GUAM POWER AUTHORITY
FY 2004 Financial Highlights

June 6, 2005

For the third year, Deloitte & Touche LLP, in its audit opinion, expressed concern about the collectibility of $31 million in Guam Power Authority's (GPA) accounts receivable from the Government of Guam. These include $14.5 million from the Department of Education (DOE), $15.4 million from the Department of Public Works, and $1.1 million from the Guam Memorial Hospital Authority. Without legislative appropriations, DOE and DPW are unable to make payments. The Director of Administration has requested a legal opinion from the Attorney General of Guam to determine the legality of the promissory notes between GPA and DPW. The DPW debt is for electricity GPA provided for streetlights over a period of years.

GPA had a loss of $9.2 million in fiscal year 2004, which was a significant improvement compared to a $24.2 million loss in FY 2003. The loss can be partly attributable to $3.4 million in oil spill costs and a $3.6 million increase in Transmission and Distribution (T&D) expenses to $9.4 million. The total T&D expense of $5.8 million in FY 2003 was unusually low due mainly to typhoon-related labor expenses that were removed at year-end. Due to rising oil prices, GPA's costs of fuel and fuel production increased 4.6% or $10.4 million from 46.3% to 50.9% of total revenues.

Total accounts receivable and notes receivable decreased $12.2 million from $92.6 million to $80.4 million, primarily due to an $11.9 million decrease in Federal Emergency Management Agency (FEMA) claims. Of the total receivables, Government of Guam agencies owed $48 million or 61%, of which $30 million are from the three agencies previously mentioned. The auditors noted that the write down of these receivables would likely place GPA in technical default on its outstanding bonds payable, which would raise substantial doubt about GPA's ability to continue as a going concern.

The Report on Compliance and Internal Control had 14 findings, of which four are repeat findings. Finding 2004-01,which has remained outstanding for several years, pertains to the lack of subsidiary fixed assets registers for the various classes of plant assets. GPA has over $778 million in electrical plant, of which only $200 million have detailed subsidiary listings. In a related finding, asset disposals of items such as vehicles, furniture and equipment could not be readily identified.

In Finding 2004-11, a payment coupon for $53K; four cashier balancing sheets totaling $233K; and four payment coupons, cashier balancing sheets, and deposit slips totaling $729K were not provided to the auditors during testing. Other findings pertained to the lack of proper documentation in procurement.

For a more detailed commentary of GPA's operations, refer to the Management Discussion and Analysis in the audit report.