



TAKING THE RIGHT STEPS

2013 GPA ANNUAL REPORT





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OUR MISSION

"GPA SHALL provide

Reliable

³Efficient, Effective, Environmentally Sound

²Affordable, Accountable

Leading Energy Solutions"

OUR VISION

"GPA will be the best utility providing outstanding energy solutions to our island community."





GPA: POWERING OUR FUTURE

We congratulate the men and women of the Guam Power Authority for preparing our island for the future of energy. Thanks to GPA, there are new renewable energy initiatives that will reduce operating costs, stimulate our local island economy, and create job opportunities in new industries. We support and commend any efforts to convert our energy production to one that is sustainable, environmentally friendly, and cheaper for the end consumer.

In fact, since 2008 GPA has awarded three contracts for renewable energy production. All of these investments and subsequent projects mean infrastructure growth and more private sector jobs. One of these agreements is a 25-year contract with Quantum Guam Power (QGP), which will provide 20 megawatts of solar power to GPA. Their upcoming facility in Dandan, Inarajan will provide enough energy for about 2100 homes. QGP has also acquired another solar energy contract. By March of 2016, they will begin to provide an additional 5.65 megawatts of solar power to the island.

On top of powering your home with the sun, GPA is also working on capturing energy from the wind! An upcoming project will build a wind turbine along Cross Island Road in Yona. By July of next year, this turbine will generate 275 kilowatts of free power to Guam's grid. This is just the first step for wind generation. A year later, in March 2016, Pacific Green Resources will produce an additional 9.35 megawatts of wind power!

We've spent enough money on a fuel resource that doesn't give anything to our economy. It's time to think of our future. It's time to invest in renewable energies so we can lower our power bills, create jobs, and protect our environment. GPA is committed to powering our future—and the tomorrow's horizon looks brighter than ever!

Un dangkulo na Si Yu'os Ma'åse!


EDDIE BAZA CALVO


RAY TENORIO

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A Message From
Simon A. Sanchez, II
Chairman Consolidated Commission on Utilities

Consolidated Commission on Utilities

The Guam Power Authority is looking at a brighter cleaner future for the island. We are at an important moment for Guam as GPA brings on its first 25 MW of solar energy by the end of 2014. GPA also will be contracting for another 40MW-50MW of renewable energy projects to provide renewable energy solutions and savings to all our customers. Maximizing the use of renewable energy is a critical step in reducing our island's complete reliance on carbon based energy.

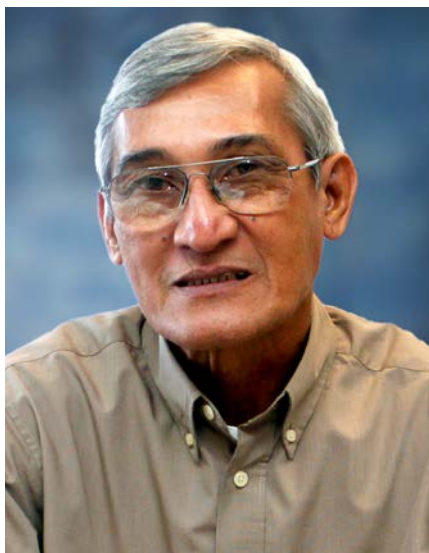
Renewable energy technology is still many years away from providing us 100% of our needs. That means we still must burn a carbon based fuel to make up for the times when the sun isn't shining and the wind isn't blowing. Furthermore, our aging generators will require investment of hundreds of millions of dollars to bring them into compliance with the federal Clean Air Act. That's why GPA is seriously considering investing instead in newer more efficient generators that will burn less fuel and that can burn fuels that will comply with federal requirements more, such as Liquefied Natural Gas (LNG).

Maximizing renewable energy and moving to cleaner fuels will like LNG will dramatically change the way we generate energy on Guam. It will be better for our environment and better for our pocketbooks. We are very confident that combining renewable energy technology, transitioning towards LNG as a new source of energy and utilizing GPA's Smart Grid infrastructure will provide a better energy solution for our island.

On behalf of the over 500 employees at GPA and their families, we give great thanks for the honor of serving your needs every minute of every day.

A handwritten signature in black ink that reads "Simon A. Sanchez II". The signature is fluid and cursive, with a small "II" at the end.

Simon A. Sanchez II



A Message From
John M. Benavente, P.E.
GM Consolidated Commission on Utilities

The Guam Power Authority is looking for ways to serve its ratepayers with generating and billing for power along with providing better customer service. One of the ways GPA is doing that is by providing a centralized office where the agency can consolidate several divisions and to focus on the needs for their customer.

In July 2013, there was a groundbreaking for a building that will provide services to both utilities, GPA and the Guam Waterworks Authority at one location and it was named the The Gloria B. Nelson Public Service Facility. This facility is a big achievement at improving and providing better service for customers of both GPA and GWA.

The Gloria B Nelson Facility was a long journey from its inception in the mid 80s when the agency was given a Conveyance Deed through the Chamorro Land Trust for its future plans. But it wasn't until 2010 bond sales when the agency got money to pay for the land. Now over thirty years later the land is being put to good use as it becomes home to the new centralized facility.

From leasing the Gabriel Building in Hagatna, to Sunny Plaza in Tamuning to the Harmon Main Office by McDonalds, GPA will finally relocate to this new facility in Fadian, Mangilao and invest in equity with its own home to save money on leasing costs.

Back in the 1980's, GPA was given land through the Chamorro Land Trust. Now GPA was finally able to fund it from the 2010 bond sales to get a new centralized facility. This Conveyance Deed was a lead into the groundbreaking of the Gloria B Nelson Facility.

A handwritten signature in black ink, appearing to read "John Benavente", followed by a stylized star or asterisk symbol.

John M. Benavente, P.E.



A Message From
Joaquin C. Flores, P.E.
General Manager

In the next few years, GPA is about to undergo a remarkable evolution, as we reduce our reliance on oil and embark on a path of diversification that includes the transition to Liquefied Natural Gas. This evolution began with the partnership of Guam's renewable energy providers. GPA's goal is to be efficient and become the most reliable power provider. That's our vision and we're well on our way.

Our transition into the "Next Generation" will include adding new power plants and increasing GPA's assets and workforce. Our greatest resource remains the employees of GPA. We have some of the most dedicated, skilled, and hardworking employees in the power business. They contribute to our financial and operational stability, and we continue to remain strong because of their dedication to GPA's mission.

GPA continues to build around its ratepayers, the community, its employees and the environment. Our vision is based on long-term growth that's effective and efficient. GPA will not be dependent on just one fuel source but would have the option of low-sulfur diesel and LNG. We will move more and more toward renewable energy and invest in equipment such as batteries to achieve a stable power system.

One of our greatest strengths is understanding our limitations. We know that accomplishing our goals requires public-private partnerships and support from the Consolidated Commission on Utilities (CCU), and the Public Utilities Commission (PUC), the Executive and Legislative branches of government, and the community. This synergetic approach is what will bring our vision to fruition.

We understand the important role we play and the impact we have on the island. Our progress will truly have an effect on Guam's economy, our environment and the thousands of people who rely on our service to conduct their business and their lives. We don't take this responsibility lightly.

So on our road to sustainability, we will create a \$3 billion stimulus to Guam's economy over seven years, we will realize a \$30 million a year in savings that will help defray the cost of our investments, and we will diversify our reliance on fuels.

These long-term plans together with leveraging the monumental transformation in the use of Smart Grid technologies; continued improvements to GPA's Transmission & Distribution infrastructure, including village pole hardening projects and substation and line upgrades; as well as newly implemented programs such as Pay-by-Phone, My Energy, and Pre-Paid Metering, reflects GPA's core values of committing to product affordability and achieving superior customer service.


Joaquin C. Flores, P.E.



GPA: TAKING THE RIGHT STEPS FORWARD

The Guam Power Authority is confidently taking the right steps forward to utilize 21st century technologies to produce and deliver reliable energy to nearly 50,000 customers. The agency is committed to reducing operational costs and improving generation, transmission and distribution, as well as enhancing the customer service experience.

Much of GPA's on-going work on system improvements and upgrades in 2013 was made possible by its earlier efforts to secure working capital in the amount of \$205M worth of bonds in 2010. Approximately \$73 million of this amount immediately began to flow into capital improvement projects every year for the next four years

The capital improvement projects focus on improvements throughout the Island Wide Power System. The projects center on generation and transmission & distribution projects aimed at increasing reliability, efficiency and reducing operational costs.

GPA's infrastructure and plant improvements and the many projects it has undertaken in 2013 are testaments to the agency's leadership and overall employee work ethic and commitment to the agency's mission. Those outside the organization recognize the achievements made by the utility, and this recognition was underscored when GPA won the MagPro Award for large government of Guam Agency of the Year in 2013. This award recognizes notable achievements within the Government of Guam workforce from among 40 departments and agencies. GPA has garnered this distinction for the fourth consecutive year.

Owned by the people of Guam, GPA is focused on developing alternative energy solutions while simultaneously seeking to reduce operational costs, maintain system reliability and improve customer services.

THE GLORIA B. NELSON FACILITY

GPA is completing construction of a much needed central facility funded through the 2010 bond issuance. A ground breaking ceremony for the Gloria B. Nelson Public Service Facility, a three story soon-to-be LEED Certified building, was held in July 2013.

The Gloria B. Nelson Public Service Facility will be a centralized utilities center for both GPA and the Guam Waterworks Authority. This will result in the consolidation of several divisions within one building and improved services for customers of both utility agencies.

Gloria B. Nelson (1935-2012) was a long time member of the Consolidated Commission on Utilities (CCU) and an advocate for improving government services. Mrs. Nelson dedicated her life to public service, education, and social reform. She received numerous awards from civic organizations including the Guam Women's Club, the Territorial Board of Education, the Reserve Officers Training Corps, as well as the Chief Quipuha Award presented to her by Governor Ricardo J. Bordallo. Additionally, Nelson was inducted into the Educators Hall of Fame for her valuable contributions and lifelong dedication to the education of Guam's youth.

The CCU recognized her decades of public service by naming the new facility in her honor. GPA and GWA will continue to strive to better serve their customers, and the new facility will support this vision; a vision shared by Gloria B. Nelson during her long and productive career in public service. The new facility ensures her legacy of service to the community will continue to thrive.

The 116,000 square foot structure will house 364 employees and the latest technology in lighting and cooling including LED lighting, compact fluorescents, and an innovative AC chiller system. The facility will also enhance synergy between technical



SIGNING CEREMONY OF FUEL OIL SUPPLY CONTRACT BETWEEN HYUNDAI CORPORATION AND GUAM POWER AUTHORITY

HYUNDAI
CORPORATION



AUGUST 9, 2013



and administrative groups, such as the engineering and information technology units of GPA, by housing them in the same building. The new structure will also house the Power System Control Center (PSCC) which is the backbone of communications and system operations for GPA. Additionally, ample parking will be available for customers and employees alike.

Once completed, this facility will provide a professional business environment to better serve our customers' needs. This major project is indeed a significant step forward for GPA and for the island of Guam.

HYUNDAI RFO CONTRACT

In June 2013, during a regular Consolidated Commission on Utilities (CCU) meeting, commissioners unanimously passed Resolution 2013-37 which authorized the GPA management to enter into a contract with Hyundai Corporation for supply of Residual Fuel Oil (RFO). The estimated contract cost is \$360M for two years with three optional one-year extensions.

After careful review and ultimate approval by the Public Utilities Commission, Hyundai Corporation was selected on the basis of price, fuel specifications, and financial qualifications. The contract began on September 1, 2013 and will expire on August 31, 2015.

GPA's goal in signing the contract was to provide a reliable and secure source of fuel for the island. Because Guam is one hundred percent reliant on imported oil, the partnership with Hyundai Corporation, and the consistency and quality they provide, enables GPA to deliver reliable power at an affordable price.

FUEL COST SAVINGS WITH TRANSPORTATION

In May 2013, GPA's Transportation Division initiated a pilot program to manage, track and reduce fuel usage for the agency's fleet of 272 vehicles. The program is aimed at reducing operations and maintenance costs related to fleet fuel expenses.

The agency's vehicle monitoring system tracks costs, speed, and idling and provides this data to managers who can work with operators to reduce fuel costs.

The monitoring system led to operational policies that resulted in a reduction in annual fuel expenses for the transportation fleet. GPA's new monitoring system has enabled the agency to realize additional cost savings; savings which GPA can pass onto its ratepayers.

In August 2013, two new bucket trucks were added to GPA's existing fleet. The new trucks were immediately utilized for preventive maintenance and infrastructure improvement work throughout GPA's island-wide transmission and distribution system.

At a cost of \$236,000 each, these bucket trucks are the first additions to GPA's fleet of trucks since 2006. The bucket trucks are capable of extending 60 feet vertically and will be dispatched to support ongoing maintenance and construction activities to include streetlight repairs, outage response, and service calls.

CUSTOMER FOCUS

GPA's customer focus initiative is aimed at improving the level of service to GPA customers and exceeding customer expectations.

GPA launched several new initiatives that focus on customer service including pay by phone and My Energy Guam. It is important for the agency to plan, implement and deliver these improved services to meet customer expectations.

GPA recently conducted a survey which indicated an increase in customers' favorable perception of the agency. In 2013, GPA's satisfactory rating increased from 50% to 62% when compared to the prior year. GPA's goal is to achieve between an 85% to 90% satisfactory rating. GPA expects customer perception to improve through prompt actions of front line customer service representatives.



It's all about **me**.

My energy, my usage, my control.

Finally, a new tool to help you conserve energy. Now you can easily manage your electricity usage and save money! Review your account history, monitor your usage and pay online, no problem, you're in control.

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SMART
ENERGY
GUAM

PHOTO BY

Late in 2013, GPA launched My Energy Guam, which is a web application where customers can view their utility consumption. This new web-based service is a tool that provides customers access to energy consumption information. Customers can register, view their consumption, and use the information to better manage their energy use and costs.

SMART GRID

In FY 2011, GPA began its \$33.4 million Smart Grid Initiative Grant (SGIG) Program. Fifty percent of the money for this project, \$16.7 million, was funded through a federal grant. This SGIG program was designed to enhance the customer experience, improve power quality and reliability, and reduce costs.

The strategic benefits of the smart grid program include reduced meter reading costs. The automated meter reading technology has replaced the need for GPA's employees to manually read meters at individual homes and businesses.

The smart grid meters increase billing accuracy and reduce the need for rereads. This technology reduces human error and customers will receive fewer estimated bills.

SOLAR, WIND AND LNG

In 2013, GPUC approved GPA's Integrated Resource Plan (IRP), which focused on renewable and future energy options for the island. Through an open dialog with stakeholders, GPA researched the best strategies to meet future electrical load capacity as well as ways to reduce Guam's dependence on fuel oil. Approved alternative sources of energy to meet the island's future energy needs include plants utilizing liquefied natural gas (LNG) and renewable energy through wind and solar.

GPA will comply with USEPA's Clean Air Act by replacing its RFO fuel sources with LNG and building more efficient combined cycle power plants. LNG as a new fuel source for Guam requires a significant investment for our island because a new energy infrastructure system must be

constructed. In 2013, discussion began regarding this \$800 million dollar investment which will change Guam's energy supply and reduce the amount spent annually on energy sources.

By using LNG, GPA can reduce its energy fuel costs by an estimated 13% which could save GPA \$30 million a year or more. Currently, GPA is focused on developing an LNG plan. The agency understands it will take several years for the LNG plan to come to fruition and is weighing every decision very carefully.

GPA developed a long-term electric energy production plan that envisions using 20% of energy from oil, another 20% from renewable resources (wind and solar), and 60% from LNG. GPA then implemented an integrated resource acquisition program with LNG as the primary source of fuel.

In 2011, GPA initiated its Phase 1 Renewable Acquisition bid for wind and solar energy. The agency selected two proposals that include 35 MW of wind and solar energy production.

Public Law 29-62, passed in 2008, also requires GPA to establish and meet Renewable Portfolio Standards with the first standard requiring 5% of net sales to be generated from renewable resources by December 2015. In June of 2012, GPA negotiated and signed a long term contract with Quantum Guam Power (QGP) to supply about 3% of the island's energy needs. The 25 year contract with QGP is expected to lessen our island's dependence on imported fuel oil. The QGP contract has since been purchased by NRG Energy.

In June 2013, GPA presented a wind turbine pilot project to the Mayor's Council of Guam. The project, to be constructed along Cross Island Road in Yona, is funded through a US Department of Interior Office of Insular Affairs \$1.5M Grant for the installation of a single 275kW wind turbine. The project deadline for completion is July 2015.



It is anticipated that this project will produce wind generated power to serve approximately 25 residential homes. This project opens opportunities to work with local educational institutions in developing technical trades to support such technology on Guam and in the region.

CABRAS 3 BACK ONLINE

Offline since 2012, Cabras 3 was brought back online in September 2013. Cabras 3 is a base load generator that provides power to approximately four thousand households. As one of the Agency's most efficient generators, Cabras 3 improves the the overall power production quality for the island when running at full capacity.

Cabras 3 back online resulted in savings that supported the Levelized Energy Adjustment Clause (LEAC) and reduced rates for customers.

SUBSTATION AND TRANSMISSION

GPA completed a major communications fiber optic project which involved the installation of a 96-count strand of cable through an underground conduit system. The entire fiber optic network connects areas of the Harmon Main Office and various substations including Harmon, Machcheche, Dededo, Andersen AFB, Guam Airport Authority and the Pagat Substation. The project is part of the 2010 bond funded capital improvement projects targeted to improve system reliability by providing a fiber communication link between substations to boost system protection. Other projects include:

- The Hagatna Substation Breaker Replacement - this \$2.94M project replaced 115 kV and 34.5 kV outdoor breakers and disconnect switches with new equipment at the Agana Substation.
- Marbo to Pagat 34.5 kV Line - Installation of a new underground 34.5 kV transmission line from Latte Heights to Pagat Substation to loop feed the Pagat Substation. The project includes the upgrade of breakers and control panels at Marbo Substation. This project was worth \$5.47M.

- Automatic Generation Control - The AGC system will incorporate the controls of GPA's generation units at a central location and allow generation units to respond in concert to any system disturbance or changes in load. The AGC system was installed at Cabras 1, 2, 3, 4, MEC 8, 9, Tanguisson 1, 2, and Temes CT 7. This project was worth \$1.38M.

HYBRID POLE HARDENING PROJECT

GPA launched the Agat Village Pole Hardening and Hybrid Project in 2013. This is a project similar to those that were completed in Santa Rita, Talofofo and Dededo where GPA removed old wooden poles located in back lots and inaccessible areas and replaced them with a combination of concrete poles and underground secondary conduits. The Agat project will harden the existing system and convert the existing secondary system to an underground system within Agat village.

The hybrid pole hardening project will improve reliability, hasten restoration efforts and allow GPA to stabilize the grid more expeditiously after a storm.

The Agat Hybrid Pole Hardening Project is another positive step forward allowing GPA to bring efficient and reliable power to Southern residents. Projects like the one in Agat showcase actions the agency is taking to improve power quality and reliability.

BY THE NUMBERS

An overview of the numbers provides a clear picture of a series of sound financial decisions that have decreased the agency's debt service and prevented significant rate increases. Prior to the 2010 bond issue, GPA projected they would be forced to seek an increase from ratepayers to cover fuel and operational costs of about \$74.6 million.

To prevent the rate increase, GPA issued bonds with six years of debt service amounting to \$10.6 million per year. The CCU approved a rate increase for 2014



and GPA astutely spread the six-year debt service over a 12 year period to defray costs. On March 12, 2013, the CCU authorized GPA to petition the PUC for a 2.2% increase on the total bill (total revenues). On September 24, 2013, the PUC authorized a 1.9% average increase on the total bill or about a \$9.0M increase in total revenues for FY14.

After the rate adjustment was granted in 2013, there was a lot of internal and external focus on fuel efficiency. GPA increased efficiency targets which has resulted in several hundred thousand dollars per month in fuel costs savings; savings which are passed directly to the rate payers.

MAGPRO

In 2013, the Guam Power Authority won the MagPro Large GovGuam Agency of the Year Award. This award marks the fourth consecutive year GPA has received the coveted award. Individual employees, managers and supervisors have also received MagPro awards which underscore the agency's commitment to quality at all levels.

The MagPro award is an indicator of how GPA has distinguished itself in comparison to other public agencies in its quest to continually improve operations and processes.

GPA's infrastructure and plant improvements and the many projects undertaken in 2013 showcase the agency's commitment to providing reliable service to customers and, overall, to improve the quality of life for island residents.

GPA will be here to support the energy needs of island residents, to continually seek ways to reduce operational costs, and to help ratepayers find ways to reduce their power bills. With over forty-four years of service GPA continues to take the right steps forward to produce reliable power and improve services to its customers.







GPA 2013 ANNUAL REPORT • FINANCIALS

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)



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INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on Financial Statements

We have audited the accompanying financial statements of Guam Power Authority (GPA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 are 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Power Authority as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in note 1 to the financial statements, during the year ended September 30, 2013, GPA has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The 2012 financial statements were restated for the effect of adopting these accounting pronouncements. Our opinion is not modified with respect to this matter.

GUAM POWER AUTHORITY

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 8 as well as the Schedule of Funding Progress on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of sales of electricity, operating and maintenance expenses and salaries and wages on pages 40 through 43 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of sales of electricity, operating and maintenance expenses and salaries and wages are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of sales of electricity, operating and maintenance expenses, and salaries of wages are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employees by department on page 44 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014 on our consideration of GPA's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GPA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

March 11, 2014

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

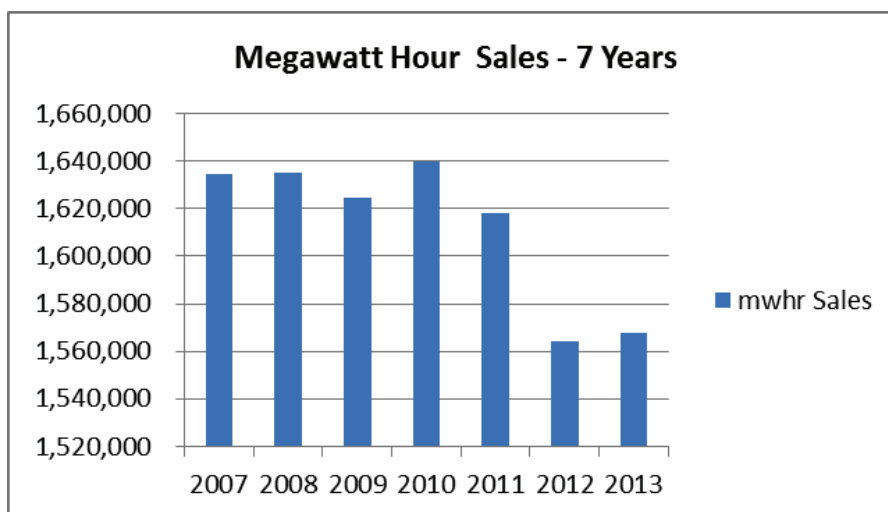
Management's Discussion and Analysis

Year Ended September 30, 2013 and 2012

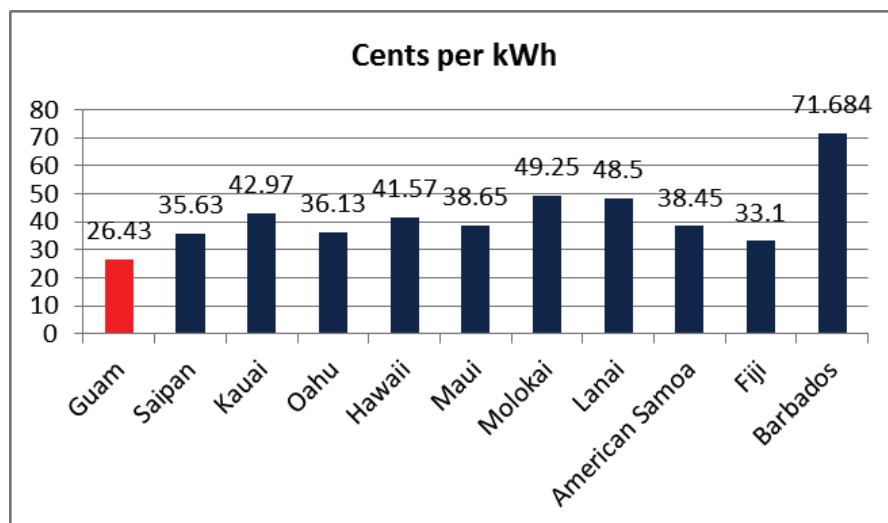
The following is a discussion and analysis of the Guam Power Authority's (GPA or the Authority) financial performance for the fiscal year ended September 30, 2013.

Sales

The biggest issue for the Authority remains sales. As the chart below show, sales grew slightly in Fiscal Year 2013 over Fiscal Year 2012; however, the overall trend remains negative and challenges to the GPA's sales growth remain one of the most significant issues facing the Authority. GPA is facing pressure from high fuel prices which are passed onto consumers through the Levelized Energy Adjustment Clause (LEAC). This has caused many of GPA's customers to take aggressive measures to conserve energy through reduced use and through energy efficient equipment purchases. The high cost of fuel is also making solar energy appear to be a viable alternative to GPA power. We will be addressing that issue later in the report.



As the graph below reveals, GPA's rates remain competitive in comparison to other island utilities; however, this reality is not well appreciated by our customers who are demanding lower cost energy solutions.



GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Management's Discussion and Analysis

Year Ended September 30, 2013 and 2012

The table below reflects sales by customer class for the last three years:

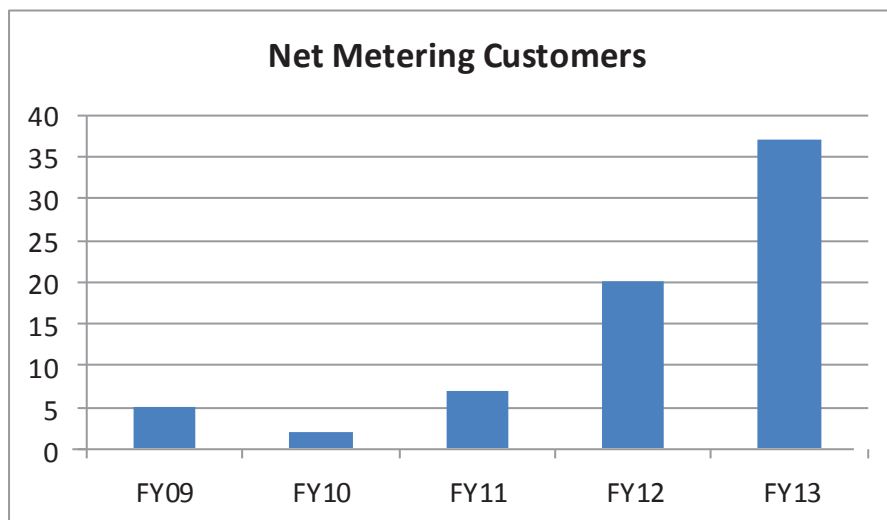
Annual Electric Sales (Kilowatt hours)

FY2013 to FY2012 Comparison

Rate Class	FY2013	FY2012	FY2011	Increase (Decrease)	% Change
Residential	462,163,297	459,499,094	487,230,149	2,664,203	0.58%
Government	179,117,942	187,376,166	194,002,127	(8,258,224)	-4.41%
Commercial	564,977,723	560,879,948	566,545,898	4,097,775	0.73%
Navy	348,150,857	343,711,146	358,016,810	4,439,711	1.29%
Other	12,000,492	12,008,640	12,015,084	(8,148)	-0.07%
Total	1,566,410,311	1,563,474,994	1,617,810,068	2,935,317	0.19%

Solar Energy

GPA implemented a net metering program at the behest of the Guam Legislature in 2008. As is clear from the graph below, the program got off to a slow start. There were only 14 customers in the program during the first three years. In FY12, there were more net metering customers added than there were during the first three years of the program. Then in FY13, there were more customers added than in the first four years of the program. This exponential growth is another factor chipping away at GPA sales.



Like many utilities, GPA is involved in a public relations battle with solar energy providers. GPA believes there is a role for solar energy and is bringing 25 megawatts of solar energy into the grid in the Spring of 2014. However, GPA would like to make sure the amounts paid for solar energy are less than GPA's incremental cost of energy. The problem with net metering is that non-demand customers can eliminate all but the customer charge portion of the bill. That means those customers are not paying their share of costs to keep a transformer near their home, the distribution line to deliver power to their home, the cost to maintain a substation near their home, transmission line costs, and the costs to keep generators available in case the day is cloudy and they need to draw power from GPA. When GPA does not collect these costs from net metering customers, they get re-allocated to the remaining customers. This places an unfair burden on non-net metering customers. GPA is working on a solution to make rates charged to customers more reflective of proper economic signals of the costs of providing power to the island.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Management's Discussion and Analysis
Year Ended September 30, 2013 and 2012

Smart Grid Technology

In July 2009, the Guam Power Authority submitted a grant request to the U.S. Department of Energy (DOE) to implement smart grid technology at the utility. Because approximately 2/3 of GPA's annual expenses arise from fuel costs, there are significant benefits that could be obtained by improving energy losses even by small amounts. GPA's smart grid project includes the installation of smart meters for every customer, implementing a meter data management system, implementing an outage management system, a mobile workforce management system, a distribution management system, substation automation, distribution automation, and Volt/VAR optimization, etc. In November 2009, GPA received word that it would likely be awarded a grant under the American Recovery and Reinvestment Act of 2009. The grant applied for was a 50/50 matching grant wherein half of the money needed for a \$33.2 million smart grid project would be funded via a DOE grant and GPA would fund the remainder. One of the most significant purposes of the 2010 bond issuance was to provide matching funds for the grant. At September 30, 2013, GPA has installed more than 47,000 of the 49,000 meters. Some of the projects were deferred or reduced due to budget constraints. GPA is currently completing the remaining projects and expects the system to be fully installed by the end of Fiscal Year 2014. GPA is already benefitting from the ability to connect and disconnect customers without sending an employee to the service address. This savings has been passed on to customers in the form of lower re-connection charges. GPA is rolling out a prepaid metering program imminently. This rollout will be improved once the new billing system is in place. GPA is also preparing for its E-Portal program which will provide more information to customers regarding their power usage through the internet. The smart grid project has provided a foundation through which many other programs can be added in order to improve operational efficiencies and to empower customers with more information concerning their power use.

Customer Care & Billing

GPA has had an inherent limitation reported in its report of internal controls completed in conjunction with its annual audit. The limitation has to do with audit tracking in its billing system. During the year, GPA purchased from Oracle Corporation the billing software named Customer Care & Billing. The software has been in use in utilities for more than a decade (in earlier versions), was purchased by Oracle and integrated with JDEdwards Enterprise One software which will be implemented by GPA in the near future. GPA is currently using an earlier version of JD Edwards Enterprise Resource Planning software.

GPA's current billing software was implemented in 2005, and although an updated version of the software has been made available to GPA, there have not been sufficient other utilities implementing the software to warrant the significant implementation expense that would be required in order to utilize the updated version. The current software has had a number of limitations that led GPA to desire a new direction for its billing system. Integration with JD Edwards software has also been an issue for GPA.

The new software will enable GPA to offer E-billing, SMS messaging, can be integrated with voice recognition software, and will enable GPA to take better advantage of the data now available from the smart grid project.

United States Environmental Protection Agency

The United States Environmental Protection Agency (USEPA), under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants (NESHAP) for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system (CPMS) equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3&4 and MEC 8&9 slow speed diesel units. The deadline for complying with the rules was May 3, 2013. GPA applied for and received a one year extension for complying with the rules with respect to its small diesel peaking units. There is a project ongoing to bring these units into compliance with the rules. GPA believes the installation will be completed well in advance of the deadline. Furthermore, GPA has engaged the assistance of USEPA along with the U.S. Department of Justice (USDOJ) to negotiate a consent decree that will allow sufficient time to implement recommendations in its IRP. The IRP was approved by the CCU and the PUC. The recommendations in the IRP include new and much more efficient generation; an additional 40-45 MW of renewable energy sources; and the diversification of its fuel source to Liquefied Natural Gas (LNG) and Ultra-Low Sulfur Diesel fuel oil. GPA believes ongoing negotiations with USEPA and USDOJ will defer potential fines post RICE MACT deadlines for the slow speed diesel units.

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Year Ended September 30, 2013 and 2012

Liquefied Natural Gas (LNG)

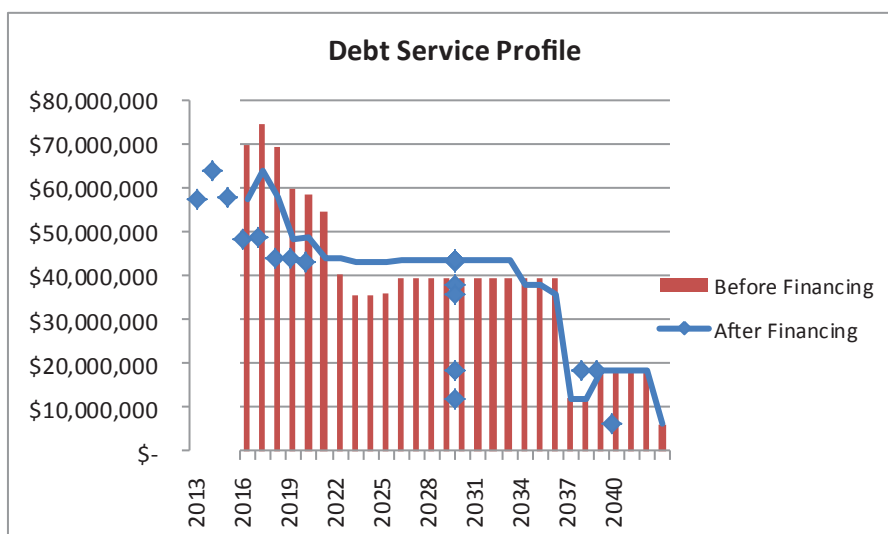
During the year, GPA has continued to develop implementation plans of the Integrated Resources Plan (IRP). The results are indicating that GPA can replace some of its older generation equipment with combined cycle combustion turbine generators. These units are far more efficient than older fuel oil steam units presently in use. Moreover, these combine cycle combustion turbine units can utilize either LNG or Ultra-Low Sulfur diesel fuel oil and provide fuel savings that can pay for the debt service associated with the acquisition of these new units. New combine cycle facilities are planned to be constructed as soon as feasible to achieve fuel savings and improve system reliability. As GPA develops LNG facilities over the next 7-8 years, the combined cycle combustion turbines will utilize Ultra-Low Sulfur diesel fuel oil as an interim and alternative fuel source. LNG implementation is expected to be completed by the year 2022. At that time, all baseload generators will then utilize LNG as the main fuel for power production. GPA is currently exploring the number of new plants to install. The range of costs for the generation facilities and the LNG regasification plant are estimated to be between \$500 - \$800 million, depending on the number of generators to be installed. However, nearly a billion dollars in net present value savings will be achieved over a thirty-year period despite the enormous capital infrastructure cost associated with implementation plans in the IRP.

Rate Activity

In April 2013, GPA petitioned the Public Utilities Commission (PUC) for a 2.2% rate increase. In September 2013, an increase in the amount of 1.9% was granted. The increase was a part of a financing plan in the petition wherein certain large capital projects were to be funded with a commercial paper issuance. In 2015, the commercial paper would be redeemed through the issuance of a long term bond. The financing strategy was created to minimize the rate increases required during FY14 – GPA's peak year for debt service.

Borrowing Activities

During 2013, GPA completed a restructuring and refinancing bond issuance. Approximately \$60 million of the bonds were used to restructure GPA's existing bond debt. GPA's debt profile was moving towards a peak in Fiscal Year 2014 of nearly \$75 million before debt service would begin to decline as a result of the tapering off of GPA's short term taxable subordinate debt in 2015 and 2016 and the termination of GPA's Energy Conversion Agreements in 2017-2019. The purpose of the bond restructuring was to flatten out GPA's debt service requirements by reducing the principal payments required for 2012-2018 and increasing the amount of debt service payments required in 2019-2031. The remaining amount of the \$340 million bond issuance was to refinance existing debt at lower rates. The all in cost of the bond issuance was 4.39%. The results of the bond issuance are reflected in the chart below:



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Borrowing Activities, Continued

GPA also started work on a commercial paper borrowing. During the year, it became apparent that the restoration of GPA's commercial paper program would not be feasible at this time. GPA's underwriter proposed a short term interest only bond issuance to simulate the commercial paper borrowing sought by the Authority. When GPA took the short term bond financing proposal to the Guam Legislature, it became apparent the senators were concerned about rising interest rates between the current period and the takeout date in 2015. The legislature appeared to be more comfortable with a traditional financing. GPA has submitted legislation for a traditional bond financing and is currently awaiting action on the part of that body.

The key projects for which funding is being sought include energy storage solutions, initial funding for the LNG project planning, and RICE MACT compliance costs.

Refer to note 9 to the financial statements for details on GPA's borrowing activities.

Rollback Credit

After securing the reduced debt service costs from the bond refinancing/restructuring, GPA petitioned the Public Utilities Commission for an immediate rollback of the recently instituted base rate increase. The \$9 million rate reduction was provided through the use of a credit surcharge set to run until GPA's FY14 base rate increase petition was decided in October 2013. The surcharge was allowed to expire when GPA's new rates went into effect.

Future Borrowing

As has been described GPA is planning a financing to fund the combined cycle combustion turbine plants. This financing will likely take place in 2015. GPA is exploring a few projects which may have a financing component including a streetlight replacement project, renewable energy projects, etc.

Military Buildup

There have been indications in the local media regarding the planned military buildup being downsized from an influx of 8,000 Marines to 5,000 Marines as well as a reduction in support staff. GPA is currently not including any military buildup projects in its five year planning horizon. GPA believes it has sufficient generation resources to meet the new demand from the expanded military presence.

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Management's Discussion and Analysis

Year Ended September 30, 2013 and 2012

Financial Highlights

Table 1 highlights financial comparisons from Fiscal Years 2011 through 2013. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

Table 1. Financial Data (in millions)

	2013	2012 (As Restated)	2011 (As Restated)
Assets:			
Current assets	\$ 281.7	\$ 334.2	\$ 351.4
Non-current investments	49.3	45.3	45.2
Other non-current assets	9.9	7.6	10.2
Utility plant	<u>526.7</u>	<u>501.7</u>	<u>484.5</u>
Total assets	867.6	888.8	891.3
Deferred outflows of resources	<u>17.4</u>	<u>12.1</u>	<u>14.6</u>
	<u>\$ 885.0</u>	<u>\$ 900.9</u>	<u>\$ 905.9</u>
Liabilities and Net Position:			
Current liabilities	\$ 75.9	\$ 100.7	\$ 62.7
Non-current liabilities	<u>639.0</u>	<u>644.6</u>	<u>674.1</u>
Total liabilities	714.9	745.3	736.8
Deferred inflows of resources	30.2	20.6	31.6
Net Position:			
Net investment in capital assets	32.0	31.6	12.6
Restricted	28.2	37.9	33.7
Unrestricted	<u>79.7</u>	<u>65.5</u>	<u>91.2</u>
Net position	<u>139.9</u>	<u>135.0</u>	<u>137.5</u>
	<u>\$ 885.0</u>	<u>\$ 900.9</u>	<u>\$ 905.9</u>

Results of Operations (millions)

	2013	2012 (As Restated)	2011 (As Restated)
Revenues	\$ 450.7	\$ 438.7	\$ 393.6
Operating and maintenance expense	<u>417.7</u>	<u>410.3</u>	<u>356.6</u>
Operating earnings	33.0	28.4	37.0
Interest income	2.2	2.8	1.8
Other revenues and (expenses), net	<u>(38.4)</u>	<u>(40.9)</u>	<u>(43.1)</u>
Loss before capital contributions	(3.2)	(9.7)	(4.3)
Capital contributions	8.1	7.2	1.3
Increase (decrease) in net position	<u>\$ 4.9</u>	<u>\$ (2.5)</u>	<u>\$ (3.0)</u>

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Explanations of Variances

The change in current assets is attributed to the decrease in the Construction Fund which has been drawn down as bond projects are being completed and the Capitalized Interest Fund as capitalized interest has been paid. Another factor is normal timing fluctuations in the Fuel Inventory Account.

Non-current investments changed as a result of the 2012 bond refinancing and restructuring.

Other non-current assets have been declining as the last note receivable from the Government of Guam (the Department of Education) is being paid down. The note was fully paid off during Fiscal Year 2013.

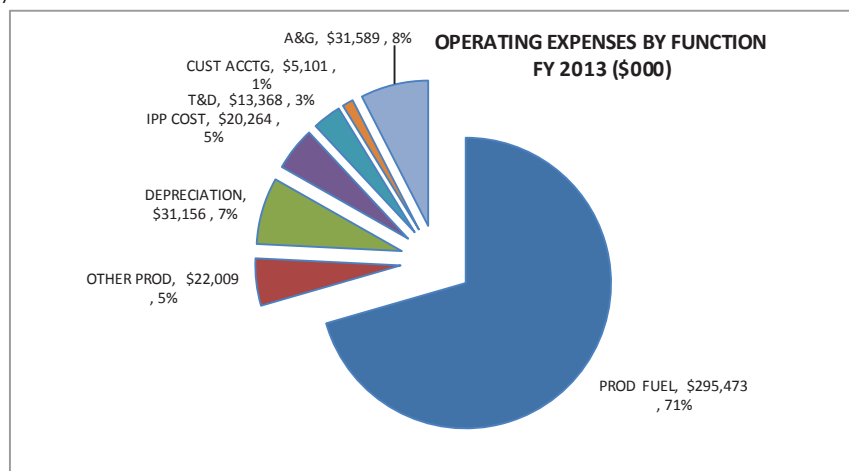
Utility Plant has been growing as bond projects have been completed and moved into this account.

Current liabilities are moderately impacted by lower debt service requirements as a result of the refinancing and restructuring. The remaining significant changes are the result of some timing related fluctuations in other accounts.

Non-current liabilities have been declining as bond principal payments are made and as the capital lease liability decreases over time. These reductions were offset in FY13 by an increase in bond debt as a result of the refinancing and restructuring plan.

The major factor in the Results of Operations is the impact of fuel. The cost of fuel increased by \$45 million from FY11 to FY12 followed by a more moderate increase of \$7 million in FY13. The recognition of income from the Smart Grid grant (capital contributions) helped improve the bottom line in FY12 and FY13.

A breakdown of expenses by function is shown in the chart below:



Capital Asset Activities

The largest project of the 2010 bond issuance was the construction of a consolidated office building. The design for the building was substantially completed during FY12. The project was budgeted at \$35 million and construction has begun in the summer of 2013. There was significant progress on the smart grid project during the year – approximately \$30 million of the \$33 million project costs had been incurred as of September 30, 2013. Refer to note 14 to the financial statements for details on GPA's capital asset activities.

Commitments for Capital Expenditures

The \$33.6 million in Smart Grid Funds has been substantially obligated. The last remaining contract was obligated in March 2013. The \$35 million project for the construction of the new consolidated facility has also been fully committed. The remaining commitments are for small projects.

GUAM POWER AUTHORITY

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Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

Contacting GPA's Financial Management

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting GPA's operations. This financial report is designed to provide a general overview of GPA's finances and to demonstrate GPA's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the years ended September 30, 2012 and 2011 is set forth in GPA's report on the audit of financial statements which is dated April 8, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2012 and 2011 financial statements. A copy of that report can be obtained by contacting the CFO office at (671) 648-3066 or from GPA's website at the addresses noted below.

For additional information about this report, please contact Mr. Randall V. Wiegand, Chief Financial Officer, Guam Power Authority, P.O. Box 2977, Hagåtña, Guam 96932-2977 or visit the website at www.guampowerauthority.com.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Statements of Net Position
September 30, 2013 and 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2013	2012 As Restated (Note 1)
Current assets:		
Cash and cash equivalents:		
Held by trustee for restricted purposes:		
Interest and principal funds	\$ 27,161,855	\$ 36,454,297
Bond indenture funds	105,639,047	135,340,758
Held by Guam Power Authority:		
Bond indenture funds	17,708,196	17,761,703
Self-insurance fund - restricted	13,514,022	14,912,430
Total cash and cash equivalents	164,023,120	204,469,188
Investments held by trustee for restricted purposes	4,845,762	-
Accounts receivable, net	49,939,244	53,415,430
Long-term receivables, net	390,377	2,430,120
Total current receivables	50,329,621	55,845,550
Materials and supplies inventory	19,585,471	18,887,646
Fuel inventory	42,390,454	54,478,801
Prepaid expenses	537,109	501,402
Total current assets	281,711,537	334,182,587
Regulatory assets:		
Cancelled unit, net of amortization	13,479	135,655
Total regulatory assets	13,479	135,655
Utility plant, at cost:		
Depreciable utility plant, net of accumulated depreciation	484,334,813	462,108,109
Non-depreciable utility plant	42,400,142	39,580,837
Total utility plant	526,734,955	501,688,946
Other non-current assets:		
Investments - bond reserve funds held by trustee	49,278,574	45,342,829
Unamortized debt issuance costs	9,492,061	6,851,771
Other assets	417,629	567,935
Total other non-current assets	59,188,264	52,762,535
Total assets	867,648,235	888,769,723
Deferred outflows of resources:		
Unamortized loss on debt refunding	16,084,264	10,701,777
Unamortized forward delivery contract costs	1,274,798	1,434,158
Total deferred outflows of resources	17,359,062	12,135,935
	\$ 885,007,297	\$ 900,905,658

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Statements of Net Position, Continued

September 30, 2013 and 2012

	2013	2012 As Restated (Note 1)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 12,310,000	\$ 20,815,000
Current obligations under capital leases	13,064,559	11,562,495
Accounts payable:		
Operations	22,688,570	25,995,634
Fuel	1,513,311	11,644,467
Forward delivery agreement	-	3,574,285
Self-insurance claim	448,480	1,142,970
Accrued payroll and employees' benefits	1,077,440	1,023,252
Current portion of employees' annual leave	2,078,481	2,263,391
Interest payable	14,689,852	16,007,423
Customer deposits	8,041,970	6,638,156
Total current liabilities	75,912,663	100,667,073
Regulatory liabilities:		
Provision for self-insurance	12,980,814	13,887,062
Total regulatory liabilities	12,980,814	13,887,062
Long-term debt, net of current maturities	545,937,741	538,485,569
Obligations under capital leases, net of current portion	73,203,679	86,267,770
DCRS sick leave liability	2,582,611	2,274,481
Employees' annual leave, net of current portion	1,112,489	619,029
Customer advances for construction	3,149,507	3,100,295
Total liabilities	714,879,504	745,301,279
Deferred inflows of resources:		
Unearned fuel revenue, net	25,208,323	15,195,623
Unearned forward delivery contract revenue	4,672,141	5,256,159
Other unearned revenues	357,000	142,800
Total deferred inflows of resources	30,237,464	20,594,582
Commitments and contingencies		
Net Position:		
Net investment in capital assets	32,028,800	31,683,250
Restricted	28,147,598	37,851,489
Unrestricted	79,713,931	65,475,058
Total net position	139,890,329	135,009,797
	\$ 885,007,297	\$ 900,905,658

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012 As Restated (Note 1)
Revenues:		
Sales of electricity	\$ 449,029,377	\$ 438,111,537
Miscellaneous	2,926,573	1,915,786
	451,955,950	440,027,323
Bad debt expense	(1,222,905)	(1,354,894)
Total revenues	450,733,045	438,672,429
Operating and maintenance expenses:		
Production fuel	295,472,656	288,602,256
Other production	22,009,288	24,990,683
	317,481,944	313,592,939
Administrative and general	31,589,477	31,377,717
Depreciation and amortization	31,155,714	28,954,754
Energy conversion costs	20,263,958	19,937,105
Transmission and distribution	13,367,775	12,716,911
Customer accounting	3,878,455	3,675,895
Total operating and maintenance expenses	417,737,323	410,255,321
Operating earnings	32,995,722	28,417,108
Non-operating revenues (expense):		
Allowance for funds used during construction	4,671,155	4,987,676
Interest revenue	2,150,244	2,775,819
Grants from the United States (U.S.) Government for GovGuam related projects	3,218,460	8,425,572
Cost of GovGuam related projects funded by grants from the U.S. Government	(3,218,460)	(8,425,572)
Interest expense	(41,254,435)	(45,272,108)
Bond issuance costs	(1,594,168)	(262,516)
Other expense	(220,504)	(299,204)
Total non-operating revenues (expense), net	(36,247,708)	(38,070,333)
Loss before capital contributions	(3,251,986)	(9,653,225)
Capital contributions:		
Grants from the U.S. Government	8,132,518	7,208,246
Change in net position	4,880,532	(2,444,979)
Net position at beginning of year	135,009,797	137,454,776
Net position at end of year	\$ 139,890,329	\$ 135,009,797

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Statements of Cash Flows

Years Ended September 30, 2013 and 2012

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 486,924,532	\$ 455,247,907
Cash payments to suppliers for goods and services	(369,580,391)	(341,368,136)
Cash payments to employees for services	(38,023,871)	(34,314,554)
Cash payments for retiree benefits	(2,748,420)	(2,797,254)
Net cash provided by operating activities	<u>76,571,850</u>	<u>76,767,963</u>
Cash flows from investing activities:		
Interest and dividends on investments and bank accounts	1,413,749	1,843,340
Payment of forward delivery agreement	(3,574,285)	-
Deposits to escrow fund	(8,781,507)	-
Net cash (used in) provided by investing activities	<u>(10,942,043)</u>	<u>1,843,340</u>
Cash flows from non-capital financing activities:		
Receipts from the federal government	3,926,819	8,425,572
Self insurance fund receipts net of disbursements	(906,248)	3,741,355
Proceeds from issuance of 2012 bonds	3,574,285	-
Interest paid on forward delivery agreement and deposits	(122,942)	(143,587)
Payment of self-insurance claim	(694,490)	-
Cost of GovGuam related projects funded by grants from the U.S. Government	(3,171,270)	(8,425,572)
Net cash provided by non-capital financing activities	<u>2,606,154</u>	<u>3,597,768</u>
Cash flows from capital and related financing activities:		
Receipts from the federal government	11,142,025	2,844,509
Proceeds from issuance of 2012 bonds	14,514,421	-
Cost of issuance of 2012 bonds	(7,778,590)	(262,516)
Interest paid on capital leases	(11,522,276)	(12,848,830)
Principal paid on capital leases	(11,562,027)	(10,235,475)
Principal paid on long-term debt	(20,815,000)	(12,640,000)
Interest paid on long-term debt	(26,261,162)	(25,960,200)
Additions to utility plant	(56,399,420)	(46,336,933)
Net cash used in capital and related financing activities	<u>(108,682,029)</u>	<u>(105,439,445)</u>
Net change in cash and cash equivalents	(40,446,068)	(23,230,374)
Cash and cash equivalents at beginning of year	<u>204,469,188</u>	<u>227,699,562</u>
Cash and cash equivalents at end of year	<u>\$ 164,023,120</u>	<u>\$ 204,469,188</u>
Supplemental information on noncash activities:		
Proceeds from the issuance of 2012 bonds	\$ 358,502,697	\$ -
Refunding of the 1993 and 1999 bonds	(358,502,697)	-
	<u>\$ -</u>	<u>\$ -</u>
Accounts payable - forward delivery agreement	\$ -	\$ (3,574,285)
Unamortized forward delivery contract costs	-	(1,434,159)
Unearned forward delivery contract revenue	-	5,256,159
Interest revenue	-	(247,715)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

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Statements of Cash Flows, Continued

Years Ended September 30, 2013 and 2012

	2013	2012
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 32,995,722	\$ 28,417,108
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	31,155,714	28,954,754
Bad debts	1,222,905	1,354,894
(Increase) decrease in assets:		
Accounts receivable	(1,042,936)	(2,985,532)
Long-term receivables	1,822,750	2,262,958
Materials and supplies inventory	(697,825)	(4,025,913)
Fuel inventory	12,088,347	2,653,442
Prepaid expenses	(35,707)	285,679
Other assets	150,306	154,648
Increase (decrease) in liabilities:		
Accounts payable - fuel	(10,131,156)	10,117,559
Accounts payable - operations	(3,307,064)	13,390,779
Customer deposits	1,403,814	453,154
Customer advances for construction	49,212	7,269
Unearned fuel revenue	10,012,700	(5,283,591)
Other unearned revenues	214,200	142,800
Accrued payroll and employees' benefits	54,188	650,661
Employees' annual and sick leave	616,680	217,294
Net cash provided by operating activities	<u>\$ 76,571,850</u>	<u>\$ 76,767,963</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies

Organization

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 (CSA). GPA is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. GPA is subject to the regulations of the Public Utilities 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

The accounting policies of GPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. GPA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 disclosure 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.

Taxes

As an instrumentality of GovGuam, GPA and all property acquired by or for GPA, and all revenues and income therefrom are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

Cash, Cash Equivalents and Investments

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 three months or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund.

GPA carries its investments at fair values. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and is primarily determined based on quoted market rates.

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 certificates 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 has a rating in the highest classification by S&P and Moody's; and money market funds rated AAAm or better by S&P.

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

Allowance for Doubtful Receivables

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 collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period GPA deems the accounts to be uncollectible but with prior approval of the CCU.

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.

Utility Plant

Utility plant purchased or constructed is stated at cost. 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. Donated utility is recorded at fair market value at the date of donation or at the donating entity's basis in the asset if donated by GovGuam or a GovGuam agency. Current policy is to capitalize utility plant with a cost of \$1,000 or more.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets.

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. The maximum accumulation of annual leave convertible to pay upon termination of employment is limited to 320 hours. 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. Any unused leave over 320 hours shall be lost upon retirement.

Public Law 26-86 allows members of the Defined Contribution Retirement System (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

Forward Delivery Contract Costs and Revenues

The forward delivery contract costs and revenues arose as a result of the Bond Reserve Fund Forward Delivery Agreements entered into in September 2000. The unamortized forward delivery contract costs represent termination fees and closing costs while the unearned forward delivery contract revenues represent the gross proceeds. The costs and revenues are amortized on a straight line basis until 2034.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs mainly include insurance costs related to the issuance of the Series 2010 and 2012 bonds and the Series 1993, 1999 and 2010 bonds as of September 30, 2013 and 2012, respectively. These costs are being amortized using the effective interest method over the life of the applicable debt.

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

Net Position

Net position represents the residual interest in GPA's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of four sections:

Net investment in capital assets - include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GPA pursuant to those stipulations or that expire with the passage of time.

Restricted nonexpendable - net position subject to externally imposed stipulations that require GPA to maintain them permanently.

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by management or the CCU or may otherwise be limited by contractual agreements with outside parties.

All of GPA's restricted net position is expendable.

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.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide electrical services to the island of Guam. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

Deferred Outflows of Resources

Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Levelized Energy Adjustment Clause

Fuel oil costs increase or decrease billings to customers based on increases or decreases in the price of fuel oil purchased by GPA. Under or over recoveries of fuel oil costs including the fair value of outstanding commodity swap agreements are recorded as unrecovered fuel cost or unearned fuel revenue, respectively, in the accompanying statements of net position, 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. The LEAC results 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 and related costs.

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

Levelized Energy Adjustment Clause, Continued

GPA also bills customers fuel surcharges to recover the cost difference between fuel inventory on hand against a base year. The under or over recovery of the fuel inventory cost difference is included as part of unrecovered fuel cost or unearned fuel revenue, in the accompanying statements of net position.

Derivative Instruments

GPA is exposed to market price fluctuations on its purchases of fuel oil. GPA uses derivatives such as commodity swaps to protect itself from increases in market prices. GPA records commodity swap agreements associated with its fuel oil hedging activities at fair value with gains and losses recognized in operations in the statement of revenues, expenses and changes in net position. The fair value of outstanding commodity swaps at year-end is included as a component of the LEAC and is recorded as part of unrecovered fuel cost or unearned fuel revenue, respectively, in the accompanying statements of net position.

GPA's power purchase agreements are considered "normal purchases and normal sales" and accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 6) are not recognized in the statements of net position. Operations and maintenance costs associated with the power purchase agreements are expensed as incurred with the independent power producers.

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. AFUDC of \$4,671,155 and \$4,987,676 was recognized during the years ended September 30, 2013 and 2012, respectively.

New Accounting Standards

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

New Accounting Standards, Continued

• GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

The effect on the financial statements of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is as follows:

Net position as of September 30, 2011, as originally reported	\$ 139,599,884
Reversal of deferred bond issuance cost	(1,985,905)
Reversal of amortization of deferred bond issuance cost	<u>(159,203)</u>
Net position as of September 30, 2011, as restated	<u>\$ 137,454,776</u>
 Change in net position for the year ended September 30, 2012, as originally reported	 \$ (2,341,666)
Reversal of deferred bond issuance cost	(262,516)
Reversal of amortization of deferred bond issuance cost	<u>159,203</u>
Change in net position for the year ended September 30, 2012, as restated	<u>\$ (2,444,979)</u>
 Long-term debt, net of current maturities for the year ended September 30, 2012, as originally reported	 \$ 527,783,792
Unamortized loss on debt refunding for the year ended September 30, 2012	<u>10,701,777</u>
Long-term debt as of September 30, 2012, as restated	<u>\$ 538,485,569</u>

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements, but is of the opinion that Statement No. 68 will materially impact GPA's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

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

New Accounting Standards, Continued

In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to correspond to the 2013 presentation.

(2) Cash, Cash Equivalents and Investments

The bond indenture agreements for the 1993, 1999, 2010, and 2012 series revenue bonds (note 9) 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, 2013 and 2012, cash and cash equivalents and short-term investments held by trustees and by GPA in these funds and accounts are as follows:

2013					
	Held By Trustees		Held By GPA		Total
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	
Construction funds	\$ -	\$ 75,560,736	\$ -	\$ -	\$ 75,560,736
Interest and principal funds	27,161,855	-	-	-	27,161,855
Bond funds	-	541,185	-	-	541,185
Working capital funds	-	29,537,126	-	-	29,537,126
Self-insurance fund	-	-	13,514,022	-	13,514,022
Revenue funds	-	-	-	6,086,427	6,086,427
Operating funds	-	-	-	10,843,457	10,843,457
Surplus funds	-	-	-	778,312	778,312
	<u>\$ 27,161,855</u>	<u>\$ 105,639,047</u>	<u>\$ 13,514,022</u>	<u>\$ 17,708,196</u>	<u>\$ 164,023,120</u>

2012					
	Held By Trustees		Held By GPA		Total
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	
Construction funds	\$ -	\$ 99,062,970	\$ -	\$ -	\$ 99,062,970
Interest and principal funds	36,454,297	-	-	-	36,454,297
Bond funds	-	5,543,818	-	-	5,543,818
Working capital funds	-	30,733,970	-	-	30,733,970
Self-insurance fund	-	-	14,912,430	-	14,912,430
Revenue funds	-	-	-	7,698,429	7,698,429
Operating funds	-	-	-	9,583,062	9,583,062
Surplus funds	-	-	-	480,212	480,212
	<u>\$ 36,454,297</u>	<u>\$ 135,340,758</u>	<u>\$ 14,912,430</u>	<u>\$ 17,761,703</u>	<u>\$ 204,469,188</u>

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(2) Cash, Cash Equivalents and Investments, Continued

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

A. Cash and Cash Equivalents

As of September 30, 2013 and 2012, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$164,023,120 and \$204,469,188, respectively, and the corresponding bank balances were \$165,023,906 and \$203,842,561, respectively. Of the bank balance amount as of September 30, 2013 and 2012, \$22,197,324 and \$15,256,596 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance.

As of September 30, 2013 and 2012, bank deposits in the amount of \$950,535 and \$1,221,124, respectively, were FDIC insured. Bank balances as of September 30, 2013 and 2012, also include \$142,826,582 and \$188,585,965, respectively, representing cash and short-term investments held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2013 and 2012, \$21,246,789 and \$14,035,472, respectively, of cash and cash equivalents are subject to custodial credit risk.

B. Investments

As of September 30, 2013, GPA's investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&P or Moody's Rating</u>
Bond Reserve Funds:			
Natixis Funding Corp. Guaranteed Investment Certificate (GIC)	\$ 12,028,872	October 1, 2015	A2
Fortis Funding LLC (GIC)	13,742,000	October 1, 2013	P-1
US Bank Money Market Account (cash equivalents)	<u>23,507,702</u>	-	-
	<u>\$ 49,278,574</u>		
Bond Fund:			
Federated Government Ultrashort Duration Fund (mutual fund)	\$ <u>4,845,762</u>	-	-

As of September 30, 2012, GPA's investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&P or Moody's Rating</u>
Bond Reserve Funds:			
General Electric Capital Corporation Commercial Paper (CP)	\$ 13,743,000	October 1, 2012	A1
Natixis U.S. Finance Company, LLC (CP)	13,742,000	October 1, 2012	P-1
Natixis Funding Corp. Guaranteed Investment Certificate	12,028,872	October 1, 2015	A2
First American Treasury (cash equivalents)	3,269	-	-
US Bank Money Market Account (cash equivalents)	<u>5,825,688</u>	-	-
	<u>\$ 45,342,829</u>		

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(2) Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, GPA will not be able to recover the value of the 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.

Credit risk for investments is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

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 investment in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2013, GPA's investments that exceeded 5% of total investments are as follows: US Bank (43.43%), Fortis Funding LLC (25.39%), and Natixis Funding Corp. (22.22%). As of September 30, 2012, GPA's investments that exceeded 5% of total investments are as follows: General Electric Capital Corporation (30.31%), Natixis U.S. Finance Company, LLC CP (30.31%), Natixis Funding Corp. (26.53%), and US Bank (12.85%).

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.

(3) Receivables

Accounts receivable at September 30, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Customers:		
Private	\$ 37,429,523	\$ 36,576,672
Government	<u>9,282,086</u>	<u>6,906,764</u>
	46,711,609	43,483,436
U.S. Navy	5,480,577	6,839,697
U.S. Federal Government	979,948	4,745,004
Interest	343,392	190,914
Others	2,508,198	<u>2,939,329</u>
	56,023,724	58,198,380
Less allowance for doubtful receivables	<u>(6,084,480)</u>	<u>(4,782,950)</u>
	<u>\$ 49,939,244</u>	<u>\$ 53,415,430</u>

Unbilled accounts receivable included above amounted to \$10,200,524 and \$10,009,988 at September 30, 2013 and 2012, respectively.

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(3) Receivables, Continued

Long-Term Receivables

As of September 30, 2013, long-term receivables include an uncollateralized note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002. The note bears interest at 4.35%, per annum with the final installment payment due in April 2007. Long-term receivables also include a non-interest bearing receivable due from Guam Waterworks Authority (GWA) under a memorandum of understanding (see note 12), with monthly installments of \$25,688 starting October 2009. As of September 30, 2013 and 2012, receivables from DPW and GWA are \$390,377 and \$216,993, respectively, with the balance with GWA fully provided with an allowance as of September 30, 2013.

In 2004, GPA entered into an installment payment agreement with Guam Department of Education resulting from conversion of past due receivables payable in varying amounts starting in July 2004 with interest at 4.47% per annum. The note had a balance of \$1,822,750 at September 30, 2012 that was fully collected in July 2013.

(4) Levelized Energy Adjustment Clause

The under or over recoveries of fuel oil costs including the fair value of outstanding commodity swap agreements at September 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Unrecovered fuel costs:		
Under recovery of fuel costs during the year	\$ <u> -</u>	\$ <u>5,427,903</u>
Unearned fuel revenue:		
Over recovery of fuel costs during the year	2,699,481	-
Cumulative effect of inventory cost change	<u>22,508,842</u>	<u>20,623,526</u>
Total unearned fuel revenue	<u>25,208,323</u>	<u>20,623,526</u>
Unearned fuel revenue, net	\$ <u><u>25,208,323</u></u>	\$ <u><u>15,195,623</u></u>

The cumulative effect of inventory cost change resulting from the difference between fuel inventory on hand against a base year is as follows:

	<u>2013</u>	<u>2012</u>
Cumulative effect of inventory cost change, beginning of year	\$ 20,623,526	\$ 24,040,065
Inventory cost change during the year	<u>1,885,316</u>	<u>(3,416,539)</u>
Cumulative effect of inventory cost change	\$ <u><u>22,508,842</u></u>	\$ <u><u>20,623,526</u></u>

(5) Derivatives

At September 30, 2012, GPA has outstanding commodity swaps of notional amounts of 90,000 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date.

At September 30, 2012, the commodity swaps had a net positive fair value of approximately \$1,112,000 which is recorded as a component of under or over recoveries of fuel costs as discussed in note 4. At September 30, 2012, there are four counterparties, rated as P-2, A1, A3, and Baa1 by Moody's. GPA did not have outstanding commodity swap agreements at September 30, 2013.

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(6) Concentrations of Credit Risk

Financial instruments which potentially subject GPA to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, and commodity swap derivatives.

At September 30, 2013 and 2012, GPA has cash deposits in bank accounts that are not subject to or exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy (Navy). Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

As discussed in note 5, GPA enters into commodity swaps only with highly rated counterparties.

(7) Obligations Under Capital Leases

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 and purchase fuel for the plants.

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

At September 30, 2013 and 2012, the costs of the plant and plant improvements are \$171,382,727 and accumulated depreciation is \$70,444,342 and \$65,759,774, respectively, which are presented as part of depreciable utility plant in the accompanying statements of net position. The leases have effective interest rates ranging from 8.6% to 14.2%. Future capacity payments under these agreements are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2014	\$ 13,064,559	\$ 10,019,745	\$ 23,084,304
2015	14,765,627	8,318,677	23,084,304
2016	16,692,419	6,391,885	23,084,304
2017	18,875,274	4,209,030	23,084,304
2018	16,950,423	1,934,418	18,884,841
2019	5,919,936	159,673	6,079,609
	<u>\$ 86,268,238</u>	<u>\$ 31,033,428</u>	<u>\$ 117,301,666</u>

(8) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

GPA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, required that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GPA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

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(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Plan Description, Continued:

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GPA's contributions to the DB Plan for the years ended September 30, 2013, 2012 and 2011 were \$3,311,501, \$3,142,095 and \$3,001,267, respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Retirement System (DCRS)

Contributions into the Defined Contribution Retirement System (DCRS) plan 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 investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions for participants in the DCRS plan for the years ended September 30, 2013, 2012 and 2011 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only an amount equivalent to 5% of the member's regular pay is deposited into the member's individual investment account in the DCRS. The remaining amount is contributed towards the unfunded liability of the DB Plan.

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

GPA's contributions for participants in the DCRS plan for the years ended September 30, 2013, 2012 and 2011 were \$5,052,969, \$4,576,734, and \$4,141,724, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$4,240,804, \$3,798,237 and \$3,415,577 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2013, 2012 and 2011, respectively.

GPA has accrued an estimated liability of \$2,582,611 and \$2,274,481 at September 30, 2013 and 2012, respectively, for potential future sick leave payments pursuant to Public Law 26-86 (note 1). However, this amount is an estimate and actual payout may be materially different than estimated.

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Notes to Financial Statements
September 30, 2013 and 2012

(8) Employees' Retirement Plan, Continued

Other Post-Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

For the years ended September 30, 2013, 2012 and 2011, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	2013	2012	2011
Supplemental benefits	\$ 864,907	\$ 861,618	\$ 746,609
Medical and dental	<u>1,883,513</u>	<u>1,935,636</u>	<u>2,010,978</u>
	<u>\$ 2,748,420</u>	<u>\$ 2,797,254</u>	<u>\$ 2,757,587</u>

(9) Noncurrent Liabilities

A. Long-term debt

Long-term debt at September 30, 2013 and 2012 is as follows:

	2013	2012
2012 Series Senior Revenue Bonds, initial face value of \$340,620,000, interest at varying rates from 2.98% to 5.0% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$110,000 in October 2014, increasing to a maximum payment of \$25,630,000 in October 2031, with a final payment of \$24,485,000 in October 2034.	\$ 340,620,000	\$ -
2010 Series Senior Revenue Bonds, initial face value of \$150,440,000, interest at varying rates from 5.0% to 5.5% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$225,000 in October 2022, increasing to \$17,215,000 in October 2040.	\$ 150,440,000	\$ 150,440,000
2010 Series Subordinated Revenue Bonds, initial face value of \$56,115,000, interest at varying rates from 6.0% to 7.5% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$4,435,000 in October 2011, increasing to \$14,155,000 in October 2015.	\$ 39,500,000	\$ 51,680,000
1999 Series Revenue Bonds, initial face value of \$349,178,601, interest at varying rates from 5.0% to 5.25% per annum payable semi-annually 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.	\$ -	\$ 304,595,000
1993 Series Revenue Bonds, initial face value of \$100,000,000, interest at 5.25% per annum payable semi-annually 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.	\$ -	\$ 60,090,000
	\$ 530,560,000	\$ 566,805,000
Less current maturities	\$ (12,310,000)	\$ (20,815,000)
Add premium on 2012 bonds at September 30, 2013	\$ 31,497,38	\$ -
Less discount on 2010 Senior and Subordinate bonds and 2010 Senior and Subordinate, 1999 Senior, and 1993 Senior bonds at September 30, 2013 and 2012, respectively	\$ (3,809,646)	\$ (7,504,431)
Total bonds	\$ 545,937,741	\$ 538,485,569

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September 30, 2013 and 2012

(9) Noncurrent Liabilities, Continued

A. Long-term debt, Continued

Proceeds of the 1993 Series Revenue Bonds 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 Revenue Bonds were used to finance 1999 projects; to retire \$45 million in tax exempt commercial paper notes; to retire GPA's 1992 and 1994 series bonds; and to pay the amount due on the 1993 bonds totaling \$1,950,000.

Proceeds of the 2010 Series Senior Revenue Bonds will be used to finance capital projects, generally consisting of a new administration building and various generation, transmission and distribution facilities. Additionally, proceeds were used to make a deposit to the Bond Reserve Fund, to provide capitalized interest through October 1, 2013, and to pay costs of issuance.

Proceeds of the 2010 Series Subordinated Revenue Bonds were used to make a deposit to the Working Capital Fund, Bond Reserve Fund, to provide capitalized interest through April 1, 2011, and to pay costs of issuance.

Proceeds of the 2012 Series Revenue Bonds were used to refund GPA's 1993 and 1999 Senior Bonds, make a deposit to the Senior Bond Reserve Fund to increase the amount on deposit therein to the Bond Reserve Fund Requirement, and pay issuance costs incurred in connection with the 2012 Senior Bonds.

As of September 30, 2013, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 12,310,000	\$ 27,962,900	\$ 40,272,900
2015	13,600,000	27,039,975	40,639,975
2016	14,265,000	26,045,630	40,310,630
2017	115,000	24,980,630	25,095,630
2018	470,000	24,971,850	25,441,850
2019 through 2023	74,535,000	117,881,300	192,416,300
2024 through 2028	122,865,000	91,792,075	214,657,075
2029 through 2033	145,670,000	57,081,900	202,751,900
2034 through 2038	97,735,000	24,710,375	122,445,375
2039 through 2041	48,995,000	5,485,700	54,480,700
	<u>\$ 530,560,000</u>	<u>\$ 427,952,335</u>	<u>\$ 958,512,335</u>

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Notes to Financial Statements
September 30, 2013 and 2012

(9) Noncurrent Liabilities, Continued

A. Long-term debt, Continued

All gross revenues of GPA have been pledged to repay the 2010 and 2012 series bond principal and interest and the 1993, 1999 and 2010 series bond principal and interest at September 30, 2013 and 2012, respectively. The debt service for the 2010 and 2012 series bonds and the 1993, 1999 and 2010 series bonds was \$39,471,114 and \$39,072,313 or approximately 8.7% and 8.9% of pledged gross revenues, for the years ended September 30, 2013 and 2012, respectively.

Premium and discounts associated with the 2010 and 2012 bond series and the 1993, 1999 and 2010 bond series at September 30, 2013 and 2012, respectively, are being amortized on the effective interest method over the life of the applicable debt.

Debt Refunding

Part of the proceeds of the 1999 Series bonds were used to retire the 1992 and 1994 series bonds with a total principal outstanding of \$143,660,000 and \$99,820,000, respectively. 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 \$21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds.

In October 2012, GPA refunded its 1993 and 1999 Series bonds through the issuance of the 2012 Series bonds. At the time of refunding, the 1993 and 1999 Series bonds had principal balances outstanding of \$56,370,000 and \$299,680,000, respectively. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase non-callable and non-prepayable obligations of the United States of America or held as cash and are to be held in an irrevocable trust to be used for the payment of the principal of and interest on the 1993 and 1999 Series bonds. The advance refunding met the requirements of an in-substance defeasance and the 1993 and 1999 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$17,283,801 representing the difference between the reacquisition price and the carrying amount of the 1993 and 1999 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GPA in effect reduced its aggregate debt service payments by almost \$16,506,398 over the next twenty years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$27,940,966.

The loss on refunding of the 1993 and 1999 Series bonds has been amortized using the effective interest method over the average remaining life of the 1993 and 1999 bonds which approximated the average life of the 2012 Series bonds. The loss on refunding of the 1992 and 1994 Series bonds has been amortized on a straight line basis, which approximates the effective interest method, over the remaining life of the 1992 and 1994 bonds. The unamortized balance of the loss refunding of the 1993 and 1999 Series bonds and the 1992 and 1994 Series bonds is \$16,084,264 and \$10,701,777 as of September 30, 2013 and 2012, respectively.

Forward Delivery Contract

On September 28, 2000, GPA entered into Bond Reserve Fund Forward Delivery Agreements (the agreements) with Lehman Brothers and Bank of America. In connection with the agreements, GPA received cash of \$13.5 million in October 2000, representing the present value of interest income on certain invested bond proceeds. Based on the terms of the agreements, gross proceeds totaled \$17,521,029 while GPA incurred termination fees and closing costs totaling \$3,530,000 and \$1,250,000, respectively. The \$13.5 million in net proceeds included \$759,500 of interest income earned as of the closing dates of the agreements. 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, are reflected as unearned forward delivery contract revenue in the accompanying statements of net position.

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Notes to Financial Statements
September 30, 2013 and 2012

(9) Noncurrent Liabilities, Continued

A. Long-term debt, Continued

The termination fees and closing costs amortization are reflected as unamortized forward delivery contract costs in the accompanying statements of net position. The amortization of forward delivery contract revenues and costs is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net position.

On September 26, 2012, GPA entered into an agreement to terminate the portion of the Bond Reserve Fund Forward Delivery Agreement attributable to Lehman Brothers. As a result of the termination, GPA wrote off \$1,434,159 and \$5,256,159 in unamortized costs and unearned revenues, respectively, and recognized a liability of \$3,574,285 for the settlement amount presented as accounts payable – forward delivery agreement in the accompanying statements of net position. The transaction also resulted in a gain of \$247,715 which is recorded as part of interest revenue in the accompanying statements of revenues, expenses and changes in net position for the year ended September 30, 2012.

The following summarizes the unamortized costs and unearned revenues on the forward delivery contract at September 30, 2013 and 2012:

	2013	2012
Unearned forward delivery contract revenues	\$ 8,760,514	\$ 8,760,514
Accumulated amortization	(4,088,373)	(3,504,355)
	<u>\$ 4,672,141</u>	<u>\$ 5,256,159</u>
Unamortized forward delivery contract costs	\$ 2,390,265	\$ 2,390,265
Accumulated amortization	(1,115,467)	(956,107)
	<u>\$ 1,274,798</u>	<u>\$ 1,434,158</u>

B. Long-term liabilities

Changes in long-term liabilities are as follows:

	Outstanding October 1, 2012	Increases	Decreases	Outstanding September 30, 2013	Current
1993 Series bonds	\$ 60,090,000	\$ -	\$(60,090,000)	\$ -	\$ -
1999 Series bonds	304,595,000	-	(304,595,000)	-	-
2010 Series Senior bonds	150,440,000	-	-	150,440,000	-
2010 Series Subordinate bonds	51,680,000	-	(12,180,000)	39,500,000	12,200,000
2012 Series Senior bonds	-	340,620,000	-	340,620,000	110,000
Unamortized premium on bonds	-	33,518,707	(2,021,320)	31,497,387	-
Unamortized discount on bonds	(7,504,431)	-	3,694,785	(3,809,646)	-
Obligations under capital leases	97,830,265	-	(11,562,027)	86,268,238	13,064,559
DCRS sick leave liability	2,274,481	308,130	-	2,582,611	-
Employees annual leave	2,882,420	1,898,207	(1,589,657)	3,190,970	2,078,481
Customer advances for construction	3,100,295	49,212	-	3,149,507	-
	<u>\$ 665,388,030</u>	<u>\$ 376,394,256</u>	<u>\$ (388,343,219)</u>	<u>\$ 653,439,067</u>	<u>\$ 27,453,040</u>

	Outstanding October 1, 2011	Increases	Decreases	Outstanding September 30, 2012	Current
1993 Series bonds	\$ 63,625,000	\$ -	\$(3,535,000)	\$ 60,090,000	\$ 3,720,000
1999 Series bonds	309,265,000	-	(4,670,000)	304,595,000	4,915,000
2010 Series Senior bonds	150,440,000	-	-	150,440,000	-
2010 Series Subordinate bonds	56,115,000	-	(4,435,000)	51,680,000	12,180,000
Unamortized discount on bonds	(7,757,396)	-	252,965	(7,504,431)	-
Obligations under capital leases	108,065,740	-	(10,235,475)	97,830,265	11,562,495
DCRS sick leave liability	2,012,318	262,163	-	2,274,481	-
Employees annual leave	2,927,289	2,125,894	(2,170,763)	2,882,420	2,263,391
Customer advances for construction	3,093,026	9,338	(2,069)	3,100,295	-
	<u>\$ 687,785,977</u>	<u>\$ 2,397,395</u>	<u>\$ (24,795,342)</u>	<u>\$ 665,388,030</u>	<u>\$ 34,640,886</u>

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(10) Agreements with the United States Navy

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 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.

In July 2012, the CSA was revised to cover the proposed military buildup, rate setting methodology, and the inclusion of real estate assets as part of the transfer of facilities. The agreement is for ten years with no option for renewal. Salient components of the CSA include maintaining GPA as the only service provider to the Navy, continuation of asset transfers under the terms and conditions previously set in the CSA, calculation of rates in accordance with the methodology approved by the PUC, GPA's continued use of the Navy's assets and real property and allowable use of Navy easements and facilities to serve GPA's customers when necessary, continuance of weekly fuel payments by the Navy, maintenance of a minimum contract demand with no maximum demand provision, and payment within fifteen days of electric billing by the Navy, subject to late payment charges, among others.

During the years ended September 30, 2013 and 2012, GPA billed the Navy \$84,898,982 and \$86,032,520, respectively, for sales of electricity under the CSA. Receivables from the Navy were \$5,480,577 and \$6,839,697 at September 30, 2013 and 2012, respectively (see note 3).

(11) Commitments and Contingencies

Fuel Purchase Contracts

In August 2013, GPA entered into a fuel purchase contract with Hyundai Corporation. The agreement is for two years commencing on September 1, 2013 with options to extend for three additional one-year terms upon mutual agreement of both parties.

In 2009, GPA entered into two contracts to purchase diesel fuel oil. The agreements are for three years ended September 30, 2012 with an option to extend for two additional one-year terms, renewable annually. In February, 2012, GPA renewed the two contracts through November 30, 2014.

Performance Management Contracts

During the year ended September 30, 2010, GPA entered into Performance Management Contracts (PMC) with two companies for the operation and maintenance of Cabras 1 and 2 and Cabras 3 and 4 generators, which became effective on October 1, 2010 and July 1, 2010, respectively. The PMCs are for a period of five years with an option to extend for another five-year term. At September 30, 2013, the minimum future management fees for the years ending September 30, 2014 and 2015 are \$2,734,177 and \$2,526,743, respectively.

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

Fuel Bulk Storage Facility Contract

In June 2012, GPA entered into an agreement for the management and operations of its fuel bulk storage facility. The agreement is for three years ending May 31, 2015 with an option to extend the contract for two additional one-year terms with the mutual consent of both parties. Mandatory management fees are \$675,273 annually with optional additional insurance fees of \$41,750 annually. At September 30, 2013, the minimum future management fees for the years ending September 30, 2014 and 2015 are \$675,273 and \$450,182, respectively.

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(11) Commitments and Contingencies, Continued

Operating Leases

On January 1, 2008, GPA renewed the lease agreement for its office building with a monthly rental of \$45,000, which expired on December 31, 2009 and was renewed for an additional three year term through December 31, 2012. GPA extended the lease agreement from January 1, 2013 to December 31, 2014 at a monthly rental of \$45,110.

GPA entered into a sublease agreement for vehicle, equipment, and material storage and for a power substation beginning November 2002 with annual rental of \$61,261. The sublease has an option to exercise for a period of ten years which GPA exercised in November 2012.

On February 8, 2008, GPA renewed a lease agreement of fuel storage tanks for five year term from March 1, 2008 to February 28, 2013 at \$115,560 per month and month-to-month thereafter until a new contract was entered into effective September 1, 2013. The new contract includes fixed annual fees escalating 4% every year until August 2018.

GPA entered into a commercial space lease beginning July 1, 2010, with monthly rentals of \$4,495 through June 30, 2015. The lease has an option to renew for an additional term of five years.

At September 30, 2013, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 2,074,250
2015	1,711,485
2016	1,594,682
2017	1,656,018
2018	1,576,545
2019 through 2023	<u>250,149</u>
	<u>\$ 8,863,129</u>

Rent expense under the aforementioned agreements totaled \$2,044,798 and \$2,041,916 during the years ended September 30, 2013 and 2012, respectively.

Renewable Energy Contracts

In 2012 and 2013, GPA entered into three renewable energy purchase agreements to purchase 20 Megawatt hour (MWh) solar renewable energy, 5.65 MWh solar renewable energy, and 9.35 MWh wind renewable energy with expected commercial operations to commence in June 2014, March 2015, and August 2014, respectively. The agreements include escalating contract prices per MWh until 2039 with a total minimum renewable energy purchase commitment of 1.7 million MWh.

At September 30, 2013, the minimum future renewable energy purchases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 2,913,270
2015	14,438,490
2016	15,444,504
2017	15,523,617
2018	15,588,509
2019 through 2023	79,110,242
2024 through 2028	81,094,540
2029 through 2033	79,371,102
2034 through 2038	50,016,726
2039	<u>6,860,619</u>
	<u>\$ 360,361,619</u>

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Notes to Financial Statements
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(11) Commitments and contingencies, Continued

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 adds an insurance charge of \$0.00290 per kWh for civilian ratepayers and from \$0.00035 per kWh to \$0.00070 per kWh for the U.S. Navy until a self-insurance fund balance of \$10 million is achieved. In May 2013, PUC approved raising the cap from \$10 million to \$20 million with the insurance surcharge remaining the same for civilian customers and the U.S. Navy. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records a corresponding self-insurance expense of the same amount. Insurance charge proceeds are transferred to the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant which exceed \$50,000 per occurrence. Further, any federal or territorial funds or other recovery against third parties received on account of such losses should be deposited in the self-insurance fund.

The self-insurance fund, included in cash and cash equivalents held by GPA, is \$13,514,022 and \$14,912,430 at September 30, 2013 and 2012, respectively.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2013. 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 accompanying financial statements.

Autonomous Agency Collections Fund

On March 31, 2011, GPA received an invoice from the Government of Guam Department of Administration (GovGuam DOA) of \$12,250,000 representing an annual assessment of \$875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. Further, in September 2013, GPA received another invoice for \$875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned. GPA obtained an approval from the CCU to offer GovGuam DOA a settlement amount of \$2.6 million. However, such settlement offer is conditional on the approval by the PUC of a surcharge to recover the assessment from ratepayers. The PUC has not approved the surcharge as of September 30, 2013 and therefore, no liability or other impact has been recognized in the accompanying financial statements.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991 but was suspended by law for the years 1996, 2002, 2003 and 2004. Between 1991 and 2008, GPA did not calculate or pay any bonuses. In 2010, the Guam Legislature authorized GPA to implement a Pay for Performance program, similar to the GovGuam unified pay systems for certified, technical and professional positions, covering the evaluation period of 2009. As of September 30, 2013, GPA recognized and paid \$55,000 in merit bonus to approximately 27 employees not covered under the new pay system for the period October 2008 through September 2013. The CCU determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the accompanying financial statements.

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; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

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(11) Commitments and Contingencies, Continued

Environmental Protection Agency

On May 24, 1986, the administrator of the U.S. 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.

In February 2011, EPA, under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3&4 and MEC 8&9 slow speed diesel units. Compliance under the diesel MACT was due May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of \$37,000 per unit per day. GPA applied for and received a one year extension for complying with the rules with respect to its small diesel peaking units and a project is ongoing to bring these units into compliance with the rules. GPA believes the installation will be completed in advance of the deadline. As to compliance with the other units subjected to RICE MACT, GPA has engaged the assistance of EPA along with the US Department of Justice (USDOJ) to negotiate a consent decree that will allow sufficient time to implement recommendations in its Integrated Resource Plan. GPA believes ongoing negotiations with USEPA and USDOJ will defer potential fines post RICE MACT deadlines for the slow speed diesel units. No liability that may result from potential noncompliance has been recorded in the accompanying financial statements.

Integrated Resource Plan

In 2012, GPA developed its Integrated Resource Plan (IRP) which was approved by the CCU and the PUC on December 12, 2012 and July 30, 2013, respectively. The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as fuel diversification and the renewable portfolio standards. Specifically, the IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators which can utilize either Liquefied Natural Gas (LNG) or Ultra-Low Sulfur (ULS) diesel fuel oil; adding 40-45 MWh of generation from renewable energy sources; and diversification of its fuel source to LNG and ULS diesel fuel oil.

The replacement of older generation equipment and the additional renewable energy sources are planned to take place as soon as feasible while the plan to develop LNG facilities is expected to take place in 2020 or 2021 with full LNG implementation expected to be completed by 2022.

As of September 30, 2013, GPA has not analyzed the effect implementation of the IRP may have on its utility plant operating units and related inventory. As such, no adjustments have been considered in the accompanying financial statements.

(12) Related Party Transactions and Balances

During the years ended September 30, 2013 and 2012, GPA billed GovGuam agencies \$64,072,281 and \$63,893,223, respectively, for sales of electricity. Receivables (excluding long-term receivables) from GovGuam agencies were \$9,282,086 and \$6,906,764 at September 30, 2013 and 2012, respectively (see note 3).

GPA provides electrical and administrative services to GWA, a component unit of the GovGuam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2013 and 2012 were \$17,508,372 and \$17,008,972, respectively. Outstanding receivables for electricity billings are \$4,016,853 and \$1,527,044 at September 30, 2013 and 2012, respectively, and are included in GovGuam agencies receivable mentioned above.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2013 and 2012

(12) Related Party Transactions and Balances, Continued

On June 23, 2009, GPA and GWA entered into a Memorandum of Understanding (MOU) where each agency agrees to provide administrative, operational, maintenance, repair and other specified services on behalf of the other agency and each will reimburse the other for their actual costs for providing said services. The MOU also covers the repayment period for prior services rendered by GPA. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements were \$291,062 and \$404,554 in 2013 and 2012, respectively. Outstanding receivables for administrative expenses and cost reimbursements totaled \$189,356 and \$197,443 as of September 30, 2013 and 2012, respectively, and are included in other receivables (see note 3).

Beginning in January 2012, GWA billed GPA for water and sewer charges on the facilities transferred by the Navy to GPA under the new CSA (see note 10) totaling \$1,508,942 and \$1,192,900 for the years ended September 30, 2013 and 2012, respectively. The amount due to GWA as of September 30, 2013 and 2012 is \$960,195 and \$753,513, respectively, which is included in accounts payable - operations in the accompanying statements of net position.

In September 2011, GovGuam transferred, in fee simple, a parcel of land for GPA's planned consolidated central office pursuant to Public Law 31-77. Title and ownership of the land must remain with GPA for a period of at least ten years and must not be sold, leased or otherwise encumbered by GPA and shall be transferred back to the Chamorro Land Trust Commission if GPA no longer requires it.

In October 2011, U.S. Federal Emergency Management Agency (FEMA) reimbursed GPA for certain typhoon related costs incurred in 2002 of approximately \$1,800,000. The reimbursement was received by GovGuam DOA which plans to offset such amount against billings to GPA related to the Autonomous Agency Collections Fund (see note 11). Due to uncertainty of receipt, GPA has not recorded the reimbursement in the accompanying financial statements.

(13) Restricted Net Position

At September 30, 2013 and 2012, net position is restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
Debt Service	\$ 18,793,414	\$ 26,767,388
Capital Projects	<u>9,354,184</u>	<u>11,084,100</u>
	<u>\$ 28,147,598</u>	<u>\$ 37,851,488</u>

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2013 and 2012

(14) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2013 and 2012 is as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2012	Transfers and Additions	Transfers and Deletions	Balance September 30, 2013
2013					
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	25 - 50	94,452,024	1,924,053	(491,386)	95,884,691
Other production plant	25	255,703,693	6,090,281	(1,029,797)	260,764,177
Transmission plant	30 - 45	150,714,631	7,306,924	(31,382)	157,990,173
Distribution plant	25 - 45	185,792,862	23,163,905	(10,678,461)	198,278,306
General plant	3 - 60	31,828,287	15,997,499	(6,446,796)	41,378,990
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		894,228,212	54,482,662	(18,677,822)	930,033,052
Accumulated depreciation		(432,120,103)	(31,155,714)	17,577,578	(445,698,239)
		462,108,109	23,326,948	(1,100,244)	484,334,813
<u>Non-depreciable:</u>					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		38,508,601	61,728,014	(58,908,709)	41,327,906
		39,580,837	61,728,014	(58,908,709)	42,400,142
		<u>\$ 501,688,946</u>	<u>\$ 85,054,962</u>	<u>\$ (60,008,953)</u>	<u>\$ 526,734,955</u>

	Estimated Useful Lives in Years	Beginning Balance October 1, 2011	Transfers and Additions	Transfers and Deletions	Balance September 30, 2012
2012					
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	25 - 50	92,377,773	2,744,408	(670,157)	94,452,024
Other production plant	25	254,019,987	3,808,472	(2,124,766)	255,703,693
Transmission plant	30 - 45	145,372,016	5,440,748	(98,133)	150,714,631
Distribution plant	25 - 45	178,882,163	8,214,485	(1,303,786)	185,792,862
General plant	3 - 60	31,690,168	2,176,287	(2,038,168)	31,828,287
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		878,078,822	22,384,400	(6,235,010)	894,228,212
Accumulated depreciation		(408,737,820)	(28,954,754)	5,572,471	(432,120,103)
		469,341,002	(6,570,354)	(662,539)	462,108,109
<u>Nondepreciable:</u>					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		14,070,558	45,367,159	(20,929,116)	38,508,601
		15,142,794	45,367,159	(20,929,116)	39,580,837
		<u>\$ 484,483,796</u>	<u>\$ 38,796,805</u>	<u>\$ (21,591,655)</u>	<u>\$ 501,688,946</u>

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Funding Progress and Actuarial Accrued Liability - Post Employment Benefits Other Than Pension

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for the Guam Power Authority's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
October 1, 2007	\$ -	\$ 38,089,000	\$ 38,089,000	0.0%	\$7,568,918	216.8%
October 1, 2009	\$ -	\$ 51,730,000 *	\$ 51,730,000 *	0.0%	\$8,669,362	277.1%
October 1, 2011	\$ -	\$ 58,314,000	\$ 58,314,000	0.0%	\$0,572,185	283.5%

* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is only for GPA's active employees. It does not include the actuarial accrued liability for GPA's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

Schedule of Sales Electricity Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Commercial	\$ 174,126,172	\$ 165,924,493
Residential	125,931,942	122,261,301
Government of Guam	64,072,281	63,893,223
U.S. Navy	84,898,982	86,032,520
	<u>\$ 449,029,377</u>	<u>\$ 438,111,537</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Administrative and General:		
Salaries and wages:		
Regular pay	\$ 4,633,643	\$ 4,472,860
Overtime	56,615	98,955
Premium pay	4,112	4,142
Benefits	<u>11,117,132</u>	<u>10,380,923</u>
Total salaries and wages	<u>15,811,502</u>	<u>14,956,880</u>
Insurance	6,011,317	5,787,743
Contract	5,125,965	4,971,309
Retiree COLA/supplemental benefits	2,748,420	2,797,254
Utilities	1,520,271	1,751,919
Training	252,879	376,526
Travel	279,149	203,604
Other administrative expenses	84,914	396,027
Operating supplies	162,586	142,823
Trustee fee	62,005	101,963
Overhead allocations	18,609	54,536
Office supplies	79,292	84,929
Completed work orders	(1,052,625)	(919,307)
Miscellaneous	<u>485,193</u>	<u>671,511</u>
Total administrative and general	<u>\$ 31,589,477</u>	<u>\$ 31,377,717</u>
Customer Accounting:		
Salaries and wages:		
Regular pay	\$ 1,578,395	\$ 1,575,369
Overtime	188,624	163,542
Premium pay	4,544	3,346
Benefits	<u>131,972</u>	<u>139,421</u>
Total salaries and wages	<u>1,903,535</u>	<u>1,881,678</u>
Collection fee	1,470,277	1,328,184
Communications	371,284	314,540
Completed work orders	9,393	-
Overhead allocations	54,438	77,414
Office supplies	45,073	49,573
Operating supplies	22,580	20,856
Miscellaneous	<u>1,875</u>	<u>3,650</u>
Total customer accounting	<u>\$ 3,878,455</u>	<u>\$ 3,675,895</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2013 and 2012

Fuel:		
Salaries and wages:		
Regular pay	\$ 86,564	\$ 66,486
Overtime	11,753	5,663
Premium pay	453	796
Total salaries and wages	<u>98,770</u>	<u>72,945</u>
Fuel	293,494,653	301,684,191
Unearned fuel costs	1,879,233	(13,154,880)
Total fuel costs	<u>\$ 295,472,656</u>	<u>\$ 288,602,256</u>
Other Production:		
Salaries and wages:		
Regular pay	\$ 9,267,016	\$ 8,928,730
Overtime	1,218,148	1,492,260
Premium pay	195,460	188,605
Benefits	737,307	745,184
Total salaries and wages	<u>11,417,931</u>	<u>11,354,779</u>
Contract	9,168,604	12,190,332
Completed work orders	655,312	566,114
Operating supplies	501,925	581,664
Overhead allocations	83,511	112,539
Office supplies	14,898	18,148
Miscellaneous	167,107	167,107
Total other production	<u>\$ 22,009,288</u>	<u>\$ 24,990,683</u>
Transmission and Distribution:		
Salaries and wages:		
Regular pay	\$ 6,332,777	\$ 5,528,740
Overtime	831,754	913,993
Premium pay	77,477	71,178
Benefits	345,263	402,316
Total salaries and wages	<u>7,587,271</u>	<u>6,916,227</u>
Overhead allocations	1,988,061	2,125,083
Completed work orders	1,411,004	1,293,365
Contract	1,544,000	1,350,243
Operating supplies	820,293	1,001,410
Office supplies	17,146	30,583
Total transmission and distribution	<u>\$ 13,367,775</u>	<u>\$ 12,716,911</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Salaries and Wages

Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries and wages:		
Regular pay	\$ 21,898,395	\$ 20,572,185
Overtime	2,306,894	2,674,413
Premium pay	282,046	268,067
Benefits	<u>12,331,674</u>	<u>11,667,844</u>
Total salaries and wages	<u>\$ 36,819,009</u>	<u>\$ 35,182,509</u>

See accompanying independent auditors' report.

GUAM POWER AUTHORITY

(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Employees by Department

Years Ended September 30, 2013 and 2012

Department:

Board	2
Executive	13
Administration	33
Finance	23
Planning and Regulatory	7
Property and Facilities	8
Purchasing and Supply Management	17
Customer Service	58
Engineering	36
Generation	173
Strategic Planning and Operation Research and Development	7
Power System Control Center	27
Transportation	13
Transmission and Distribution	107

Total full time employees

Apprentice and summer engineering

2013	
PL 28-150 Section 45b	
Full Time Employees (b)	Category Personnel Services (a)
2	\$ 227,131
13	952,089
33	2,911,500
23	2,105,041
7	615,121
8	486,797
17	713,994
58	2,788,666
36	1,894,038
173	14,039,902
7	625,441
27	2,157,604
13	258,985
107	6,624,707
524	36,401,016
	417,993
	\$ 36,819,009

Department:

Board	2
Executive	18
Administration	24
Finance	25
Planning and Regulatory	7
Property and Facilities	9
Purchasing and Supply Management	20
Customer Service	59
Engineering	36
Generation	183
Strategic Planning and Operation Research and Development	7
Power System Control Center	27
Transportation	14
Transmission and Distribution	112

Total full time employees

Apprentice and summer engineering

2012	
PL 28-150 Section 45b	
Full Time Employees (b)	Category Personnel Services (a)
2	\$ 211,590
18	1,273,557
24	2,419,440
25	1,983,840
7	574,224
9	487,625
20	656,719
59	2,905,313
36	1,481,578
183	14,197,835
7	544,840
27	1,934,775
14	222,384
112	6,219,761
543	35,113,481
	69,028
	\$ 35,182,509

Note:

(a) The amounts consist of total payroll charge to O & M for the year end funded by revenues.

(b) Filled positions at the end of the year, excluding apprentices.

See accompanying independent auditors' report.



Acknowledgements

Honorable Eddie B. Calvo, Governor of Guam
Honorable Ray Tenorio, Lieutenant Governor of Guam

Consolidated Commission on Utilities

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Benigno M. Palomo, Vice-Chairman
Eloy P. Hara, Vice-Chairman
Joseph T. Duenas, Secretary
Pedro S.N. Guerrero, Treasurer

Guam Power Authority Management Team

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Joaquin C. Flores, P.E.	General Manager
Melinda R. Camacho, P.E.	Asst. General Manager of Operations
Randall V. Wiegand, C.P.A.	Chief Financial Officer
D. Graham Botha, Jr.	Staff Attorney
Joven G. Acosta, P.E.	Manager of Engineering
Artemio S. Perez	Communications Manager
John J. Cruz, Jr. P.E.	SPORD Manager
Simon R. Camacho	Manager of Power System Control Center
Salvador E.A. Managa	Manager of Generation
Joseph H. Manibusan	Asst. Manager of Generation
Ronald C. Okada	Manager of Transmission & Distribution
Anselmo M. Manibusan	Asst. Manager of Transmission & Distribution
Sylvia L. Ipanag	Manager of Planning & Regulatory
Jimmy D. Pangelinan	Manager of Transportation Fleet Support Services
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