GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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INDEPENDENT AUDITORS' REPORT

Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4 to the financial statements, four agencies of the Government of Guam have substantial accounts receivable balances with GPA that have been outstanding for several years. Despite entering into multiple repayment agreements, GPA has been unable to collect any of these old balances from one Government of Guam agency. Receivables due from this agency approximate $14 million at September 30, 2005. Collection of this receivable is dependent on adequate funding to be provided by the Government of Guam or successful issuance of bonds by the Government of Guam. At present, the likelihood of collection of this receivable is not determinable. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 1-5 is not a required part of the basic financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of GPA's management. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 31 through 34, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of GPA's management. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006, on our consideration of the GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

March 31, 2006

GUAM POWER AUTHORITY

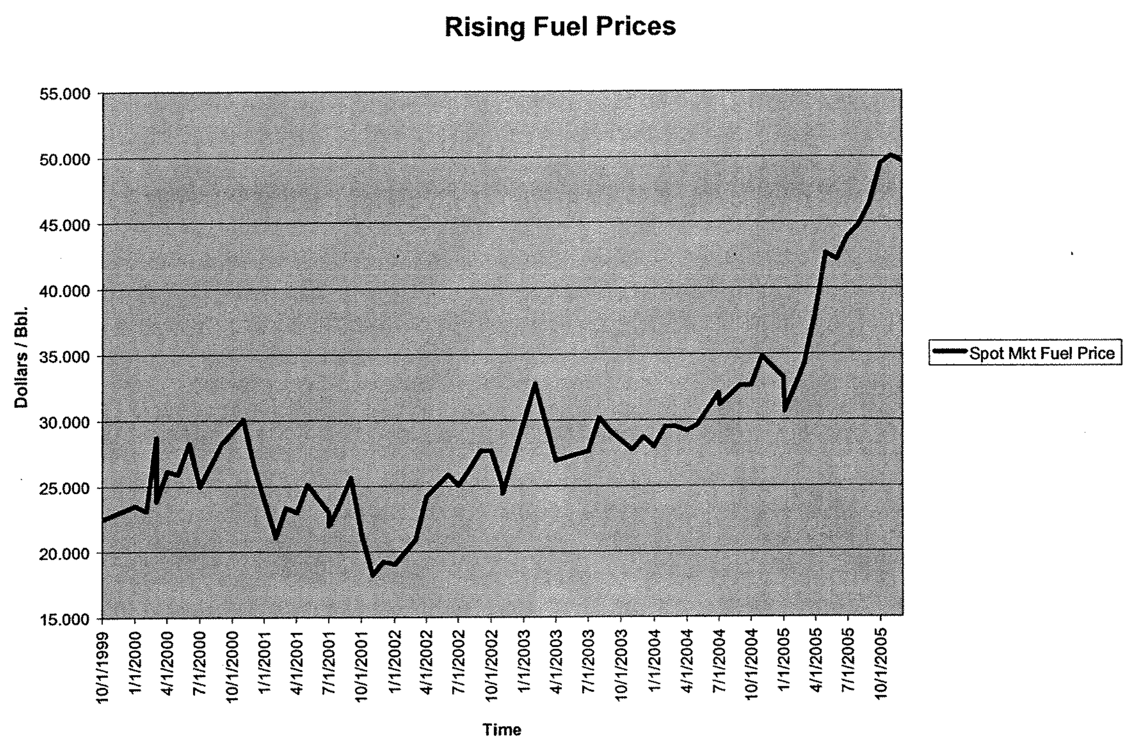
Management Discussion and Analysis
Year Ended September 30, 2005

Introduction

The defining moment for the Guam Power Authority has been the change in governance that took place January 2, 2003. An elected Consolidated Commission on Utilities (CCU) was elected as the governing board for the Guam Power Authority. Prior to that the board was appointed by and was subject to oversight of the Governor of Guam. The change in governance led to a change in management. This discussion will highlight many of the changes that have taken place under the new management team.

The biggest challenge facing the Guam Power Authority (GPA) is the rising price of fuel. GPA's system is dependent upon fossil fuels and the rising prices in the world wide fuel market have had a significant impact on the Authority.

The chart below demonstrates the magnitude of the problem faced by GPA:



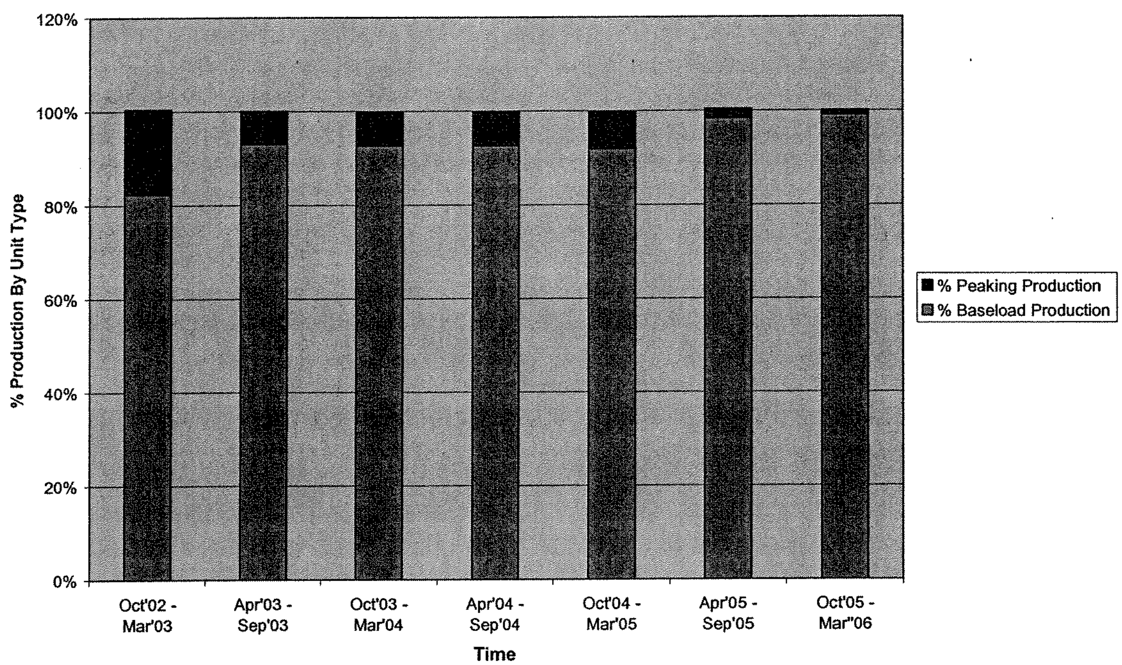
The price GPA pays for its fuel has doubled over the last few years. GPA recovers its cost of fuel through the Levelized Energy Adjustment Clause (LEAC) which is set every six months by the Public Utilities Commission. In response to these price increases, GPA has reset the LEAC as follows:

Month of Adjustment	% Inc. Tot. Bills
October 2003	11.93%
April 2004	(2.04%)
April 2005	10.68%
August 2005	11.58%
April 2006	6.31%

(Note: The April 2006 increase is pending PUC approval)

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

Production of Baseload Units



In addition to these improvements in baseload production, GPA has also hired two consultants to assist in evaluating opportunities for GPA to decrease its dependence on fossil fuels. First, GPA has retained RW Beck, Inc. to conduct an integrated resource to identify and evaluate all opportunities GPA has retrofitting its plants to use other types of fuel or to develop plants that utilize alternative sources of fuel. Additionally, GPA has hired a consultant to specifically study the economics of utilizing sea water air cooling technology in Tumon Bay - Guam's main tourism district.

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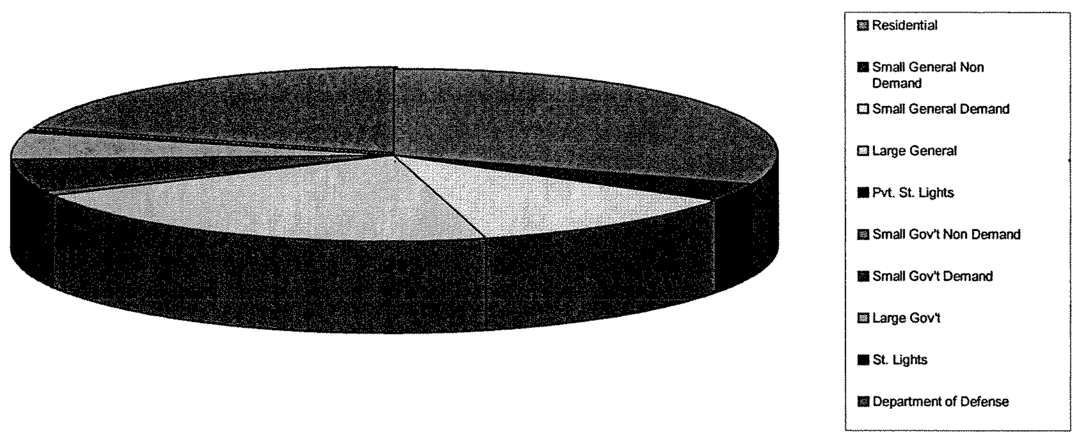
Management Discussion and Analysis
Year Ended September 30, 2005

GPA's overall kWh sales grew by 4.1% during the fiscal year ended September 30, 2005. While several of GPA customer classes saw either minimal increases or decreases in response to the increased cost of energy, this impact was partially offset by the increase of 17.1% in kWh sales to the U.S. Department of Defense (DOD). Discussions between GPA and DOD have indicated that military growth and demand for power is expected to continue in the foreseeable future. GPA estimates that it has additional capacity of more than 50 megawatts beyond what it needs to maintain reliable service available to meet this increased demand without requiring any additional capital expenditure.

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

GPA Customer Classes by Use



Other Highlights

Other significant accomplishments by the Authority are the creation of a performance management contract with the Cabras #3 & 4 slow speed diesel units (79.6 mW). Under the contract, a private manager operates the plant using GPA employees.

In the aftermath of Typhoon Pongsona in December 2002, GPA was awarded $19 million in Hazard Mitigation Grant Funding from the Federal Emergency Management Agency to construct underground lines from GPA's Tanguisson Power Plant to the Harmon Substation to the Tamuning Substation to the San Vitores Substation which serves many of GPA's large hotel customers whose power lines are already underground. During the year, an underground line from GPA's Dededo Combustion Turbine Plant to the Andersen Air Force Base was completed. This means that in the very near future, GPA will be able to serve two very large customer bases throughout periods of inclement weather or will be able to restore those loads very shortly after the storms pass over the island. This protection of revenue sources is key to GPA's strategy for improving resilience to natural disasters.

Financial Highlights

Table of Financial Data

MILLIONS OF DOLLARS	2005	2004	Variance
Assets			
Current Assets	$ 144.0	$ 149.2	(3.5%)
Non-current investments	27.5	27.4	0.4%
Other non-current Assets	45.3	47.6	(4.8%)
Utility Plant	553.1	557.2	(0.7%)
Liabilities			
Current Liabilities	64.2	67.7	(5.2%)
Non-Current Liabilities	553.8	562.5	(1.6%)
Net Assets			
Invested in capital assets net of related debt	13.1	8.2	59.8%
Restricted	54.4	56.1	(3.0%)
Unrestricted	84.3	87.0	(3.9%)

Results of Operations

MILLIONS OF DOLLARS	2005	2004	Variance
Revenues	$ 247.1	$ 226.4	9.1 %
Total Operating and Maintenance expense	210.0	193.1	8.7%
Operating earnings	37.0	33.3	11.1%
Interest income	3.6	2.9	24.1%
Other revenues and (expense)	(37.8)	(42.5)	(11.1%)
Loss before capital contributions	(0.8)	(9.2)	(91.3%)
Capital contributions	1.4	0.0	N/A
(Decrease) increase in net assets	0.6	(9.2)	106.5%

2005 compared with 2004

- The reduction in current assets was primarily the result of cash used for higher fuel costs and continued drawdowns for construction projects.
- Other non-current assets were reduced due to the decrease in long-term receivables and the over recovery of fuel oil costs for the current year.
- The Invested in Capital Assets Net of related debt increased due to annual payment of obligations under capital leases and bonds payable.

- The reduction in Restricted Net Assets is due to drawdowns for construction projects.
- The decrease in Unrestricted Net Assets is due to the decrease in current and long-term receivables as well as a decrease in deferred fuel costs.
- Revenues increased by $20.7M or 9.1% over the previous year due to a 4% increase in kWh sales and an 18% increase in fuel revenues.
- Total operating and maintenance expenses increased by $16.9M or 11.0% which is primarily due to the increase in fuel oil costs. Fuel oil prices increased by 40% over last year's prices.
- Interest income in 2005 increased by $.7M due to increasing returns on investments and deposits, from 1.25% to 3.37% per annum at the end of FY2005.
- Other expenses, net of other revenues, decreased by $4.6M or 8.6% due to expenses incurred in 2004 and not in 2005 such as oil spill costs in the amount of $3.4M and also reduction in the interest expense of $.6M, Cola and supplemental annuities of $.3M, losses due to typhoon and other expenses of $.3M.
- The capital contributions were due to a grant received from the Federal Emergency Management Agency for hazard mitigation. The project is to place transmission lines underground to help improve restoration speed in the Tumon hotel district in the aftermath of storms.

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Statements of Net Assets
September 30, 2005 and 2004

ASSETS	2005	2004
Utility plant, at cost:		
Electric plant in service	$ 798,923,889	$ 778,573,057
Construction work in progress	20,829,261	25,273,272
Less accumulated depreciation	(266,635,872)	(246,608,978)
Total utility plant	553,117,278	557,237,351
Bond reserve funds (trustee)	27,488,245	27,393,130
Current assets:		
Cash and investments:		
Held by trustee:		
Interest and principal funds for debt repayment	17,215,622	17,605,643
Bond indenture funds for restricted purposes	25,431,155	26,692,296
Held by Guam Power Authority:		
Bond indenture funds	14,230,359	20,173,431
Total cash and cash equivalents	56,877,136	64,471,370
Accounts receivable	40,722,746	41,136,226
Current installments of long-term receivables	6,675,390	7,608,860
Total current receivables	47,398,136	48,745,086
Materials and supplies inventory	14,392,880	15,847,828
Fuel inventory	23,045,896	16,526,785
Prepaid expenses	1,182,603	1,347,697
Current portion of deferred fuel costs	1,068,346	2,222,015
Total current assets	143,964,997	149,160,781
Other non-current assets:		
Long-term receivables, less current installments	30,265,272	31,622,764
Non-current deferred fuel costs	3,205,038	3,582,757
Unamortized debt issuance costs	4,790,490	4,957,694
Cancelled unit, net of amortization	990,881	1,113,057
Deferred asset, net	3,983,774	4,143,125
Other	2,049,218	2,183,922
Total other non-current assets	45,284,673	47,603,319
	$ 769,855,193	$ 781,394,581

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Net Assets, Continued
September 30, 2005 and 2004

LIABILITIES AND NET ASSETS	2005	2004
Current liabilities:		
Short-term debt	$ 20,000,000	$ 20,000,000
Current maturities of long-term debt	6,200,000	5,935,000
Current obligations under capital leases	4,957,492	4,398,150
Accounts payable:		
Operations	14,065,010	15,033,998
Fuel	1,243,126	4,084,782
Navy	-	55,982
Accrued payroll and employees' benefits	1,124,114	1,627,848
Current portion of employees' annual leave	1,307,370	1,479,102
Interest payable	11,517,986	11,723,548
Customer deposits	3,837,597	3,331,782
Total current liabilities	64,252,695	67,670,192
Long-term debt, less current maturities	385,700,541	390,713,116
DCRS sick leave liability	818,222	613,212
Employees' annual leave, less current portion	749,573	917,912
Retirement fund deferred contributions	7,717,882	5,049,406
Obligations under capital leases, less current portion	144,164,982	149,122,246
Provision for self-insurance	-	891,364
Deferred revenues, net	14,600,440	15,184,458
Total liabilities	618,004,335	630,161,906
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	13,085,144	8,181,896
Restricted	54,420,122	56,025,686
Unrestricted	84,345,592	87,025,093
Total net assets	151,850,858	151,232,675
	$ 769,855,193	$ 781,394,581

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Revenues:		
Sales of electricity	$ 244,991,100	$ 225,299,741
Miscellaneous	2,076,028	1,075,899
Total revenues	247,067,128	226,375,640
Operating and maintenance expenses:		
Production fuel	112,708,608	95,266,939
Other production	19,386,793	19,986,627
	132,095,401	115,253,566
Administrative and general	24,124,451	23,889,866
Depreciation	25,146,329	24,603,493
Energy conversion costs	16,936,394	16,542,375
Transmission and distribution	9,739,874	9,419,690
Customer accounting	1,995,352	3,368,927
Total operating and maintenance expenses	210,037,801	193,077,917
Operating earnings	37,029,327	33,297,723
Other revenues (expense):		
Interest revenue	3,591,565	2,935,964
Allowance for funds used during construction	1,285,834	1,641,578
COLA/supplemental annuities	(550,044)	(793,351)
Consulting services	-	(4,960)
Other expense	(16,205)	(122,175)
Loss due to typhoon	-	(65,795)
Oil spill costs	-	(3,414,842)
Interest expense	(42,148,963)	(42,702,473)
Total other expenses	(37,837,813)	(42,526,054)
Loss before capital contributions	(808,486)	(9,228,331)
Capital contributions:		
Grants from the United States Government	1,426,669	-
Increase (decrease) in net assets	618,183	(9,228,331)
Net assets at beginning of year	151,232,675	160,461,006
Net assets at end of year	$ 151,850,858	$ 151,232,675

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

Increase (decrease) in cash and cash equivalents	2005	2004
Cash flows from operating activities:		
Cash received from customers	$ 251,395,716	$ 226,381,377
Cash payments to suppliers for goods and services	(163,881,345)	(143,979,719)
Cash payments to employees for services	(26,630,094)	(24,409,718)
Net cash provided by operating activities	60,884,277	57,991,940
Cash flows from investing activities:		
Change in bond reserve funds	(95,115)	90,870
Interest and dividends on investments and bank accounts	2,821,071	2,351,945
Net cash provided by investing activities	2,725,956	2,442,815
Cash flows from noncapital financing activities:		
Principal paid on short-term debt	-	(5,000,000)
Interest paid on short-term debt and deposits	(738,810)	(266,158)
Net cash used in noncapital financing activities	(738,810)	(5,266,158)
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(21,026,257)	(13,428,043)
Principal paid on bonds and other long-term debt	(5,935,000)	(5,680,000)
Interest paid on bonds and other long-term debt	(20,129,519)	(20,611,652)
Principal paid on capital leases	(4,397,922)	(3,903,052)
Interest paid on capital leases	(18,686,379)	(19,181,143)
Oil spill costs paid	-	(2,125,327)
Typhoon expenditures	(598,917)	(1,018,353)
FEMA receipts	308,337	14,096,387
Net cash used in capital and related financing activities	(70,465,657)	(51,851,183)
Net change in cash and cash equivalents	(7,594,234)	3,317,414
Cash and cash equivalents at beginning of year	64,471,370	61,153,956
Cash and cash equivalents at end of year	$ 56,877,136	$ 64,471,370

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2005 and 2004

	2005	2004
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 37,029,327	$ 33,297,723
Other expense	-	(4,960)
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	25,146,329	24,603,493
Bad debt	-	1,200,000
COLA/supplemental annuities paid	(550,044)	(1,745,471)
Difference between retirement expense and funding	2,668,476	1,557,290
(Increase) decrease in assets:		
Accounts receivable	3,822,773	(2,079,071)
Materials and supplies inventory	1,454,948	1,390,458
Fuel inventory	(6,519,111)	432,139
Prepaid expenses	165,094	(640,407)
Deferred fuel costs	1,531,388	7,222,090
Other assets	134,704	191,431
Increase (decrease) in liabilities:		
Accounts payable - fuel	(2,841,656)	(5,190,772)
Accounts payable - operations	(968,988)	(3,800,992)
Accounts payable - Navy	(55,982)	36,982
Customer deposits	505,815	(6,557)
Accrued payroll and employees' benefits	(298,724)	932,553
Employees' annual leave	(340,072)	(295,353)
Provision for self-insurance	-	891,364
Net cash provided by operating activities	$ 60,884,277	$ 57,991,940

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

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

Net Assets

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

Accounting Estimates

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

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

Utility Plant

Utility Plant is stated at cost which, as to certain plant transferred from the power division of the Public Utility Agency of Guam in 1969, is based on estimated cost as determined by an independent appraiser. Cost includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. The cost of utility plant retired or otherwise disposed of, plus removal costs less salvage value, is charged to accumulated depreciation. Contributions in aid of construction are deducted from the cost of the utility plant. Current policy is to capitalize items over $500.

Depreciation

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

Inventory Valuation

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, money market accounts and U.S. treasury bills with original maturities of 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

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. 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. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

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

Deferred Asset and Deferred Revenues

The deferred asset and deferred revenues arose as a result of the Bond Reserve Fund Forward Delivery Agreement entered into in September 2000. The deferred asset represents termination fees and closing costs and the deferred revenues represent the gross proceeds that will be deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds.

Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2005 and 2004 are $6,134,009 and $5,245,318, respectively.

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 statements of net assests 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 accepted 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, 2005 and 2004, 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 GPA 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 statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. Historically, GPA charged its customers for fuel as a separate line item, which was adjusted on a monthly basis. The LEAC resulted in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel costs. Cumulative unrecovered fuel costs are $4,273,384 and $5,804,772 at September 30, 2005 and 2004, 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.

New Accounting Standards

GPA implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the year ended September 30, 2005. Implementation of GASB 40 required significant changes in disclosures for investments that have fair values that may be sensitive to changes in interest rates. Implementation of GASB 42 did not have a material effect on the financial statements.

GPA will be implementing GASB Statement No. 47, *Accounting for Termination Benefits* for the year ended September 30, 2006. GPA has not evaluated the financial statement impact of GASB No. 47.

Reclassifications

Certain account balances in the 2004 financial statements have been reclassified to correspond with the 2005 presentation.

(2) Concentrations of Credit Risk

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

At September 30, 2005 and 2004, GPA has cash deposits in bank accounts that exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

(2) Concentrations of Credit Risk, Continued

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

(3) Cash and Investments

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

At September 30, 2005 and 2004, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

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

	2004			
	Held By Trustee		Held By GPA	
	Interest and Principal Funds	Bond Indenture Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 21,872,397	$ -	$ 21,872,397
Interest and principal funds	17,605,643	-	-	17,605,643
Bond funds	-	4,819,899	-	4,819,899
Working capital funds	-	-	17,373,356	17,373,356
Revenue funds	-	-	943,760	943,760
Self-insurance funds	-	-	891,364	891,364
Operating funds	-	-	889,439	889,439
Surplus funds	-	-	75,512	75,512
	17,605,643	26,692,296	20,173,431	64,471,370
Bond Reserve Funds				27,393,130
				$ 91,864,500

(3) Cash and Investments, Continued

Investments in debt securities are carried at cost or amortized cost which approximates market value at September 30, 2005 and 2004. Market values shown below implicitly include accrued interest for debt securities.

	2005	2004
Cash on hand, in demand and time deposits and money market accounts	$ 56,877,136	$ 64,471,370
Commercial paper	27,488,245	-
Federal National Mortgage Association discount notes	-	27,393,130
	$ 84,365,381	$ 91,864,500

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

A. Cash

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

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

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

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

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

(3) Cash and Investments, Continued

A. Cash, Continued

As of September 30, 2005 and 2004, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was $56,877,136 and $64,471,370, respectively, and the corresponding bank balances were $56,618,923 and $65,413,184, respectively. Of the bank balance amount, as of September 30, 2005 and 2004, $6,778,731 and $7,366,725, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount represents short-term investments held and administered by GPA's trustees and cash on hand. As of September 30, 2005 and 2004, bank deposits in the amount of $685,160 and $540,148, respectively, were FDIC insured. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

As of September 30, 2005 and 2004, short-term investments in the amount of $49,840,192 and $58,046,459, respectively, are held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures.

B. Investments

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

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

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

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

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

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

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

(3) Cash and Investments, Continued

B. Investments, Continued

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2005 and 2004, $27,488,245 and $27,393,130, respectively, is held in the name of a trustee for GPA.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2005, GPA's investments that exceeded 5% of total investments are as follows: Bayerische Landesbk (25.86%), Crimson Commercial Paper (21.04%), General Electric Commercial Paper (21.04%) and the Federal Debt Security Fund (31.55%). As of September 30, 2004, GPA's investments that exceeded 5% of total investments are as follows: Bayerische Landesbk (20.22%), Calyon North America Paper (16.07%), Crimson Commercial Paper (18.07%) and the Federal Debt Security Fund (47.28%).

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

(4) Receivables

Accounts receivable at September 30, 2005 and 2004, are summarized as follows:

	2005	2004
Customers:		
Private	$ 33,874,465	$ 32,008,259
Government	12,353,824	9,326,241
	46,228,289	41,334,500
U.S. Navy	2,372,305	4,706,429
Federal Emergency Management Agency claims	3,112,075	3,836,447
Interest	458,125	417,568
Insurance claim	-	1,465,777
Others	2,552,557	4,063,456
	54,723,351	55,824,177
Less allowance for doubtful receivables	(14,000,605)	(14,687,951)
	$ 40,722,746	$ 41,136,226

(4) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2005 and 2004 consisted of the following:

	2005	2004
Installment payment agreement receivable from the GovGuam Public School System (GPSS), payable in three $500,000 payments in July, August, September 2004, thirteen monthly installments of $100,000 starting October 2004, with monthly installments increasing by $25,000 annually each November until payments reach $200,000 in November 2008, interest at 4.47% per annum, with the final installment due in July 2013.	$ 13,964,139	$ 14,527,330
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of $75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installment payment due in April 2007, uncollateralized.	10,447,168	10,124,204
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.	782,033	1,090,081
Receivable due from Guam Waterworks Authority, payable monthly from an 11.5% water rate surcharge, interest at 4.3%, uncollateralized.	11,747,322	13,490,009
	36,940,662	39,231,624
Less current portion	6,675,390	7,608,860
	$ 30,265,272	$ 31,622,764

The receivable from DPW is all classified as long-term at September 30, 2005 because no payment is anticipated in 2006. However, scheduled maturities of long-term receivables are as follows:

Year ending September 30,	Amount
2006	$ 11,625,102
2007	10,331,000
2008	4,676,101
2009	1,953,398
2010	2,068,569
2011-2013	6,286,492
	$ 36,940,662

(4) Receivables, Continued

The GPSS, DPW and GMHA receivables resulted from the conversion of past due receivables from these entities into notes receivable in 2001. In April 2002, the GPSS and DPW notes were renegotiated to convert the outstanding note balances plus current receivable balances into new agreements. In July 2004, the note receivable from GPSS was renegotiated again to convert the old note receivable plus current receivables of $2,797,264 into a new installment agreement of $15,855,083.

In 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. In March 2006, the Ninth Circuit Court of Appeals dismissed the appeal for lack of jurisdiction. The Attorney General has indicated that he intends to appeal to the U.S. Supreme Court.

In October 2005, GMHA renegotiated its note receivable plus current receivables into a new installment agreement over a period of 29 months.

At September 30, 2005, the DPW receivables are significantly delinquent with only minimal payments made since its inception. In addition, there are questions being raised as to whether the DPW note is legal and binding. No provision has been provided in the accompanying financial statements for this receivable.

There is no long-term funding source to repay the GPSS, DPW and GMHA receivables. Collectibility of these receivables is dependent on adequate funding being provided by the Government of Guam General Fund and other funding sources or the issuance of the bonds discussed in the preceding paragraph.

(5) Short-Term Debt

Short-term debt at September 30, 2005 and 2004, is as follows:

	2005	2004
Taxable commercial paper issued November 1, 2004, interest at 4% at September 30, 2005.	$ 20,000,000	$ -
Tax exempt commercial paper note issued in August 1998, interest at 1.2% at September 30, 2004.	-	20,000,000
	$ 20,000,000	$ 20,000,000

(5) Short-Term Debt, Continued

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

Movements in GPA's short-term debt in 2005 and 2004 are as follows:

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

	Outstanding September 30, 2003	Increases	Decreases	Outstanding September 30, 2004
Tax exempt commercial paper	$ 20,000,000	$ -	$ -	$ 20,000,000
Ninety-day notes payable	5,000,000	-	5,000,000	-
	$ 25,000,000	$ -	$ 5,000,000	$ 20,000,000

(6) Long-Term Debt

Long-term debt at September 30, 2005 and 2004, is as follows:

	2005	2004
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.	$ 333,163,601	$ 336,623,601
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.	81,425,000	83,900,000
	414,588,601	420,523,601
Less current maturities	(6,200,000)	(5,935,000)
	408,388,601	414,588,601
Less discount on bonds	(5,829,098)	(6,136,925)
	402,559,503	408,451,676
Loss on defeasance, net of $5,130,987 and $4,251,390 accumulated amortization in 2005 and 2004, respectively	(16,858,962)	(17,738,560)
	$ 385,700,541	$ 390,713,116

(6) Long-Term Debt, Continued

As of September 30, 2005, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2006	$ 6,200,000	$ 21,004,916	$ 27,204,916
2007	6,480,000	20,711,466	27,191,466
2008	6,770,000	20,400,776	27,170,776
2009	7,080,000	20,071,601	27,151,601
2010	7,373,601	19,361,100	26,734,701
2011 through 2015	43,290,000	91,853,200	135,143,200
2016 through 2020	55,810,000	78,736,763	134,546,763
2021 through 2025	71,610,000	62,156,900	133,766,900
2026 through 2030	91,810,000	40,898,288	132,708,288
2031 through 2035	118,165,000	13,041,263	131,206,263
	$ 414,588,601	$ 388,236,273	$ 802,824,874

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 of interest income on certain invested bond proceeds.

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

(6) Long-Term Debt, Continued

The following summarizes deferred revenues and deferred asset at September 30, 2005 and 2004:

	2005	2004
Deferred revenues	$ 17,521,029	$ 17,521,029
Accumulated amortization	(2,920,589)	(2,336,571)
	$ 14,600,440	$ 15,184,458
Deferred asset	$ 4,780,529	$ 4,780,529
Accumulated amortization	(796,755)	(637,404)
	$ 3,983,774	$ 4,143,125

Changes in long-term liabilities are presented as follows:

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

	Outstanding Sept. 30, 2003	Increases	Decreases	Outstanding Sept. 30, 2004	Current	Noncurrent
1993 Series bonds	$ 86,255,000	$ -	$ 2,355,000	$ 83,900,000	$ 2,475,000	$ 81,425,000
1999 Series bonds	339,948,601	-	3,325,000	336,623,601	3,460,000	333,163,601
Unamortized discount on bonds	(6,444,752)	-	(307,827)	(6,136,925)	-	(6,136,925)
Loss on defeasance of bonds	(18,618,158)	-	(879,598)	(17,738,560)	-	(17,738,560)
Obligations under capital leases	157,423,447	-	3,903,051	153,520,396	4,398,150	149,122,246
DCRS sick leave liability	-	613,212	-	613,212	-	613,212
Accrued annual leave	2,692,367	-	295,353	2,397,014	1,479,102	917,912
Accrued unfunded liability to retirement fund	3,492,116	1,557,290	-	5,049,406	-	5,049,406
Deferred revenues, net	15,768,476	-	584,017	15,184,459	-	15,184,459
	$580,517,097	$ 2,170,502	$ 9,274,996	$ 573,412,603	$11,812,252	$ 561,600,351

(7) Defeased Debt

On May 1, 1999, GPA issued the 1999 Series bonds of $349,178,601 to finance 1999 projects, to retire $45 million in tax exempt commercial paper notes, to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of $143,660,000 and $99,820,000, respectively, and to pay the amount currently due on the 1993 bonds totaling $1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling $22,249,124 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

(8) Employees' Retirement Plan

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

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

As a result of an actuarial valuations performed as of September 30, 2003, 2002 and 2001, contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

	2005	2004	2003
Normal costs (% of DB Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs (% of total payroll)	19.93%	16.23%	22.94%
	38.23%	33.89%	39.36%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
	28.73%	24.39%	29.86%
Agency specific adjustments	- %	- %	1.91%
Government contribution as a % of DB Plan payroll	28.73%	24.39%	31.77%
Government contribution as a % of total payroll	24.89%	20.81%	N/A

(8) Employees' Retirement Plan, Continued

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, of qualifying payroll for both of the years ended September 30, 2005 and 2004.

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

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

The actuarial valuation performed as of September 30, 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GPA as a separate sponsor, the accrued unfunded liability at September 30, 2005 and 2004 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, 2005 and 2004 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GPA has accrued an estimated liability of $818,222 and $613,212 at September 30, 2005 and 2004, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Retirement expense for the years ended September 30, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Cash contributions and accruals	$ 4,198,248	$ 3,934,842	$ 4,824,369
Increase in accrued unfunded liability to the retirement fund	2,668,476	1,557,290	1,756,858
	$ 6,866,724	$ 5,492,132	$ 6,581,227

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

(9) Commitments and Contingencies

Capital Commitments

The 2006 capital improvement project budget is approximately $14.5 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, 2005, future minimum lease payments for operating leases are as follows:

Year ending September 30,	Amount
2006	$ 1,639,307
2007	1,639,307
2008	1,414,307
2009	18,885
2010	16,119
	$ 4,727,925

Rent expense under the aforementioned agreements totaled $1,781,337 and $1,813,880 during the years ended September 30, 2005 and 2004, respectively.

Performance Management Contracts

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

At September 30, 2005, the minimum fixed management fee for the PMC above are as follows:

Year ending September 30,	Amount
2006	$ 2,748,790
2007	2,892,098
2008	1,334,265
2009	1,374,298
2010	346,095
	$ 8,695,546

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

(9) Commitments and Contingencies, Continued

Letters of Credit

As of September 30, 2005, GPA has a $10 million uncollateralized revolving documentary letter of credit for purchases of fuel.

Environmental Protection Agency

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

Environmental Remediation

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

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2005. 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 fund, included in cash and cash equivalents held by GPA, is $891,364 at September 30, 2004. In 2005, the PUC allowed GPA to recover prior year typhoon losses through the insurance charge. All self-insurance recoveries were recorded as income (see note 14).

FEMA Receivables

As of September 30, 2005 and 2004, GPA has recorded a total of $3,112,075 and $3,836,447, respectively, in outstanding FEMA claims for hazard mitigation projects and typhoon damages.

(9) Commitments and Contingencies, Continued

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 year ended September 30, 2005 and 2004, GPA billed the Navy approximately $39,060,585 and $34,126,000, respectively, for sales of electricity under a customer-supplier agreement.

(11) Energy Conversion Agreements

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

GPA has determined that the agreements to purchase electricity were in fact capital leases to acquire the plants and that the capacity payments made under the agreements were lease payments. The operations and maintenance payments under the agreements are reflected as energy conversion costs under operation and maintenance expenses.

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
2006	$ 23,084,304
2007	23,084,304
2008	23,084,304
2009	23,084,304
2010	23,084,304
2011-2015	115,421,520
2016-2019	71,136,769
	301,979,809
Less amounts representing interest	152,857,335
	149,122,474
Less current portion	4,957,492
	$ 144,164,982

(12) Supplemental/COLA Annuities

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

(13) 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, 2005 and 2004 as follows:

	2005	2004
Typhoon damages	$ 598,917	$ 65,795
Charged against self-insurance fund	598,917	-
Loss due to typhoon	$ -	$ 65,795

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

(14) Self-Insurance Fund

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

(15) Related Party Transactions

GPA provides electrical and administrative services to Guam Waterworks Authority (GWA), a component unit of the Government of Guam which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2005 and 2004 were $8,871,297 and $8,696,538, respectively. Total amounts billed by GPA to GWA for administrative expenses amounted to $93,507 and $402,577 in 2005 and 2004, respectively. Outstanding receivables for administrative expenses billed by GPA to GWA amounted to $889,104 and $814,712 as of September 30, 2005 and 2004, respectively. In addition, GPA has a long-term receivable of $11,747,322 and $13,490,009 due from GWA at September 30, 2005 and 2004, respectively (see note 4).

(16) Restricted Net Assets

At September 30, 2005 and 2004, net assets are restricted for the following purposes:

	2005	2004
Debt Service	$ 33,997,030	$ 34,153,289
Capital Projects	20,423,092	21,872,397
	$ 54,420,122	$ 56,025,686

(17) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2005 and 2004 is as follows:

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

2004	Beginning Balance October 1, 2003	Transfers and Additions	Transfers and Deletions	Balance Sept. 30, 2004
Depreciable:				
Intangible plant	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	64,272,206	2,516,035	-	66,788,241
Other production plant	245,787,700	2,146,339	(1,079,445)	246,854,594
Transmission plant	106,775,848	5,338,034	(243,972)	111,869,910
Distribution plant	141,652,309	2,139,855	(288,043)	143,504,121
General plant	33,447,330	1,630,728	(1,258,582)	33,819,476
Production plant under capital lease	171,382,727	-	-	171,382,727
	767,672,108	13,770,991	(2,870,042)	778,573,057
Accumulated depreciation	(222,137,558)	(24,603,493)	132,073	(246,608,978)
	545,534,550	(10,832,502)	(2,737,969)	531,964,079
Non-depreciable:				
Construction work in progress	22,551,695	26,049,982	(23,328,405)	25,273,272
	$ 568,086,245	$ 15,217,480	$ (26,066,374)	$ 557,237,351

GUAM POWER AUTHORITY

Schedule 1
Schedule of Sales of Electricity
Years Ended September 30, 2005 and 2004

	2005	2004
Commercial	$ 98,402,372	$ 92,847,632
Residential	69,707,106	64,544,683
Government of Guam	37,821,037	33,781,275
U.S. Navy	39,060,585	34,126,151
	$ 244,991,100	$ 225,299,741

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2005 and 2004

	2005	2004
Administrative and General:		
Salaries and wages:		
Regular pay	$ 3,218,563	$ 3,474,800
Overtime	72,227	30,630
Premium pay	2,936	1,375
Benefits	8,602,871	8,751,155
Total salaries and wages	11,896,597	12,257,960
Insurance	6,961,734	7,011,614
Contract	2,399,025	1,979,701
Communications	1,473,948	1,313,351
Overhead allocations	2,484	27,715
Operating supplies	156,128	129,317
Travel	184,126	134,838
Other administrative expenses	102,910	17,821
Training	186,014	423,645
Office supplies	27,795	23,545
Administrative and general capitalized	(185,033)	(426,156)
Miscellaneous	918,723	996,515
Total administrative and general	$ 24,124,451	$ 23,889,866
Customer Accounting:		
Salaries and wages:		
Regular pay	$ 1,731,235	$ 1,606,113
Overtime	226,141	65,575
Premium pay	4,461	4,055
Total salaries and wages	1,961,837	1,675,743
Bad debt	(278,627)	1,200,000
Communications	194,968	191,673
Overhead allocations	89,767	125,558
Completed work orders	(19,847)	125,943
Operating supplies	32,148	33,106
Contract	2,281	1,501
Office supplies	11,897	13,201
Miscellaneous	928	2,202
Total customer accounting	$ 1,995,352	$ 3,368,927

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2005 and 2004

	2005	2004
Fuel:		
Salaries and wages:		
Regular pay	$ 8,392	$ 20,346
Overtime	6,108	3,683
Premium pay	159	70
Total salaries and wages	14,659	24,099
Fuel	111,162,561	88,020,751
Deferred fuel costs	1,531,388	7,222,089
Total fuel costs	$ 112,708,608	$ 95,266,939
Other Production:		
Salaries and wages:		
Regular pay	$ 7,125,532	$ 6,340,455
Overtime	1,748,301	2,056,347
Premium pay	143,983	141,715
Total salaries and wages	9,017,816	8,538,517
Contract	6,605,419	4,147,169
Communications	18,465	5,416
Office supplies	20,276	14,738
Operating supplies	2,582,708	2,774,141
Overhead allocations	34,170	103,142
Completed work orders	1,017,248	4,394,772
Others	90,691	8,732
Total other production	$ 19,386,793	$ 19,986,627
Transmission and Distribution:		
Salaries and wages:		
Regular pay	$ 4,459,754	$ 4,160,614
Overtime	1,033,685	1,066,147
Premium pay	57,095	45,461
Total salaries and wages	5,550,534	5,272,222
Contract	313,799	86,033
Office supplies	35,843	21,602
Operating supplies	532,532	486,657
Overhead allocations	1,282,216	2,122,939
Completed work orders	2,024,950	1,430,237
Total transmission and distribution	$ 9,739,874	$ 9,419,690

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

Schedule 3
Schedule of Salaries and Wages
Years Ended September 30, 2005 and 2004

	2005	2004
Salaries and wages:		
Regular pay	$ 16,543,476	$ 15,602,328
Overtime	3,086,462	3,222,382
Premium pay	208,634	192,676
Benefits	8,602,871	8,751,155
Total salaries and wages	$ 28,441,443	$ 27,768,541
Total employees	536	511

See accompanying independent auditors' report.