GPA Financial Statements

Sept. 1997 to 1996
With Report of Independent Auditors

GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 1997 AND 1996

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Power Authority:

We have audited the accompanying balance sheets of Guam Power Authority, a component unit of the Government of Guam, as of September 30, 1997 and 1996, and the related statements of earnings and retained earnings 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Power Authority as of September 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 1998, on our consideration of the Guam Power Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

February 2, 1998

GUAM POWER AUTHORITY

Balance Sheets
September 30, 1997 and 1996

ASSETS	1997	1996
Utility plant, at cost:		
Electric plant in service	$ 434,723,108	$ 425,379,588
Construction work in progress	73,617,808	57,589,084
	508,340,916	482,968,672
Less accumulated depreciation	(96,812,134)	(81,163,906)
Total utility plant	411,528,782	401,804,766
Bond reserve funds (trustee) (note 8)	26,986,361	27,065,801
Current assets:		
Cash and cash equivalents (note 8):		
Held by trustee:		
Interest and principal funds for debt repayment	16,315,105	14,800,365
Bond indenture funds for restricted purposes	49,452,446	63,210,471
	65,767,551	78,010,836
Held by Guam Power Authority:		
Bond indenture funds	1,852,315	5,888,211
Self-insurance fund (note 7)	2,483,188	2,565,657
	4,335,503	8,453,868
Total cash and cash equivalents	70,103,054	86,464,704
Accounts receivable (notes 2, 4 and 7)	31,144,328	30,462,996
Materials and supplies inventory	18,944,033	17,791,345
Fuel inventory	11,346,716	11,707,800
Prepaid expenses	840,752	989,608
Deferred fuel costs	135,749	1,447,628
Total current assets	132,514,632	148,864,081
Other assets:		
Unamortized debt issuance costs (note 5)	6,230,122	6,630,006
Cancelled unit, net of amortization	1,968,283	2,100,640
Regulatory assets (note 11)	7,409,039	9,341,239
Other	(76,955)	(55,716)
Total other assets	15,530,489	18,016,169
	$ 586,560,264	$ 595,750,817

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Balance Sheets, Continued
September 30, 1997 and 1996

CAPITALIZATION AND LIABILITIES	1997	1996
Capitalization:		
Contributed capital:		
Grants by Government of Guam	$ 27,898,440	$ 27,898,440
Grants by U.S. Government	12,866,000	12,866,000
Total contributed capital	40,764,440	40,764,440
Retained earnings	120,268,747	105,958,362
	161,033,187	146,722,802
Long-term debt, less current maturities (note 5)	341,302,940	347,244,959
Total capitalization	502,336,127	493,967,761
Current liabilities:		
Short-term debt (note 4)	26,014,975	24,892,368
Current maturities of long-term debt (note 5)	6,259,784	4,589,784
Accounts payable:		
Operations	12,180,083	22,587,410
Fuel	4,233,437	9,975,497
Navy	959,886	3,725,114
Accrued payroll and employees' benefits	1,517,362	1,487,877
Current portion of employees' annual leave	995,583	863,086
Interest payable	11,123,438	11,140,593
Customer deposits	3,177,945	3,433,589
Other accrued liabilities (note 7)	2,383,726	3,019,714
Total current liabilities	68,846,219	85,715,032
Employees' annual leave, less current portion	1,594,383	1,657,965
Retirement fund deferred contributions (note 6)	13,783,535	14,410,059
Total liabilities	84,224,137	101,783,056
Commitments and contingencies (note 7)		
	$ 586,560,264	$ 595,750,817

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Operations and Retained Earnings
Years Ended September 30, 1997 and 1996

	1997	1996
Revenues (note 5):		
Sales of electricity (note 9)	$ 194,374,459	$ 181,794,296
Miscellaneous (notes 3 and 10)	4,487,916	11,205,313
	198,862,375	192,999,609
Operating and maintenance expenses:		
Production fuel	72,507,199	81,453,902
Other production	30,742,433	25,923,759
	103,249,632	107,377,661
Administrative and general	16,977,790	14,874,004
Depreciation	16,247,845	14,354,706
Transmission and distribution	12,109,198	10,757,203
Customer accounting	12,002,929	6,480,020
Subcontractor costs (notes 3 and 7)	5,824,429	16,014,644
Total operating and maintenance expenses	166,411,823	169,858,238
Operating earnings	32,450,552	23,141,371
Other income (expense):		
Interest expense	(23,896,641)	(23,248,108)
Allowance for funds used during construction	1,070,606	2,745,544
Interest income	4,818,301	7,506,530
Other income (expense), net	(132,433)	(111,994)
	(18,140,167)	(13,108,028)
Net earnings	14,310,385	10,033,343
Retained earnings at beginning of year	105,958,362	95,925,019
Retained earnings at end of year	$ 120,268,747	$ 105,958,362

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 1997 and 1996

	1997	1996
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	$ 199,237,279	$ 179,043,376
Cash payments to suppliers and employees for goods and services	(168,532,207)	(158,991,033)
Net cash provided by operating activities	30,705,072	20,052,343
Cash flows from investing activities:		
Decrease (increase) in bond reserve funds	79,440	(28,578)
Proceeds from sales and maturities of investment securities	-	6,358,133
Interest and dividends on investments and bank accounts	4,818,301	7,506,530
Net cash provided by investing activities	4,897,741	13,836,085
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	1,122,607	8,873,614
Interest paid on short-term debt and deposits	(2,162,432)	(1,285,320)
Net cash (used for) provided by noncapital financing activities	(1,039,825)	7,588,294
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(25,971,861)	(69,301,649)
Principal paid on bonds and other long-term debt	(4,272,019)	(2,436,413)
Interest paid on bonds	(20,680,758)	(21,886,024)
Net cash used for capital and related financing activities	(50,924,638)	(93,624,086)
Net decrease in cash and cash equivalents	(16,361,650)	(52,147,364)
Cash and cash equivalents at beginning of year	86,464,704	138,612,068
Cash and cash equivalents at end of year	$ 70,103,054	$ 86,464,704

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 1997 and 1996

	1997	1996
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 32,450,552	$ 23,141,371
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	24,083,385	14,354,706
Difference between retirement expense and funding	(626,524)	(816,971)
Other expense	(132,433)	(111,994)
(Increase) decrease in assets:		
Accounts receivable	(681,332)	(4,826,939)
Materials and supplies inventory	(1,152,688)	(4,310,379)
Fuel inventory	361,084	(2,659,578)
Prepaid expenses	148,856	1,227,762
Deferred fuel costs	1,311,879	(293,324)
Other assets	(5,349,859)	481,211
Increase (decrease) in liabilities:		
Accounts payable - fuel	(5,742,060)	2,838,522
Accounts payable - operations	(10,407,327)	1,266,006
Accounts payable - Navy	(2,765,228)	160,212
Accrued payroll	29,485	244,696
Employees' annual leave	68,915	121,850
Customer deposits	(255,644)	985,192
Other accrued liabilities	(635,989)	-
Deferred credits	-	(11,750,000)
Net cash provided by operating activities	$ 30,705,072	$ 20,052,343

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Organization: The Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). 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 generally accepted accounting principles 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.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

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 $4,177,479 representing generation and transmission assets transferred by the United States Navy (Navy) as described in note 3. Cost also 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 and less salvage, is charged to accumulated depreciation. Contributions in aid of construction are deducted from the cost of the utility plant.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets (25 - 50 years for plant assets). Depreciation expense for 1997 and 1996 was approximately 3.7% and 3.4%, respectively, of the cost of depreciable properties.

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 less than 90 days 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.

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

Contributed Capital: GPA commenced operations in April, 1969 when assets and liabilities with a net value of $7,898,400 were transferred to GPA from the power division of the Public Utility Agency of Guam. An additional $20 million loan from the Government of Guam was converted to contributed capital during the year ended September 30, 1992.

The U.S. Department of the Interior provided GPA with $9.8 million for rebuilding a portion of the distribution system utilizing concrete poles to better resist typhoon damage. Funds were provided directly to the military construction officer for designing and administering the rebuilding work. Beneficial use of all lines has been given to GPA. The Federal Emergency Management Association (FEMA) provided a $3,066,000 grant to GPA to subsidize the costs of housing generators to run waterwell pumps.

(1) Summary of Significant Accounting Policies, Continued

Accrued Annual Leave: 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.

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.

Fuel Oil Costs: Fuel oil costs increase or decrease billings to customers with price changes in fuel oil purchased by GPA. Under-recoveries of fuel oil costs are recorded as deferred fuel cost assets in the accompanying balance sheets, and are recovered in future billings to customers.

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 1992, Series 1993 and Series 1994 bonds. These costs are being amortized on the straight line method over the life of the bonds.

Cancelled Unit: The cancelled 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 1996 financial statements to conform with the 1997 presentation.

(2) Accounts Receivable

Accounts receivable at September 30, 1997 and 1996, are summarized as follows:

	1997	1996
Customers:		
Private	$ 21,926,810	$ 18,777,044
Government	8,928,419	4,800,324
	30,855,229	23,577,368
Government subsidies	463,055	463,055
Insurance claims (note 7)	1,181,024	1,221,143
Others	2,054,352	3,695,588
U.S. Navy	352,584	3,096,966
Less allowance for doubtful receivables (note 7)	(3,761,916)	(1,591,124)
	$ 31,144,328	$ 30,462,996

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

(3) Agreements With The United States Navy

Prior to August 1, 1992, the Island-Wide Power System (IWPS) for Guam consisted (with minor exceptions) of production and transmission facilities owned or operated by the U.S. Navy (Navy) and GPA. From October 1972 to July 31, 1992, costs of operating and maintaining the IWPS together with a return on the Navy's investments therein were shared, based on power delivered to the parties as provided in a "Power Pool Agreement," and on payment by the Navy of its share of GPA's debt service commensurate with GPA's debt service coverage obtained for its customers, but subject to a minimum level of coverage. Effective August 1, 1992, the Power Pool Agreement was terminated. In May, 1995, all outstanding claims between the Navy and GPA associated with the Power Pool Agreement were settled. GPA received $3.75 million from the Navy as a result of the settlement. The $3.75 million was recognized as miscellaneous revenue in 1996 in accordance with a PUC stipulation.

Upon termination of the Power Pool Agreement, a customer supplier agreement (CSA) between GPA and the Navy was created. Under the CSA, the Navy became a transmission level customer of GPA. The Navy made available to GPA certain of its generation, transmission and other assets and continued to operate these assets on a subcontract basis. On September 15, 1996, a lease agreement was entered into between GPA and the Navy to transfer to GPA the operations, maintenance and custody of certain Navy-owned joint use electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with associated land interest. The facilities are leased to GPA at no cost for a period of fifty years. Navy subcontractor costs incurred for the years ended September 30, 1997 and 1996, were $2,209,679 and $16,014,644, respectively.

(4) Short-Term Debt

Short-term debt at September 30, 1997 and 1996, is as follows:

	1997	1996
Thirty-day notes payable drawn on a $15 million bank line of credit with interest at 7.625% through 7.6875% at September 30, 1997 (6.375% and 6.875% at September 30, 1996), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues.	$ 15,000,000	$ 15,000,000
Ninety-day notes payable drawn on a $15 million bank line of credit with interest at 7.71875% through 7.75% at September 30, 1997 (6.8125%-6.825% at September 30, 1996), payable at maturity, collateralized by a financing statement against accounts receivable with the bank as lienholder subordinate to the bondholders under GPA's bond issues.	11,014,975	9,892,368
	$ 26,014,975	$ 24,892,368

(5) Long-Term Debt

Long-term debt at September 30, 1997 and 1996, is as follows:

Bonds:	1997	1996
1992 Series, interest at varying rates from 2.65% to 6.3% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments with a payment of $2,305,000 in October, 1994, and increasing to $11,040,000 in October, 2022.	$ 148,950,000	$ 151,430,000
1993 Series, 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, and increasing to $6,535,000 in October, 2023.	98,275,000	100,000,000
1994 Series, interest at varying rates from 5.20% to 6.20% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $1,500,000 in October, 1997, and increasing to $7,630,000 in October, 2024.	102,900,000	102,900,000
	350,125,000	354,330,000
Note:		
MDI Guam non-interest bearing note payable in exchange for funds received for the construction of Manenggon Hills substation. The note is being repaid by deducting 80% of MDI's non-fuel charges from future power billings.	3,454,286	3,905,619
	353,579,286	358,235,619
Less current maturities	(6,259,784)	(4,589,784)
	347,319,502	353,645,835
Less discount on bonds	(6,016,562)	(6,400,876)
	$ 341,302,940	$ 347,244,959

At September 30, 1997, estimated maturities of long-term debt through 2002 and subsequent years are as follows:

1998	$ 6,259,784
1999	6,534,784
2000	6,834,784
2001	7,159,784
2002	7,509,784
Subsequent years	319,280,366
	$ 353,579,286

(5) Long-Term Debt, Continued

The proceeds of the 1992 series bonds, face value of $158 million, were used to construct and acquire additional generating capacity, to build additional transmission facilities, and to refund existing long-term debt at the time of issuance. Bond proceeds of approximately $19,700,000 were also used to establish escrow funds for the purpose of defeasing several existing series of bonds over their scheduled maturities.

The proceeds of the 1993 series bonds, face value of $100 million, are being 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 1994 series bonds, face value of $102.9 million, are being used to finance the construction of an additional baseload generating unit and the construction of four new substations.

All gross revenues of GPA have been pledged to repay the 1992, 1993 and 1994 series bond principal and interest.

Principal and interest due on the defeased bonds amounted to approximately $19,200,000 at the date of the 1992 advanced refunding. The net difference between funds deposited with escrow agent and the bonds refunded of $500,000 has been recorded in unamortized debt issuance costs and is being amortized on a straight-line basis over the lives of the 1992 series bonds.

Discounts associated with the 1992, 1993 and 1994 bond series are being amortized using the interest method over the lives of the bonds.

(6) 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 new Defined Contribution Retirement System (DCRS). Until 1998, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

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, 1995, it has been determined that for the year ended September 30, 1997, a minimum combined employer and employee contribution rate of 28.1% 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 18.6%, respectively, for the year ended September 30, 1997. The effect of GPA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.6% to an effective rate of 16.0% for the year ended September 30, 1997. In recognition of the above, an accrual reduction of 2.6% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 16.0% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1996 was 15.785%.

(6) Employees' Retirement Plan, Continued

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 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1995, 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.

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 18.6% 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 13.6% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

The cost to GPA for retirement contributions for the years ended September 30, 1997 and 1996, is as follows:

	1997	1996
Cash contributions	$ 4,524,775	$ 4,432,615
Accruals	(626,524)	(816,971)
	$ 3,898,251	$ 3,615,644

(7) Commitments and Contingencies

Commitments:

Capital Commitments

The 1998 capital improvement project budget is approximately $24 million. The five-year capital improvement project budget proposed by management for 1998 through 2002 is estimated to be $101 million. These budgets are subject to change by the Board of Directors.

GPA has approximately $42.8 million in purchase commitments as of September 30, 1997.

GPA has also entered into agreements to purchase fuel from certain suppliers at prices yet to be determined.

(7) Commitments and Contingencies, Continued

Leases

GPA presently leases space for operations from several locations under non-cancellable operating leases with remaining lease terms at September 30, 1997, varying between one and four years.

During the year ended September 30, 1993, GPA entered into a three-year operating lease for a turnkey gas turbine power plant. The lease calls for fixed monthly payments of $66,666 plus a variable payment based on the LIBOR rate. In March 1996, this lease was renewed for an additional three years. At the end of the lease term, GPA has the option of purchasing the equipment for $11.2 million or returning the equipment to the bank. If GPA returns the equipment to the bank and the bank sells the equipment to a third party, GPA is obligated to pay the difference between the sale price and the principal balance due on the bank's debt to finance the acquisition of the turbine. Management has not determined if the equipment will be purchased at the expiration of the lease term.

Minimum future lease payments under operating leases through the year 2000 are as follows:

1998	$ 2,336,604
1999	1,475,406
2000	1,074,410
	$ 4,886,420

Energy Conversion Agreements

In June 1996, Public Law 23-103 was enacted to address the need for additional power plant capacity to meet GPA's power supply deficiencies. The public law authorized GPA to procure power generation, substation and transmission services.

In September 1996, GPA entered into agreements to purchase electricity produced by plants constructed or refurbished and operated by three companies. GPA has certain minimum power purchase commitments under each of the three agreements. Actual commitments at September 30, 1997, cannot be quantified as they are subject to adjustment annually and are dependent on the actual completion dates for the TEMES and Enron agreements. The major terms of the three agreements are as follows:

HEI Corporation (Guam) (HEI) - HEI has refurbished and is operating and maintaining a power generating plant owned by GPA, at the Tanguisson Power Station. GPA provided, as of the commencement of the agreement in November 1996, all inventory, parts, tools and equipment on hand or on order, for the operation and maintenance of the power station. HEI is responsible for the replacement of inventory, parts, tools and equipment during the twenty year operating term of the agreement. All inventory, parts, tools and equipment will be transferred by HEI to GPA at the termination date. GPA will retain ownership of the power station during the operating term and will supply the fuel necessary to generate electricity for dispatch to customers.

(7) Commitments and Contingencies, Continued

Energy Conversion Agreements, Continued

Taiwan Electrical and Mechanical Engineering Services, Inc. (TEMES) - TEMES has agreed to construct, operate, and maintain a 40 MW capacity peakload power plant. TEMES will be responsible for all financing and construction costs of the power plant. The target completion date is December 5, 1997. Until the termination date, which is twenty years from the completion date, GPA will supply and deliver all fuel required by the Power Station and shall take electricity generated by the Power Station as determined by GPA's economic dispatch requirements. GPA guarantees to take and purchase annually 87,600 Mwh from TEMES. From the date of the contract until the termination date, TEMES shall own the Power Station and all the fixtures, fittings, machinery and equipment on the site or used in connection with the Power Station. TEMES shall be responsible for the management, operation, maintenance and repair of the Power Station during the twenty year period. Each month after the completion date, TEMES will charge GPA capacity fees and fixed O&M fees.

Enron Development Piti Corporation (Enron) - Enron has agreed to construct, operate and maintain slow speed diesel engine generation Power Station. The target completion date is December 31, 1998. From the date of the contract until the transfer date which is twenty years from the completion date, Enron shall own the Power Station and all the fixtures, fittings, machinery and equipment on the site which have been supplied by it. During this period, Enron shall be responsible for the management, operations and maintenance of the Power Station. GPA will supply fuel and start-up electricity required for the construction, testing and commissioning of the Power Station. Additionally, GPA shall construct, install and connect the necessary transmission lines. GPA shall take all electricity generated during testing and commissioning of the Power Station. Until the transfer date, GPA shall supply and deliver all fuel required by the Power Station. Each month after the completion date, Enron will charge GPA capacity fees, fixed O&M fees and variable O&M fees.

The term of the TEMES and Enron agreements will end on the last day of the cooperation period of twenty years from the completion date. On termination, the Power Stations constructed will be transferred to GPA, free from any lien or encumbrance, provided all terms of the agreements have been met. The Power Station site is presently leased to GPA by the Navy. GPA has subleased the site to the above companies for a term at least as long as the term of the agreements, at an annual rent of $100.

Subcontractor costs incurred with HEI under the energy conversion agreement for the year ended September 30, 1997 were $3,614,751.

Letters of Credit

As of September 30, 1997, GPA has available a $1.5 million bank line of credit for purchases of parts and supplies, in addition to the two $15 million lines of credit referred to in note 4. The $1.5 million line of credit is 100% collateralized by deposits in a savings account maintained by GPA.

As of September 30, 1997, GPA has outstanding letters of credit against all credit lines totalling $273,976.

(7) Commitments and Contingencies, Continued

Contingencies:

Environmental Protection Agency

The administrator of the Environmental Protection Agency (EPA), on May 24, 1986, 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.

In October 1996, EPA initiated a civil action against GPA for operating the Cabras-Piti generating facilities in violation of the Clean Air Act. A civil penalty of $170,000 is to be assessed. Additionally, GPA is to be directed to install a fuel-switching device that would automate the fuel switching from high-sulfur fuel oil to low-sulfur fuel oil. The cost of this project is approximately $1 million. No provision has been made in the financial statements to recognize this potential liability.

Insurance Claims Receivable

As of September 30, 1997, GPA has approximately $1,181,000 in insurance and FEMA claims for typhoon and boiler damages included in accounts receivable. The amount ultimately to be collected against these claims is uncertain. Approximately $273,000 of the allowance for doubtful receivables balance has been recorded for these claims.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 1997. It is not possible 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 has adopted a policy of self-insuring its transmission and distribution plant.

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 revenue is accumulated in the restricted self-insurance fund to be used to cover uninsured or self-insured damages in the event of a natural catastrophe. There was no insurance charge revenue recognized for the years ended September 30, 1997 and 1996, as the self-insurance fund is considered fully funded.

Medicare

The Government of Guam does not withhold or remit funds to the U.S. Social Security System for the health insurance component of its salaries and wages. If the Government is found to be liable for such amounts, an indeterminate liability could result. It has been the practice of GPA and all other component units of the Government of Guam that Guam is excluded from the requirements of this health insurance component. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

(7) 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.

Earthquake Damages

As the result of a major earthquake in August, 1993, GPA suffered an estimated $2 million in damages to its facilities. This amount was less than the deductible on GPA's earthquake insurance policy. GPA has expended approximately $1,100,000 on earthquake repairs and $900,000 remains in other accrued liabilities at September 30, 1997. The ultimate cost of earthquake repairs has not been determined.

Government of Guam General Fund

On March 21, 1997, legislation was enacted which requires GPA and three other component units of the Government of Guam to pay the Government of Guam General Fund, a combined amount of $23 million as in lieu of tax payment for fiscal years 1986 to 1997. The law also requires that these component units be assessed a total of $3.5 million annually starting in fiscal year 1998. The $23 million may be paid immediately or over a five to ten year period with financing terms to be negotiated. GPA's share of the $23 million has not yet been determined; accordingly, no liability for this contingency has been recorded as of September 30, 1997.

(8) Cash and Investments

The indentures for the 1992, 1993 and 1994 series revenue bonds (note 5) 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, 1997 and 1996, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	1997	1996
Construction funds	$ 33,567,439	$ 49,483,477
Bond reserve funds	26,986,361	27,065,801
Working capital fund	12,450,000	10,864,670
Debt service fund	9,442,386	-
Principal and interest funds	7,159,895	14,800,365
Revenue fund	3,141,129	2,862,115
Self-insurance fund	2,483,188	2,565,657
Operating funds	1,852,315	5,888,211
Surplus fund	6,702	209
	$ 97,089,415	$ 113,530,505

(8) Cash and Investments, Continued

Investments in debt securities are carried at cost or amortized cost in the accompanying financial statements. Market values shown below implicitly include accrued interest for debt securities.

1997:	Carrying Value	Market Value
Cash on hand, in demand and time deposits and money market accounts	$ 70,102,974	$ 70,102,974
U.S. treasury notes	20,098,482	20,524,774
Repurchase agreements	80	80
Municipal bonds	6,887,879	6,874,803
	$ 97,089,415	$ 97,502,631

1996:		
Cash on hand, in demand and time deposits and money market accounts	$ 59,610,954	$ 59,610,954
U.S. treasury notes	19,771,751	20,142,927
Repurchase agreements	27,301,492	27,301,492
Municipal bonds	6,846,308	6,794,621
	$ 113,530,505	$ 113,849,994

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 #3. As of September 30, 1997, money market accounts, treasury notes and municipal bonds held by trustees amounting to $42,250,858 are classified as Category 1 investments in accordance with GASB #3. The balance of the investments are classified as Category 2 investments in accordance with GASB #3.

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled $6,211,990 as of September 30, 1997. Of this amount, $418,508 was covered by federal depository and national credit union administration insurance and the remaining $5,793,482 was uninsured and uncollateralized.

(9) Significant Customer

During the years ended September 30, 1997 and 1996, GPA billed the U.S. Navy $33,600,000 and $36,000,000, respectively, for sales of electricity under the customer/supplier agreement.

(10) Fuel Cost Recovery

During the year ended September 30, 1995, GPA recovered $8 million from a fuel supplier for over-billings which occurred over several previous years. Approximately $3 million of this recovery was recognized as miscellaneous revenue during fiscal year 1996 in accordance with a PUC stipulation. The balance of $5 million was determined to belong to the Government of Guam General Fund. These funds were credited against receivable accounts of various government agencies by GPA in fiscal year 1996.

(11) Regulatory Assets

Regulatory assets consist of the following at September 30, 1997 and 1996:

	1997	1996
Deferral of expense associated with an uncollectible receivable from a Government of Guam agency. This cost is being recovered through a water well surcharge approved by the PUC in May 1996, to be collected from GPA's civilian customers beginning June 1, 1996 through March 1, 1998.	$ 1,505,699	$ 5,279,448
Deferral of maintenance and repair costs being recovered through maintenance surcharges approved by the PUC, to be collected from GPA's civilian customers and the Navy subject to the provisions of the CSA. The surcharge is to extend through September 30, 1998. This surcharge has not yet been formally approved by the PUC.	5,903,340	4,061,791
	$ 7,409,039	$ 9,341,239

(12) Related Party Transactions

A board member of GPA is the principal owner of a supplier who has been doing business with GPA in the past years. Transactions with this vendor during the years ended September 30, 1997 and 1996 approximate $859,000 and $1.6 million, respectively.

(13) Subsequent Event

In December 1997, a major typhoon struck Guam and the island was officially declared a disaster area. The resulting damage to GPA's plant assets, and business interruption losses and cleanup costs are estimated to be approximately $41 million. GPA's hazard insurance provides for a deductible of $7.5 million and covers damages up to $15 million to transmission and distribution plant and $500 million to premise equipment. The Federal Emergency Management Agency (FEMA) has agreed to reimburse GPA for 90% of the uninsured costs, subject to FEMA approval. Final typhoon damages and related insurance and FEMA recoveries may differ materially from these estimates.