GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2002 AND 2001

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Power Authority:

We have audited the accompanying balance sheet of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of GPA for the year ended September 30, 2001 were audited by other auditors whose report, dated March 22, 2002, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4 to the financial statements, four agencies of the Government of Guam have substantial notes and accounts receivable balances with GPA that have been outstanding for several years. Receivable balances due from these agencies have increased substantially over the past three years. These receivables total almost $49 million at September 30, 2002. Collection of these receivables is dependent on the successful issuance of bonds by the Government of Guam and the implementation of a water rate surcharge by the Guam Waterworks Authority. At present, the likelihood of a successful bond issuance by the Government of Guam is not determinable. In addition, it is not possible to determine if the water rate surcharge will take effect. If the bond issuance does not occur or if the water rate surcharge is deferred, some or all of the $49 million in receivables may be deemed to be uncollectible. The write down of a portion or of all of these receivables would likely place GPA in technical default on its outstanding bonds payable. The impact of a bond default on GPA's ability to continue as a going concern is not presently determinable.

As described in note 12 of the financial statements, GPA changed its method of accounting for nonexchange transactions as required by the provisions of Government Accounting Standards Board (GASB) Statement No. 33, and has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34. GPA has restated the 2001 financial statements to reflect the changes.

As described in note 14 of the financial statements, GPA implemented the accounting guidance including in Financial Accounting Standards Board Emerging Issues Task Force Paper (EITF) 01-8. EITF 01-8 clarifies the accounting treatment for energy purchase agreements.

The Management's Discussion and Analysis on pages 1-3 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 28 through 30, for the year ended September 30, 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary schedules for the year ended September 30, 2001 were audited by other auditors whose report, dated March 22, 2002, expressed an unqualified opinion on such information.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2003, 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

April 7, 2003, except for note 4 as to
which the date is May 9, 2003

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Management Discussion and Analysis
Year Ending September 30, 2002

The following discussion and analysis of the financial performance and activity of the Guam Power Authority is to provide an introduction and understanding of the basic financial statements of the Authority for the year ended September 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Guam Power Authority is a public corporation of the Government of Guam and is the primary supplier of power to both civilian and military communities on Guam. The Authority also provides transmission and distribution facilities to the civilian and some of the military installations. It is under the governance of an elected five-member Consolidated Commission on Utilities (CCU), which has oversight over both the Guam Power Authority and the Guam Waterworks Authority. This is a new body that replaces the previous 5-member Board of Directors that was appointed by the Governor, and required approval by the Guam Legislature. The new CCU took effect January 1, 2003.

The Authority supplies power using oil fired steam generating units, combustion turbines, slow-speed diesels, and high speed diesel units, and also provides transmission and distribution facilities to deliver power to its approximately 45,000 customers. The Authority relies on three independent power producers (IPP's), who account for approximately one third of the Authority's generating resources. The IPP contracts are 20-year energy conversion agreements which will not expire until after 2016. At the end of the contract period, the related plant assets will be transferred to the Authority. Although Guam is an isolated system, the current generation resources allow a reserve of over 90% to cover the island's demand for power.

It should be noted that the Authority has oil hedge contracts in place to protect it from significant fluctuations in oil prices. During FY 2002, the Authority put in place "no cost collar" contracts that will extend price protections through December 2004 for its residual fuel oil (RFO) purchases. The Authority has an RFO contract that expires in July 31, 2003 and is currently in the process of issuing an invitation for bid (IFB) to establish another 3-year contract with a fuel supplier.

During FY 2002 and FY 2003, the Authority's operations and financial position were significantly affected by two strong typhoons. The first was Chata'an that occurred on July 4, 2002 and took three to six weeks to achieve substantial restoration, and the second was Pongsona that occurred on December 8, 2002 and required approximately nine weeks to achieve substantial recovery. Although both these typhoons required significant cash outlays to expedite recovery, most of these costs were deemed eligible for reimbursement from Federal Emergency Management Agency (FEMA) with costs from both storms qualifying for a 90% reimbursement instead of the usual 75%. The Authority is currently receiving cash payments from FEMA and expects to receive most of these eligible cost reimbursements during FY 2003.

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Management Discussion and Analysis
Year Ending September 30, 2002

The following table summarizes the financial condition and operations of the Authority for 2001 and 2002:

	2002	2001 As Restated
Assets:		
Utility plant, net	$ 585,335,354	$ 442,355,183
Bond reserve funds	27,483,313	27,537,320
Current assets	164,116,384	176,961,003
Other assets	51,189,283	44,694,829
	$ 828,124,334	$ 691,548,335
Liabilities and Net Assets:		
Long-term debt, net	$ 557,376,712	$ 405,132,541
Current portion of long-term debt	9,776,814	6,634,000
Other current liabilities	72,047,616	85,984,964
Other liabilities	14,999,381	12,749,443
Net assets	173,923,811	180,315,108
	$ 828,124,334	$ 690,816,056
Revenues, Expenses and Changes in Net Assets:		
Operating revenues	$ 204,870,961	$ 232,799,155
Operating expenses	168,860,246	215,866,071
Net operating revenues	36,010,715	16,933,084
Interest income and other	7,382,125	870,474
Interest expense	(43,703,692)	(25,764,654)
Net nonoperating expenses	(36,321,567)	(24,894,180)
Cumulative effect of a change in accounting principles	(6,812,724)	-
Decrease in net assets	$ (7,123,576)	$ (7,961,096)

Overall there were only minor changes in the balance sheet components except for “cash and cash equivalents”, “Accounts receivable” and “Deferred Fuel costs” in the current assets. The Authority’s aggregated cash balance for Fiscal Year 2002 decreased by $12.9 million (14.6%) below Fiscal Year 2001. Most of this amount was attributable to somewhat lower sales due to the effects of Typhoon Chata’an in July 2002 and the related accelerated payments for typhoon restoration during July and August 2002. Additionally, the cash reduction was due to increased under-recovery of fuel costs during FY 2002, as is evident from the $3 million increase in deferred fuel costs. The current accounts receivable increased by approximately $12 million, with $4 million of that amount attributable to FEMA claims from Typhoon Chata’an. The remainder of the accounts receivable increase was from customer account increases. It should be noted that the “Self-insurance fund” of $2.5M for T&D restoration purposes was fully depleted for Typhoon Chata’an restoration. This fund is in the process of being replenished by reinstating a surcharge on customer billings until the balance returns to the authorized $2.5 million level.

As of this writing, it appears that the Government of Guam non-current arrears that totaled approximately $30 million will be funded from a forthcoming limited obligation bond issuance from the General Fund. This should adequately address previously stated concerns from the credit rating agencies and was part of the reason for their issuing a "credit watch with negative implications" on the Guam Power Authority in February 2003. The other reason for this changed outlook was due to the uncertainty on how quickly GPA could recover from the two typhoons as well as the impacts of a weakening local economy. It should also be noted that the last rating issued by S&P in May 2002 affirmed GPA's "BBB" rating, although it did revise the outlook from "stable" to "negative". Although the Authority is expected to meet with S&P for the annual update of its credit rating, the Authority may also be re-visiting the credit rating agencies during FY 2003 as it attempts to issue revenue bonds for the purpose of refinancing part of its "capacity payments" with one of the IPP's so as to gain a significant savings in its cash payments by increasing the payment period on the generators to better match their useful life.

The current liabilities decreased by approximately $10.7 million (or 12%). The primary causes were a significant pay-down of GPA's short term debt used for oil and paying down another credit line used for supply purchases, plus a large drop in fuel accounts payable for fuel purchases. The "Retirement fund deferred contribution" in the non-current liabilities increased by $2.2 million (or 20%) due to an updated actuarially determined employer contribution rate.

There was a significant change in accounting principle regarding the treatment of the Authority's Energy Conversion Agreements (ECA's). Since their inception in the mid to late 90's, all capacity and O&M costs have been expensed as a cost for the independent power producers generation onto GPA's grid. Although the O&M costs under these ECA's are properly recognized as an expense, the capacity payments that are primarily for the plant assets should more properly be treated as a capital lease and recognized on the balance sheet as such. Therefore, the effects of prior year capacity payments have been included onto the FY 2002 financials and the current year and subsequent years for the remainder of these 20-year agreements are amortizing these payments and recognizing the related interest and depreciation expenses.

There was also a restatement of FY 2001 financial statements so as to ensure their compliance with GASB Statement 33. This restatement allows the reader to make a comparison between the FY 2002 financials and the FY 2001 financials.

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Balance Sheets
September 30, 2002 and 2001

ASSETS	2002	2001 As restated (note 12)
Utility plant, at cost (note 13):		
Electric plant in service	$ 742,707,572	$ 551,337,579
Construction work in progress	44,446,114	55,263,910
Less accumulated depreciation	(201,818,332)	(164,246,306)
Total utility plant	585,335,354	442,355,183
Bond reserve funds (trustee) (note 3)	27,483,313	27,537,320
Current assets:		
Cash and cash equivalents (note 3):		
Held by trustee:		
Interest and principal funds for debt repayment	16,752,517	16,873,932
Bond indenture funds for restricted purposes	41,286,790	50,492,909
Held by Guam Power Authority:		
Bond indenture funds	17,095,476	18,160,063
Self-insurance fund (note 9)	-	2,498,067
Total cash and cash equivalents	75,134,783	88,024,971
Accounts receivable (notes 2, 4 and 9)	48,109,844	42,471,336
Current installments of long-term notes receivable (note 4)	2,349,354	4,362,000
Total current receivables	50,459,198	46,833,336
Materials and supplies inventory	16,930,877	15,651,696
Fuel inventory	13,614,541	21,726,702
Prepaid expenses	1,381,764	1,135,896
Deferred fuel costs	6,595,221	3,588,402
Total current assets	164,116,384	176,961,003
Other non-current assets:		
Accounts receivable (note 4)	15,696,834	17,500,656
Notes receivable, less current installments (note 4)	21,624,028	12,950,391
Total noncurrent receivables	37,320,862	30,451,047
Unamortized debt issuance costs	5,292,102	5,459,307
Cancelled unit, net of amortization	1,357,407	1,479,583
Deferred asset (note 6)	4,461,827	4,621,177
Other	2,757,085	2,683,715
Total other assets	51,189,283	44,694,829
	$ 828,124,334	$ 691,548,335

See accompanying notes to financial statements.

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Balance Sheets, Continued
September 30, 2002 and 2001

LIABILITIES AND NET ASSETS	2002	2001 As restated (note 12)
Current liabilities:		
Bank overdraft	$ -	$ 2,200,460
Short-term debt (note 5)	22,912,000	26,217,174
Current maturities of long-term debt (note 6)	6,311,723	6,634,000
Current obligations under capital leases (note 14)	3,465,091	-
Accounts payable:		
Operations	12,319,933	12,018,568
Fuel	2,960,961	8,426,803
Navy	335,863	127,304
Accrued payroll and employees' benefits	736,452	607,423
Current portion of employees' annual leave	1,240,151	1,095,177
Interest payable	12,082,154	12,682,454
Customer deposits	3,107,609	3,165,564
Deferred revenues (note 6)	16,352,493	16,936,511
Deferred credits (note 9)	-	2,507,526
Total current liabilities	81,824,430	92,618,964
Long-term debt, less current maturities (notes 6 and 7)	399,953,266	405,132,541
Employees' annual leave, less current portion	1,712,969	1,712,968
Retirement fund deferred contributions (note 8)	13,286,412	11,036,475
Obligations under capital leases, less current portion (note 14)	157,423,446	-
Total liabilities	654,200,523	510,500,948
Net assets:		
Invested in capital assets, net of related debt	17,435,745	32,068,226
Restricted	75,880,134	86,113,556
Unrestricted	80,607,932	62,865,605
Total net assets	173,923,811	181,047,387
Commitments and contingencies (notes 4 and 9)		
	$ 828,124,334	$ 691,548,335

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2002 and 2001

	2002	2001 As restated (note 12)
Revenues (note 5):		
Sales of electricity (note 10)	$ 203,779,959	$ 231,129,912
Miscellaneous	1,091,002	1,669,243
Total revenues	204,870,961	232,799,155
Operating and maintenance expenses:		
Production fuel	71,812,693	92,868,289
Other production	16,428,214	21,966,974
	88,240,907	114,835,263
Administrative and general	25,101,786	20,728,533
Depreciation	24,080,789	19,234,960
Transmission and distribution (note 10)	9,091,449	12,324,705
Energy conversion costs (note 14)	16,285,746	40,248,951
Customer accounting	6,059,569	8,493,659
Total operating and maintenance expenses	168,860,246	215,866,071
Operating earnings	36,010,715	16,933,084
Other revenues (expense):		
Interest revenue	5,384,286	4,288,781
Allowance for funds used during construction (note 1)	(343,748)	43,698
Other expense	(1,009,959)	(122,175)
Construction projects expensed (note 11)	-	(3,669,506)
Interest expense	(43,703,692)	(25,764,654)
Total other expenses	(39,673,113)	(25,223,856)
Loss before capital contributions	(3,662,398)	(8,290,772)
Capital contributions:		
Grants from the United States Government	3,351,546	329,676
Decrease in net assets before cumulative effect of a change in accounting principle	(310,852)	(7,961,096)
Cumulative effect of a change in accounting principle (note 14)	(6,812,724)	-
Decrease in net assets (net loss)	(7,123,576)	(7,961,096)
Total net assets at beginning of year	181,047,387	189,008,483
Total net assets at end of year	$ 173,923,811	$ 181,047,387

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2002 and 2001

Increase (decrease) in cash and cash equivalents	2002	2001 As restated (note 12)
Cash flows from operating activities:		
Cash received from customers	$ 191,310,510	$ 231,413,234
Cash payments to suppliers and employees for goods and services	(144,215,177)	(194,194,040)
Net cash provided by operating activities	47,095,333	37,219,194
Cash flows from investing activities:		
Change in bond reserve funds	54,007	750,680
Interest and dividends on investments and bank accounts	4,800,268	4,288,781
Net cash provided by investing activities	4,854,275	5,039,461
Cash flows from noncapital financing activities:		
Principal paid on short-term debt	(3,305,174)	(3,700,000)
Interest paid on short-term debt and deposits	(505,453)	(1,556,136)
Bank overdraft	(2,200,460)	2,200,460
Net cash used in noncapital financing activities	(6,011,087)	(3,055,676)
Cash flows from capital and related financing activities:		
Net deferred liability	-	12,740,500
Acquisition of utility plant	(10,129,329)	(18,771,665)
Contributions received	3,351,546	329,676
Principal paid on bonds and other long-term debt	(6,491,072)	(6,822,090)
Interest paid on bonds and other long-term debt	(22,475,550)	(22,602,032)
Principal paid on capital leases	(3,077,390)	-
Interest paid on capital leases	(20,006,914)	-
Debt issuance costs/loss on defeasance	-	(427,285)
Net cash used in capital and related financing activities	(58,828,709)	(35,552,896)
Net (decrease) increase in cash and cash equivalents	(12,890,188)	3,650,083
Cash and cash equivalents at beginning of year	88,024,971	84,374,888
Cash and cash equivalents at end of year	$ 75,134,783	$ 88,024,971

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued
Years Ended September 30, 2002 and 2001

	2002	2001 As restated (note 12)
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 36,010,715	$ 16,933,084
Other expense	(1,009,959)	-
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	24,080,789	19,234,960
Difference between retirement expense and funding	2,249,937	108,344
(Increase) decrease in assets:		
Accounts receivable	(10,495,677)	4,561,139
Materials and supplies inventory	(1,279,181)	3,777,984
Fuel inventory	8,112,161	1,536,226
Prepaid expenses	(245,868)	(576,378)
Deferred fuel costs	(3,006,819)	3,758,856
Other assets	(73,370)	108,654
Increase (decrease) in liabilities:		
Accounts payable - fuel	(5,465,842)	(1,872,602)
Accounts payable - operations	301,365	(10,687,255)
Accounts payable - Navy	208,559	127,304
Customer deposits	(57,955)	52,940
Deferred credits	(2,507,526)	3,852
Accrued payroll and employees' benefits	129,029	(14,051)
Employees' annual leave	144,975	166,137
Net cash provided by operating activities	$ 47,095,333	$ 37,219,194

Non-cash financing and operating activities:

GPA recorded a net increase in utility plant of $157,153,203, obligations under capital lease of $163,965,927, and a cumulative effect of a change in accounting principle of $6,812,724 as the result of the adoption of Emerging Issue Task Force issue paper 01-8 (see note 14).

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 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.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (25-50 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. Accumulation of such vacation credits is limited to 480 hours at fiscal year end and is convertible to pay upon termination of employment.

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 representing termination fees and closing costs and the deferred revenue representing 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.

Deferred Credits

Deferred credits resulted from PUC orders to defer recognition of certain revenues to offset self-insurance expenses. Deferred credits were applied against expenses associated with typhoon Chataan in 2002.

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

Sales of Electricity

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

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, 2002 and 2001, 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. Unrecovered fuel costs have increased to $6,595,221 at September 30, 2002.

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. GPA recorded negative AFUDC for the year ended September 30, 2002 to correct an over capitalization that occurred in previous years.

(1) Summary of Significant Accounting Policies, Continued

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.

Reclassifications

Certain reclassifications have been made to the 2001 financial statements for comparative purposes.

(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, 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.

At September 30, 2002 and 2001, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

(3) Cash and Investments, Continued

	2002				
	Held By Trustee		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Self Insurance	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

	2001				
	Held By Trustee		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Self Insurance	Total
Construction funds	$ -	$ 44,558,804	$ -	$ -	$ 44,558,804
Interest and principal funds	16,873,932	-	-	-	16,873,932
Working capital fund	-	-	16,206,428	-	16,206,428
Revenue fund	-	4,844,674	-	-	4,844,674
Self insurance fund	-	-	-	2,498,067	2,498,067
Operating funds	-	-	1,953,635	-	1,953,635
Surplus funds	-	1,089,430	-	-	1,089,430
	16,873,932	50,492,908	18,160,063	2,498,067	88,024,970
Bond Reserve Funds					27,537,320
					$ 115,562,290

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2002 and 2001. Market values shown below implicitly include accrued interest for debt securities.

	2002	2001
Cash on hand, in demand and time deposits and money market accounts	$ 75,134,783	$ 88,024,970
Federal National Mortgage Association discount notes	27,483,313	27,537,320
	$ 102,618,096	$ 115,562,290

(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, 2002 and 2001, funds held by trustees amounting to $16,752,517 and $16,160,751, respectively, are classified as Category 1 investments in accordance with GASB No.3. As of September 30, 2002 and 2001, funds held by trustees amounting to $27,483,313 and $28,250,500, 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 $17,095,476 and $11,170,691 as of September 30, 2002 and 2001, respectively. Of this amount, $393,879 and $1,360,603 were covered by federal depository and national credit union administration insurance as of September 30, 2002 and 2001, respectively, $16,503,981 and $9,638,722 were uninsured and uncollateralized, and $197,616 and $171,366 were held on hand for the change fund and petty cash.

(4) Receivables

Accounts receivable at September 30, 2002 and 2001, are summarized as follows:

	2002	2001
Customers:		
Private	$ 30,291,916	$ 29,604,265
Government	27,551,084	21,814,208
	57,843,000	51,418,473
Federal Emergency Management Agency (FEMA) claims (note 9)	15,695,522	10,209,382
Others	1,865,874	1,040,181
Interest from construction fund	723,863	469,160
U.S. Navy	17,716	191,961
	76,145,975	63,329,157
Less allowance for doubtful receivables	(12,339,298)	(3,357,165)
	63,806,678	59,971,992
Less current portion	48,109,844	42,471,336
	$ 15,696,834	$ 17,500,656

(4) Receivables, Continued

On September 30, 2001, GPA reclassified its receivables from Guam Waterworks Authority (GWA) totaling $18,400,656 as long-term based upon a surcharge ordered to be implemented by the PUC in its September 1, 2001 regulatory session. The PUC Order established an 11.5% regulatory surcharge effective for meters read after October 1, 2001, to enable GWA to retire its obligations to both GPA and the Guam Telephone Authority (GTA). The Order stipulated that monthly payments be made to both GTA and GPA. Payments to GPA should be no less than $75,000 per month, after the required $50,000 payment to GTA, payment of the PUC's annual administrative assessments and payment of PUC invoices in excess of 60 days.

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 is 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 is scheduled to continue in May 2003 with monthly payments to be made to GPA and effective October 2003, also to the U.S. Navy. However, a measure has been introduced in the Guam legislature to place an additional two year moratorium on the surcharge.

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, 2002 and 2001, GWA has current receivables of $2,764,324 and $900,000 and the remaining $15,696,834 and $17,500,656, respectively, is classified as long-term.

During 2001, GPA converted $23,312,391 in past due accounts receivable from three Government of Guam agencies to notes receivable payable over four to five years. During 2002, GPA renegotiated notes receivable of $22,650,228 from the Department of Education (DOE) and the Department of Public Works (DPW). Notes receivable at September 30, 2002 and 2001 consisted of the following:

	2002	2001
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, to replace 2001 note receivable from DOE.	$ 12,998,885	$ 12,780,622
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, to replace 2001 notes receivables from DPW.	9,382,636	8,514,877
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.	1,591,861	2,016,892
	23,973,382	23,312,391
Less allowance for doubtful receivables	-	6,000,000
	23,973,382	17,312,391
Less current portion	2,349,354	4,362,000
	$ 21,624,028	$ 12,950,391

(4) Receivables, Continued

Future maturities of notes receivable are summarized as follows:

Year ending September 30,	Amount
2003	$ 2,349,354
2004	1,902,858
2005	2,111,211
2006	1,765,857
2007	6,680,826
2008	806,798
2009	8,356,478
	$ 23,973,382

On April 28, 2003, Public Law (PL) 27-19 was signed by the Governor of Guam. PL 27-19 authorizes the Government of Guam to issue $218 million in bonds. Approximately $30 million of the proceeds of these bonds is earmarked to pay off the above notes receivable from DOE, DPW and GMHA along with their current accounts with GPA. However, subsequent to the signing of PL 27-19, the Government of Guam's bond rating was downgraded, which may complicate issuance of the bonds. As a result of PL 27-19, GPA eliminated the allowance for doubtful receivables of $6,000,000 for these notes receivable as of September 30, 2002. The allowance for doubtful receivables has been applied against accounts receivable.

(5) Short-Term Debt

Short-term debt at September 30, 2002 and 2001, is as follows:

	2002	2001
Thirty-day notes payable drawn on a $15 million bank line of credit with interest at 3.31% at September 30, 2002 (5.08% at September 30, 2001), 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	$ 6,217,174
Tax exempt commercial paper notes issued in August 1998 with interest at 1.20% at September 30, 2002 (1.05% to 1.20% at September 30, 2001). The notes are collateralized by a pledge of revenues subordinate to the bondholders under GPA's bond issues. The notes had original maturity dates from October 7, 1998 through January 12, 1999, but have been subsequently rolled over with new maturity dates from October 3, 2002 through November 12, 2002.	20,000,000	20,000,000
	$ 22,912,000	$ 26,217,174

(6) Long-Term Debt

Long-term debt at September 30, 2002 and 2001, is as follows:

	2002	2001
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.	$ 343,148,601	$ 346,228,601
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.	88,495,000	90,630,000
	431,643,601	436,858,601
Notes:		
IBM interest bearing notes in exchange for an accounting operating system acquired through a financing agreement.	871,723	2,147,795
	432,515,324	439,006,396
Less current maturities	(6,311,723)	(6,634,000)
	426,203,601	432,372,396
Less discount on bonds	(6,752,579)	(7,009,101)
	419,451,022	425,363,295
Loss on defeasance, net of $2,751,368 accumulated amortization in 2002 ($2,018,370 in 2001) (note 7)	(19,497,756)	(20,230,754)
	$ 399,953,266	$ 405,132,541

(6) Long-Term Debt, Continued

As of September 30, 2002, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2003	$ 6,311,723	$ 22,042,021	$ 28,353,744
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 through 2012	37,223,601	102,462,854	139,686,455
2013 through 2017	47,955,000	92,283,963	140,238,963
2018 through 2022	61,670,000	81,818,313	143,488,313
2023 through 2027	79,085,000	62,822,681	141,907,681
2028 through 2032	101,485,000	35,925,294	137,410,294
2033 through 2034	74,490,000	7,954,800	82,444,800
	$ 432,515,324	$ 490,947,595	$ 923,462,919

During 2001, GPA offset $633,855 of MDI Guam Corporation's (MDI) non-fuel charges against the note payable to MDI and wrote-off the remaining note payable of $1,039,095 in accordance with the terms of the agreement entered into in June of 1992. The write-off resulted in a reduction in the electric plant in service account by the same amount.

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

Proceeds of the 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.

(6) Long-Term Debt, Continued

Based on the terms of the agreement, gross proceeds totaled $17,521,029 while GPA incurred termination fees and closing costs totaling $3,530,000 and $1,250,529, respectively. The $13.5 million in net proceeds 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, 2002 and 2001:

	2002	2001
Deferred revenue	$ 17,521,029	$ 17,521,029
Accumulated amortization	(1,168,536)	(584,518)
	$ 16,352,493	$ 16,936,511
Deferred asset	$ 4,780,529	$ 4,780,529
Accumulated amortization	(318,702)	(159,352)
	$ 4,461,827	$ 4,621,177

(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.

(8) Employees' Retirement Plan, Continued

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, 2002, 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 9.5% and 19.675%, respectively, for the year ended September 30, 2002. The effect of GPA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 31.77% to an effective rate of 28.26% for the year ended September 30, 2002. In recognition of the above, an accrual increase of 8.585 % of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 28.26% and the employer's statutory rate of 19.675%. The effective employer accrual rate for the year ended September 30, 2001 was 20.05%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 8.5% per annum for short service employees and 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, 2002 and 2001, may be materially different than that recorded in the accompanying financial statements.

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

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.675% 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.

The cost to GPA for retirement contributions for the years ended September 30, 2002 and 2001, is as follows:

	2002	2001
Cash contributions	$ 4,357,628	$ 4,597,071
Accruals	2,249,937	108,344
	$ 6,607,565	$ 4,705,415

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

(9) Commitments and Contingencies

Capital Commitments

The 2002 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

During 2002, GPA leased its office building for a monthly fee of $78,231 under a two-year term to expire on September 30, 2002. On December 31, 2002, GPA entered into a new lease agreement 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, 2002, future minimum lease payments for the aforementioned leases are as follows:

Year ending September 30,	Amount
2003	$ 1,712,193
2004	1,590,000
2005	1,290,000
2006	1,290,000
2007	1,290,000
2008	1,290,000
	$ 8,462,193

Rent expense under the aforementioned agreements totaled $1,351,076 and $2,139,777 during the years ended September 30, 2002 and 2001, 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, 2002, GPA had available a $1.5 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, 2002, GPA has outstanding letters of credit of approximately $7.4 million.

(9) Commitments and Contingencies, Continued

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. 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, 2002. 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.

(9) Commitments and Contingencies, Continued

FEMA Receivables

As of September 30, 2002 and 2001, GPA has a total of $23,438,087 and $17,951,947, respectively, in outstanding FEMA claims for typhoon damages. GPA recorded $15,695,522 and $10,209,382, respectively, of the outstanding claims as accounts receivable at September 30, 2002 and 2001. The remaining $7,742,565 in claims has not been recorded as collection of the full amount of the claims is uncertain. Receivable of $10,209,382 at September 30, 2002 and 2001 resulted from a typhoon claim during the year ended September 30, 1998. The amount ultimately to be collected against these claims is uncertain.

Plant Explosion

In February 2002, an explosion severely damaged one of GPA's generation plants. The plant is presently undergoing repairs. The total cost of the damage is estimated at $5 - $7 million. However, management is of the opinion that most of the damage will be covered by insurance.

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, 2002 and 2001, GPA billed the Navy approximately $31,030,000 and $35,000,000, respectively, for sales of electricity under a customer supplier agreement.

(11) Construction Projects Expense

During 2001, GPA performed a review of its detail listing of construction work in progress. Based on its review, GPA identified work orders totaling $3,669,506 which do not qualify for classification as utility plant in the accompanying 2001 balance sheet. The work orders were opened in prior years, dating as far back as 1996. As a result, GPA expensed $3,669,506 in CIP, which is reflected as construction projects expensed in the accompanying 2001 statement of operations and retained earnings.

(12) Adoption of New Accounting Principles

Effective October 1, 2000, GPA adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB No. 33 establishes increased uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented; accordingly, the balance sheet and statement of revenues, expenses and changes in net assets for 2001 has been restated.

The effect of adoption of GASB No. 33 on the accompanying 2001 financial statements was as follows:

	As previously presented	As restated	Difference
Assets:			
Construction work-in-progress	$ 54,531,631	$ 55,263,910	$ 732,279
Statement of revenues, expenses and changes in net assets:			
Net assets at beginning of year	188,605,880	189,008,483	402,603
Grants from the United States Government	-	329,676	329,676

Effective October 1, 2001, GPA adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*. GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required supplementary information to the basic financial statements, and the presentation of net assets and changes in net assets in comparative financial statements. The provisions of GASB No. 34 were applied to all periods presented; accordingly, the balance sheet and statement of revenues, expenses and net changes in net assets for 2001 has been restated. Implementation of GASB No. 34 had no impact on the statement of cash flows.

Effective October 1, 2001, GPA also adopted the accounting guidance provided in Financial Accounting Standards Board Emergency Issues Task Force (EITF) issue paper No. 01-8 which clarifies accounting treatment for energy purchase agreements (see note 14).

(13) Utility Plant

A summary of changes in capital assets for the years ending September 20, 2002 is as follows:

	Beginning Balance October 1, 2001	Transfers and Additions	Transfers and Deletions	Implementation of EITF No. 01-8	Balance Sept. 30, 2002
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
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

(14) 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.

In applying EITF No. 01-8, GPA 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 continue to be 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
2003	$ 23,084,304
2004	23,084,304
2005	23,084,304
2006	23,084,304
2007	23,084,304
Thereafter	255,811,201
	371,232,721
Less amounts representing interest	210,344,184
	160,888,537
Less current portion	3,465,091
	$ 157,423,446

(15) Subsequent Events

On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. An estimate of the damage to GPA's utility plant and equipment, as a direct result of the typhoon, has been estimated at $30 million. GPA's management expects to absorb a portion of the final loss amount through its self-insurance, and intends to seek reimbursement from FEMA for the remainder.

On January 2, 2003, a five-member publicly elected Consolidated Commission on Utilities (CCU) officially convened pursuant to Guam Public Law 26-76. The CCU replaced and assumed the duties and responsibilities of the previous GPA Board of Directors.

GUAM POWER AUTHORITY

Schedule 1
Schedule of Sales of Electricity
Years Ended September 30, 2002 and 2001

	2002	2001
Commercial	$ 80,937,496	$ 92,091,900
Residential	56,144,757	65,025,676
Government of Guam	35,667,391	38,979,581
U.S. Navy	31,030,315	35,032,755
	$ 203,779,959	$ 231,129,912

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2002 and 2001

	2002	2001
Administrative and General:		
Salaries and wages:		
Regular pay	$ 3,208,909	$ 2,871,684
Overtime	110,621	99,847
Premium pay	6,282	3,272
Benefits	6,700,896	5,671,129
Total salaries and wages	10,026,708	8,645,932
Insurance	9,065,393	4,998,781
Contract	3,668,525	4,023,506
Amortization of FMS costs	910,127	1,000,160
Communications	824,310	765,706
Completed work orders	428,213	37,353
Overhead allocations	198,329	327,271
Operating supplies	90,967	45,984
Travel	69,735	39,385
Other administrative expenses	62,513	19,973
Training	48,522	84,496
Office supplies	21,230	29,506
Others	(75,571)	217,904
General and administrative capitalized	(1,192,941)	(497,816)
Miscellaneous	955,726	990,392
Total general and administrative	$ 25,101,786	$ 20,728,533
Customer Accounting:		
Salaries and wages:		
Regular pay	$ 2,122,708	$ 1,758,781
Overtime	131,804	244,995
Premium pay	7,999	5,513
Total salaries and wages	2,262,511	2,009,289
Bad debt	2,969,323	5,352,820
Amortization of FMS costs	247,871	233,608
Communications	211,805	266,738
Overhead allocations	209,588	246,112
Completed work orders	46,497	-
Operating supplies	42,558	43,301
Contract	35,414	216,690
Office supplies	11,407	18,279
Others	3,585	16,710
Miscellaneous	19,010	90,112
Total customer accounting	$ 6,059,569	$ 8,493,659

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2002 and 2001

	2002	2001
Fuel:		
Salaries and wages:		
Regular pay	$ 28,709	$ 11,207
Overtime	9,661	4,799
Premium pay	336	176
Total salaries and wages	38,706	16,182
Fuel	74,780,806	89,458,661
Deferred fuel costs	(3,006,819)	3,393,446
Total fuel costs	$ 71,812,693	$ 92,868,289
Other Production:		
Salaries and wages:		
Regular pay	$ 7,367,451	$ 7,432,477
Overtime	1,395,319	2,058,841
Premium pay	145,350	184,112
Total salaries and wages	8,908,120	9,675,430
Contract	1,449,331	5,791,221
Communications	449,593	403,437
Office supplies	7,176	11,136
Operating supplies	3,483,894	4,277,284
Miscellaneous	255,177	(3,785)
Overhead allocations	117,235	337,612
Amortization of FMS costs	561,429	108,947
Completed work orders	1,039,182	581,144
Line of credit payments/adjustments	-	(660,964)
Inventory adjustments	-	945,686
Amortization of improvements to central office	-	494,681
Others	157,077	5,145
Total other production	$ 16,428,214	$ 21,966,974
Transmission and Distribution:		
Salaries and wages:		
Regular pay	$ 5,018,856	$ 5,012,823
Overtime	675,275	1,122,077
Premium pay	67,942	94,553
Total salaries and wages	5,762,073	6,229,453
Contract	392,310	2,113,432
Communications	-	160,528
Office supplies	6,795	16,596
Operating supplies	357,835	1,322,530
Miscellaneous	6,282	(1,950)
Overhead allocations	1,110,189	2,069,837
Amortization of FMS costs	57,793	729,627
Completed work orders	1,253,778	487,685
CSA wheeling charges	118,955	118,998
Deferred installation costs	(139,268)	(1,256,495)
Others	164,707	334,464
Total transmission and distribution	$ 9,091,449	$ 12,324,705

See accompanying independent auditors' report.