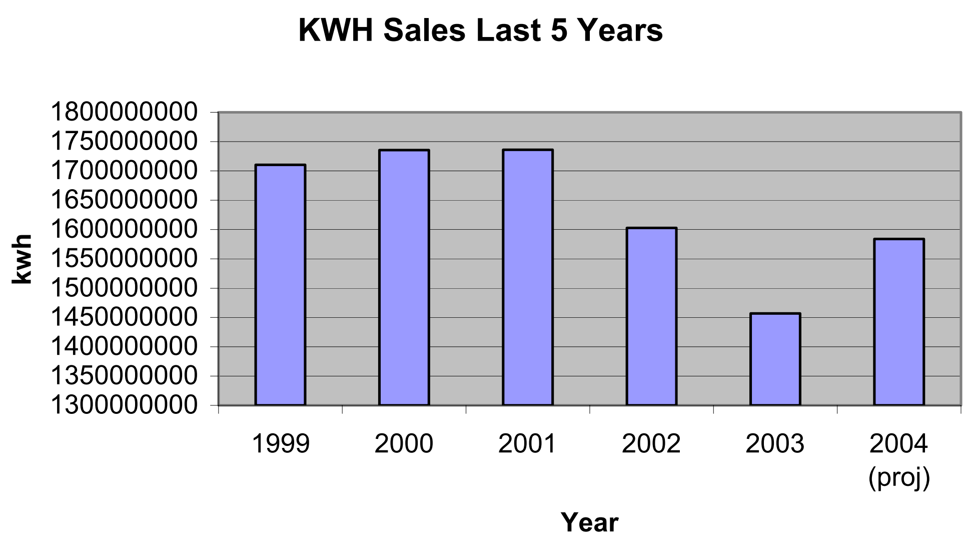
Fiscal Year 2003 was highlighted by two significant events. The first was Typhoon Pongsona which struck Guam on December 8, 2002. It was one of the most powerful storms the island has experienced and caused approximately $25 million damage to the Guam Power Authority system and nearly the same amount in lost revenue.

The other significant event was the installation of an elected Consolidated Commission on Utilities in January 2003 – the beginning of the second quarter of the fiscal year. Since its inception in 1969, the Guam Power Authority has been an instrumentality of the Government of Guam and has had a five member board of directors appointed by the Governor of Guam to oversee the utility. In 2002, the Guam Legislature enacted Public Law 26-76 to create a five member elected utility commission to oversee the Guam Power Authority and the Guam Waterworks Authority. The law also revised the status of the utility to a public corporation only. This allows the Commission to function independently of the Governor of Guam.

The Commission immediately brought in a General Manager and Assistant General Manager with extensive utility experience. Over the next several months, additional personnel were added to the management team.

Economic Conditions

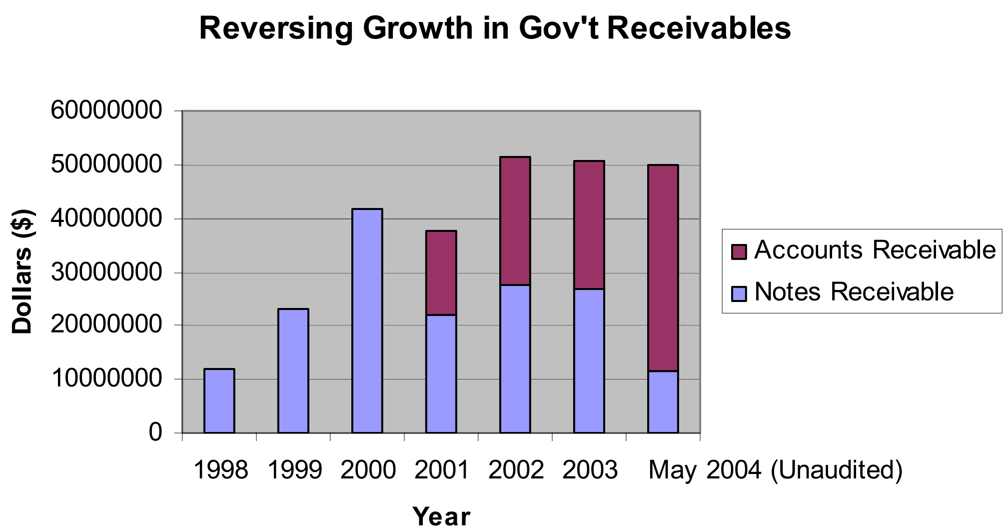
The following chart reflecting the GPA's annual kWh sales demonstrates the challenges faced by the utility:



The tourism industry which drives the Guam economy has been affected negatively by the events of September 11, 2001 as well as the SARS epidemic in 2002. This impact has been reflected in the reduced kWh usage of GPA customers. These factors when combined with the devastation of Typhoon Pongsona made 2003 one of the most challenging years on record for the Authority. However, as the chart also shows, GPA is on its way to returning to pre-typhoon sales levels for Fiscal Year 2004. Based upon the level of new service applications and discussions with the military, we believe the sales growth will continue through Fiscal Year 2005 and beyond.

Government Receivables

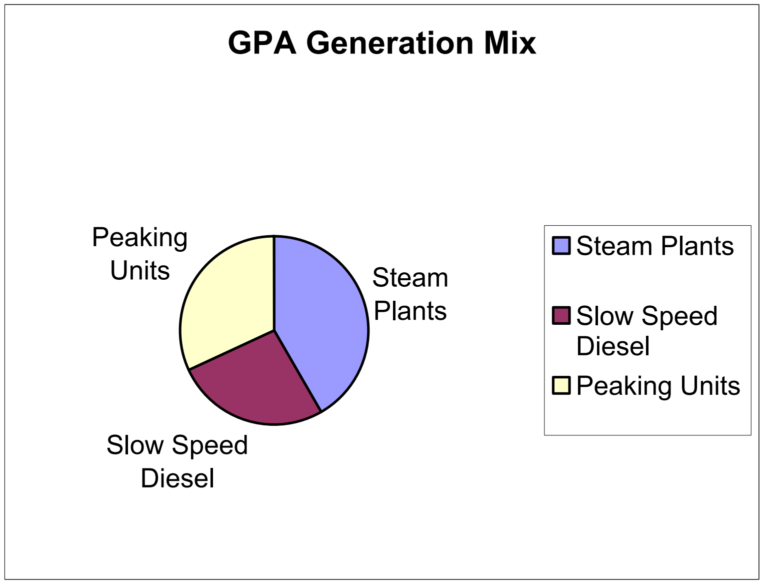
One of the first actions of the Commission was to terminate the practice of providing preferential disconnection treatment to the Government of Guam. The Commission entered into an agreement with the Government wherein past due billings from the Government would be paid through the issuance of general obligation bonds. The disconnection policy was applied to the Government on a going forward basis. There were a few occasions during the year in which government agencies were disconnected for their failure to keep their bills current. The policy has effectively ended the growth in government receivables and there has been a decline in total receivables from the government since the Commission took office as the graph below shows:



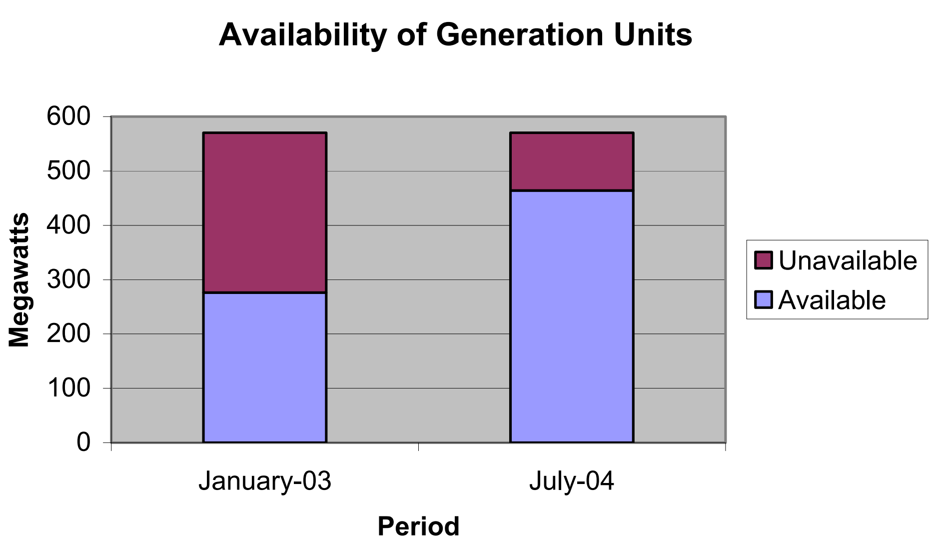
The plan to collect on the past due billings has been held up in court due to a challenge by Guam's Attorney General, therefore, GPA management is renegotiating the promissory notes with the government agencies to insure the payment stream to repay the amounts owed even if the general obligation bond is not issued. Most importantly, the growth in government receivables which has been depriving GPA of much needed cash has been reversed.

Rehabilitation of Generation Facilities

The chart below shows the mix of generation facilities:



When the Commission took control of the utilities, the Authority had an operational capacity of 276 megawatts. A major focus of the new management has been to restore availability of some of the most efficient generation plants and reduce the need for the utility to burn diesel fuel which is significantly more costly. The steam plants and slow speed diesel plants each burn sulfur oil. The improvement in unit availability is demonstrated in the graph below.



The Guam Power Authority's power bill is primarily made up of a base rate and a fuel factor. GPA utilizes a levelized energy adjustment clause which is adjusted every six months to recover its fuel costs.

Bond Rating

In July 2003, GPA was notified that its bond rating had been downgraded from BBB- to BB with a negative outlook and credit watch in place. Three main cash issues were provided as the rationale for the change: 1) GPA's unwillingness to adjust its fuel recovery clause to adjust for increased oil prices; 2) GPA's inability to settle claims with FEMA; and 3) the large receivable from the government of Guam. In the last year, GPA has reset its fuel recovery charge, closed out the Typhoon Paka claim with FEMA, and agreed to promissory notes with three government agencies to insure GPA begins receiving payments from the government for past due power bills even if the government is unable to float bonds to repay amounts owed to GPA. GPA is highly confident it's credit rating will be restored in the very near future.

Typhoon Paka Appeal

One of the most significant achievements made by GPA management was the finalization of a claim from the Federal Emergency Management Agency (FEMA) dating back to 1997. After Typhoon Paka struck Guam in December 1997, GPA recorded a receivable from FEMA of approximately $10 million on its books. GPA was unable to recover the claim from 1997 to 2002. Shortly after the GPA management team was hired, a meeting was held with FEMA officials. GPA went through an intensive data gathering and review effort with FEMA over several months. The effort resulted in a settlement wherein FEMA agreed to recognize an additional $9.4 million in costs incurred by GPA as a result of the storm.

Table of Financial Data

MILLIONS OF DOLLARS	2003	2002	Variance
Balance Sheets			
Assets:			
Current assets	$164.0	$164.1	-
Non-current investments	27.5	27.5	-
Other non-current assets	50.7	51.2	(1.0%)
Utility Plant	568.1	585.3	(2.9%)
Total assets	810.3	828.1	(2.1%)
Liabilities:			
Current liabilities	80.1	66.5	20.5%
Non-current liabilities	569.7	577.2	(1.3%)
Total liabilities	649.8	643.7	.9%
Net assets:			
Invested in capital assets net of related debt	10.8	19.5	(44.6%)
Restricted	72.7	75.2	(3.3%)
Unrestricted	77.0	89.7	(14.2%)
Total net assets	160.5	184.4	(13.0%)
Total liabilities and net assets	810.3	828.1	(2.1%)

Table of Financial Data, Continued

MILLIONS OF DOLLARS	2003	2002	Variance
Statement of Revenues and Expenses			
Revenues	$192.4	$204.9	(6.0%)
Total Operating and Maintenance expense	163.9	166.5	1.5%
Operating earnings	28.5	38.4	(25.8%)
Interest income	2.7	5.4	(50.0%)
Other revenues and (expense)	(55.4)	(46.1)	20.2%
Loss before capital contributions	(24.2)	(2.4)	(908.3%)
Capital contributions	0.3	3.4	(91.2%)
(Decrease) increase in net assets before cumulative effect in change in accounting principle	(23.9)	1.0	(2490.0%)
Cumulative effect of change in accounting principle	0.0	6.8	100.0%
Decrease in net assets	(23.9)	(5.8)	(312.1%)

Results of Operations

2003 *Compared with* 2002:

- Guam Power Authority revenues declined by $12.5 milllion, or 6% in 2003 as compared with 2002. This decline is due to the effects of typhoon Pongsona on December 8, 2002.
- Total operating and maintenance expenses of $163.9 million for 2003 were $2.6 million or 1.5% lower than the prior year. The decrease resulted primarily from the shift of operating and maintenance costs to typhoon Pongsona restoration work.
- Interest income in 2003 decreased by $2.7 million or 50.0% compared to 2002. The decrease resulted from the reduction of interest income rates in investments.
- Other expenses, net of other revenues, increased by $9.3 million or 20.2% from prior year, largely due to losses from typhoon Pongsona.
- Overall, the change in net assets decreased by $18.1 million or 312.1% primarily due to the effects of typhoon Pongsona.

Significant Challenge

The significant challenge that is facing the Authority is related to the fact that GPA is a fossil fuel dependent utility. GPA's customers have been protected from the rising oil prices over the last few years by the execution of a fuel hedging contract. The contract is set to expire on December 31, 2004. GPA's challenge is to establish a new hedge that will have minimal impact on our ratepayers. Fuel costs make up approximately 40% of GPA's total rates, therefore even a 20% increase in fuel costs would result in an impact on GPA's total billings that GPA customers would be required to manage.

There remains much work yet to be done, however, GPA believes the creation of the Consolidated Commission on Utilities has proven effective and GPA is now functioning in the best interests of ratepayers and creditors. Major issues currently being addressed include the conversion of overhead lines to underground, the system reliability study to reduce power plant and line related outages, the refurbishment of remaining non-base load generation capacity, the replacement of the transportation fleet, the preventive maintenance of substations and manpower training and retention.

GUAM POWER AUTHORITY

Balance Sheets
September 30, 2003 and 2002

ASSETS	2003	2002 (As restated)
Utility plant, at cost:		
Electric plant in service	$ 767,672,108	$ 742,707,572
Construction work in progress	22,551,695	44,446,114
Less accumulated depreciation	(222,137,558)	(201,818,332)
Total utility plant	568,086,245	585,335,354
Bond reserve funds (trustee)	27,484,000	27,483,313
Current assets:		
Cash and investments:		
Held by trustee:		
Interest and principal funds for debt repayment	16,918,602	16,752,517
Bond indenture funds for restricted purposes	37,919,796	41,286,790
Held by Guam Power Authority:		
Bond indenture funds	6,315,558	17,095,476
Total cash and cash equivalents	61,153,956	75,134,783
Accounts receivable	55,453,318	48,109,844
Current installments of long-term notes receivable	4,220,545	2,349,354
Total current receivables	59,673,863	50,459,198
Materials and supplies inventory	17,238,286	16,930,877
Fuel inventory	16,958,924	13,614,541
Prepaid expenses	707,290	1,381,764
Current portion of deferred fuel costs	8,326,862	6,595,221
Total current assets	164,059,181	164,116,384
Other non-current assets:		
Accounts receivable	13,237,574	15,696,834
Notes receivable, less current installments	19,721,171	21,624,028
Total noncurrent receivables	32,958,745	37,320,862
Non-current deferred fuel costs	4,700,000	-
Unamortized debt issuance costs	5,124,898	5,292,102
Cancelled unit, net of amortization	1,235,232	1,357,407
Deferred asset, net	4,302,476	4,461,827
Other	2,375,353	2,757,085
Total other assets	50,696,704	51,189,283
	$ 810,326,130	$ 828,124,334

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Balance Sheets, Continued
September 30, 2003 and 2002

LIABILITIES AND NET ASSETS	2003	2002 (As restated)
Current liabilities:		
Short-term debt	$ 25,000,000	$ 22,912,000
Current maturities of long-term debt	5,680,000	6,311,723
Current obligations under capital leases	3,903,260	3,465,091
Accounts payable:		
Operations	17,545,475	12,319,933
Fuel	9,275,554	2,960,961
Navy	19,000	335,863
Accrued payroll and employees' benefits	1,308,507	736,452
Accrued COLA/supplemental annuities	952,120	1,070,550
Current portion of employees' annual leave	1,231,124	1,240,151
Interest payable	11,909,032	12,082,154
Customer deposits	3,338,339	3,107,609
Total current liabilities	80,162,411	66,542,487
Long-term debt, less current maturities	395,460,691	399,953,266
Employees’ annual leave, less current portion	1,461,243	1,712,969
Retirement fund deferred contributions	3,492,116	1,735,258
Obligations under capital leases, less current portion	153,520,187	157,423,446
Deferred revenues, net	15,768,476	16,352,493
Total liabilities	649,865,124	643,719,919
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	10,757,339	19,539,235
Restricted	72,713,032	75,147,854
Unrestricted	76,990,635	89,717,326
Total net assets	160,461,006	184,404,415
	$ 810,326,130	$ 828,124,334

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	2003	2002 (As restated)
Revenues:		
Sales of electricity	$ 190,536,282	$ 203,779,959
Miscellaneous	1,910,108	1,091,002
Total revenues	192,446,390	204,870,961
Operating and maintenance expenses:		
Production fuel	72,709,107	71,812,693
Other production	16,335,766	16,428,214
	89,044,873	88,240,907
Administrative and general	24,349,885	22,741,013
Depreciation	24,135,225	24,080,788
Energy conversion costs	17,048,535	16,285,746
Transmission and distribution	5,846,001	9,091,449
Customer accounting	3,508,141	6,059,569
Total operating and maintenance expenses	163,932,660	166,499,472
Operating earnings	28,513,730	38,371,489
Other revenues (expense):		
Interest revenue	2,720,686	5,384,286
Allowance for funds used during construction	1,066,125	(343,748)
COLA/supplemental annuities	(683,432)	(1,070,550)
Consulting services	(892,768)	-
Other expense	(122,175)	(122,175)
Loss due to typhoon	(11,014,894)	(887,785)
Interest expense	(43,810,976)	(43,703,692)
Total other expenses	(52,737,434)	(40,743,664)
Loss before capital contributions	(24,223,704)	(2,372,175)
Capital contributions:		
Grants from the United States Government	280,295	3,351,546
(Decrease) increase in net assets before cumulative effect of a change in accounting principle	(23,943,409)	979,371
Cumulative effect of a change in accounting principle	-	(6,812,724)
Decrease in net assets	(23,943,409)	(5,833,353)
Total net assets at beginning of year	184,404,415	190,237,768
Total net assets at end of year	$ 160,461,006	$ 184,404,415

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

Increase (decrease) in cash and cash equivalents	2003	2002 (As restated)
Cash flows from operating activities:		
Cash received from customers	$ 187,824,572	$ 191,310,510
Cash payments to suppliers for goods and services	(125,865,361)	(121,508,303)
Cash payments to employees for services	(23,083,588)	(22,706,874)
Net cash provided by operating activities	38,875,623	47,095,333
Cash flows from investing activities:		
Change in bond reserve funds	(687)	54,007
Interest and dividends on investments and bank accounts	2,720,686	4,800,268
Net cash provided by investing activities	2,719,999	4,854,275
Cash flows from noncapital financing activities:		
Issuance of (principal paid) on short-term debt	2,088,000	(3,305,174)
Interest paid on short-term debt and deposits	(452,325)	(505,453)
Bank overdraft	-	(2,200,460)
Net cash provided by (used in) noncapital financing activities	1,635,675	(6,011,087)
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(5,371,259)	(10,129,329)
Contributions received	280,295	3,351,546
Principal paid on bonds and other long-term debt	(5,124,297)	(6,491,072)
Interest paid on bonds and other long-term debt	(23,912,560)	(22,475,550)
Principal paid on capital leases	(3,465,090)	(3,077,390)
Interest paid on capital leases	(19,619,213)	(20,006,914)
Net cash used in capital and related financing activities	(57,212,124)	(58,828,709)
Net decrease in cash and cash equivalents	(13,980,827)	(12,890,188)
Cash and cash equivalents at beginning of year	75,134,783	88,024,971
Cash and cash equivalents at end of year	$ 61,153,956	$ 75,134,783

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2003 and 2002

	2003	2002 (As restated)
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 28,513,730	$ 38,371,489
Other expense	(12,713,269)	(2,080,509)
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	24,135,225	24,080,789
Difference between retirement expense and funding	1,756,858	(110,837)
(Increase) decrease in assets:		
Accounts receivable	(4,852,548)	(10,495,677)
Materials and supplies inventory	(307,408)	(1,279,181)
Fuel inventory	(3,344,383)	8,112,161
Prepaid expenses	674,474	(245,868)
Deferred fuel costs	(6,431,640)	(3,006,819)
Other assets	381,732	(73,370)
Increase (decrease) in liabilities:		
Accounts payable - fuel	6,314,593	(5,465,842)
Accounts payable - operations	5,225,541	301,365
Accounts payable - Navy	(316,863)	208,559
Customer deposits	230,731	(57,955)
Deferred credits	(584,018)	(2,507,526)
Accrued payroll and employees' benefits	572,053	129,029
Accrued cola/supplemental annuities	(118,430)	1,070,550
Employees' annual leave	(260,754)	144,975
Net cash provided by operating activities	$ 38,875,624	$ 47,095,333

Non-cash financing and operating activities:

In 2002, GPA recorded a net increase in utility plant of $157,153,203, obligations under capital lease of $163,965,927, and cumulative effect of a change in accounting principle of $6,812,724 as the result of the adoption of Emerging Task Force issue paper 01-8.

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 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 (20-50 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 90 days or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund. Cash and cash equivalents do not include money market accounts in bond reserve funds held by bond trustees.

Compensated Absences

Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with GPA. As of September 30, 2002, accumulation of such vacation credits is limited to 480 hours at fiscal year end and 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. Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. The remaining excess hours must used by September 30, 2004 or will be lost.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Government of Guam is evaluating the impact of this law and accordingly no liability, if any, that may result has been recorded in the accompanying financial statements.

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

Deferred Asset and Deferred Revenue

The deferred asset and deferred revenue arose as a result of the Bond Reserve Fund Forward Delivery Agreement entered into in September 2000. The deferred asset represents termination fees and closing costs and the deferred revenue represents 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 and the actual cost of fuel.

Derivative Instruments

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

Transactions entered into during the years ended September 30, 2003 and 2002, qualify for the "normal purchases and normal sales" exception and include commodity transactions for the purchase of fuel. Accordingly, SFAS 133 and 138 do not have a significant impact on the financial position or results of operations of the Authority since all transactions will be excluded under the "normal purchases and sales" exception.

Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or liabilities, respectively, in the accompanying balance sheets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. Historically, GPA charged its customers for fuel as a separate line item, which was adjusted on a monthly basis. The LEAC resulted in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel costs. Cumulative unrecovered fuel costs are $13,026,861 and $6,595,221 at September 30, 2003 and 2002, 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 and tax exempt commercial paper notes. These costs are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

Canceled Unit

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

(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, 2003 and 2002, GPA has cash deposits in bank accounts which exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

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

(3) Cash and Investments

The bond indenture agreements for the 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.

(3) Cash and Investments, Continued

At September 30, 2003 and 2002, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	2003			
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 33,176,699	$ -	$ 33,176,699
Interest and principal funds	16,918,602	-	-	16,918,602
Working capital fund	-	-	2,502,452	2,502,452
Revenue fund	-	3,670,961	-	3,670,961
Operating funds	-	-	3,813,106	3,813,106
Surplus funds	-	1,072,136	-	1,072,136
	16,918,602	37,919,796	6,315,558	61,153,956
Bond Reserve Funds				27,484,000
				$ 88,637,956

	2002			
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 36,279,677	$ -	$ 36,279,677
Interest and principal funds	16,752,517	-	-	16,752,517
Working capital fund	-	-	14,225,248	14,225,248
Revenue fund	-	2,026,606	-	2,026,606
Operating funds	-	-	2,870,228	2,870,228
Surplus funds	-	2,980,507	-	2,980,507
	16,752,517	41,286,790	17,095,476	75,134,783
Bond Reserve Funds				27,483,313
				$ 102,618,096

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2003 and 2002. Market values shown below implicitly include accrued interest for debt securities.

	2003	2002
Cash on hand, in demand and time deposits and money market accounts	$ 61,153,956	$ 75,134,783
Federal National Mortgage Association discount notes	27,484,000	27,483,313
	$ 88,637,956	$ 102,618,096

(3) Cash and Investments, Continued

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

Category 1 - Insured or registered, or securities held by GPA or its agent in GPA's name.
Category 2 - Uninsured and unregistered, or securities held by a party other than GPA or its agent, but in GPA's name.
Category 3 - Uninsured and unregistered, with securities held by a party other than GPA and not in GPA's name.

Demand and time deposits and money market accounts held in GPA's name are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. As of September 30, 2003 and 2002, funds held by trustees amounting to $16,918,602 and $16,752,517, respectively, are classified as Category 1 investments in accordance with GASB No. 3. As of September 30, 2003 and 2002, funds held by trustees amounting to $27,484,000 and $27,483,313, respectively, are classified as Category 3 investments in accordance with GASB No. 3. The Category 3 investments are held and registered in the name of U.S. Bank as Co-Trustee for GPA. The balance of the investments is classified as Category 2 investments.

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled $6,315,558 and $17,095,476 as of September 30, 2003 and 2002, respectively. Of this amount, $406,418 and $393,879 were covered by federal depository and national credit union administration insurance as of September 30, 2003 and 2002, respectively, $5,742,620 and $16,503,981 were uninsured and uncollateralized, and $166,520 and $197,616 were held on hand for the change fund and petty cash.

(4) Receivables

Accounts receivable at September 30, 2003 and 2002, are summarized as follows:

	2003	2002
Customers:		
Private	$ 30,473,505	$ 30,291,916
Government	26,884,820	27,662,603
	57,358,325	57,954,519
Federal Emergency Management Agency (FEMA) claims	17,162,058	15,695,522
Others	5,093,373	1,754,355
Interest from construction fund	14,963	723,863
U.S. Navy	2,594,887	17,716
	82,223,606	76,145,975
Less allowance for doubtful receivables	(13,532,714)	(12,339,297)
	68,690,892	63,806,678
Less current portion	55,453,318	48,109,844
Long term portion	$ 13,237,574	$ 15,696,834

(4) Receivables, Continued

Accounts Receivable – Guam Waterworks Authority

Accounts receivable from Guam Waterworks Authority (GWA), a Government of Guam agency, are $16,256,654 and $16,596,834 at September 30, 2003 and 2002, respectively. Effective October 1, 2001, GWA implemented an 11.5% water rate surcharge. A portion of the surcharge proceeds were to be utilized to reduce GWA's obligation to GPA.

On May 9, 2002, the Guam Legislature passed Guam Public Law 26-81. The law established a one-year moratorium of the 11.5% surcharge, wherein GWA was prohibited for the moratorium period from any further billings of the surcharge. Additionally, in order to allow GPA to collect its debt from GWA, the law appropriated $2.75 million to GPA from a recent re-financing of the GWA bonds. The surcharge was reimplemented in May 2003 with monthly payments to be made to GPA and effective October 2003, also to the U.S. Navy.

Collectibility of the GWA receivables is contingent upon GWA remitting to GPA collections from the surcharge and upon the PUC ensuring that GWA has adequate funding. At September 30, 2003 and 2002, receivables from GWA to be paid from the surcharge total of which $1,956,148 and $0, respectively, are classified as current receivables. These receivables bear interest at 4.3% and are classified based on estimated water rate surcharge proceeds to be applied against GWA's obligation to GPA.

Notes Receivable

During 2001, GPA converted $23,312,391 in past due accounts receivable from three Government of Guam agencies to notes receivable to be paid over four to five years. During 2002, GPA renegotiated notes receivable of $23,682,257 from the Department of Education (DOE) and the Department of Public Works (DPW). Notes receivable at September 30, 2003 and 2002 consisted of the following:

	2003	2002
Note receivable from DOE, due in 84 monthly installments of $100,000, beginning May 2002, including interest at 4.47% per annum, with the final installment payment due in April 2009, uncollateralized.	$ 12,753,409	$ 12,998,885
Note receivable from 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.	9,767,178	9,382,636
Note receivable from the Guam Memorial Hospital Authority (GMHA), due in 48 monthly installments of $45,695, beginning October 13, 2001, including interest at 4.47% per annum, with a final installment payment due in September 2005, uncollateralized.	1,421,129	1,591,861
	23,941,716	23,973,382
Less current portion	4,220,545	2,349,354
	$ 19,721,171	$ 21,624,028

(4) Receivables, Continued

Future maturities of notes receivable are summarized as follows:

Year ending September 30,	Amount
2004	$ 4,220,545
2005	2,111,211
2006	1,765,857
2007	6,680,825
2008	806,798
2009	8,356,480
	$ 23,941,716

Notes receivable from DOE and DPW are significantly delinquent at September 30, 2003 and 2002. In April 2003, Public Law 27-19, which authorized the Government of Guam to borrow up to $218 million including $30 million to pay the Guam Power Authority for past due notes receivable and power bills was signed into law by the Governor of Guam. Shortly after passage of the law, the Attorney General of Guam expressed concerns on whether the Government had enough room in its debt ceiling to borrow $218 million and refused to sign the bond indenture agreement approving the form of the contract. In June 2003, the Governor proposed legislation to satisfy the concerns of the Attorney General which was passed into law as Public Law 27-21. The Attorney General continued to contest the legality of the indenture. In July 2003, the Guam Economic Development and Commerce Authority (GEDCA) filed a request for a declaratory judgment with the Supreme Court of Guam. Later that month the Supreme Court issued a ruling in favor of GEDCA and the Governor's position. A few days later, the Attorney General filed an appeal with the United States Ninth Circuit Court of Appeals. Arguments were heard before the Court of Appeals in May 2004. The decision of the Court is expected later in 2004.

(5) Short-Term Debt

Short-term debt at September 30, 2003 and 2002, is as follows:

	2003	2002
Thirty-day notes payable drawn on a $15 million bank line of credit, interest at 3.31% at September 30, 2002, payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lien holder subordinate to the bondholders under GPA's bond issues.	$ -	$ 2,912,000
Tax exempt commercial paper note issued in August 1998, interest at 0.9% and 1.20% at September 30, 2003 and 2002, respectively. The note is collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The note had an original maturity date of October 7, 1998, but rolled over until August 11, 2004.	20,000,000	20,000,000
Ninety-day notes payable drawn on a $10 million bank line of credit, interest at 1.25% over index at September 30, 2003, payable at maturity, uncollateralized, originally due May 11, 2003 but rolled over until February 10, 2004.	5,000,000	-
	$ 25,000,000	$ 22,912,000

(6) Long-Term Debt

Long-term debt at September 30, 2003 and 2002, is as follows:

	2003	2002
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.	$ 339,948,601	$ 343,148,601
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.	86,255,000	88,495,000
	426,203,601	431,643,601
Notes:		
IBM interest bearing notes in exchange for an accounting operating system acquired through a financing agreement.	-	871,723
	426,203,601	432,515,324
Less current maturities	(5,680,000)	(6,311,723)
	420,523,601	426,203,601
Less discount on bonds	(6,444,752)	(6,752,579)
	414,078,849	419,451,022
Loss on defeasance, net of $3,371,792 and $2,492,194 accumulated amortization in 2003 and 2002, respectively	(18,618,158)	(19,497,756)
	$ 395,460,691	$ 399,953,266

As of September 30, 2003, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2004	$ 5,680,000	$ 21,802,021	$ 27,482,021
2005	5,935,000	21,548,916	27,483,916
2006	6,200,000	21,281,816	27,481,816
2007	6,480,000	21,004,916	27,484,916
2008	6,770,000	20,855,316	27,625,316
2009 through 2013	39,088,601	101,438,939	140,527,540
2014 through 2018	50,455,000	89,481,625	139,936,625
2019 through 2023	64,820,000	80,069,313	144,889,313
2024 through 2028	83,115,000	56,709,044	139,824,044
2029 through 2033	106,740,000	30,669,594	137,409,594
2034 through 2035	50,920,000	4,044,075	54,964,075
	$ 426,203,601	$ 468,905,575	$ 895,109,176

(6) Long-Term Debt, Continued

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 the commercial paper issued for the purpose of financing certain commercial paper projects.

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

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

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

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

The following summarizes deferred revenue and deferred asset at September 30, 2003 and 2002:

	2003	2002
Deferred revenue	$ 17,521,029	$ 17,521,029
Accumulated amortization	(1,752,553)	(1,168,536)
	$ 15,768,476	$ 16,352,493
Deferred asset	$ 4,780,529	$ 4,780,529
Accumulated amortization	(478,053)	(318,702)
	$ 4,302,476	$ 4,461,827

(6) Long-Term Debt, Continued

Changes in long-term liabilities are presented as follows:

	Outstanding Sept. 30, 2002	Increases	Decreases	Outstanding Sept. 30, 2003	Current	Noncurrent
1993 Series bonds	$ 88,495,000	$ -	$2,240,000	$ 86,255,000	$ 2,355,000	$ 83,900,000
1999 Series bonds	343,148,601	-	3,200,000	339,948,601	3,325,000	336,623,601
IBM note payable	871,723	-	871,723	-	-	-
Unamortized discount on bonds	(6,752,579)	-	(307,827)	(6,444,752)	-	(6,444,752)
Loss on defeasance of bonds	(19,497,756)	-	(879,598)	(18,618,158)	-	(18,618,158)
Obligations under capital leases	160,888,537	-	3,465,090	157,423,447	3,903,260	153,520,187
Accrued annual leave	2,953,120	-	260,753	2,692,367	1,231,124	1,461,243
Accrued unfunded liability to retirement fund	1,735,258	1,756,858	-	3,492,116	-	3,492,116
Deferred revenues, net	16,352,493	-	584,017	15,768,476	-	15,768,476
	$588,194,397	$ 1,756,858	$9,434,158	$580,517,097	$10,814,384	$569,702,713

	Outstanding Sept. 30, 2001	Increases	Decreases	Outstanding Sept. 30, 2002	Current	Noncurrent
1993 Series bonds	$ 90,630,000	$ -	$2,135,000	$ 88,495,000	$ 2,240,000	$ 86,255,000
1999 Series bonds	346,228,601	-	3,080,000	343,148,601	3,200,000	339,948,601
IBM note payable	2,147,795	-	1,276,072	871,723	871,723	-
Unamortized discount on bonds	(7,009,101)	-	(256,522)	(6,752,579)	-	(6,752,579)
Loss on defeasance of bonds	(20,230,754)	-	(732,998)	(19,497,756)	-	(19,497,756)
Obligations under capital leases	-	160,888,537	-	160,888,537	3,465,090	157,423,447
Accrued annual leave	2,808,145	144,975	-	2,953,120	1,240,151	1,712,969
Accrued unfunded liability to retirement fund	1,846,094	-	110,836	1,735,258	-	1,735,258
Deferred revenues, net	16,936,511	-	584,018	16,352,493	-	16,352,493
	$433,357,291	$161,033,512	$6,196,406	$588,194,397	$11,016,964	$577,177,433

(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, 1993 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 $22,249,124 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss will be deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying balance sheets.

(8) Employees' Retirement Plan

Employees of GPA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System until December 31, 1999.

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

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2003, a minimum combined employer and employee contribution rate of 41.27% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were initially set at 9.5% and 26%, respectively, by the Guam Legislature, for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003. The statutory employer and employee contribution rates for the year ended September 30, 2002 were 19.8016% and 9.5%, respectively.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase ranging from 8.5% per annum for short service employees to 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2001, 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, 2003 and 2002, 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 into the DCRS for the years ended September 30, 2003 and 2002 are determined using the same rate 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 employee contributions plus any earnings thereon.

In 2002, the Government of Guam, as a whole, adopted the provisions of Government Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Government Employees*. The effect of this change, which was retroactively applied, is as follows:

(8) Employees' Retirement Plan, Continued

	As originally stated in 2002	As restated in 2002
Unfunded pension liability	$ 13,286,412	$ 1,735,258
Administrative and general expenses	$ 25,101,786	$ 22,741,013
Retained earnings at beginning of year	$ 181,047,387	$ 190,237,768

(9) Commitments and Contingencies

Capital Commitments

The 2003 capital improvement project budget is approximately $10.6 million. GPA has also entered into agreements to purchase fuel from certain suppliers at prices yet to be determined.

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, with an option to extend for three additional one-year terms.

GPA also leases fuel storage tanks for a monthly fee of $100,000 beginning September 1998, increasing to $107,500 in March 2003. The initial term of the lease is for a period of 10 years with an option to renew for an additional 5-year period, expiring on September 2013, at an increased monthly lease fee of $115,650.

At September 30, 2003, future minimum lease payments for the aforementioned leases are as follows:

Year ending September 30,	Amount
2004	$ 1,813,880
2005	1,370,861
2006	1,323,188
2007	1,323,188
2008	1,323,188
2009	2,766
	$ 7,157,071

Rent expense under the aforementioned agreements totaled $2,163,133 and $1,351,076 during the years ended September 30, 2003 and 2002, respectively, which is included as a component of administrative and general expense in the accompanying statements of operations and retained earnings.

Letters of Credit

As of September 30, 2003, GPA has a $15 million bank line of credit for purchases of parts and supplies, which is 100% collateralized by deposits in a savings account maintained by GPA.

As of September 30, 2003, GPA has outstanding letters of credit of approximately $655,227, collateralized by deposits in a savings account maintained by GPA.

(9) Commitments and Contingencies, Continued

As of September 30, 2003, GPA has a $10 million bank line of credit, uncollateralized, for the operating expenses resulting from lost sales and delayed billings as a result of typhoon Pongsona to include cost of fuel acquisition.

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 approximately 60,000 square foot area. The pipeline is operated by GPA and owned by the United States Navy. The cause of the rupture has not yet been determined and GPA has engaged in a substantial clean-up effort of the affected area.

GPA has an insurance claim for the mitigation and remediation of the oil spill. The total estimated costs for complete clean-up of the affected area is expected to range from $2 million to $4 million depending on the method for treatment and disposal of the contaminated soil. The insurance adjuster for GPA's insurance policy has raised issues as to whether the cost of remediation will be covered by insurance contending that clean-up or remediation costs ordered by environmental authorities such as EPA and the USEPA, are not covered under the insurance policy. Thus, GPA could potentially incur substantial cost if there is no insurance coverage. However, management of GPA contends that these costs are covered under the insurance policy. Also, certain claims against GPA have been filed for damage to property totaling $800,000. These claims are currently pending with the insurance company. In addition, GPA may be exposed to fines of up to $2.1 million from Guam EPA. No provision for any liability that may result from these claims has been made in the financial statements and the final liability to result from the spill cannot presently be determined.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2003. 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.

As the result of a PUC Decision and Order, GPA added an insurance charge of $.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self- insurance fund balance of $2.5 million is established. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records self-insurance expense in the same amount. Insurance charge proceeds are accumulated in the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant in the event of a natural catastrophe. The self-insurance has been fully utilized at September 30, 2003 and 2002 as a result of typhoon damages to GPA's T&D plant.

(9) Commitments and Contingencies, Continued

FEMA Receivables

As of September 30, 2003 and 2002, GPA has a total of $26,040,885 and $23,438,087, respectively, in outstanding FEMA claims for typhoon damages. GPA recorded $17,162,058 and $15,695,522, respectively, of the outstanding claims as accounts receivable at September 30, 2003 and 2002. The residual difference in claims has not been recorded as collection of the full amount of the claims is uncertain. A receivable of $10,209,382 at September 30, 2003 and 2002 resulted from a typhoon claim during the year ended September 30, 1998. In May 2004, FEMA agreed to pay GPA $8,502,556 in settlement of this receivable. The difference of $1,706,826 has been charged against typhoon loss in 2003. In connection with the $10 million receivable from FEMA, GPA entered into a consulting contract to assist in settling the claims. Based on the settlement, GPA estimates that it owes $892,768 in contingent fees on the contract, which has been accrued and recognized as an expense in 2003.

Plant Explosion

In February 2002, an explosion severely damaged one of GPA's generation plants. In 2003, repairs to the plant have been estimated at a cost of $3.3 million. Insurance coverage has been determined to be $2.9 million.

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, 2003 and 2002, GPA billed the Navy approximately $31,564,000 and $31,030,000, respectively, for sales of electricity under a customer supplier agreement.

(11) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2003 and 2002 is as follows:

2003	Beginning Balance October 1, 2002	Transfers and Additions	Transfers and Deletions	Implementation of EITF No. 01-8	Balance Sept. 30, 2003
Depreciable:					
Intangible plant	$ 4,353,988	$ -	$ -	$ -	$ 4,353,988
Steam production plant	62,776,348	1,495,858	-	-	64,272,206
Other production plant	245,123,180	664,520	-	-	245,787,700
Transmission plant	91,105,754	15,703,684	(33,590)	-	106,775,848
Distribution plant	132,434,035	11,642,409	(2,424,135)	-	141,652,309
General plant	35,531,540	436,018	(2,520,228)	-	33,447,330
Production plant under capital lease	171,382,727	-	-	-	171,382,727
	742,707,572	29,942,489	(4,977,953)	-	767,672,108
Accumulated depreciation	(201,818,332)	(24,135,225)	3,815,999	-	(222,137,558)
	540,889,240	5,807,264	(1,161,954)	-	545,534,550
Non-depreciable:					
Construction work in progress	44,446,114	35,714,490	(57,608,909)	-	22,551,695
	$ 585,335,354	$ 41,521,754	$ (58,770,863)	$ -	$ 568,086,245

2002	Beginning Balance October 1, 2001	Transfers and Additions	Transfers and Deletions	Implementation of EITF No. 01-8	Balance Sept. 30, 2002
Depreciable:					
Intangible plant	$ 4,348,685	$ 5,303	$ -	$ -	$ 4,353,988
Steam production plant	58,412,542	4,363,806	-	-	62,776,348
Other production plant	243,646,365	1,476,815	-	-	245,123,180
Transmission plant	89,364,873	1,740,881	-	-	91,105,754
Distribution plant	118,343,083	16,184,920	(2,093,968)	-	132,434,035
General plant	37,222,031	802,593	(2,493,084)	-	35,531,540
Production plant under capital lease	-	-	-	171,382,727	171,382,727
	551,337,579	24,574,318	(4,587,052)	171,382,727	742,707,572
Accumulated depreciation	(164,246,306)	(24,080,789)	738,287	(14,229,524)	(201,818,332)
	387,091,273	493,529	(3,848,765)	157,153,203	540,889,240
Non-depreciable:					
Construction work in progress	55,263,910	18,930,899	(29,748,695)	-	44,446,114
	$ 442,355,183	$ 19,424,428	$ (33,597,460)	$ 157,153,203	$ 585,335,354

(12) 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 retroactively implemented the accounting guidance of EITF No. 01-8 effective October 1, 2001. EITF No. 01-8 provides guidance in determining when purchase agreements may be subject to lease accounting.

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 effects of adopting EITF No. 01-8 on the 2002 financial statements were to increase plant by $157,153,203, net of an increase in accumulated depreciation of $14,229,524, increase obligations under capital lease by $163,965,927 and decrease net earnings before the cumulative effects of this accounting change by $1,607,178. The cumulative effect of this accounting principle on prior years of $6,812,724 is a one time charge against earnings.

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
2004	$ 23,084,304
2005	23,084,304
2006	23,084,304
2007	23,084,304
2008	23,084,304
Thereafter	232,726,897
	348,148,417
Less amounts representing interest	190,724,970
	157,423,447
Less current portion	3,903,260
	$ 153,520,187

(13) Accrued 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.

(14) Prior Period Adjustment

During fiscal year ended September 30, 2003, GPA recognized a liability associated with the Accrued Supplemental/COLA Annuities at September 30, 2002 as discussed in note 13. The effect of this restatement is as follows:

	As previously presented	As restated	Difference
Current liabilities:			
Accrued COLA/supplemental annuities	$ -	$ 1,070,550	$ 1,070,550
Statement of revenues, expenses and changes in net assets:			
Supplemental/COLA annuities expense	$ -	$ 1,070,550	$ 1,070,550

(15) Typhoon Damages

The island of Guam was struck by a major typhoon in July 2002 and a super typhoon in December 2002. GPA recorded estimated losses from these typhoons during the years ended September 30, 2003 and 2002 as follows:

	2003	2002
Typhoon damages	$ 25,402,146	$ 8,168,714
Charged against self-insurance fund	(1,543,630)	(2,503,674)
FEMA recoveries	(14,550,448)	(4,777,255)
Net typhoon damages	9,308,068	887,785
Settlement of typhoon Paka claim (note 9)	1,706,826	-
Loss due to typhoon	$ 11,014,894	$ 887,785

Recorded typhoon damages and related FEMA recoveries are estimated amounts. Final damages and recoveries may be materially different than estimated.

GUAM POWER AUTHORITY

Schedule 1
Schedule of Sales of Electricity
Years Ended September 30, 2003 and 2002

	2003	2002
Commercial	$ 75,190,620	$ 80,937,496
Residential	54,046,499	56,144,757
Government of Guam	29,735,445	35,667,391
U.S. Navy	31,563,718	31,030,315
	$ 190,536,282	$ 203,779,959

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2003 and 2002

	2003	2002
Administrative and General:		
Salaries and wages:		
Regular pay	$ 2,839,592	$ 3,208,909
Overtime	27,445	110,621
Premium pay	887	6,282
Benefits	8,067,717	4,340,123
Total salaries and wages	10,935,641	7,665,935
Insurance	8,103,743	9,065,393
Contract	2,743,421	3,668,525
Amortization of FMS costs	-	910,127
Communications	946,621	824,310
Completed work orders	2,344,691	428,213
Overhead allocations	19,126	198,329
Operating supplies	76,991	90,967
Travel	105,178	69,735
Other administrative expenses	15,138	62,513
Training	23,299	48,522
Office supplies	13,244	21,230
Others	-	(75,571)
General and administrative capitalized	(1,751,035)	(1,192,941)
Miscellaneous	773,827	955,726
Total general and administrative	$ 24,349,885	$ 22,741,013
Customer Accounting:		
Salaries and wages:		
Regular pay	$ 1,575,678	$ 2,122,708
Overtime	61,523	131,804
Premium pay	1,282	7,999
Total salaries and wages	1,638,483	2,262,511
Bad debt	1,200,000	2,969,323
Amortization of FMS costs	-	247,871
Communications	190,656	211,805
Overhead allocations	160,696	209,588
Completed work orders	270,412	46,497
Operating supplies	29,350	42,558
Contract	1,900	35,414
Office supplies	15,217	11,407
Others	1,303	3,585
Miscellaneous	124	19,010
Total customer accounting	$ 3,508,141	$ 6,059,569

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2003 and 2002

	2003	2002
Fuel:		
Salaries and wages:		
Regular pay	$ 21,265	$ 28,709
Overtime	8,352	9,661
Premium pay	175	336
Total salaries and wages	29,792	38,706
Fuel	79,110,683	74,780,806
Deferred fuel costs	(6,431,368)	(3,006,819)
Total fuel costs	$ 72,709,107	$ 71,812,693
Other Production:		
Salaries and wages:		
Regular pay	$ 6,086,349	$ 7,367,451
Overtime	2,372,709	1,395,319
Premium pay	73,639	145,350
Total salaries and wages	8,532,697	8,908,120
Contract	3,004,768	1,449,331
Communications	397,887	449,593
Office supplies	2,694	7,176
Operating supplies	3,479,234	3,483,894
Miscellaneous	-	255,177
Overhead allocations	65,745	117,235
Amortization of FMS costs	-	561,429
Completed work orders	852,741	1,039,182
Others	-	157,077
Total other production	$ 16,335,766	$ 16,428,214
Transmission and Distribution:		
Salaries and wages:		
Regular pay	$ 3,174,556	$ 5,018,856
Overtime	606,604	675,275
Premium pay	18,099	67,942
Total salaries and wages	3,799,259	5,762,073
Contract	286,907	392,310
Office supplies	2,108	6,795
Operating supplies	346,055	357,835
Miscellaneous	-	6,282
Overhead allocations	1,431,633	1,110,189
Amortization of FMS costs	-	57,793
Completed work orders	(19,961)	1,253,778
CSA wheeling charges	-	118,955
Deferred installation costs	-	(139,268)
Others	-	164,707
Total transmission and distribution	$ 5,846,001	$ 9,091,449

See accompanying independent auditors' report.