

OFFICE OF PUBLIC ACCOUNTABILITY  
Doris Flores Brooks, CPA, CGFM  
Public Auditor

32-14-1438  
Office of the Speaker  
Judith T. Won Pat, Ed. D.  
Date 3.24.14  
Time 8:20am  
Received by [Signature]

March 21, 2014

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
I Mina Trentai Dos Na Liheslaturan Guahan  
155 Hesler Place  
Hagatna, Guam 96910

Dear Speaker Won Pat:

Hafa A dai! Transmitted herewith is the Guam Power Authority (GPA) Fiscal Year (FY) 2013 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit reports.

For your convenience, you may also view and download the reports in their entirety at [www.guamopa.org](http://www.guamopa.org).

*Senseramente,*

Doris Flores Brooks, CPA, CGFM  
Public Auditor

GUAM LEGISLATURE  
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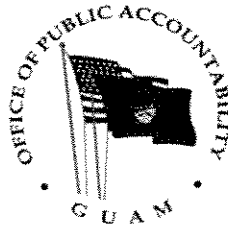
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## Guam Power Authority FY 2013 Financial Highlights

March 18, 2014

The Guam Power Authority (GPA) closed fiscal year (FY) 2013 with a significant increase in net position (net income) of \$4.9 million (M) compared to a decrease of \$2.4M in FY 2012. Despite pressures from high fuel costs, GPA maintained their sales of electricity which increased by 2% from the prior year through the Levelized Energy Adjustment Clause (LEAC), which passes high fuel prices to GPA's customers. The increase in electricity sales is primarily due to the rising cost of fuel as electricity consumption decreased modestly by less than 1%. Rising fuel costs continues to be the authority's biggest challenge as the cost of fuel increased by \$6.9M during the year.

Deloitte and Touche, LLP, rendered unmodified or "clean" opinions on the financial statements, and report on compliance for major federal programs. In October 2013, U.S. Department of Energy removed GPA's high-risk status. For the report on internal control, the auditors identified one recurring deficiency pertaining to weaknesses in computer controls and access to GPA's Utiligy system. The auditors also issued a management letter that identified 11 findings, of which seven are repeat findings.

During FY 2013, GPA implemented two Governmental Accounting Standards Board (GASB) pronouncements, resulting in a restatement in their net position from (\$2.3M) to (\$2.4M) in FY 2012. Certain reclassifications have been made to the FY 2012 financial statements to correspond to the FY 2013 presentation.

### **Increase of Base Rates and Consumer Growth**

For FY 2013, nearly all categories of GPA's consumer base experienced a nominal increase in electric sales by 2% or \$10.9M in FY 2013 compared to 12% or \$46.2M in FY 2012. This can be attributed to the growth in GPA's base rates and consumer base and not the increase in kilowatt consumption. Sales to the U.S. Navy saw a decrease of 1% or \$1.1M. Commercial sales increased by 5% or \$8.2M. GPA's residential customers and the Government of Guam increased by 3%, or \$3.7M and \$179 thousand (K), respectively. In addition to the increase of electricity sales, there has been a growth in GPA's customer base by 77 customers, going from 48.5K in FY 2012 to 48.6K in FY 2013. Although there is a slight increase in GPA's consumer base, the high fuel cost has forced GPA's customers to take aggressive measures to reduce power usage through energy-efficient equipment purchases and seek energy alternatives such as solar energy. GPA's consumption by kilowatt hours (KWH) showed a downward trend over the last five years with an average decline of 17.2M KWH per fiscal year. For the current year, KWH consumption declined by 7.9M, going from 1.563 billion (B) to 1.556B in FY 2013.

### **Increased Production Fuel Cost**

Over the last five years, GPA's production fuel cost has increased by an average of \$10.3M per fiscal year. Cost of fuel increased by \$6.9M or 2% from the prior year, going from \$288.6M in FY 2012 to \$295.5M in FY 2013. Cost of fuel average 66% of total expenditures. Other production decreased by \$3M, going from \$25M in FY 2012 to \$22M in FY 2013. Total combined fuel and production cost represent 70% or \$317.5M of operating expenditures.

### **Rate Activity**

In September 2013, the Public Utilities Commission (PUC) approved a 1.9% power base rate hike to allow GPA to finance certain large capital projects with a commercial paper issuance. The full impact of this base rate increase, which is separate from the LEAC increases, will provide additional funds to GPA in FY 2014.

**Increased Salaries and Benefits:**

For the past five fiscal years, GPA's salaries and benefits have grown in excess of \$1M annually or an average of \$1.7M. In FY 2009, total salaries and benefits were \$30.1M. Salaries and benefits have grown from \$35.2M in FY 2012 to \$36.8M in FY 2013 and represents 9% of GPA's operating expenses. Aside from regular pay and benefits, GPA's annual overtime cost has gradually increased by an average of \$19.5K between FY 2009 to FY 2013. GPA management decided to follow the Judiciary's lead by paying out the Merit Bonuses for the last four fiscal years. In September 2013, GPA recognized and paid \$55K in Merit Bonuses to approximately 27 employees.

**Borrowing Activities**

In October 2012, GPA issued 2012 Series A revenue bonds for \$340.6M. These bonds were to restructure and flatten out GPA's debt service by reducing principal payments from 2012 to 2018 and increase the amount of debt service payment required from 2019 to 2031. Approximately \$60M of the bonds was used to restructure GPA's existing bond debt. This borrowing did not result in additional capital improvement project funding.

**Future Capital Improvement Projects**

GPA is currently exploring the number of new Liquefied Natural Gas (LNG) plants to install. The range of costs for the generation facilities and the LNG regasification plant are estimated to be between \$500M to \$800M, depending on the number of generators to be installed. These capital improvements will result in additional future bond borrowings. New combine cycle facilities are to be constructed as soon as it is feasible to achieve fuel savings and improve system reliability. As GPA develops LNG facilities over the next seven to eight years, the combined cycle combustion turbines will utilize Ultra-Low Sulfur diesel fuel oil as an interim alternative fuel source.

**Reports on Compliance and on Internal Controls and Major Federal Programs**

Auditors rendered an unmodified or "clean" opinion on the report on compliance for major federal programs. For the report on internal controls, GPA had one significant deficiency pertaining to weaknesses in computer controls and access in the Utiligy system. This is a recurring audit finding for GPA's general computer control systems, which allow users to "delete and/or update" meter readings and billing information. To address this finding and remedy the lack of system audit trails, GPA has purchased new software and is planning to go-live in 2014 and 2015.

**Management Letter Comments**

A management letter reported 11 findings, of which seven were identified in the prior year. The four new findings include: electricity sales related to streamlining errors; erroneous payroll payments; expenses for change order approvals and expense classifications; and accounts payable for long outstanding accounts and an unreconciled balance. The seven repeat findings were: excessive cancellations and rebills; allowance for doubtful accounts understated by \$316K; verification and recording of obsolete or retired utility plant inventory; reconciliation of accounts with Guam Waterworks Authority; accounting for bid deposits; customer deposits containing improper refunds, system problems, negative balances, and inactive accounts; and annual leave reconciliation.

A separate section in the management letter concerning three other matters involved GPA's lack of analysis performed on their Integrated Resources Plan implementation, lack of established caps on budgetary transfers, and minutes of Consolidated Commission on Utilities meetings that have not been transcribed.

For more details, refer to the Management Discussion and Analysis in the audit report at [www.guamopa.org](http://www.guamopa.org) and at [www.guampowerauthority.com](http://www.guampowerauthority.com).



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March 11, 2014

Mr. Joaquin C. Flores  
General Manager  
Guam Power Authority  
1911 Route 16  
Harmon, Guam 96913

Dear Mr. Flores:

In planning and performing our audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2013 (on which we have issued our report dated March 11, 2014), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered GPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GPA's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention. We have also separately reported in a letter dated March 11, 2014 addressed to GPA's management, certain deficiencies involving GPA's information technology environment.

We have also issued a separate report to the Consolidated Commission on Utilities, also dated March 11, 2014, on our consideration of GPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of GPA for their cooperation and assistance during the course of this engagement.

Very truly yours,

*Deloitte + Touche LLP*

**SECTION I –DEFICIENCIES**

We identified the following deficiencies involving GPA's internal control over financial reporting for the year ended September 30, 2013 that we wish to bring to your attention at this time:

**1. Electricity Sales**

Comment: Of seventy-five electricity sales tested, we noted the following:

- a. Four accounts (account nos. D100288391, D100285930, D100289525, and D100241761) were not properly assessed with late fees. We were informed that the Utiligy billing software excludes balances transferred from other accounts from the late fee calculation, resulting in under charges in late fees for accounts with unpaid transferred balances.
- b. One account (account no. D100285724) was overcharged because the estimate usage generated in Utiligy is not based on the previous 3-month consumption. We were informed that Utiligy is experiencing issues with the base load calculation which affects the estimates generated.
- c. Two accounts (account nos. D100285097 and D100285724) were subjected to estimated readings for more than three months. Excessive estimated readings can lead to loss in revenue as the actual consumption by the customer cannot be determined.

Our tests of electricity sales also noted the following matters:

- a. Two demand accounts (account nos. 224807 and 124278) were discovered to have meter issues that resulted in significant back billings in FY2013. This was due to improper calibration of the demand meter during installation or a faulty fuse. As GPA is only able to back bill four months of charges, the revenue loss as a result of these matters could not be determined.
- b. Smart meter readings captured by the command center application are manually transferred into Utiligy for billing calculation and processing. The process involved tedious procedures of check and balance using various applications such as Excel and host.txt file. While tests of completeness of meter read upload in Utiligy is performed, the accuracy of the information uploaded is not checked. In particular, meter reads for two accounts (meter nos. 2338885 and 2331020) were missing. Reads for the missing accounts were uploaded in the previous month, the accounts were not disconnected or inactivated and they were properly working in the command center application. The reason for the missing read information is not known.

Recommendation: GPA should:

- a. Devise a method to allow for accurate calculation of late fees considering Utiligy's limitations.
- b. Monitor accounts that are subject to excessive estimated billing and place greater efforts in obtaining the actual consumption read for meters with skip codes.

## SECTION I –DEFICIENCIES, CONTINUED

1. Electricity Sales, Continued

- c. Perform verification procedures for demand meters to capture accounts with consumptions significantly different from the expected consumption at initial installation and/or compare consumptions of new installations to other customers with the same size and/or business. The installation and calibration process of new demand meters should be reviewed and verified.
- d. Incorporate tests of meter read uploads in Utiligy before the new billing system is implemented to detect missing data.

2. Cancellations and Rebills

Comment: Of four accounts tested, four accounts had more than five cancellations and rebills during FY2013 (service agreement nos. 109001, 124381, 202333, and 287274). The following were noted as causes for the cancellations and rebills:

- a. An inactive account was charged based on estimates due to delay in work order clearance that has been outstanding for more than six months. Termination or hold on the account to stop estimated billings was not possible due to the open work clearance.
- b. An active account was billed based on estimates for several months due to a Change-Out work order that was not completed on time. The legacy meter was changed out with a smart meter; however, the meter was not activated in Utiligy. The reads accumulated in the command center.
- c. An active account was subject to multiple cancellations and rebills due to a meter mix-up. Meters were improperly installed for neighboring customers.

Prior Year Status: Excessive cancellations and rebills is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: GPA should perform timely termination of meters and cross review of termination requests. Further, review and monitoring of outstanding change-out work orders should occur.

3. Payroll

Comment: One of fifteen employees tested (employee no. 4998656) was not paid for night differential for hours worked between 6:00 p.m. and 6:00 a.m. in accordance with Guam Public Law 30-105. Further, another employee tested (employee no. 23051) was paid \$5,062 in June 2013 for compensatory time payout for April and May 2012. Per GPA policy, compensatory time-off shall be granted within 30 days following the date the overtime is earned and any compensatory time not used within the 30-day interval shall be converted to overtime pay the following payperiod. Had compensatory time been paid within a month of its incurrence, the payable to the employee would have only been \$4,865.

Recommendation: GPA should review of all time charges to prevent under and over payment for hours worked. Further, GPA should comply with its compensation time policy.

**SECTION I –DEFICIENCIES, CONTINUED**

4. Expenses

Comment: Our examination of expenses noted the following:

- a. GPA Resolution No. 2012-54 (the Resolution) authorized the General Manager to approve change orders which shall not exceed the lesser of 20% of the originally approved amount or \$250,000, without further CCU approval. For three operating expenses tested, change orders appear to have been entered into that appear to exceed limitations imposed by the Resolution as follows:

<u>GL Date</u>	<u>PO No.</u>	<u>PO Date</u>	<u>Original PO Amount</u>	<u>PO Amount after Change Orders</u>	<u>Increase in Amount</u>	<u>Percentage Increase</u>
7/31/2013	19257	04/03/2013	\$ 105,363	\$ 431,185	\$ 325,822	309%
7/31/2013	19042	01/30/2013	471,409	996,992	525,583	111%

- b. PMC contract costs of \$188,740 (Invoice no. 035), representing “true-up” expenses, were charged to a performance management contract (PMC) for costs that do not appear to be PMC related.
- c. A vendor’s certificate of completion dated October 8, 2012 for services rendered on October 1 to 5, 2012 for a \$16,800 item under PO no. 18695 noted that a GPA representative certified the services performed on October 10, 2012. However, we noted no evidence of GPA inspection or vendor acknowledgement on the “Work Approval Form” that an inspection of the work performed was done.

Recommendation: GPA should comply with Resolution No. 2012-54 and should verify that PMC costs appropriately relate to designated PMC services. Further, physical inspection of work completed as required by contract terms with vendors should be performed and documented.

5. Allowance for Doubtful Accounts

Comment: Our analysis of the allowance for doubtful accounts for other receivables indicated that the provision may be understated by \$315,000 representing accounts that are dated 2011 and prior.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: We recommend that all long outstanding receivables be considered in the analysis of the provision for doubtful accounts or be reviewed for write off.



## SECTION I –DEFICIENCIES, CONTINUED

6. Utility Plant

Comment: The following items were noted during our testing of utility plant:

- a. One item under the general plant account (Code # 2722584, Diesel generator) could not be located.
- b. The following items have either been replaced or salvaged but have not been adjusted in the general plant assets ledger:

<u>Item Code</u>	<u>Description</u>	<u>Cost</u>
2693429	Communication Equipment (PSCC)	\$ 732,377
131262	1470 20 TON LINK BELT CRANE (Transportation)	232,764
2858529	Supply Master Station System (Main Office)	305,495

All items were fully depreciated.

- c. General Plant asset items totaling \$805,371 were not timely recorded in the subsidiary ledger.

Prior Year Status: Physical asset items that could not be verified through physical existence are reiterative of conditions identified in our prior year audit of GPA.

Recommendation: Obsolete or retired assets should be adjusted from the utility plant register. Further, subsidiary ledgers should be timely updated.

7. Accounts with Guam Waterworks Authority (GWA)

Comment: Beginning January 2012, GWA billed GPA for water and sewer charges previously billed by the Navy. In the absence of an agreement or a contract, GPA remitted payments to GWA based on the Navy rates which were lower than those billed by GWA and recorded a payable to GWA for the difference. At September 30, 2013, the payable to GWA was \$960,195. GWA offset the \$960,195 against its electric bills. Due to the difference in the manner of billing and payment application and also due to lack of reconciliation, an unreconciled difference of \$298,064 between GPA and GWA records remained at September 30, 2013.

Prior Year Status: The lack of a contract or agreement with GWA is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: We recommended that GPA clarify billing rates with GWA and enter into a service agreement to minimize the potential for disputes. Further, we recommend that a monthly reconciliation be performed.

## SECTION I – DEFICIENCIES, CONTINUED

8. Accounts Payable

Comment: Our tests of accounts payable disclosed the following:

- a. The unvouchered payable account includes \$45,373 due to the Department of Administration (DOA) for various items incurred in FY2001 and prior.
- b. A debit balance of \$83,880 described as “payroll overpayment” pertains to the government and employee share of retirement and medical, dental, and life insurance premiums of employees who are on Military Leave Without Pay. We were informed that due to the system setup, charges to benefits expenses are not being recorded, but rather a debit to the payables account, resulting in what appears to be an overpayment.

Recommendation: We recommend that GPA investigate the aforementioned items and make adjustments, where necessary.

9. Bid Deposits

Comment: Bid deposits totaling \$212,787 remain outstanding from periods prior to FY2012. We were informed that outstanding bid deposits from prior years may be due to unclaimed bid deposits or improper posting of salvage bids. Currently, GPA does not have a policy for recognizing unclaimed bid deposits as revenue; therefore the deposits remain as a liability.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: A policy for recognizing unclaimed bid deposits should be established. Salvage bids should be recognized as revenue immediately upon collection.

10. Customer Deposits

Comment: Our tests of customer deposits disclosed the following:

- a. Deposit applications or refunds were improperly applied by Utiligy in the guarantee deposit schedule resulting in an overpayment of refunds claimed. For one account (account#166890), the customer made a guarantee deposit of \$300; however, a \$335.75 refund was applied to the customer's last bill.
- b. Erroneous entries were posted for customer deposits due to system problems. Account number 117038 was overstated at year-end by \$25,000 due to an automatic entry made by Utiligy that was not discovered and reversed until after year-end.
- c. At September 30, 2013, customer deposit subsidiary details contained negative balances totaling \$125,360. No regular review of related accrued interest occurs.
- d. An outstanding guarantee deposit balance of \$293,370 pertains to inactive accounts from FY2012 and prior years. GPA currently does not have a policy for recognizing long outstanding guarantee deposits from inactive accounts.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

## SECTION I – DEFICIENCIES, CONTINUED

10. Customer Deposits, Continued

Recommendation: Utiligy calculations should be checked and negative balances in customer deposits should be investigated. Further, GPA should consider setting up a policy for accounting for inactive outstanding guarantee deposits.

11. Annual Leave

Comment: The JD Edwards system includes a module for monitoring annual leave. However, monitoring is still being performed through the use of manual records and excel spreadsheets. Further, reconciliation of annual leave schedules to the general ledger is only performed at year-end. As of September 30, 2013, annual leave accrual has the following balances:

General ledger balance	\$3,056,790
Subsidiary ledger – JD Edwards module	\$3,056,790
Subsidiary ledger – Manual monitoring	\$3,190,970

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: We recommend that the leave monitoring module in the JD Edwards system be utilized in order to minimize the time spent by the Payroll Department in manually tracking leave credits. Further, we recommend that reconciliations of annual leave accruals be performed at least quarterly.

## SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Integrated Resource Plan

Comment: 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. The IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators adding 40-45 MWh of renewable energy sources; and diversification of its fuel source to Liquefied Natural Gas (LNG) and Ultra-low sulfur diesel fuel oil. The replacement of older generation equipment and the addition of 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 by 2022.

As of September 30, 2013, GPA has not performed an analysis of the effect implementation of the IRP may have on its utility plant operating units and related inventory.

Recommendation: GPA should analyze the financial impact the IRP may have on its existing utility plant and inventory.

## SECTION II – OTHER MATTERS, CONTINUED

### 2. Budget

Comment: “True-up” costs are often funded through transfers from unexpended budget funds of other projects. As there appears to be a lack of established caps on budgetary transfers to and from budget categories, the entire budget is skewed for these unforeseen expenditures.

Recommendation: GPA should consider adopting a stricter budgetary process where transfers between budget categories are subject to certain caps over which prior approval by the General Manager or the CCU is required.

### 3. Minutes of CCU Meetings

Comment: The minutes of CCU meetings in February 2013 and November 2013 have not been transcribed as of our report date.

Recommendation: We recommend that minutes of CCU meetings be transcribed timely.

## SECTION III – DEFINITIONS

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

**Management's Responsibility**

GPA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

**Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

**Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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March 11, 2014

Commissioners  
Consolidated Commission on Utilities

Dear Commissioners:

We have performed an audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated March 11, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of GPA is responsible.

#### **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 20, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of GPA’s basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, for the year ended September 30, 2013 (the “financial statements”), in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2013;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements, including the schedule of expenditures of federal awards, is fairly stated, in all material respects, in relation to the financial statements taken as a whole;
- To report on GPA’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013, based on an audit of financial statements performed in accordance with standards applicable to financial audits contained in generally accepted government auditing standards; and
- To report on GPA’s compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (“OMB Circular A-133”).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Consolidated Commission on Utilities (CCU) are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the CCU of their responsibilities.

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, CONTINUED**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to GPA's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered GPA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of GPA's compliance with those requirements.

### **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GPA's 2013 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of accrued revenues, which is based on the most recent billing; management's estimate of inventory obsolescence, which is based on management's evaluation of the inventory's realizable value; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

### **AUDIT ADJUSTMENTS, RECLASSIFICATIONS AND UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GPA's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2013 financial statements.

In addition, listed in Appendix B to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## SIGNIFICANT ACCOUNTING POLICIES

GPA's significant accounting policies are set forth in Note 1 to GPA's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GPA:

- 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 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 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 financial statements.
- 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 financial statements for September 30, 2013 and 2012 were amended to conform with the requirements of GASB Statement No. 63 and Statement No. 65.



## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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 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.

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.

## **OTHER INFORMATION IN THE ANNUAL REPORTS OF GPA**

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that GPA issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in GPA's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the CCU.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GPA's 2013 financial statements.

**OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

**SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

**OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the CCU.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of GPA's management and staff and had unrestricted access to GPA's senior management in the performance of our audit.

**MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of GPA's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations GPA is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

**CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated March 11, 2014, on GPA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated March 11, 2014, involving GPA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within those reports, we noted a certain matter that was considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have communicated to management, in separate letters also dated March 11, 2014, certain deficiencies and other matters related to GPA's internal control over financial reporting and to GPA's internal control over its information technology environment that we identified during our audit.

Although we have included management's written responses to our comments contained in the reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

Commissioners  
Consolidated Commission on Utilities  
March 11, 2014  
Page 6

This report is intended solely for the information and use of the Consolidated Commission on Utilities, the management of Guam Power Authority and the Office of Public Accountability - Guam and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

*Deloitte + Touche LLP*



# GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN  
P.O. BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

March 11, 2014

Deloitte & Touche LLP  
361 South Marine Drive  
Tamuning, Guam 96913

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the Guam Power Authority (GPA), a component unit of the Government of Guam, 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, which collectively comprise GPA's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations or change in net position, and cash flows of GPA in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows, in conformity with accounting principles generally accepted in the United States of America (GAAP).
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements, accompanying schedules and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the stand-alone business-type activities checklist by the Government Finance Officers Association. Additionally, we agreed with the adjusting journal entries reclassification entries included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

- a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - b. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - d. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.
  - e. Federal award expenditures have been charged in accordance with applicable cost principles.
2. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information
  - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, Comprehensive Annual Financial Report
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period
3. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
4. We have provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
5. GPA has provided you all:
- a. Financial records and related data
  - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
  - c. All Public Utilities Commission (PUC) Orders impacting GPA during the year and up to the report date.

- d. Summaries of actions of the Consolidated Commission on Utilities which are dated as follows:

<u>Name</u>	<u>Date</u>	<u>Name</u>	<u>Date</u>
Regular Meeting	October 9, 2012	Regular Meeting	May 15, 2013
Regular Meeting	October 17, 2012	Regular Meeting	June 4, 2013
Regular Meeting	November 13, 2012	Regular Meeting	July 9, 2013
Special Meeting	December 12, 2012	Regular Meeting	August 13, 2013
Regular Meeting	January 8, 2013	Regular Meeting	September 17, 2013
Regular Meeting	February 12, 2013	Regular Meeting	October 8, 2013
Regular Meeting	March 12, 2013	Regular Meeting	December 11, 2013
Regular Meeting	April 9, 2013	Regular Meeting	January 14, 2014

Minutes of meetings for November 12, 2013 and February 11, 2014 have not been transcribed. We represent that there were no significant matters discussed during those meetings that would affect the September 30, 2013 financial statements.

6. There have been no:
- Actions taken by GPA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GPA.
  - Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements except that 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 financial statements.
7. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
8. GPA has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in GPA and does not believe that the financial statements are materially misstated as a result of fraud.

9. We have no knowledge of any fraud or suspected fraud affecting GPA involving:
  - a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others if the fraud could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud that would materially affect the financial statements received in communications from employees, former employees, analysts, regulators, or others.
11. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, Claims and Judgments.
12. Significant assumptions used by us in making accounting estimates are reasonable.
13. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. There were no sub-recipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
14. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to GPA's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. GPA is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
15. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
16. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
17. We have:
  - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplements related to the period under audit.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.



- c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
  - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
  - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
  - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
18. We are responsible for follow-up on the prior-year findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
19. We have included in the corrective action plan for current-year findings; the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
20. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
- Except where otherwise stated below, matters less than \$860,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.
21. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
22. GPA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
23. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
- a. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).



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 from GovGuam agencies for sales of electricity were \$9,282,086 and \$6,906,764 at September 30, 2013 and 2012, respectively.

GPA provides electrical and administrative services to Guam Waterworks Authority (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.

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.

Beginning in January 2012, GWA billed GPA for water and sewer charges on the facilities transferred by the Navy to GPA under the new Customer Service Agreement 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.

As of September 30, 2013, long-term receivables include an uncollateralized note receivable from the GovGuam Department of Public Works of \$390,377, 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 GWA of \$216,993 under a memorandum of understanding, with monthly installments of \$25,688 starting October 2009. The long-term receivable from GWA was fully provided for with allowance as of September 30, 2013.

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 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. Due to uncertainty of receipt, GPA has not recorded the reimbursement in the financial statements.

- b. Guarantees, whether written or oral, under which GPA is contingently liable.
24. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
- b. The effect of the change would be material to the financial statements.

25. There are no:

- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to the auditor.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, Claims and Judgments.

26. During fiscal year 2013, GPA implemented the following pronouncements:

- 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 financial statements.
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- 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 financial statements for September 30, 2013 and 2012 were amended to conform with the requirements of GASB Statement No. 63 and Statement No. 65.

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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.

In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees, which requires a state or local government guarantor that offers a non-exchange 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.

27. GPA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.
28. GPA has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance, including all requirements associated with the 1993, 1999, 2010, and 2012 Series bonds.

Further, GPA considered the refunding of its 1993 and 1999 bonds as an advance refunding meeting the requirements of an in-substance defeasance and as such, the 1993 and 1999 bonds were removed from the financial statements.

29. No department or agency of the Federal Government or the Government of Guam has reported a material instance of noncompliance to us.

30. GPA has identified all derivative instruments as defined by GASB Codification Section D40, Derivative Instruments, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
31. We have identified significant assumptions outlined in GPA's Fuel Hedging Program affecting derivatives. The assumptions are reflective of management's intent and ability to carry out specific courses of action and the significant assumptions used are consistent with GPA's plans and past experience.
32. GPA has properly identified all derivative instruments and any financial instruments that contain embedded derivatives. GPA's hedging activities are in accordance with its documented and approved hedging and risk management policies, and all appropriate hedge documentation was in place at the inception of the hedge in accordance with GASB Codification Section D40, Derivatives Instruments. Specifically, we have appropriately designated all hedging instruments as either fair value or cash flow hedges. The timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives for which GPA has elected to measure the financial instruments at fair value in their entirety (pursuant to the provisions of GASB Codification Section D40); and hedged items have been determined based on GAAP using prevailing market prices or by using financial models that are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at September 30, 2013.  
  
At September 30, 2012, GPA's commodity swaps had a net positive fair value of approximately \$1,112,000. GPA did not have outstanding commodity swap agreements at September 30, 2013 when the last agreement dated August 2013 was consummated.
33. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
34. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
35. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
36. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of GPA and do not include any items consigned to it.
37. All additions to GPA's property accounts consist of replacements or additions that are properly capitalizable.
38. There were no items of physical property contained in the property accounts of GPA that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.



39. GPA's provisions for depreciation and decommissioning have been determined in accordance with the orders of and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and the Public Utilities Commission. Based on the present operating conditions and probable useful lives of the properties, we believe that the provisions being made using the depreciation and decommissioning rates in effect will be adequate to depreciate and decommission the properties over their respective useful lives.
40. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of GPA's regulatory commission and in accordance with the provisions of FASB ASC 980, Regulated Operations. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of GPA's regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which GPA remains accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods. All expenditures that have been deferred to future periods are recoverable.
41. We have no intention of terminating our participation in the Government of Guam Retirement plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
42. We agree with the findings of management's expert in gauging and sampling various GPA storage tanks containing fuel oil for purposes of fiscal year-end stock inventory ascertainment and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We further agree with the findings of the expert contracted by the GovGuam Retirement Fund for the actuarial evaluation of the Government of Guam's retirement plan. We did not give any instructions, nor cause any instructions to be given, to management's expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's expert.
43. No evidence of fraud or dishonesty in fiscal operations of programs administered by GPA has been discovered other than what has been discussed to you.
44. On March 31, 2011, GPA received an invoice from the GovGuam Department of Administration (GovGuam DOA) amounting to \$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 financial statements.
45. 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 system 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 Consolidated Commission on Utilities determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the financial statements.

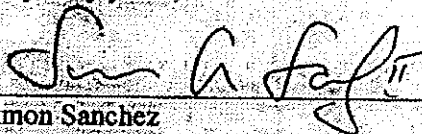
46. In 2012, GPA developed its Integrated Resource Plan (IRP) which was approved by the CCU and the PUC on December 12, 2012 and July 30, 2013, respectively. The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as 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 financial statements.

47. No events have occurred after September 30, 2013, but before March 11, 2014, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements.

Very truly yours,



Simon Sanchez  
 Chairman, Consolidated Commission on Utilities



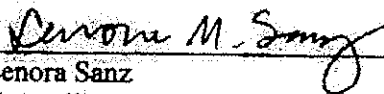
Joaquín Flores  
 General Manager



Randall Wiegand  
 Chief Financial Officer



Cora Montellano  
 Asst. Chief Financial Officer



Lenora Sanz  
 Controller

**Appendix A**  
**Adjusting Journal Entries and Reclassifying Journal Entries**

**Adjusting Journal Entries**

	#	Name	Debit	Credit
<1>	904000	Provision for Bad Debts	216,993	
	DT1440000	Allowance for doubtful accounts - notes receivable To provide allowance for long term notes receivables - GWA		216,993
<2>	216000	Retained Earnings	1,773,357	
	990428	Amortization of Debt Expense To adjust write off of debt issuance costs included in interest expense to beginning net position		1,773,357
<3>	228000.11	Accum prov for self insuranc	4,627,591	
	143000.20	A/R-Insured claims To adjust AR insurance claim to be charged under the self-insurance fund		4,627,591
<4>	226000.33	2012 Bonds-Underwriter di	694,183	
	226000.34	2012 Bonds-insurance prem	807,208	
	226000.35	Loss on defeasance-2012 B	280,162	
	225000	Unamortized premium on bond	690,150	
	990428	Amortization of Debt Expense To adjust amortization of debt expenses, bond premium and loss on defeasance.		2,471,703

**Reclassifying Journal Entries**

	#	Name	Debit	Credit
<1>	227000	Obligation under capital lease	13,064,559	
	227000.01	Obligation under Capital lease, current To reclass current portion of obligation under capital lease		13,064,559
<2>	232000.20	Operation	1,513,312	
	232000.10	Oil To reclass fuel oil for FS presentation purposes		1,513,312
<3>	DT13200.42	Investments - bond funds held by trustee	4,845,762	
	111000.50	BOG- Working Capital Fund To reclass a portion of BOG working capital fund held by trustee to investments (maturity over 90 days).		4,845,762
<4>	233020	Accrued Annual Leave & Hol.	493,460	
	228000.10	Accum Prov for Pension/Ben to reclass current portion of annual leave		493,460
<5>	109364	Poles Towers & Fixtures	41,761	
	109365	Overhead Cond. & Device	7,451	
	252364	Cust adv-poles,towers &fixtu		41,761
	252365	Cust adv-Overhead con & devi To reclass customer deposits for construction during the year		7,451
<6>	111000.55	BOG-2010 Surplus Fund-WCFDS	4,179,111	
	111000.89	Cathay Bank To reclass self insurance fund used for Cabras 3 claim paid for by operations		4,179,111

**Appendix B**  
**Uncorrected Misstatements**

Entry Description	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position
	Assets	Liabilities	Net Position Beg of Year	
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<1> To adjust credit balances in AR				
Accounts receivable	304,420			
Customer deposit/advances		(304,420)		
<2> To adjust unrecorded receivables				
AR Others	36,962			
Other Revenues				(36,962)
AR Others	216,054			
Other Revenues				(216,054)
<3> To adjust accrued revenues unbilled.				
Revenues				343,230
Unbilled revenues	(343,230)			
<4> To adjust provision for doubtful accounts.				
Provision for doubtful accts				316,000
Allowance for doubtful accts	(316,000)			
<5> To adjust unreleased checks				
Cash	956,034			
Accounts Payable		(956,034)		
<6> To adjust credit balances in AR inactive balances				
Accounts receivable	221,379			
Customer deposit/advances		(221,379)		
<7> To adjust depreciation on Dededo CT units				
Depreciation				260,377
Accumulated depreciation	(260,377)			
<8> To retire system software/hardware related to the prepaid				
Accum depreciation	1,270,636			
Utility plant	(1,270,636)			
<9> To adjust depreciation expense re: Legacy meters				
Accum depreciation	351,027			
Depreciation expense				(351,027)
	1,166,269	(1,481,833)	0	315,564



**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE  
GOVERNMENT OF GUAM)**

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**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2013**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Commissioners  
Consolidated Commission on Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Guam Power Authority (GPA), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered GPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **GPA's Response to Finding**

GPA's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. GPA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLP*

March 11, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Commissioners  
Consolidated Commission on Utilities:

### **Report on Compliance for Each Major Federal Program**

We have audited Guam Power Authority's (GPA's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GPA's major federal programs for the year ended September 30, 2013. GPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of GPA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GPA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of GPA's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, GPA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

## Report on Internal Control Over Compliance

Management of GPA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered GPA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Guam Power Authority as of and for the year ended September 30, 2013, and have issued our report thereon dated March 11, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

March 11, 2014

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
	<u>U.S. Department of Energy</u>	
	Direct Program:	
81.122	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis - Guam Power Authority Connected Grid - An Integrated and Crosscutting System	\$ <u>8,132,519</u> *
	Pass Through Government of Guam - Guam Energy Office:	
81.041	ARRA - State Energy Program - Government of Guam Buildings Retrofit Project	121,490
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) - Government of Guam Buildings Retrofit Project and Solar Water Heating Rebate Program	3,041,372 *
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) - Retrofit of Government-Owned Street Lights	<u>55,598</u> *
	Subtotal Pass Through Government of Guam - Guam Energy Office	<u>3,218,460</u>
	Total U.S. Department of Energy	<u>11,350,979</u>
	Total Federal Assistance Expended	<u>\$ 11,350,979</u>
	Reconciliation to the financial statements:	
	Capital contributions	\$ 8,132,519
	Transfers to Government of Guam -	
	Department of Public Works for Street Lights Retrofit Project	55,598
	GovGuam Guam Energy Office Rebate Program	253,917
	Government of Guam for Building Retrofit Project	<u>2,908,945</u>
		<u>3,218,460</u>
		<u>\$ 11,350,979</u>

\* Denotes a major program.

See accompanying notes to schedule of expenditures of federal awards.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

(1) Scope of Audit

Guam Power Authority (GPA) is a component unit of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the transactions of GPA are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as GPA's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Energy.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of GPA and is presented on the accrual basis of accounting, consistent with the manner in which GPA maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

GPA recognizes contributions from the federal government when qualifying expenditures are incurred, and expenditures are recognized on the accrual basis of accounting.

b. Matching Costs

The nonfederal share of certain programs is not included in the accompanying Schedule of Expenditures of Federal Awards.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). GPA's grant award notification and expenditures for the year ended September 30, 2013, are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>Fiscal Year 2013 Expenditures</u>
81.041 ARRA-State Energy Program - Government of Guam		
Buildings Retrofit Project	\$ 8,100,00	\$ 121,490
81.122 ARRA-Guam Power Authority Connected Grid Project --		
An Integrated and Crosscutting System	16,603,507	8,132,519
81.128 ARRA-Energy Efficiency and Conservation		
Block Grant Government of Guam Buildings Retrofit		
Project and Solar Water Heating Rebate Program	3,406,399	3,041,372
81.128 ARRA-Energy Efficiency and Conservation Block Grant		
Retrofit of Government-Owned Street Lights	2,500,000	55,598

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

**(4) High-Risk Grantee Status**

On October 25, 2012, the U.S. Department of Energy (DOE) designated GPA as a high-risk recipient in relation to CFDA 81.122 Electricity Delivery and Energy Reliability, Research, Development and Analysis - Guam Power Authority Connected Grid Project – An Integrated and Crosscutting System.

On October 29, 2013, DOE removed GPA's high-risk status.



**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2013

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |  |            |
|--|------------|
| 1. Type of auditors' report issued:                          | Unmodified |
| Internal control over financial reporting:                   |            |
| 2. Material weakness(es) identified?                         | No         |
| 3. Significant deficiency(ies) identified?                   | Yes        |
| 4. Noncompliance material to the financial statements noted? | No         |

*Federal Awards*

- |   |   |
|---|---|
| Internal control over major programs:   |   |
| 5. Material weakness(es) identified?  | No  |
| 6. Significant deficiency(ies) identified?  | None reported   |
| 7. Type of auditors' report issued on compliance for major programs:  | Unmodified  |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No  |
| 9. Identification of major programs:  |   |
| <u>CFDA Number</u>  | <u>Name of Federal Program</u>  |
| 81.122  | Electricity Delivery and Energy Reliability, Research, Development and Analysis |
| 81.128  | Energy Efficiency and Conservation Block Grant Program                          |
| 10. Dollar threshold used to distinguish between Type A and Type B programs:  | \$339,114   |
| 11. Auditee qualified as low-risk auditee?  | No  |

**Section II – Financial Statement Findings**

<u>Finding Number</u>	<u>Finding</u>
2013-001	General Computer Controls

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001  
Area: General Computer Controls

Criteria: An effective computer control environment includes adequate preventative and detective controls. Preventative controls include the configuration of system access rights on a need-to-know and need-to-do basis and a periodic review of these access rights to determine continuing pertinence. Detective controls include adequate audit trails of modification through the use of system reports with sufficient detail to identify the users who make the changes.

Condition: Users in the Utiligy systems who are assigned in the groups of accounting staff, accounting supervisor, customer service supervisors and customer service representatives (CSR) have the access rights of "Delete" and/or "Update1." Users with these rights can delete and/or modify the meter reading and billing information. Although certain access rights within these groups are necessary in the normal course of business, others are not. For example, CSRs should not have the right to delete billing information. Additionally, the Utiligy system has not been configured to produce a system report that captures all the changes and modifications that are made by these users nor does it have a system-enforced authentication parameters.

Cause: The condition was caused by a lack of a comprehensive system architectural design during Utiligy's implementation phase.

Effect: Excessive access rights to users without compensating controls may result in unauthorized changes to meter readings. The lack of a direct system audit trail results in deficient detective controls to discover unauthorized activities.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of GPA.

Recommendation: GPA should consider implementing compensating controls to remedy the lack of system audit trails, the provision of access to CSRs, and the lack of a system-enforced authentication parameters.

Auditee Response and Corrective Action Plan: The solution to this problem is the purchase of new software. Our existing software is no longer supported. It would not be economical to perform reprogramming to create audit trails within the software. GPA purchase new software in 2012 and is currently negotiating with a software implementation firm to implement the new software with a go-live date in 2014 and 2015.

Name and job title of personnel responsible: Randall V. Wiegand, Chief Financial Officer

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2013

**Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:**

Finding No. 2012-1, General Computer Controls - Not corrected. Refer to Finding No. 2013-001.

**Findings and questioned costs – Major Federal Award Programs Audit**

Finding No. 2012-2, ARRA-State Energy Program – Government of Guam Buildings Retrofit and ARRA-Guam Power Authority Connected Grid Project - An Integrated and Crosscutting System  
- Corrected.

Finding No. 2012-3, ARRA-State Energy Program – Government of Guam Buildings Retrofit - Corrected.

No prior year questioned costs were reported.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE  
GOVERNMENT OF GUAM)**

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**FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**(RESTATED)**



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USA

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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 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.

## **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 and 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

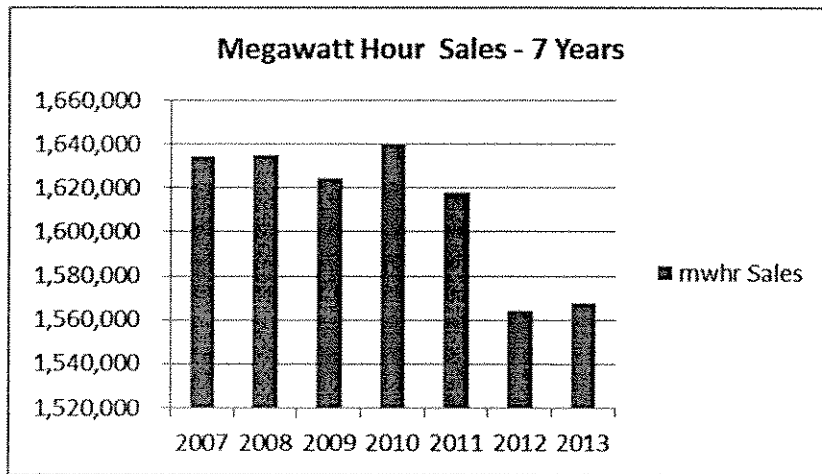
**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

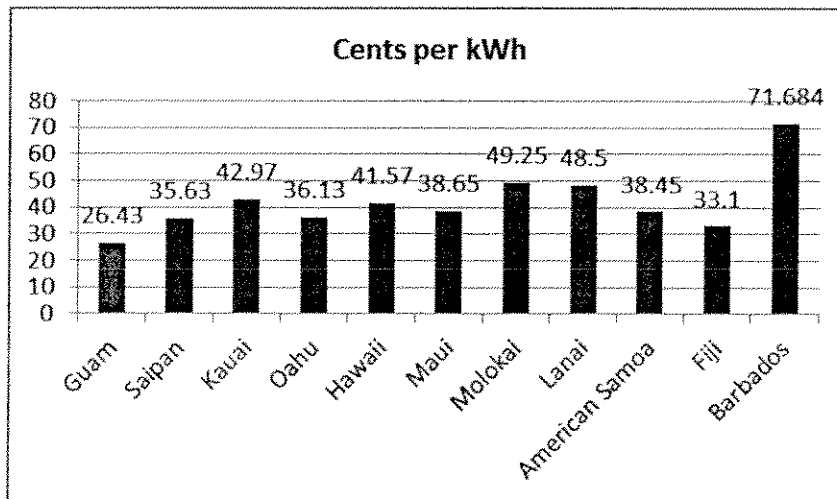
The following is a discussion and analysis of the Guam Power Authority's (GPA or the Authority) financial performance for the fiscal year ended September 30, 2013.

**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  
Years Ended September 30, 2013 and 2012

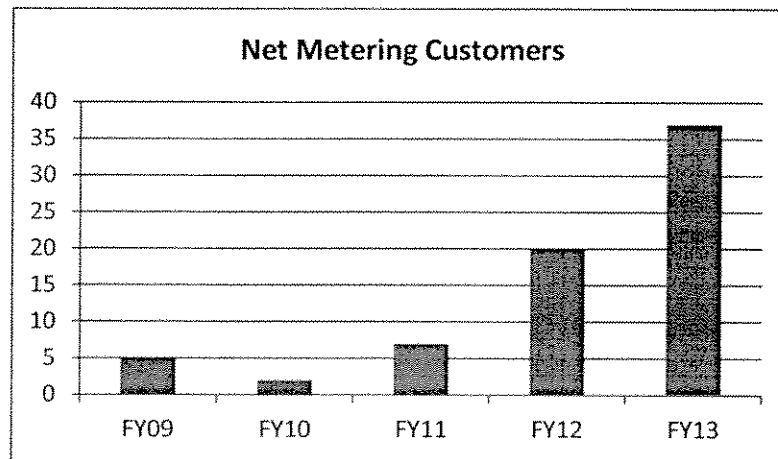
The table below reflects sales by customer class for the last three years:

**Annual Electric Sales (Kilowatt hours)**

Rate Class	<u>FY2013 to FY2012 Comparison</u>				
	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%
<b>Total</b>	<b>1,566,410,311</b>	<b>1,563,474,994</b>	<b>1,617,810,068</b>	<b>2,935,317</b>	<b>0.19%</b>

**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  
Years 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.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

**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.

**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**

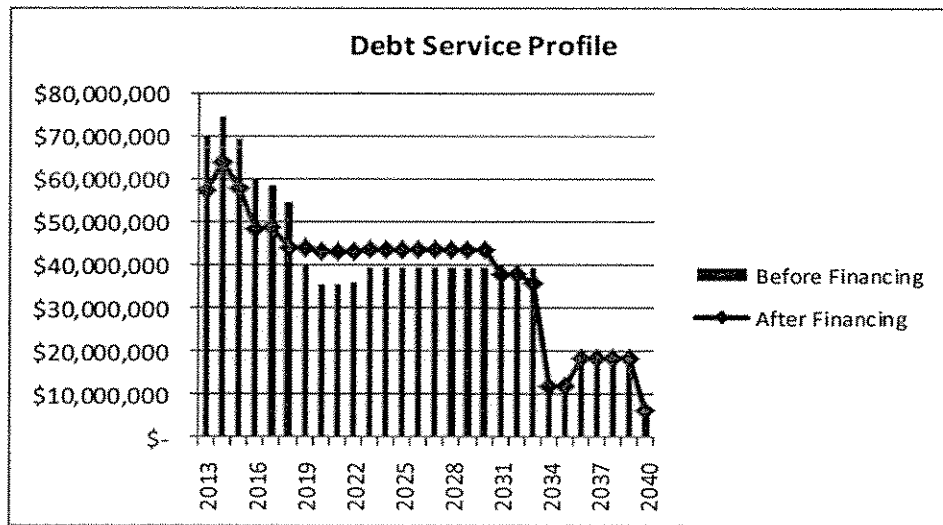
In April 2013, GPA petitioned the Public Utilities Commission (PUC) for a 2.2% rate increase. In September 2013, an increase in the amount of 1.9% was granted. The increase was a part of a financing plan in the petition wherein certain large capital projects were to be funded with a commercial paper 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.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

**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:



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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

**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.

**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)**

	<u>2013</u>	<u>2012</u> <u>(As Restated)</u>	<u>2011</u> <u>(As Restated)</u>
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>

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

**Results of Operations (in millions)**

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (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	<u>8.1</u>	<u>7.2</u>	<u>1.3</u>
Increase (decrease) in net position	\$ <u>4.9</u>	\$ <u>(2.5)</u>	\$ <u>(3.0)</u>

**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.

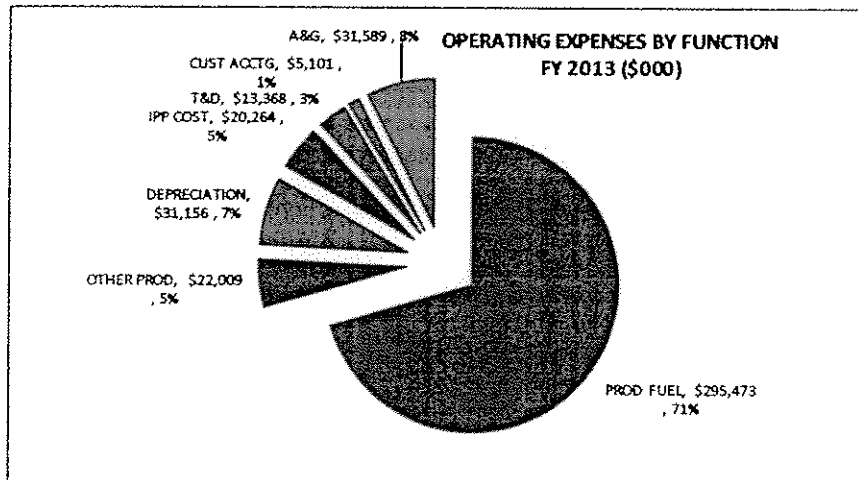
Non-current liabilities have been declining as bond principal payments are made and as the capital lease liability decreases over time. These reductions were offset in FY13 by an increase in bond debt as a result of the refinancing and restructuring plan.

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.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

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.

### 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](http://www.guampowerauthority.com).

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Statements of Net Position  
September 30, 2013 and 2012

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2013</u>	<u>2012 As Restated (Note 1)</u>
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	<u>164,023,120</u>	<u>204,469,188</u>
Investments held by trustee for restricted purposes	<u>4,845,762</u>	<u>-</u>
Accounts receivable, net	49,939,244	53,415,430
Long-term receivables, net	<u>390,377</u>	<u>2,430,120</u>
Total current receivables	<u>50,329,621</u>	<u>55,845,550</u>
Materials and supplies inventory	19,585,471	18,887,646
Fuel inventory	42,390,454	54,478,801
Prepaid expenses	<u>537,109</u>	<u>501,402</u>
Total current assets	<u>281,711,537</u>	<u>334,182,587</u>
Regulatory assets:		
Cancelled unit, net of amortization	<u>13,479</u>	<u>135,655</u>
Total regulatory assets	<u>13,479</u>	<u>135,655</u>
Utility plant, at cost:		
Depreciable utility plant, net of accumulated depreciation	484,334,813	462,108,109
Non-depreciable utility plant	<u>42,400,142</u>	<u>39,580,837</u>
Total utility plant	<u>526,734,955</u>	<u>501,688,946</u>
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	<u>417,629</u>	<u>567,935</u>
Total other non-current assets	<u>59,188,264</u>	<u>52,762,535</u>
Total assets	<u>867,648,235</u>	<u>888,769,723</u>
Deferred outflows of resources:		
Unamortized loss on debt refunding	16,084,264	10,701,777
Unamortized forward delivery contract costs	<u>1,274,798</u>	<u>1,434,158</u>
Total deferred outflows of resources	<u>17,359,062</u>	<u>12,135,935</u>
	<u>\$ 885,007,297</u>	<u>\$ 900,905,658</u>

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

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	<u>2013</u>	<u>2012 As Restated (Note 1)</u>
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
	<b>\$ 885,007,297</b>	<b>\$ 900,905,658</b>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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

	<u>2013</u>	<u>2012</u> As Restated (Note 1)
Revenues:		
Sales of electricity	\$ 449,029,377	\$ 438,111,537
Miscellaneous	2,926,573	1,915,786
	<u>451,955,950</u>	<u>440,027,323</u>
Bad debt expense	(1,222,905)	(1,354,894)
Total revenues	<u>450,733,045</u>	<u>438,672,429</u>
Operating and maintenance expenses:		
Production fuel	295,472,656	288,602,256
Other production	22,009,288	24,990,683
	<u>317,481,944</u>	<u>313,592,939</u>
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	<u>417,737,323</u>	<u>410,255,321</u>
Operating earnings	<u>32,995,722</u>	<u>28,417,108</u>
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	<u>(36,247,708)</u>	<u>(38,070,333)</u>
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	<u>135,009,797</u>	<u>137,454,776</u>
Net position at end of year	<u>\$ 139,890,329</u>	<u>\$ 135,009,797</u>

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>
<b>Cash flows from operating activities:</b>		
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	<u>(2,748,420)</u>	<u>(2,797,254)</u>
Net cash provided by operating activities	<u>76,571,850</u>	<u>76,767,963</u>
<b>Cash flows from investing activities:</b>		
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	<u>(8,781,507)</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(10,942,043)</u>	<u>1,843,340</u>
<b>Cash flows from non-capital financing activities:</b>		
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	<u>(3,171,270)</u>	<u>(8,425,572)</u>
Net cash provided by non-capital financing activities	<u>2,606,154</u>	<u>3,597,768</u>
<b>Cash flows from capital and related financing activities:</b>		
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	<u>(56,399,420)</u>	<u>(46,336,933)</u>
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>
<b>Supplemental information on noncash activities:</b>		
Proceeds from the issuance of 2012 bonds	\$ 358,502,697	\$ -
Refunding of the 1993 and 1999 bonds	<u>(358,502,697)</u>	<u>-</u>
	<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	<u>-</u>	<u>(247,715)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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	\$ 76,571,850	\$ 76,767,963

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.

**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, Continued

Cash, Cash Equivalents and Investments, Continued

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.

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.

**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, Continued

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.

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.

**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, Continued

Sales of Electricity

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

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.

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.



**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, Continued

Derivative Instruments, Continued

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

During the year ended September 30, 2013, GPA implemented the following pronouncements:

- 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.

**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, 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.

**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, Continued

New Accounting Standards, Continued

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.

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.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(2) Cash, Cash Equivalents and Investments, Continued

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				Total
	Held By Trustees		Held By GPA		
	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				Total
	Held By Trustees		Held By GPA		
	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>

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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(2) Cash, Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

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&amp;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&amp;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>		

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.

**GUAM POWER AUTHORITY  
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(2) Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

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	<u>2,508,198</u>	<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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(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>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>25,208,323</u>	\$ <u>15,195,623</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>22,508,842</u>	\$ <u>20,623,526</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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(5) Derivatives, Continued

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.

(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	<u>5,919,936</u>	<u>159,673</u>	<u>6,079,609</u>
	<u>\$ 86,268,238</u>	<u>\$ 31,033,428</u>	<u>\$ 117,301,666</u>



**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(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.

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](http://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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(8) Employees' Retirement Plan, Continued

Defined Contribution Retirement System (DCRS), Continued

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.

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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
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>

Contributions to the OPEB plan for the years ended September 30, 2013, 2012 and 2011 were equivalent to the statutorily required contributions for those years.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(9) Noncurrent Liabilities

A. Long-term debt

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

	<u>2013</u>	<u>2012</u>
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.	-	<u>60,090,000</u>
	530,560,000	566,805,000
Less current maturities	<u>(12,310,000)</u>	<u>(20,815,000)</u>
	518,250,000	545,990,000
Add premium on 2012 bonds at September 30, 2013	31,497,387	-
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	<u>(3,809,646)</u>	<u>(7,504,431)</u>
Total bonds	\$ <u>545,937,741</u>	\$ <u>538,485,569</u>

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
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	<u>48,995,000</u>	<u>5,485,700</u>	<u>54,480,700</u>
	\$ <u>530,560,000</u>	\$ <u>427,952,335</u>	\$ <u>958,512,335</u>

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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(9) Noncurrent Liabilities, Continued

A. Long-term debt, Continued

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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

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:

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

B. Long-term liabilities

Changes in long-term liabilities are as follows:

	<u>Outstanding</u>		<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u>	<u>Current</u>
	<u>October 1, 2012</u>				<u>September 30, 2013</u>	
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	<u>3,100,295</u>	<u>49,212</u>	<u>-</u>	<u>-</u>	<u>3,149,507</u>	<u>-</u>
	\$ <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>	\$ <u>27,453,040</u>

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(9) Noncurrent Liabilities, Continued

Long-term liabilities, Continued

	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>

(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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(11) Commitments and Contingencies, Continued

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.

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>



**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(11) Commitments and Contingencies, Continued

Operating Leases, Continued

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>

Capital Commitments

The 2014 capital improvement project budget is approximately \$61 million.

Letters of Credit

As of September 30, 2013, GPA has a \$35 million uncollateralized revolving documentary letter of credit for purchases of fuel. Commitments under the standby letter of credit at September 30, 2013 totaled \$25 million.

Self-Insurance

GPA self-insures its transmission and distribution (T&D) plant, because no insurance is available at reasonable rates.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(11) Commitments and Contingencies, Continued

Self-Insurance, Continued

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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements  
September 30, 2013 and 2012

(11) Commitments and Contingencies, Continued

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

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.

**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

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.

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:

<u>2013</u>	<u>Estimated Useful Lives in Years</u>	<u>Beginning Balance October 1, 2012</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30, 2013</u>
<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>
<u>2012</u>	<u>Estimated Useful Lives in Years</u>	<u>Beginning Balance October 1, 2011</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30, 2012</u>
<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.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 38,089,000	\$ 38,089,000	0.0%	\$ 17,568,918	216.8%
October 1, 2009	\$ -	\$ 51,730,000 *	\$ 51,730,000 *	0.0%	\$ 18,669,362	277.1%
October 1, 2011	\$ -	\$ 58,314,000	\$ 58,314,000	0.0%	\$ 20,572,185	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.

**GUAM POWER AUTHORITY**  
**(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Sales of 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	<u>84,898,982</u>	<u>86,032,520</u>
	<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	<u>1,879,233</u>	<u>(13,154,880)</u>
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	<u>737,307</u>	<u>745,184</u>
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	<u>167,107</u>	<u>167,107</u>
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	<u>345,263</u>	<u>402,316</u>
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	<u>17,146</u>	<u>30,583</u>
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

		2013	
		PL 28-150 Section 45b	
Department:		Full Time Employees (b)	Category Personnel Services (a)
Board		2	\$ 227,131
Executive		13	952,089
Administration		33	2,911,500
Finance		23	2,105,041
Planning and Regulatory		7	615,121
Property and Facilities		8	486,797
Purchasing and Supply Management		17	713,994
Customer Service		58	2,788,666
Engineering		36	1,894,038
Generation		173	14,039,902
Strategic Planning and Operation Research and Development		7	625,441
Power System Control Center		27	2,157,604
Transportation		13	258,985
Transmission and Distribution		107	6,624,707
Total full time employees		524	36,401,016
Apprentice and summer engineering			417,993
			\$ 36,819,009

		2012	
		PL 28-150 Section 45b	
Department:		Full Time Employees (b)	Category Personnel Services (a)
Board		2	\$ 211,590
Executive		18	1,273,557
Administration		24	2,419,440
Finance		25	1,983,840
Planning and Regulatory		7	574,224
Property and Facilities		9	487,625
Purchasing and Supply Management		20	656,719
Customer Service		59	2,905,313
Engineering		36	1,481,578
Generation		183	14,197,835
Strategic Planning and Operation Research and Development		7	544,840
Power System Control Center		27	1,934,775
Transportation		14	222,384
Transmission and Distribution		112	6,219,761
Total full time employees		543	35,113,481
Apprentice and summer engineering			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.