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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GPA as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2013, 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 purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 7 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.

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 37 through 40 are presented for purposes of additional analysis and are 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 schedules of sales of electricity, operating and maintenance expenses, and salaries and wages are fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The schedule of employees by department on page 41 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

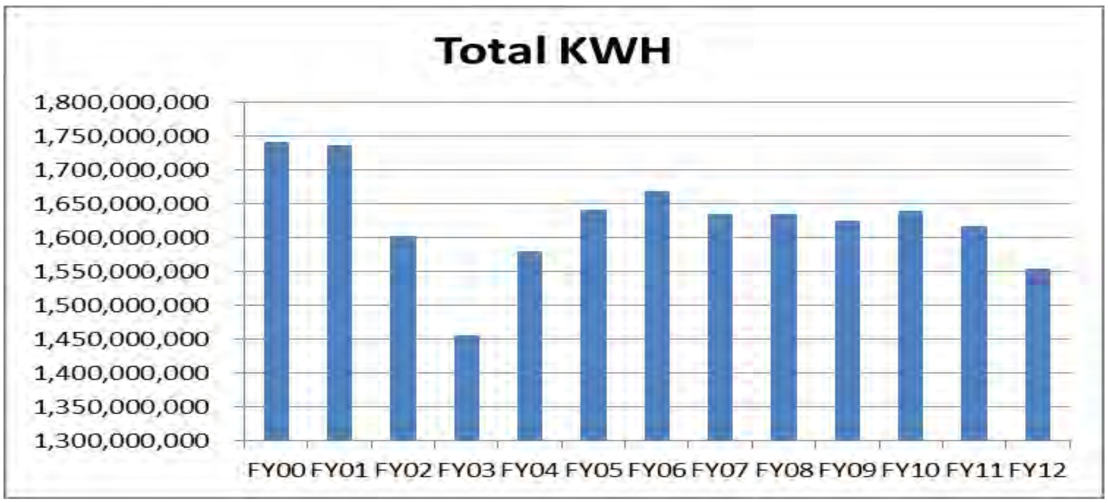
Deloitte & Touche LLP

April 8, 2013

The following is a discussion and analysis of the Guam Power Authority's (GPA) (the Authority) financial performance for the fiscal year ended September 30, 2012.

Sales Decline/Elasticity of Demand

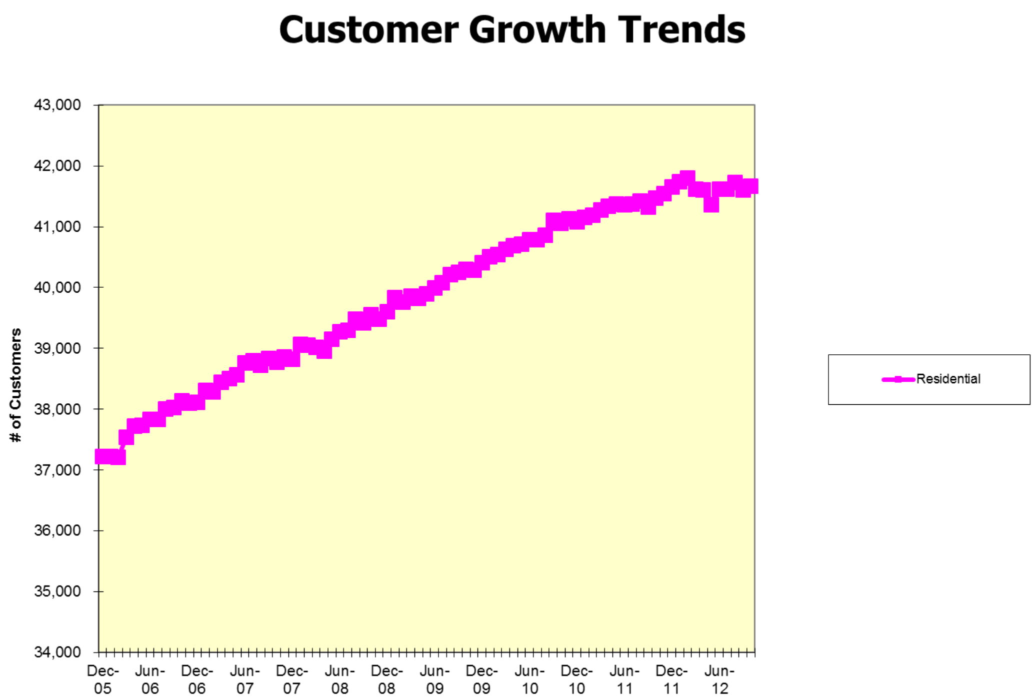
The most significant issue being faced by GPA continues to be the increased cost of providing energy to the island and the impact that is having on Guam's ratepayer community. The chart below depicts the energy sales for the last 13 years. GPA has not been able to exceed its Fiscal Year (FY) 2006 sales for any of the last five years, and in FY12, sales were 4% below prior year levels.



GPA's customer base continues to grow which has caused the Authority to attribute the decrease in sales to conservation efforts within its customer base.

Because GPA energy is provided solely by fossil fuels, the increasing world-wide market for fuel prices has had a negative impact on GPA customers and on budgets for families and businesses throughout the island.

There is no doubt there is an elasticity of demand for GPA customers as energy sales have fallen over a period in which there has been significant growth in customers. The following graph shows the number of residential customers has grown from just over 37,000 in 2005 to over 41,000 in September 2012.



There are no easy solutions to the problem of high oil prices. GPA has been exploring options for renewable energy including wind, solar and geothermal energy, liquefied natural gas, coal, and small modular reactors, however, there is no magic bullet for the problem of high fuel costs. GPA has not been able to identify any solution that would provide immediate savings to its customers anytime in the near future.

A table of sales data is shown below:

Annual Electric Sales (kWh)

				2012 to 2011 Comparison	
	2012	2011	2010	Increase (Decrease)	% Change
Residential	459,499,094	487,230,149	486,961,506	(27,731,055)	(5.69%)
Government	188,097,654	194,002,127	200,273,907	(5,904,473)	(3.04%)
Commercial	550,879,948	566,545,898	577,694,362	(15,665,950)	(2.77%)
Navy	343,711,146	358,016,810	361,518,349	(14,305,664)	(4.00%)
Other	12,020,250	12,015,084	11,213,612	5,166	0.04%
Total	1,554,208,092	1,617,810,068	1,637,661,736	(63,601,976)	(3.93%)

Renewable Energy

GPA entered into a renewable energy contract on a purchase power agreement basis. The contractor is constructing a 20 megawatt solar farm which is expected to become operational by 2014. Additionally, GPA is in final negotiations for a separate power purchase agreement for a 10 megawatt wind farm and a 5 megawatt solar farm. This contract will need to be approved by the Consolidated Commission on Utilities (CCU) and the Public Utilities Commission (PUC).

Liquefied Natural Gas

During 2012, GPA conducted an integrated resource planning study to determine what its generation plant alternatives should be over the next 20-year period. The major finding of the study was that GPA should pursue liquefied natural gas (LNG) as a response to increasing fuel oil costs. The study indicated that GPA's overall savings would be between 10-15% over the next 20 years by moving to LNG. GPA is currently drafting an Invitation for Bids for LNG solutions. The bid should be available during the latter part of 2013. GPA believes an LNG facility could be in place as early as 2018.

Regulatory Actions

During the year, the United States (U.S.) Environmental Protection Agency (USEPA) has issued some strict regulatory standards. The standards would require an investment in excess of $600 million to bring GPA's baseload plants into compliance with the new regulations. One of the standards takes effect in May 2013. GPA is currently negotiating with USEPA for an extension for the installation of the equipment at some of its small diesel plants and is seeking a negotiated agreement wherein GPA would commit to pursuing LNG facilities in lieu of complying with the regulations while it continues to operate its baseload plants using fuel oil.

The imposition of these regulations and their associated costs have made a marginal decision to move to LNG into a much more straight-forward decision.

Smart Grid Technology

In March 2010, GPA was awarded a grant by the U.S. Department of Energy (DOE), under the American Recovery and Reinvestment Act of 2009, to implement smart grid technology. Because approximately 2/3 of GPA's annual expenses arise from fuel costs, there are significant benefits that can be obtained by improving energy losses even by small amounts. GPA's smart grid project includes the installation of smart meters for every customer; implementation of a meter data management system; and implementation of an outage management system, a mobile workforce management system, a distribution management system, substation automation, distribution automation, and Volt/VAR optimization, etc. The grant awarded was a 50/50 matching grant wherein half of the money needed for a $33.2 million smart grid project would be funded via the DOE grant and GPA would fund the remainder through the 2010 bond proceeds. GPA has completed more than 50% of the project and the installation of meters, the highest dollar value portion of the project, and the project should be completed by the summer of 2013.

Rate Activity

In May 2012, PUC issued an order concerning GPA's petition for rate relief. The order awarded rate relief of approximately 2.25%, increased the amount to be recovered from the Working Capital Fund Surcharge, created a tariff for standby/backup customers, and instituted demand charges for civilian customer classes. GPA's petition also included a request to enter into a process wherein the Authority could enter into a multi-year rate plan with the PUC and rates would be trued up annually. Lastly, the order authorized GPA to file an abbreviated petition for rate relief for FY2014.

Borrowing Activities

During the year, GPA terminated an investment contract with Lehman Brothers at a cost of approximately $3.5 million. Under the contract, which had a termination date of 2034, GPA received an upfront cash payment of interest. The amount was recorded as deferred revenue and was being amortized over the life of the contract. The termination payment represented a discounted value of the future value of holding the funds. GPA determined that it could earn more interest during the remaining period by investing the funds on its own. Additionally, the contract had been impeding GPA's ability to take advantage of any bond refinancing opportunities for bonds related to the contract.

In October 2012, GPA completed a restructuring and refinancing bond issuance. Approximately $60 million of the bonds were used to restructure GPA's existing bonds. 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 fiscal years 2013-2019 and increasing the amount of debt service payments required in fiscal years 2020-2032. 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%.

See note 8 to the financial statements for additional information on GPA's financing activities during the years ended September 30, 2012 and 2011.

Rollback Credit

After securing the reduced debt service costs from the bond refinancing/restructuring, GPA petitioned the PUC for an immediate rollback of the recently instituted base rate increase. The rate reduction was provided through the use of a credit surcharge, which is set to run until October 2013 when GPA's fiscal year 2014 base rate increase petition is decided.

Future Borrowing

GPA is exploring a few projects which may have a financing component. One is a phase II renewable energy bid package. Another is a sea water air cooling project at various sites around the island. Additionally, GPA is exploring a small bond issuance to fund improvements of its transmission and distribution systems.

Military Buildup

There have been indications in the local media regarding the planned military buildup being downsized from 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

The following highlights financial comparisons from Fiscal Years 2010 through 2012. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

Financial Data (in millions)

	2012	2011	2010
Assets:			
Current assets	$ 334.2	$ 351.4	$ 328.7
Non-current investments	45.3	45.2	45.1
Other non-current assets	11.3	15.2	18.6
Utility plant	501.7	484.5	495.6
Total assets	$ 892.5	$ 896.3	$ 888.0
Liabilities:			
Current liabilities	$ 100.7	$ 62.7	$ 54.1
Non-current liabilities	654.5	694.0	693.2
Total liabilities	755.2	756.7	747.3
Net Assets:			
Invested in capital assets net of related debt	31.7	12.6	9.3
Restricted	37.9	33.7	29.7
Unrestricted	67.7	93.3	101.7
Total net assets	137.3	139.6	140.7
Total liabilities and net assets	$ 892.5	$ 896.3	$ 888.0

Results of Operations (in millions)

	2012	2011	2010
Revenues	$ 438.7	$ 393.5	$ 365.7
Operating and maintenance expense	410.3	356.6	333.7
Operating earnings	28.4	36.9	32.0
Interest income	2.8	1.8	1.5
Other revenues and (expense), net	(40.7)	(41.1)	(41.3)
Loss before capital contributions	(9.5)	(2.4)	(7.8)
Capital contributions	7.2	1.3	0.1
Decrease in net assets	$ (2.3)	$ (1.1)	$ (7.7)

Explanations of Variances

The two significant moving pieces causing the fluctuation in the current assets level has been the increase in fuel prices since 2010. The increasing price of fuel is recovered through GPA's levelized energy adjustment clause (LEAC). The increase is reflected in the financial statements as an increase in accounts receivable. While there has been upward pressure on accounts receivable there has been a steady decline in cash balances as GPA has been expending funds related to the bond issuance in 2010. The Construction Fund and the Capitalized Interest Funds have been steadily declining over the period.

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 will be fully paid off during Fiscal Year 2013.

There has been a long term trend of GPA's depreciation expense exceeding the amount of asset additions. For FY12, the trend was reversed by the addition of some of the projects from the 2010 bond issuance.

Current liabilities have been increasing over the period as debt service costs have been transitioning into effect and as payables related to construction projects.

Non-current liabilities decreased as a result of bond principal payments, a change in LEAC related accounts, and the payoff of the investment contract with Lehman Brothers as previously described.

The change in sales was previously addressed. The growth in total revenues and operating and maintenance expenses is primarily attributed to increasing fuel costs. Interest income is up as a result of an investment contract GPA entered into in 2011 and capital contributions are up as a result of drawdowns from the smart grid project which is 50% funded by a federal grant.

Capital Asset Activities

The largest project funded by the 2010 bond issuance is the construction of a consolidated office building. The design for the building was substantially completed during FY12. The project is budgeted at $35 million and is expected to begin construction in the summer of 2013. There was significant progress on the smart grid project during the year – approximately $14 million of the $33.2 million of project costs were incurred as of FY12.

See note 15 to the financial statements for details on GPA's capital asset activity.

Commitments for Capital Expenditures

The $33.2 million in smart grid funds has been substantially obligated. The last remaining contract were obligated in March 2013. The $35 million project for the construction of the new consolidated facility will also be awarded in March 2013. A $7 million project for the construction of underground lateral lines in Tumon has been awarded. Most of the remaining projects from the 2010 bond issuance are either obligated or will be obligated in the first quarter of FY2013.

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 year ended September 30, 2011 is set forth in GPA's report on the audit of financial statements which is dated March 15, 2012. That Discussion and Analysis explains in more detail major factors impacting the 2011 financial statements. A copy of that report can be obtained by contacting the Chief Financial Officer's office at (671) 648-3066 or from GPA's website at the addresses noted above.

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

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

Statements of Net Assets
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents:		
Held by trustee for restricted purposes:		
Interest and principal funds	$ 36,454,297	$ 28,292,131
Bond indenture funds	135,340,758	160,985,312
Held by Guam Power Authority:		
Self-insurance fund - restricted	14,912,430	10,982,776
Bond indenture funds	17,761,703	27,439,343
Total cash and cash equivalents	204,469,188	227,699,562
Accounts receivable, net	53,415,430	48,057,864
Current installments of long-term receivables	2,430,120	2,870,328
Total current receivables	55,845,550	50,928,192
Materials and supplies inventory	18,887,646	14,861,733
Fuel inventory	54,478,801	57,132,243
Prepaid expenses	501,402	787,081
Total current assets	334,182,587	351,408,811
Regulatory assets:		
Cancelled unit, net of amortization	135,655	257,830
Total regulatory assets	135,655	257,830
Utility plant, at cost:		
Depreciable utility plant, net of accumulated depreciation	462,108,109	469,341,002
Non-depreciable utility plant	39,580,837	15,142,794
Total utility plant	501,688,946	484,483,796
Other non-current assets:		
Investments - bond reserve funds held by trustee	45,342,829	45,159,623
Unamortized debt issuance costs	9,100,192	9,386,233
Deferred asset, net	1,434,158	3,027,668
Long-term receivables, less current installments	-	1,822,750
Other assets	567,935	722,583
Total other non-current assets	56,445,114	60,118,857
	$ 892,452,302	$ 896,269,294

See accompanying notes to financial statements.

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

Statements of Net Assets, Continued
September 30, 2012 and 2011

LIABILITIES AND NET ASSETS	2012	2011
Current liabilities:		
Current maturities of long-term debt	$ 20,815,000	$ 12,640,000
Current obligations under capital leases	11,562,495	10,235,901
Accounts payable:		
Operations	25,995,634	12,604,855
Fuel	11,644,467	1,526,908
Forward delivery agreement	3,574,285	-
Self-insurance claim	1,142,970	-
Payable to federal government	-	554,350
Accrued payroll and employees' benefits	1,023,252	372,591
Current portion of employees' annual leave	2,263,391	2,263,391
Interest payable	16,007,423	16,356,876
Customer deposits	6,638,156	6,185,002
Total current liabilities	100,667,073	62,739,874
Regulatory liabilities:		
Deferred fuel revenue, net	15,195,623	20,479,214
Provision for self-insurance	13,887,062	11,288,677
Total regulatory liabilities	29,082,685	31,767,891
Long-term debt, net of current maturities	527,783,792	547,466,230
Obligations under capital leases, net of current portion	86,267,770	97,829,839
DCRS sick leave liability	2,274,481	2,012,318
Employees' annual leave, net of current portion	619,029	663,898
Customer advances for construction	3,100,295	3,093,026
Deferred revenues	5,398,959	11,096,334
Total liabilities	755,194,084	756,669,410
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	31,683,250	12,641,588
Restricted	37,851,488	33,710,050
Unrestricted	67,723,480	93,248,246
Total net assets	137,258,218	139,599,884
	$ 892,452,302	$ 896,269,294

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 Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Revenues:		
Sales of electricity	$ 438,111,537	$ 391,874,987
Miscellaneous	1,915,786	2,605,775
	440,027,323	394,480,762
Bad debt expense	(1,354,894)	(942,669)
Total revenues	438,672,429	393,538,093
Operating and maintenance expenses:		
Production fuel	288,602,256	243,711,339
Other production	24,990,683	20,839,638
	313,592,939	264,550,977
Administrative and general	31,377,717	30,431,797
Depreciation and amortization	28,954,754	26,121,870
Energy conversion costs	19,937,105	19,704,755
Transmission and distribution	12,716,911	12,240,510
Customer accounting	3,675,895	3,511,033
Total operating and maintenance expenses	410,255,321	356,560,942
Operating earnings	28,417,108	36,977,151
Non-operating revenues (expense):		
Allowance for funds used during construction	4,987,676	1,779,789
Interest revenue	2,775,819	1,779,178
Other income	-	5,173,671
Cost of GovGuam related projects funded by grants from the United States (U.S.) Government	(8,425,572)	-
Grants from the U.S. Government for GovGuam related projects	8,425,572	-
Other expense	(299,204)	(299,204)
Interest expense	(45,431,311)	(47,767,482)
Total non-operating revenues (expense), net	(37,967,020)	(39,334,048)
Loss before capital contributions	(9,549,912)	(2,356,897)
Capital contributions:		
Grants from the U.S. Government	7,208,246	1,319,064
Change in net assets	(2,341,666)	(1,037,833)
Net assets at beginning of year	139,599,884	140,637,717
Net assets at end of year	$ 137,258,218	$ 139,599,884

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, 2012 and 2011

Increase (decrease) in cash and cash equivalents	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 455,105,107	$ 421,799,671
Proceeds from Bank of America settlement	-	5,173,671
Cash payments to suppliers for goods and services	(341,368,136)	(323,186,026)
Cash payments to employees for services	(34,314,554)	(32,810,587)
Cash payments for retiree benefits	(2,797,254)	(2,757,587)
Net cash provided by operating activities	76,625,163	68,219,142
Cash flows from investing activities:		
Interest and dividends on investments and bank accounts	1,986,140	1,269,127
Withdrawal from short-term investments	-	99,916
Net cash provided by investing activities	1,986,140	1,369,043
Cash flows from non-capital financing activities:		
Receipts from the federal government	8,425,572	-
Self insurance fund receipts net of disbursements	3,741,355	3,904,808
Interest paid on short-term debt, deferred payment agreements and deposits	(143,587)	(129,706)
Cost of GovGuam related projects funded by grants from the federal government	(8,425,572)	-
Net cash provided by non-capital financing activities	3,597,768	3,775,102
Cash flows from capital and related financing activities:		
Receipts from the federal government	2,844,509	383,447
Cost of issuance of 2012 bonds	(262,516)	-
Principal paid on capital leases	(10,235,475)	(9,063,655)
Principal paid on long-term debt	(12,640,000)	(7,795,000)
Interest paid on capital leases	(12,848,830)	(14,020,648)
Interest paid on long-term debt	(25,960,200)	(26,718,028)
Additions to utility plant	(46,336,933)	(15,160,047)
Net cash used in capital and related financing activities	(105,439,445)	(72,373,931)
Net change in cash and cash equivalents	(23,230,374)	989,356
Cash and cash equivalents at beginning of year	227,699,562	226,710,206
Cash and cash equivalents at end of year	$ 204,469,188	$ 227,699,562
Supplemental information on noncash activities:		
Accounts payable - forward delivery agreement	$ (3,574,285)	$ -
Deferred assets	(1,434,159)	-
Deferred revenues	5,256,159	-
Interest revenue	(247,715)	-
	$ -	$ -

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Cash Flows, Continued

Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 28,417,108	$ 36,977,151
Non-recurring cash received – Bank of America settlement	-	5,173,671
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	28,954,754	26,121,870
Bad debts	1,354,894	942,669
(Increase) decrease in assets:		
Accounts receivable	(2,985,532)	(12,704,633)
Long-term receivables	2,262,958	3,909,801
Materials and supplies inventory	(4,025,913)	(2,815,534)
Fuel inventory	2,653,442	(8,185,186)
Prepaid expenses	285,679	185,292
Other assets	154,648	176,831
Increase (decrease) in liabilities:		
Accounts payable - fuel	10,117,559	1,317,891
Accounts payable - operations	13,390,779	927,702
Payable to U.S. Navy	-	(3,410,727)
Deferred payment agreement	-	(255,792)
Customer deposits	453,154	655,742
Customer advances for construction	7,269	12,193
Deferred fuel revenue	(5,283,591)	18,497,409
Accrued payroll and employees' benefits	650,661	117,013
Employees' annual and sick leave	217,294	575,779
Net cash provided by operating activities	$ 76,625,163	$ 68,219,142

See accompanying notes to financial statements.

(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. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. GPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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.

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

Cash, Cash Equivalents and Investments, Continued

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

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

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 deemed 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.

(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.

Deferred Asset and Deferred Revenues

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1993, Series 1999 and Series 2010 bonds. These costs are being amortized using the effective interest method over the life of the applicable debt. Unamortized debt issuance costs at September 30, 2012 also include $262,516 of costs related to the 2012 bonds which have not yet been amortized (see note 14).

Net Assets

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

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 GPA. 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.

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

Derivative Instruments

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 assets.

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 financial position. Operations and maintenance costs associated with the power purchase agreements are expensed as incurred with the independent power producers.

During fiscal year 2012, GPA adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

Fuel Oil Costs

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 are recorded as deferred fuel cost assets or deferred fuel revenue liabilities, respectively, in the accompanying statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. 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. Unrecovered fuel costs amounted to $5,427,903 at September 30, 2012. Over recoveries of fuel costs amounted to $120,090 at September 30, 2011.

During the year ended September 30, 2009, PUC approved new fuel surcharges to recover the cost difference between fuel inventory on hand against a base year. At September 30, 2012 and 2011, cumulative unrecovered fuel inventory costs amount to $3,416,539 and $11,141,174 and surcharges that have been billed but not yet earned amounted to $24,040,065 and $31,500,298, respectively. The net amounts of $20,623,526 and $20,359,124 are presented as components of deferred fuel revenues, net at September 30, 2012 and 2011, respectively.

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 $4,987,676 and $1,779,789 were recognized during the years ended September 30, 2012 and 2011, respectively.

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

New Accounting Standards

During fiscal year 2012, GPA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

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

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In April 2012, GASB issued 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. 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 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 evaluated the effect of these statements on the financial statements of GPA.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to correspond to the 2012 presentation.

(2) Cash, Cash Equivalents and Investments

The bond indenture agreements for the 1993, 1999 and 2010 series revenue bonds (note 8) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction.

At September 30, 2012 and 2011, cash and cash equivalents and short-term investments held by trustees and by GPA in these funds and accounts are as follows:

(2) Cash, Cash Equivalents and Investments, Continued

	2012				
	Held By Trustees		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	Total
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
	$ 36,454,297	$ 135,340,758	$ 14,912,430	$ 17,761,703	$ 204,469,188

	2011				
	Held By Trustees		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	Total
Construction funds	$ -	$ 118,957,292	$ -	$ -	$ 118,957,292
Interest and principal funds	28,292,131	-	-	-	28,292,131
Bond funds	-	13,535,601	-	-	13,535,601
Working capital funds	-	28,492,419	-	-	28,492,419
Self-insurance fund	-	-	10,982,776	-	10,982,776
Revenue funds	-	-	-	9,065,972	9,065,972
Operating funds	-	-	-	14,821,123	14,821,123
Surplus funds	-	-	-	3,552,248	3,552,248
	$ 28,292,131	$ 160,985,312	$ 10,982,776	$ 27,439,343	$ 227,699,562

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, 2012 and 2011, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was $204,469,188 and $227,699,562, respectively, and the corresponding bank balances were $203,842,561 and $227,269,906, respectively. Of the bank balance amount as of September 30, 2012 and 2011, $15,256,596 and $16,988,105 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of $1,221,124 and $1,659,088, respectively, were FDIC insured. Bank balances as of September 30, 2012 and 2011, also include $188,585,965 and $210,281,801, 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, 2012 and 2011, $14,035,472 and $15,329,017, respectively, of cash and cash equivalents are subject to custodial credit risk.

(2) Cash, Cash Equivalents and Investments, Continued

B. Investments

As of September 30, 2012, GPA's investments, presented as bond reserve funds in the accompanying statements of net assets, were as follows:

	Amount	Maturity	S&P or Moody's Rating
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)	5,825,688	-	-
	$ 45,342,829		

As of September 30, 2011, GPA's investments, presented as bond reserve fund in the accompanying statements of net assets, were as follows:

	Amount	Maturity	S&P or Moody's Rating
Bond Reserve Funds:			
First American Treasury (cash equivalents)	$ 13,746,268	-	Aaa
Intesa Funding LLC (CP)	13,742,000	October 3, 2011	P-1
Natixis U.S. Finance Co. LLC (CP)	12,028,872	October 1, 2015	A
US Bank Money Market Account (cash equivalents)	5,642,483	-	-
	$ 45,159,623		

GASB Statement No. 40 requires disclosures addressing common risks of investments including credit risk, interest rate risk, concentration of credit risk, custodial credit risk and foreign currency risk.

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

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.

(2) Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 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%). As of September 30, 2011, GPA's investments that exceeded 5% of total investments are as follows: First America Treasury (30.44%), Intesa Funding LLC CP (30.43%), Natixis Funding Corp. (26.64%) and US Bank (12.49%).

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, 2012 and 2011, are summarized as follows:

	2012	2011
Customers:		
Private	$ 36,576,672	$ 36,006,471
Government	6,906,764	7,036,750
	43,483,436	43,043,221
U.S. Navy	6,839,697	3,902,336
U.S. Federal Government	4,745,004	935,617
Interest	190,914	273,374
Others	2,939,329	4,943,793
	58,198,380	53,098,341
Less allowance for doubtful receivables	(4,782,950)	(5,040,477)
	$ 53,415,430	$ 48,057,864

Unbilled accounts receivable included above amounted to $10,009,988 and $10,292,903 at September 30, 2012 and 2011, respectively.

(3) Receivables, Continued

Long-Term Receivables

Long-term receivables at September 30, 2012 and 2011 consisted of the following:

	2012	2011
Installment payment agreement receivable from Guam Department of Education, resulting from conversion of past due receivable, payable in varying amounts starting in July 2004, currently at $200,000 per month, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	$ 1,822,750	$ 4,085,708
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of $75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installment payment due in April 2007, uncollateralized.	390,377	390,377
Receivable due from Guam Waterworks Authority (GWA) under a memorandum of understanding (see note 11), with monthly installments of $25,688, non-interest bearing, starting October 2009.	216,993	216,993
	2,430,120	4,693,078
Less current portion	(2,430,120)	(2,870,328)
	$ -	$ 1,822,750

(4) Derivatives

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.

At September 30, 2012 and 2011, GPA has outstanding commodity swaps of notional amounts of 90,000 and 169,938 metric tons, respectively, of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date.

At September 30, 2012 and 2011, the commodity swaps had a net positive fair value of approximately $1,112,000 and $486,000, respectively, which is recorded as a component of deferred fuel costs as discussed in note 1. At September 30, 2012 and 2011, there are four counterparties, rated as P-2, A1, A3, and Baa1 by Moody's.

(5) 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.

(5) Concentrations of Credit Risk, Continued

At September 30, 2012 and 2011, 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 4, GPA enters into commodity swaps only with highly rated counterparties.

(6) 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.

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, 2012 and 2011, the costs of the plant and plant improvements are $171,382,727 and accumulated depreciation is $65,759,774 and $61,075,206, respectively, and are presented as part of depreciable utility plant in the accompanying statements of net assets.

The leases have effective interest rates ranging from 8.6% to 14.2%. Future capacity payments under these agreements are as follows:

Year ending September 30,	Amount
2013	$ 23,084,304
2014	23,084,304
2015	23,084,304
2016	23,084,304
2017	23,084,304
2018-2019	24,963,983
	140,385,503
Less amounts representing interest	42,555,238
	97,830,265
Less current portion	11,562,495
	$ 86,267,770

(7) 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.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined as follows:

	2012	2011	2010
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
Employer portion of normal costs (% of DB Plan payroll)	7.57%	7.50%	8.84%
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	23.75%	21.75%	22.69%
Government contribution as a % of total payroll	26.78%	24.78%	26.42%
Statutory contribution rates as a % of DB Plan payroll			
Employer	28.30%	27.46%	26.04%
Employee	9.50%	9.50%	9.50%

GPA's contributions to the DB Plan for the years ended September 30, 2012, 2011 and 2010 were \$3,142,095, \$3,001,267 and \$2,793,428, respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Plan

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.

(7) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

Statutory employer contributions into the DCRS plan for the years ended September 30, 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 to the DCRS plan for the years ended September 30, 2012, 2011 and 2010 were $4,576,734, $4,141,724, and $3,595,455, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, $3,798,237, $3,415,577 and $2,930,927 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2012, 2011 and 2010, respectively.

GPA has accrued an estimated liability of $2,274,481 and $2,012,318 at September 30, 2012 and 2011, 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, 2012 , 2011 and 2010, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	2012	2011	2010
Supplemental benefits	$ 861,618	$ 746,609	$ 852,325
Medical and dental	1,935,636	2,010,978	1,382,375
	$ 2,797,254	$ 2,757,587	$ 2,234,700

Contributions to the OPEB plan for the years ended September 30, 2012, 2011 and 2010 were equivalent to the statutorily required contributions for those years.

(8) Noncurrent Liabilities

Long-term debt

Long-term debt at September 30, 2012 and 2011 is as follows:

	2012	2011
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 semiannually 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 semiannually 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.	51,680,000	56,115,000
1999 Series Revenue Bonds, initial face value of \$349,178,601, interest at varying rates from 5.0% to 5.25% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$2,950,000 in October 2000, increasing to \$26,110,000 in October 2034.	304,595,000	309,265,000
1993 Series Revenue Bonds, initial face value of \$100,000,000, interest at 5.25% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023.	60,090,000	63,625,000
	566,805,000	579,445,000
Less current maturities	(20,815,000)	(12,640,000)
	545,990,000	566,805,000
Less discount on bonds	(7,504,431)	(7,757,396)
	538,485,569	559,047,604
Loss on defeasance, net of \$11,288,172 and \$10,408,575 of accumulated amortization in 2012 and 2011, respectively.	(10,701,777)	(11,581,374)
Total bonds	\$ 527,783,792	\$ 547,466,230

(8) Noncurrent Liabilities, Continued

Long-term debt, Continued

Proceeds of the 1993 Series Revenue Bonds, face value of $100,000,000, 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, face value of $349,178,601, were used to finance new projects as specified in the bond indenture and to retire certain outstanding bonds and commercial paper previously issued for the purpose of financing certain capital projects.

Proceeds of the 2010 Series Senior Revenue Bonds, face value of $150,440,000, 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, face value of $56,115,000, 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.

All gross revenues of GPA have been pledged to repay the 1993, 1999 and 2010 series bond principal and interest. The debt service for the 1993, 1999 and 2010 series bonds was $39,072,313 and $30,078,450 or approximately 8.9% and 7.6% of pledged gross revenues, for the years ended September 30, 2012 and 2011, respectively.

Discounts associated with 1993, 1999 and 2010 bond series are being amortized on the effective interest method over the life of the applicable debt.

On May 1, 1999, GPA issued the 1999 Series bonds of $349,178,601 to finance 1999 projects; to retire $45 million in tax exempt commercial paper notes; to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of $143,660,000 and $99,820,000, respectively; and to pay the amount due on the 1993 bonds totaling $1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling $21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized on a straight line basis over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

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, totaling $13.5 million, in October 2000 representing the present value of interest income on certain invested bond proceeds. Based on the terms of the 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 deferred revenue in the accompanying statements of net assets.

(8) Noncurrent Liabilities, Continued

Long-term debt, Continued

The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

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 deferred assets and deferred 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 assets. 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 assets.

The following summarizes deferred revenues and deferred asset at September 30, 2012 and 2011:

	2012	2011
Deferred revenues	$ 8,903,314	$ 17,521,029
Accumulated amortization	(3,504,355)	(6,424,695)
	$ 5,398,959	$ 11,096,334
Deferred asset	$ 2,390,265	$ 4,780,529
Accumulated amortization	(956,107)	(1,752,861)
	$ 1,434,158	$ 3,027,668

On October 4, 2012, GPA issued 2012 Series Revenue Bonds to refund all of the 1993 and 1999 Senior Bonds (see note 14). As of September 30, 2012, future maturities of long-term debt, including adjustment on the 1993 and 1999 Senior Bonds refunding and the 2012 Series Revenue Bonds issuance, are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2013	$ 20,815,000	$ 19,451,664	$ 40,266,664
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 through 2022	54,035,000	121,082,075	175,117,075
2023 through 2027	116,765,000	97,753,575	214,518,575
2028 through 2032	144,115,000	64,396,550	208,511,550
2033 through 2037	111,665,000	29,738,490	141,403,490
2038 through 2041	63,690,000	8,952,500	72,642,500
	$ 551,375,000	$ 447,403,989	$ 998,778,989

(8) Noncurrent Liabilities, Continued

Long-term liabilities

Changes in long-term liabilities are presented as follows:

	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)	-
Loss on defeasance of bonds	(11,581,374)	-	879,597	(10,701,777)	-
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	-
Deferred revenues	11,096,334	142,800	(5,840,175)	5,398,959	-
	$ 687,300,937	$ 2,540,195	$ (29,755,920)	$ 660,085,212	$ 34,640,886

	Outstanding October 1, 2010	Increases	Decreases	Outstanding September 30, 2011	Current
1993 Series bonds	$ 66,985,000	$ -	$ (3,360,000)	$ 63,625,000	$ 3,535,000
1999 Series bonds	313,700,000	-	(4,435,000)	309,265,000	4,670,000
2010 Series bonds	150,440,000	-	-	150,440,000	-
2010 Series Subordinate bonds	56,115,000	-	-	56,115,000	4,435,000
Unamortized discount on bonds	(8,488,896)	-	731,500	(7,757,396)	-
Loss on defeasance of bonds	(12,460,972)	-	879,598	(11,581,374)	-
Obligations under capital leases	117,129,395	-	(9,063,655)	108,065,740	10,235,901
DCRS sick leave liability	1,722,649	289,669	-	2,012,318	-
Deferred payment agreements	255,792	-	(255,792)	-	-
Employees annual leave	2,641,179	2,026,721	(1,740,611)	2,927,289	2,263,391
Customer advances for construction	3,080,833	12,193	-	3,093,026	-
Deferred revenues	11,680,352	-	(584,018)	11,096,334	-
	$ 702,800,332	$ 2,328,583	$ (17,827,978)	$ 687,300,937	$ 25,139,292

(9) 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.

On July 12, 2010, the PUC adopted and approved the Joint Stipulation of Settlement between the Navy and GPA wherein GPA will refund the amount of $4,117,098 covering the period October 2008 through April 2010 to account for an error in the calculation of unit fuel cost charged to the Navy. GPA credited the Navy the amount of the refund in equal installments over one year beginning in August 2010. The balance was fully refunded in 2011.

(9) Agreements with the United States Navy, Continued

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, 2012 and 2011, GPA billed the Navy $86,032,520 and $71,892,503, respectively, for sales of electricity under the CSA. Receivables from the Navy were $6,839,697 and $3,902,336 at September 30, 2012 and 2011, respectively.

(10) Commitments and Contingencies

Fuel Purchase Contracts

In March 2010, GPA entered into an agreement to purchase residual fuel oil and low sulfur fuel oil with Petrobras Singapore Pte., Ltd (Petrobras). The agreement is for three years ending February 2013 with an option to extend for two additional one year terms, renewable annually. In May 2012, Petrobras informed GPA that it will not exercise the option to extend the agreement. As a result, GPA issued an invitation for bid for fuel supply services in September 2012 and made its selection in January 2013. However, the fuel contract award to the new vendor has been delayed because of a protest in the bidding process which was subsequently withdrawn on March 29, 2013. GPA intends to reissue the bid and while such is in process, GPA has negotiated a six-month contract extension with Petrobras until August 2013.

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

Performance Management Contracts

During the year ended September 30, 2010, GPA entered into Performance Management Contracts (PMC) with two companies for the operation and maintenance of Cabras 1 and 2 and Cabras 3 and 4 generators, which became effective on October 1, 2010 and July 1, 2010, respectively. The PMCs are for a period of five years with an option to extend for another five-year term. At September 30, 2012, the minimum future management fees are as follows:

Year ending September 30,	Amount
2013	$ 2,659,801
2014	2,734,177
2015	2,526,743
	$ 7,920,721

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

(10) Commitments and Contingencies, Continued

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, 2012, future minimum management fees are as follows:

Year ending September 30,	Amount
2013	$ 675,273
2014	675,273
2015	450,182
	$ 1,800,728

Operating Leases

On December 31, 2002, GPA entered into a lease agreement for its office building for a period of five years, including extensions, with a monthly rental of $25,000. On January 1, 2008, GPA renewed the lease agreement 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. Subsequent to year-end, 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.

GPA entered into a ten-year lease of fuel storage tanks beginning in September 1998, with monthly rentals increasing to $107,500 in March 2003. On February 8, 2008, GPA renewed the agreement for an additional five year term from March 1, 2008 to February 28, 2013 at $115,560 per month.

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, 2012, future minimum lease payments for operating leases are as follows:

Year ending September 30,	Amount
2013	$ 1,233,686
2014	656,516
2015	237,042
2016	61,261
2017	61,261
2018 through 2022	306,305
2023	5,105
	$ 2,561,176

Rent expense under the aforementioned agreements totaled $2,041,916 and $1,636,196 during the years ended September 30, 2012 and 2011, respectively.

Capital Commitments

The 2013 capital improvement project budget is approximately $68.3 million.

(10) Commitments and Contingencies, Continued

Renewable Energy Contracts

On June 27, 2012, GPA entered into an agreement to purchase renewable energy and associated renewable energy credits. The planned commercial operation date is June 26, 2014. During each of the contract years starting from the commercial operation date, GPA is committed to purchase approximately 35,000 to 40,000 megawatt hours of annual renewable energy. At September 30, 2012, the minimum future renewable energy purchases are as follows:

Year ending September 30,	Amount
2013	$ -
2014	1,984,598
2015	7,938,618
2016	7,943,977
2017	7,953,487
2018 through 2022	39,702,835
2023 through 2027	39,698,435
2028 through 2032	39,698,972
2033 through 2037	39,703,002
2038 through 2039	13,882,506
	$ 198,506,430

Self-Insurance

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

As the result of a PUC Decision and Order, GPA adds an insurance charge of $0.00290 per kWh for civilian ratepayers and from $0.00035 per kWh to $0.00070 per kWh for the U.S. Navy until a self-insurance fund balance of $10 million is achieved. 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. In May 2011, PUC issued an order which allows GPA to continue to collect the surcharges at the same rate, beyond the $10 million cap, until PUC approval of self-insurance protocols or the completion of the next base rate case, whichever is sooner. The self-insurance fund, included in cash and cash equivalents held by GPA, is $14,912,430 and $10,982,776 at September 30, 2012 and 2011, respectively.

Autonomous Agency Collections Fund

On March 31, 2011, GPA received an invoice from the GovGuam 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*. 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, 2012 and therefore, no liability or other impact has been recognized in the accompanying financial statements.

(10) Commitments and Contingencies, Continued

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 performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GPA did not calculate or pay any bonuses pursuant to the law from 1991 through 2002. In 2003, GPA adopted a merit system similar to the GovGuam merit system. As of September 30, 2012, GPA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2002. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2012. 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.

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 finalized four sets of emission standards, known as Maximum Available Control Technology (MACT) standards. Compliance under the diesel MACT is due May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of $37,000 per unit per day. GPA has requested an exemption, extension and waiver for its generation units, until a decision is made on switching to liquefied natural gas.

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.

(11) Related Party Transactions and Balances

During the years ended September 30, 2012 and 2011, GPA billed GovGuam agencies $63,893,223 and $58,863,737, respectively, for sales of electricity. Receivables (excluding long-term receivables) from GovGuam agencies were $6,906,764 and $7,036,750 at September 30, 2012 and 2011, respectively.

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, 2012 and 2011 were $17,008,972 and $15,191,769, respectively.

(11) Related Party Transactions and Balances, Continued

On June 23, 2009, GPA and GWA entered into a Memorandum of Understanding (MOU) where each agency agrees to provide administrative, operational, maintenance, repair and other specified services on behalf of the other agency and each will reimburse the other for their actual costs for providing said services. The MOU also covers the repayment period for prior services rendered by GPA. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements were $404,554 and $334,576 in 2012 and 2011, respectively. Outstanding receivables for electrical and administrative expenses and cost reimbursements totaled $1,789,805 and $1,941,479 as of September 30, 2012 and 2011, respectively, and are included in accounts receivable - net in the accompanying statements of net assets.

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 9) totaling $1,192,900. The amount due to GWA as of September 30, 2012 is $753,513 which is included in accounts payable - operations in the accompanying statements of net assets.

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. As of September 30, 2012, GPA is in the process of obtaining transfer of title and has yet to determine the fee simple value of the land. Upon providing relocation assistance for those currently residing on the property, and performing surveying services to apportion lots authorized to the lessees, the Department of Land Management will process the Deed of Conveyance. Accordingly, the land has not been recognized in the accompanying financial statements.

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

(12) Restricted Net Assets

At September 30, 2012 and 2011, net assets are restricted for the following purposes:

	2012	2011
Debt Service	$ 26,767,388	$ 18,264,779
Capital Projects	11,084,100	15,445,271
	$ 37,851,488	$ 33,710,050

(13) Settlement

In January 2011, GPA received $5,173,671 in full restitution related to an agreement between Bank of America (BOA) and the Securities and Exchange Commission for BOA's participation in a conspiracy to rig bids in the municipal bond derivatives market that defrauded several federal and state agencies, municipalities, and the Internal Revenue Service. The amount is presented as other non-operating income in the accompanying statements of revenues, expenses and changes in net assets.

(14) Subsequent Events

On October 4, 2012, GPA issued 2012 Series Revenue Bonds, with a face value of $340,620,000. The bond proceeds will be 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.

(15) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2012 and 2011 is as follows:

2012	Estimated Useful Lives in Years	Beginning Balance October 1, 2011	Transfers and Additions	Transfers and Deletions	Balance September 30, 2012
Depreciable:					
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
Non-depreciable:					
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
		$ 484,483,796	$ 38,796,805	$ (21,591,655)	$ 501,688,946

2011	Estimated Useful Lives in Years	Beginning Balance October 1, 2010	Transfers and Additions	Transfers and Deletions	Balance September 30, 2011
Depreciable:					
Intangible plant	30	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	25 - 50	92,863,859	5,300	(491,386)	92,377,773
Other production plant	25	253,942,729	128,754	(51,496)	254,019,987
Transmission plant	30 - 45	143,607,262	1,764,754	-	145,372,016
Distribution plant	25 - 45	174,733,835	5,755,027	(1,606,699)	178,882,163
General plant	3 - 60	29,927,561	2,123,941	(361,334)	31,690,168
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		870,811,961	9,777,776	(2,510,915)	878,078,822
Accumulated depreciation		(383,122,491)	(26,121,870)	506,541	(408,737,820)
		487,689,470	(16,344,094)	(2,004,374)	469,341,002
Nondepreciable:					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		6,873,135	17,489,318	(10,291,895)	14,070,558
		7,945,371	17,489,318	(10,291,895)	15,142,794
		$ 495,634,841	$ 1,145,224	$ (12,296,269)	$ 484,483,796

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

Schedule 1
Schedule of Sales of Electricity
Years Ended September 30, 2012 and 2011

	2012	2011
Commercial	$ 165,924,493	$ 148,798,483
Residential	122,261,301	112,320,264
Government of Guam	63,893,223	58,863,737
U.S. Navy	86,032,520	71,892,503
	$ 438,111,537	$ 391,874,987

See accompanying independent auditors' report.

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

Schedule 2
Schedule of Operating and Maintenance Expenses
Years Ended September 30, 2012 and 2011

	2012	2011
Administrative and General:		
Salaries and wages:		
Regular pay	$ 4,472,860	$ 4,306,460
Overtime	98,955	95,114
Premium pay	4,142	5,033
Benefits	10,380,923	9,866,645
Total salaries and wages	14,956,880	14,273,252
Insurance	5,787,743	6,021,828
Contract	4,971,309	5,320,386
Retiree COLA/supplemental benefits	2,797,254	2,757,587
Utilities	1,751,919	1,267,816
Training	376,526	361,001
Travel	203,604	170,831
Other administrative expenses	396,027	161,954
Operating supplies	142,823	137,034
Trustee fee	101,963	124,226
Overhead allocations	54,536	69,163
Office supplies	84,929	57,179
Completed work orders	(919,307)	(604,547)
Miscellaneous	671,511	314,087
Total administrative and general	$ 31,377,717	$ 30,431,797
Customer Accounting:		
Salaries and wages:		
Regular pay	$ 1,575,369	$ 1,581,995
Overtime	163,542	100,488
Premium pay	3,346	2,017
Benefits	139,421	101,591
Total salaries and wages	1,881,678	1,786,091
Collection fee	1,328,184	1,125,410
Communications	314,540	304,957
Completed work orders	-	122,368
Overhead allocations	77,414	76,608
Office supplies	49,573	72,781
Operating supplies	20,856	18,443
Miscellaneous	3,650	4,375
Total customer accounting	$ 3,675,895	$ 3,511,033

See accompanying independent auditors' report.

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

Schedule 2
Schedule of Operating and Maintenance Expenses, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Fuel:		
Salaries and wages:		
Regular pay	$ 66,486	$ 80,791
Overtime	5,663	10,707
Premium pay	796	422
Total salaries and wages	72,945	91,920
Fuel	301,684,191	230,386,184
Deferred fuel costs	(13,154,880)	13,233,235
Total fuel costs	$ 288,602,256	$ 243,711,339
Other Production:		
Salaries and wages:		
Regular pay	$ 8,928,730	$ 8,623,561
Overtime	1,492,260	1,192,859
Premium pay	188,605	178,743
Benefits	745,184	636,024
Total salaries and wages	11,354,779	10,631,187
Contract	12,190,332	8,284,844
Completed work orders	566,114	898,128
Operating supplies	581,664	760,875
Overhead allocations	112,539	87,806
Office supplies	18,148	9,687
Miscellaneous	167,107	167,111
Total other production	$ 24,990,683	$ 20,839,638
Transmission and Distribution:		
Salaries and wages:		
Regular pay	$ 5,528,740	$ 5,386,362
Overtime	913,993	806,191
Premium pay	71,178	71,066
Benefits	402,316	457,310
Total salaries and wages	6,916,227	6,720,929
Overhead allocations	2,125,083	2,179,661
Completed work orders	1,293,365	1,648,381
Contract	1,350,243	972,504
Operating supplies	1,001,410	688,906
Office supplies	30,583	30,129
Total transmission and distribution	$ 12,716,911	$ 12,240,510

See accompanying independent auditors' report.

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

Schedule 3
Schedule of Salaries and Wages
Years Ended September 30, 2012 and 2011

	2012	2011
Salaries and wages:		
Regular pay	$ 20,572,185	$ 19,979,169
Overtime	2,674,413	2,205,359
Premium pay	268,067	257,281
Benefits	11,667,844	11,061,570
Total salaries and wages	$ 35,182,509	$ 33,503,379

See accompanying independent auditors' report.

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

Schedule 4
Employees by Department
Years Ended September 30, 2012 and 2011

	2012	
	Full Time Employees (b)	PL 28-150 Section 45b Category Personnel Services (a)
Department:		
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

	2011	
	Full Time Employees (b)	PL 28-150 Section 45b Category Personnel Services (a)
Department:		
Board	2	$ 212,172
Executive	15	782,856
Administration	28	2,209,825
Finance	24	1,877,626
Planning and Regulatory	6	529,284
Property and Facilities	8	494,146
Purchasing and Supply Management	16	683,422
Customer Service	60	2,789,108
Engineering	37	815,670
Generation	188	13,434,387
Strategic Planning and Operation Research and Development	6	597,660
Power System Control Center	24	1,979,575
Transportation	12	189,669
Transmission and Distribution	110	6,715,895
Total full time employees	536	33,311,295
Apprentice and summer engineering		192,084
		$ 33,503,379

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.