Financial Statements, Required Supplementary Information and Supplemental Schedules

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information
and Supplemental Schedules

Years Ended June 30, 2013 and 2012

Contents

Financial Section

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Report of Independent Auditors

To the Governing Board of the
Puerto Rico Electric Power Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Puerto Rico Electric Power Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements. We did not audit the financial statements of PREPA Holdings LLC (a blended component unit) and PREPA.Net, which financial statements reflect total assets constituting approximately .46% and .41% of total assets as of June 30, 2013 and 2012, and revenues constituting .3% of total revenues for the years then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PREPA Holdings and PREPA.Net, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Electric Power Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and the supplementary schedule of funding progress on pages 4 through 16 and 83, respectively, 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 which 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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Puerto Rico Electric Power Authority's basic financial statements. The supplemental schedules listed in the table of contents 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 16, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

Ernst + Young LLP

January 16, 2014

Stamp No. E88354
affixed to
original of
this report.

This section of the financial report of the Puerto Rico Electric Power Authority (the Authority) presents the analysis of the Authority's financial performance during the fiscal years ended June 30, 2013, 2012 and 2011. As management of the Authority, we offer readers of the financial statements this narrative overview and analysis of the financial activities. We recommend readers to consider the information herein presented in conjunction with the financial statements that follow this section.

Financial Highlights

- Operating income for fiscal year ended June 30, 2013 was **$354.0 million** representing an increase of **37.7 percent** from the fiscal year ended June 30, 2012. For the fiscal year ended June 30, 2012 operating income was $257.0 million representing a decrease of 21.4 percent from the fiscal year ended June 30, 2011.

- Operating expenses decreased by **$300.5 million** or **6.3 percent** for the fiscal year ended June 30, 2013; and increased by $693.4 million or 16.9 percent for the fiscal year ended June 30, 2012.

- The Authority's Net Utility Plant for the fiscal year ended June 30, 2013 increased by **$39.4 million** or **.6 percent**. For the fiscal year ended June 30, 2012 net utility plant decreased by $13.4 million or .2 percent. For the fiscal year ended June 30, 2011 the net utility plant increased by $79.8 million or 1.2 percent.

- Total assets and deferred outflows decreased by **$96.6 million**, increased by $321.5 million and increased by $644.8 million, or **.9 percent** decrease, 3.2 percent increase and 6.9 percent increase, respectively, for the fiscal years ended June 30, 2013, 2012 and 2011.

- For the fiscal year ended June 30, 2013, as compared to the fiscal year ended June 30, 2012 and fiscal year ended June 30, 2011, accounts receivable increased by **10.8 percent** from **$1,364.6 million to $1,511.9 million** and increased by 6.8 percent from $1,277.9 million to $1,364.6 million, respectively. The increase in 2013 was mainly due to the government sector.

- Accounts receivable from the governmental sector increased 43.9 percent from $429.3 million on June 30, 2012 to **$617.6 million** on June 30, 2013, and decreased 7.5 percent from $464.1 million on June 30, 2011 to $429.3 million on June 30, 2012.

Financial Highlights (continued)

- The Authority's net position decreased by **$275.7 million (53.5 percent)**, $346.2 (200.4 percent) and $272.4 million (264.7 percent) as a result of operations during fiscal years ended June 30, 2013, 2012 and 2011, respectively. The Authority is in a net deficit position since June 30, 2011.

- Ratios of fuel and purchased power adjustment revenues to total operating revenues were **76.5 percent** for 2012-2013, 78.6 percent for 2011-2012 and 75.0 percent for 2010-2011.

- Ratios of fuel oil and purchased power expense to total operating expense (excluding depreciation expense) were **81.4 percent** for 2012-2013, 82.0 percent for 2011-2012 and 78.8 percent for 2010-2011.

- The decrease in the fuel adjustment revenues and fuel expense for fiscal year 2013 as compared to 2012 of **$323.1 million** and **$298.2 million**, respectively, was mainly due to a decrease in the average fuel oil price per barrel of $7.22 (6.1%). The increase in the fuel adjustment revenues and fuel expense for fiscal year 2012 as compared to 2011 of $606.2 million and $610.5 million, respectively, was mainly due to an increase in the average fuel oil price per barrel of $22.48 (23.4%).

- The increase in the purchased power adjustment revenue and expense of $78.8 million and $71.5 million, respectively, was due to an increase of 593,183 MWh (or 8.9 percent) in amount of purchase power for fiscal 2013 when compared to fiscal 2012. The increase in the purchased power adjustment revenue and expense of $26.3 million and $23.3 million, respectively, was due to an increase in the average cost per kWh of (10.6%) purchase power from 9 cents for fiscal 2011 to 10 cents for fiscal 2012. The decrease in the purchased power adjustment revenue and expense of $37.3 million and $32.9 million, respectively, was due to a decrease in the average cost per kWh of (7.1%) purchase power from 10 cents for fiscal 2010 to 9 cents for fiscal 2011.

Plans to Address the Authority's Challenges

The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the volatility in oil prices. Its principal challenges, some of which are interrelated, are: (i) addressing the decline in electric energy sales; (ii) addressing the volatility of oil costs; (iii) addressing high customer electric power rates; (iv) reducing government accounts receivables; and (v) improving its liquidity.

In order to ensure long-term fiscal stability, the Authority is pursuing several strategies including: continuing reductions in operating expenses, addressing past due accounts receivable, reducing energy theft, limiting Contribution in Lieu of Taxes to municipalities (CILT) and ensuring that funds for capital improvement continue to be spent efficiently.

Reducing Operating Costs. The principal cost reduction measures included in the plan have been (i) reducing the number of employees through a combination of attrition from voluntary retirements and the elimination of temporary and vacant positions, (ii) reducing retiree health care benefits by adopting changes to the health plan in 2009 that include the imposition of caps on the amount of monthly benefits for all current and future retirees and stricter eligibility requirements, (iii) reducing overtime and miscellaneous expenses, and (iv) implementing enhanced budget controls and expense management in each of the three operational units and support areas (generation, transmission and distribution, and customer service).

Addressing Past Due Receivables. In order to improve the Authority's liquidity, the Authority has and will make efforts to reduce past due receivables from the government sector.

Energy Theft Reduction Initiatives. The Authority is also implementing a more aggressive energy theft reduction program through the use of "smart grid" technologies that reduce the need for door-to-door inspections, among other steps. One of the principal components of this plan is the replacement of old meters with meters capable of, among other things, reporting usage and system problems directly to the Authority.

Reduction of CILT. Act. No. 233-2011, approved on December 11, 2011, modifies the CILT formula to exclude from the municipality´s electric energy consumption the usage in municipal facilities related to for-profit business operations and for which the municipalities receive compensation through rent or an entrance fee. The Authority is identifying municipal facilities that are no longer subject to the CILT.

Plans to Address the Authority's Challenges (continued)

Efficiency of Capital Improvement Program. The decrease in the demand for electricity and the completion of certain key projects in its production plants has allowed the Authority to reduce the size of, and to refocus, its capital improvement program for fiscal years 2014 through 2018 away from the historical trend of capacity expansion and towards diversifying the fuel sources for its generating units, improving the reliability of its production capacity and the efficiency of its transmission and distribution system.

Overview of Financial Report

Management's Discussion and Analysis (MD&A) of operating results serves as an introduction to the basic financial statements and supplementary information. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, projected capital improvement program, operational budget and other management tools were used for this analysis.

Required Financial Statements

The financial statements report the financial position and operations of Puerto Rico Electric Power Authority and its blended component units, Puerto Rico Irrigation Systems and PREPA Holdings LLC as of and for the year ended June 30, 2013, which include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and the notes to financial statements.

PREPA Networks, LLC issued a separate financial report that includes audited financial statements. That report may be obtained by writing to PREPA Networks, Corp. City View Plaza Suite 803, Guaynabo, Puerto Rico 00968.

The Statement of Net Position presents the financial position of the Authority and provides information about the nature and amount of resources and obligations at year-end.

The Statement of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the fiscal year.

The Statement of Cash Flows shows changes in cash and cash equivalents, resulting from operating, non-capital and capital financing, and investing activities, which include cash receipts and cash disbursement information, without consideration of the depreciation of capital assets.

Required Financial Statements (continued)

The notes to the financial statements provide information required and necessary to the understanding of material information of the Authority's financial statements. These notes present information about the Authority's significant accounting policies, significant account balances and activities, risk management, obligations, commitments and contingencies, and subsequent events.

The financial statements were prepared by the Authority's management from the detail accounting books and records.

Financial Analysis

The Authority's net position decreased by $275.7 million, $346.2 million and $272.4 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. Our analysis below focuses on the Authority's net position and changes in net position during the year.

Authority's Net Position
(*In thousands*)

	2013	2012	2011
Current, non-current and other assets	**$ 3,318,695**	$ 3,454,676	$ 3,119,743
Capital assets	**6,838,558**	6,799,176	6,812,602
Total assets	**$10,157,253**	$10,253,852	$ 9,932,345
Long-term debt outstanding	**$ 8,895,692**	$ 8,935,502	$ 8,088,988
Other liabilities	**2,052,946**	1,834,036	2,012,852
Total liabilities	**$10,948,638**	$10,769,538	$10,101,840
Net position (deficit):			
Net investments in utility plant	**$ 23,378**	$ 38,122	$ 17,070
Restricted	**–**	18,299	77,606
Unrestricted	**(814,763)**	(572,107)	(264,171)
Total net position (deficit)	**$ (791,385)**	$ (515,686)	$ (169,495)

Financial Analysis (continued)

A portion of the Authority's net position reflects its net investment in utility plant. Decreased from $38.1 million in 2011-2012 to **$23.4 million** in 2012-2013.

Restricted net position for capital and debt service requirements decreased from $18.3 million as of June 30, 2012 to **$0** as of June 30, 2013. The decrease was due to a reduction in the 1974 Construction Fund.

Changes in the Authority's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Position.

Authority's Changes in Net Position
(In thousands)

	Year Ended June 30		
	2013	**2012**	**2011**
Operating revenues	**$4,843,016**	$5,046,494	$4,422,997
Other income	**26,329**	24,344	4,087
Total revenues	**4,869,345**	5,070,838	4,427,084
Operating expenses	**4,488,979**	4,789,469	4,096,080
Interest expense, net	**$390,493**	381,943	370,251
Total expenses	**4,879,472**	5,171,412	4,466,331
Loss before contribution in lieu of taxes and other and contributed capital	**(10,127)**	(100,574)	(39,247)
Contribution in lieu of taxes and other	**(297,551)**	(283,111)	(246,758)
Loss before contributed capital	**(307,678)**	(383,685)	(286,005)
Contributed capital	**$31,979**	$37,494	13,577
Change in net position	**(275,699)**	(346,191)	(272,428)
Net position at beginning of year	**(515,686)**	(169,495)	102,933
Net position at end of year	**$(791,385)**	$ (515,686)	$ (169,495)

Financial Analysis (continued)

For fiscal year ended June 30, 2013, as compared to June 30, 2012, net assets decreased by $275.7 million. The reduction in net assets was mainly due to a combination of factors that include, among others, a decrease in operating revenue of $203.5 million and operating expenses of $300.5 million, as a result, there was a net increase in operating income of $97.0 million mainly due to a decrease of fuel oil prices and a decrease in depreciation expenses of $69.9 million due to the implementation of a new depreciation study, as well as increases in interest expense, and contribution in lieu of taxes. In addition, the Authority's net revenues were reduced by $53.2 million in fuel adjustment revenues not billed to the customers, which were financed by the revenue stabilization fund.

The Authority's management has taken the following expense control measures:

The Authority reduced the number of employees through a combination of attrition from voluntary retirement and the elimination of temporary and vacant positions. In addition, the Authority is still enforcing the new staff hiring freeze implemented in January 2009.

The Authority's management has also identified the following strategies to stabilize the cost of energy:

- Revenue diversification – Net income generated from two subsidiaries will be used to fund a revenue stabilization fund to reduce fuel price volatility.
- Fuel diversification – The Authority is in the process of converting generating units that use fuel oil to burn natural gas in order to comply with new environmental regulations. In addition, the Authority has begun negotiations for the construction of an offshore gas port to receive natural gas at the south part of the island in the Aguirre Steam Plant.
- Reducing energy theft – The Authority has implemented an energy theft reduction program through the use of smart grid technologies and increasing the unannounced door-to-door visits.

Financial Analysis (continued)

For fiscal year ended June 30, 2012, as compared to June 30, 2011, net assets decreased by $346.2 million. The reduction in net assets was mainly due to a combination of factors that include, among others, an increase in operating revenue of $623.5 million and operating expenses of $693.4 million, as a result, there was a net decrease in operating income of $69.9 million, mainly due to an increase of fuel oil price and an increase in depreciation expenses of $63.9 million, as well as increases in interest expense, and contribution in lieu of taxes. In addition the Authority's net revenues were reduced by $79.4 million in fuel adjustment revenues not billed to the customers, which were financed by revenue stabilization fund and $37.2 million of costs related to the abandoned Vía Verde Project (Natural Gas Pipeline Project), which were registered as operating expenses.

For fiscal year ended June 30, 2011, as compared to June 30, 2010, net assets decreased by $272.4 million. The reduction in net assets was mainly due to an increase in operating expenses of $272.7 million, mainly due to an increase of $284.5 net of a decrease of $4.7 million in the fuel expenses and depreciation expenses, respectively, as well as increases in interest expense and contribution in lieu of taxes.

Capital Assets and Debt Administration

<u>Net Investment in Utility Plant</u>

Net investment in utility plant as of June 30, 2013, 2012 and 2011, amounts to approximately **$6,839 million**, $6,799 million, and $6,813 million (net of accumulated depreciation), respectively. This net investment in utility plant includes land, generation, transmission and distribution systems, buildings, fixed equipment, furniture, fixtures and equipment. The Authority's net investment in utility plant increased by .6 percent, decreased by .2 percent and increased by 1.2 percent for 2012-2013, 2011-2012, and 2010-2011, respectively.

A substantial portion of the capital expenditures for production plant in fiscal year ended June 30, 2013, 2012 and 2011, was spent on the rehabilitation and life extension of generating plants in order to achieve and maintain higher levels of availability, reliability and efficiency.

Capital Assets and Debt Administration (continued)

Major capital assets projects during fiscal years 2012 and 2013 included the following:

- The Authority completed the conversion of units 5 and 6 at the Costa Sur Power Plant to dual fuel, representing approximately 820 MW of generating capacity. Improvements to boiler's internal components to burn 100% of natural gas have been completed for unit 6 as well as for unit 5.

- The Authority is currently working in the scheduled maintenance projects for boilers of units 1 and 2 at the Aguirre Power Plant. During the first semester of fiscal year 2014, the Authority will start with the conversion project of Aguirre unit 1, followed by unit 2 in March of 2015. Improvements include the retrofits to boiler's internal components to burn 100% of natural gas. Once completed, this project will add 900 MW of generating capacity that will be capable of burn natural gas and oil (dual firing).

- The Authority has ordered the dual-fuel modules for the conversion of units 5 and 6 at the San Juan Power Plant to burn natural gas. The conversion projects will start in fiscal year 2014-2015. This project represents approximately 460 MW of generating capacity that will be capable of burning natural gas as well as light distillate.

- The Authority is working with the regular scheduled maintenance of its steam unit fleet. Boilers and turbine-generators are included in this comprehensive maintenance program.

- The Authority has important projects for the supply of water for industrial processes and generation. The new demineralized water plant at Costa Sur Power Plant, as well as Aguirre Power Plant water supply project are examples of key capital improvements focused on reliability and natural resources protection.

- The Authority is now constructing a 230 kV transmission line (38 mile long) between the South Coast Steam Plant and Cambalache Gas Turbines Plant's switchyard. The first stage of this project consists of the reconstruction and conversion to 230 kV of an existing 115 kV circuit line between the South Coast Steam Plant and Dos Bocas Hydroelectric Power Plant. The second stage of the project consists of the construction of a new 230 kV line from Dos Bocas to the Cambalache facilities. The construction of both stages is expected to be completed during fiscal year 2014. The estimated cost of this project is $80 million. Once in operation, this major infrastructure project will significantly enhance the reliability and security margins of the transmission system, and permit the increase of power transfers from the south coast of Puerto Rico to the northern and western regions.

Capital Assets and Debt Administration (continued)

- One of the Authority's major projects is the reconstruction and rehabilitation of 115 and 38 kV circuit lines throughout the whole island. It includes the reconstruction of a 42 miles 115 kV line interconnecting the Bayamón Transmission Center, Caná 115 kV switchyard, Barrio Piñas 115 kV switchyard, Dos Bocas hydroelectric plant, as well as important substations in the municipalities of Toa Alta, Corozal, Morovis and Ciales. The reconstruction and rehabilitation of four 115 kV transmission lines interconnecting the Palo Seco power plant with relevant 115/38 kV transmission centers located in the metropolitan area are also included. Subtransmission circuits interconnecting substations in the municipalities of Orocovis, Barranquitas, Maricao, Las Marías and Mayagüez, located in the central and western regions of the island, are also part of this major reconstruction and rehabilitation plan.

- The program to improve the 38 kV sub-transmission systems continues in effect, including the construction of underground 38 kV lines in Guaynabo and San Juan. In addition, major reconstruction projects of aerial 38 kV lines in the central and western part of the Island will significantly improve the reliability of the sub-transmission system. Construction of the underground 35 kV lines in Carolina, Vega Baja and Mayagüez has been completed.

- The Authority completed an underground 115 kV transmission circuit line around the San Juan metropolitan area in order to reduce the incidence of loss of power in the aftermath of hurricanes and other major storms, which strike Puerto Rico from time to time. This project is presently improving the reliability of its transmission system in San Juan by interconnecting two steam plants, three existing transmission centers, and four new 115 kV gas insulated substations (GIS) through a 30-mile underground loop of 115 kV. The cost of this project was $200 million. The Federal Emergency Management Agency provided $75 million for of construction for this project through grants to the Authority.

- In April 2014, the Authority expects to complete a new air insulated 115/38 kV transmission center in the municipality of Barranquitas, which improves the reliability and efficiency of the System while increasing its power transfer capability and improving voltage regulation of the sub-transmission system under normal conditions and contingency situations.

Capital Assets and Debt Administration (continued)

- The Authority is constructing a new 115/38 kV switchyard Buen Pastor to improve the reliability of the commercial and industrial loads in Río Piedras, which is expected to be completed in 2014. To improve the reliability of the transmission and subtransmission, the Authority planned to increase the transformation capacity in existing switchyards such as San Juan Steam Plant, Bayamón TC and Monacillos TC in San Juan.

- The Authority expects that the San Juan GIS 38 kV and 115 kV switchgears will enter into service in fiscal year 2014 and 2016, respectively. This will be one of the Authority’s major gas insulated 115/38 kV switchyards with direct interconnection through the existing air insulated 115 kV bus to approximately more than 850 MW of generating capability.

- The Authority also completed a new 150 megavolt ampere (“MVA”) 115/38 kV transmission center in the municipality of Bayamón (Hato Tejas TC). A major expansion project that adds 150 MVA of 115/38 kV transforming capacity in the transmission center of Canóvanas, was also completed in 2012. A new 450 MVA 230/115 kV transmission center in Ponce TC was completed during fiscal year 2012.

- During fiscal year 2012, the Authority commenced operation of a new 115 kV capacitor bank in the Canóvanas transmission center in order to continue improving the voltage regulation in major load centers, increase the transmission system’s power factor and reduce its reactive power losses.

These projects are funded from cash reserves, excess-operating revenues (when available), grants, and debt issued for such purposes.

Capital Assets and Debt Administration (continued)

Long-Term Debt

At the end of the fiscal year 2013, 2012 and 2011, the Authority had total long-term debt outstanding of $8,895.7 million, $8,935.5 million, and $8,089.0 million, respectively, comprised of revenue bonds and notes payable.

Authority's Outstanding Debt
(In thousands)

	2013	2012	2011
Power revenue bonds, net	**$ 8,126,633**	$ 8,311,689	$ 7,861,252
Notes payable	**769,059**	623,813	227,736
	8,895,692	8,935,502	8,088,988
Current portion	**(1,160,980)**	(985,194)	(552,252)
Long-term debt, excluding current portion	**$ 7,734,712**	$ 7,950,308	$ 7,536,736

During fiscal year 2013, notes payable increased $145.2 million mainly as a result of new revolving lines of credit to finance working capital.

The Authority maintains ratings of "Baa3" by Moody's, and "BBB" by S&P and "BBB-" by Fitch for its bonds.

Additional information on the Authority's long-term debt can be found in Notes 8 and 11 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

In the last five years, Puerto Rico's economy has shown a different behavior from the U.S. economy in terms of the annual Gross Domestic Product growth, even though Puerto Rico is part of the U.S. monetary and banking systems. The U.S. economy, measured by the Real Gross Domestic Product (GDP), as published by the U.S. Department of Commerce Bureau of Economic Analysis, increased 2.8% in 2012. In the first and second quarter of 2013, real GDP increased 1.1% and 2.5%, respectively.

Economic Factors and Next Year's Budgets and Rates (continued)

For the fiscal year 2012, the economy of Puerto Rico measured by the Gross National Product, preliminarily decreased 0.1%, according to the Puerto Rico Planning Board. The main components of the PR economy are: manufacturing (approximately 40% of the GNP), finance, insurance and the real estate, trade and service sectors.

For the fiscal year 2013, the Puerto Rico Planning Board estimated a decrease of 0.4%, according to their publication "Proyecciones Económicas a Corto Plazo" of July 2013.

The Authority adopted the 2014 fiscal year budget on June 25, 2013. The total revenues for fiscal year 2013-2014 are projected to be approximately $ 4,494.2 million. In addition, the Capital Improvement Program amounted to approximately $300.0 million. The 2014 consolidated budget decreased by $371.7 million (7.6 percent) when compared to the consolidated budget approved for fiscal year 2012-2013, due mainly to a decrease on projected fuel oil price per barrel from $116.25 for 2012-2013 to $94.96 for 2013-2014, representing a 18.3 percent.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Chief Financial Officer. The executive offices of the Authority are located at 1110 Ponce de León Avenue, San Juan, Puerto Rico 00907.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Position

(In thousands)

	June 30	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 122,130**	$ 199,761
Receivables, net	**1,394,199**	1,259,782
Fuel oil, at average cost	**323,730**	228,681
Materials and supplies, at average cost	**197,786**	194,387
Prepayments and other assets	**5,082**	55
Total current assests	**2,042,927**	1,882,666
Other non-current receivables	**117,653**	104,780
Restricted assets:		
Cash and cash equivalents held by trustee for payment of principal and interest on bonds	**369,381**	337,506
Investments held by trustee	**553,602**	636,635
Contruction fund and other special funds	**83,420**	296,669
Total restricted assets	**1,006,403**	1,270,810
Utility plant:		
Plant in service	**11,937,375**	11,703,301
Accumulated depreciation	**(6,098,403)**	(5,768,095)
	5,838,972	5,935,206
Construction in progress	**999,586**	863,970
Total utility plant, net	**6,838,558**	6,799,176
Deferred expenses:		
Unamortized debt issue costs	**55,810**	59,437
Other	**10,898**	25,676
Total deferred expenses	**66,708**	85,113
Total assets	**10,072,249**	10,142,545
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	**85,004**	111,307
Total assets and deferred outflows	**$ 10,157,253**	$ 10,253,852

(Continued)

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Position (continued)
(In thousands)

	June 30 2013		June 30 2012	
Liabilities and net position				
Current liabilities:				
Notes payable	**$**	**755,665**	$	605,219
Accounts payable and accrued liabilities		**1,301,028**		1,038,663
Customers'deposits		**14,532**		49,780
Total current liabilities		**2,071,225**		1,693,662
Current liabilities payable form restricted assets:				
Current portion of long-term debt		**399,215**		379,975
Notes payables from restricted assets		**6,100**		–
Accrued interest		**187,432**		185,757
Other current liabilities payable from restricted assets		**39,594**		51,546
Total current liabilities payable from restricted assets		**632,341**		617,278
Noncurrent liabilities:				
Long-term debt, excluding current portion		**7,734,712**		7,950,308
Fair value of derivative instruments - Interest, basis and commodity swaps		**85,004**		111,307
Customers' Deposits (excluding current portion)		**166,950**		126,367
Sick leave benefits to be liquidated after one year		**122,356**		139,904
Accrued unfunded other post-employment benefits liability		**136,050**		130,712
Total noncurrent liabilities		**8,245,072**		8,458,598
Total liabilities		**10,948,638**		10,769,538
Net position (deficit):				
Invested in utility plant, net of related debt		**23,378**		38,122
Restricted for capital and debt service		**–**		18,299
Unrestricted		**(814,763)**		(572,107)
Total net position (deficit)		**(791,385)**		(515,686)
Total liabilities and net position	**$**	**10,157,253**	$	10,253,852

See accompanying notes.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Position
(In thousands)

	Year Ended June 30	
	2013	2012
Operating revenues	**$ 4,843,016**	$ 5,046,494
Operating expenses:		
Operations:		
Fuel	**2,603,577**	2,901,815
Purchased power	**755,686**	684,148
Other production	**72,384**	78,311
Transmission and distribution	**175,461**	178,652
Customer accounting and collection	**116,605**	113,647
Administrative and general	**201,663**	201,228
Maintenance	**218,950**	217,095
Depreciation	**344,653**	414,573
Total operating expenses	**4,488,979**	4,789,469
Operating income	**354,037**	257,025
Interest income and other	**26,329**	24,344
Income before interest charges, contribution in lieu of taxes and contributed capital	**380,366**	281,369
Interest charges:		
Interest on bonds	**399,641**	382,604
Interest on notes payable and other long-term debt	**741**	4,720
Amortization of debt discount, issuance costs and refunding loss	**4,176**	6,331
Allowance for funds used during construction	**(14,065)**	(11,712)
Total interest charges, net	**390,493**	381,943
Loss before contribution in lieu of taxes and contributed capital	**(10,127)**	(100,574)
Contribution in lieu of taxes and other	**(297,551)**	(283,111)
Loss before contributed capital	**(307,678)**	(383,685)
Contributed capital	**31,979**	37,494
Change in net position	**(275,699)**	(346,191)
Net position (deficit), beginning balance	**(515,686)**	(169,495)
Net position (deficit), ending balance	**$ (791,385)**	$ (515,686)

See accompanying notes.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

(In thousands)

	Year Ended June 30	
	2013	**2012**
Cash flows from operating activities		
Cash received from customers	**$ 4,665,529**	$ 4,954,920
Cash paid to suppliers and employees	**(4,272,003)**	(4,871,027)
Net cash flows provided by operating activities	**393,526**	83,893
Cash flows from noncapital financing activities		
Proceeds from notes payable	**32,921**	266,623
Principal paid on notes payable	**(92,053)**	(383,988)
Interest paid on notes payable	**(566)**	(4,924)
Principal paid on fuel line of credit	**(1,264,351)**	(60,000)
Proceeds from fuel line of credit	**1,468,736**	599,995
Interest paid on fuel line of credit	**(16,611)**	(6,039)
Net cash flows provided by noncapital financing activities	**128,076**	411,667
Cash flows from capital and related financing activities		
Construction expenditures	**(315,764)**	(359,237)
Proceeds received from contributed capital	**10,898**	7,291
Power revenue bonds:		
Proceeds from issuance of bonds, net of original discount	**–**	623,421
Principal paid on revenue bonds maturities	**(185,605)**	(175,455)
Interest paid on revenue bonds	**(397,700)**	(379,991)
Proceeds from issuance of refunding bonds, net of original discount	**–**	21,828
Defeased bonds, net of original discount or premium	**–**	(21,844)
Net cash flows used in capital and related financing activities	**(888,171)**	(283,987)
Cash flows from investing activities		
Purchases of investment securities	**(4,085,709)**	(4,907,026)
Proceeds from sale and maturities of investment securities	**4,165,974**	4,880,263
Interest on investments	**24,531**	24,661
Transfer from general fund to restricted funds	**–**	(5,000)
Net cash flows provided by (used in) investing activities	**104,796**	(7,102)
Net (decrease) increase in cash and cash equivalents	**(261,773)**	204,471
Cash and cash equivalents at beginning of year	**815,024**	610,553
Cash and cash equivalents at end of year	**$ 553,251**	$ 815,024

(Continued)

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows
(In thousands)

	Year Ended June 30	
	2013	**2012**
Cash and cash equivalents		
Unrestricted	**$ 122,130**	$ 199,761
Restricted:		
Cash and cash equivalents held by trustee for payment of principal and interest on bonds	**369,381**	337,506
Cash and cash equivalents within construction and other special funds	**61,740**	277,757
	$ 553,251	$ 815,024
Reconciliation of net operating revenues to net cash provided by operating activities		
Operating income	**$ 354,037**	$ 257,025
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**344,653**	414,573
Provision for uncollectible accounts and other	**15,740**	14,428
Changes in assets and liabilities:		
Receivables	**(342,632)**	(310,148)
Fuel oil	**(78,438)**	(674)
Materials and supplies	**580**	2,304
Prepayments and other assets	**(5,027)**	3,309
Other deferred debits	**(6,881)**	23,620
Noncurrent liabilities, excluding revenue bonds and notes payable	**(12,210)**	7,097
Accounts payable and accrued liabilities	**118,370**	(328,009)
Customer's deposits	**5,334**	368
Total adjustments	**39,489**	(173,132)
Net cash flows provided by operating activities	**$ 393,526**	$ 83,893

See accompanying notes.

1. Reporting Entity

Puerto Rico Electric Power Authority (the Authority) is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) created on May 2, 1941, pursuant to Act No. 83, as amended, re-enacted, and supplemented, of the Legislature of Puerto Rico (the Act) for the purpose of conserving, developing and utilizing the water, and power resources of Puerto Rico in order to promote the general welfare of the Commonwealth. Under the entity concept, the Authority is a component unit of the Commonwealth. The Authority produces, transmits, and distributes, substantially, all of the electric power consumed in Puerto Rico.

The Authority has broad powers including, among others, to issue bonds for any of its corporate purposes. The Authority is required, under the terms of a Trust Agreement dated as of January 1, 1974, as amended (the 1974 Agreement), and the Act, to determine and collect reasonable rates for electric service in order to produce revenues sufficient to cover all operating and financial obligations, as defined.

On August 18, 2003, the Commonwealth of Puerto Rico approved Act No. 189, which authorizes the Authority to create, acquire and maintain corporations, partnerships or subsidiary corporations, for profit or non-profit entities.

Basis of Presentation – Blended Component Units

The financial statements of the Authority as of June 30, 2013 and 2012, include the financial position and operations of the Puerto Rico Irrigation Systems (Irrigation Systems) and PREPA Holdings LLC (the Company). The Irrigation Systems operate pursuant to the provisions of the Act, and Acts Nos. 83 and 84, approved on June 20, 1955, regarding the Puerto Rico Irrigation Service, South Coast, and Isabela Irrigation Service, respectively, and the Lajas Valley Public Irrigation Law, approved on June 10, 1953, as amended. PREPA Holdings LLC, a wholly owned subsidiary of the Authority, was created for the sole purpose of acting as a holding company and has no current operations. PREPA Holdings LLC is the direct parent of the following entities: PREPA Networks, LLC, also known as PREPA.Net, InterAmerican Energy Sources, LLC, and Consolidated Telecom of Puerto Rico, LLC.

The financial statements of the Authority as of June 30, 2013 and 2012, include the financial position and operations of the Irrigation System and PREPA Holdings LLC.

1. Reporting Entity (continued)

Basis of Presentation – Blended Component Units (continued)

The Irrigations Systems and PREPA Holdings LLC conform to the requirements of Governmental Accounting Standards Board (GASB) No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, and No. 39, *Determining Whether Certain Organizations are Component Units*, on its stand-alone financial statements. GASB No. 39 establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It applies to financial reporting by primary governments, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and non-governmental component units when they are included in a governmental financial reporting entity.

Condensed financial information as of June 30, 2013 and 2012 and for the years then ended for the Irrigation Systems is as follows:

	2013	**2012**
	(*In thousands*)	
Statements of net position:		
Assets:		
Receivables, net	**$ 7,383**	$ 17,981
Prepayments and other assets	**240**	240
Utility Plant, net of depreciation	**20,408**	20,457
Total assets	**$ 28,031**	$ 38,678
Liabilities:		
Accounts payable, net	**$ 1,066**	$ 1,066
Statements of revenues, expenditures and changes in net position:		
Operating revenues	**$ 6,875**	$ 5,977
Operating expenses	**(11,523)**	(4,348)
	(4,648)	1,629
Transfer to primary government	**(5,999)**	–
Net position, beginning balance	**37,612**	35,983
Net position, ending balance	**$ 26,965**	$ 37,612

1. Reporting Entity (continued)

Basis of Presentation – Blended Component Units (continued)

Pursuant to the Act, the Authority is authorized to create subsidiaries in order to, among other things, delegate or transfer any of its rights, powers, functions or duties. The Authority currently has four principal subsidiaries organized in a holding company structure.

PREPA Holdings, LLC, a wholly owned subsidiary of the Authority, was organized on October 26, 2009 as a Delaware limited liability company for the sole purpose of acting as a holding company and has no current operations. PREPA Holdings, LLC is the direct parent of the following entities: PREPA Networks, LLC, also known as PREPA.Net; InterAmerican Energy Sources, LLC and Consolidated Telecom of Puerto Rico, LLC.

PREPA Networks, LLC, a subsidiary of the Company, was formed for the purpose of merging two local not-for-profit entities – PREPA Networks, Corp, and PREPA.Net International Wholesale Transport, Inc. (PREPA.Net).

PREPA Networks, LLC markets the excess communication capacity of the Authority's fiber opctic cable system. PREPA Networks, LLC currently offers next generation telecommunications services to carriers, internet service providers, and large commercial enterprises. These services include data transmission via Synchronous Optical Network (SONET), metro and long haul Ethernet transport services, wireless last mile, and internet protocol services optimized for voice over internet protocol. PREPA Networks, LLC also offers international fiber optic cable capacity and satellite teleport facilities through the submarine fiber optic cable capacity acquired in 2008.

InterAmerican Energy Sources, LLC was created on May 25, 2007 as a Delaware limited liability company for the purpose of investing, developing, financing, constructing and operating renewable energy projects and other infrastructure related to the optimization of the Authority's electric infrastructure. InterAmerican Energy Sources, LLC is currently not operating.

Consolidated Telecom of Puerto Rico, LLC was created on October 27, 2009, as a Delaware limited liability company, for the purpose of developing, financing, constructing and operating a telecommunications business within or outside of the Commonwealth, directly or indirectly, in relation to the operations of the Authority.

1. Reporting Entity (continued)

Basis of Presentation – Blended Component Units (continued)

Condensed financial information for PREPA Holdings, LLC as of June 30, 2013 and 2012 and for the year then ended is as follows:

	2013	**2012**
	(In thousands)	
Statement of net position:		
Assets:		
Cash and cash equivalents	**$ 9,506**	$ 15,032
Receivables, net	**5,481**	1,577
Prepayments and other assets	**62**	55
Utility plant, net of depreciation	**16,869**	9,427
Other receivables	**14,623**	15,700
Total assets	**$ 46,541**	$ 41,791
Liabilities:		
Accounts payable, net	**$ 22,350**	$ 20,028
Notes payable	**7,294**	8,978
Total liabilities	**$29,644**	$ 29,006
Statements of revenues, expenditures and changes in net position:		
Operating revenues	**$ 14,550**	$ 13,685
Operating expenses	**(10,438)**	(9,560)
	4,112	4,125
Net position, beginning balance	**12,785**	8,660
Net position, ending balance	**$ 16,897**	$ 12,785

2. Summary of Significant Accounting Policies

The following is a summary of the most significant accounting policies followed by the Authority in preparing its financial statements:

Basis of Accounting

The accounting and reporting policies of the Authority conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). As such, it functions as an enterprise fund. The Authority maintains its accounting records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Although the Authority is not subject to all Federal Energy Regulatory Commission (FERC) regulations, the Authority has adopted the uniform system of accounts prescribed by FERC.

The accounting and reporting policies of the Authority conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB*, and AICPA pronouncement effective July 1, 2012. The Authority functions as an enterprise fund and maintains its accounting records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents included in the restricted funds are considered cash equivalents for purposes of the statements of cash flows.

Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions.

Materials, Supplies and Fuel Oil

Materials, supplies and fuel oil inventories are carried at average cost and are stated at the lower of cost or market.

2. Summary of Significant Accounting Policies (continued)

Investments

The Authority follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require the reporting of investments at fair value in the statement of net position and recording changes in fair value in the statements of revenues, expenses and changes in net position. The fair value is based on quoted market prices and recognized pricing services for certain fixed income securities.

The funds under the 1974 Agreement may be invested in:

- Government obligations, which are direct obligations of, or obligations whose principal and interest is guaranteed by the U.S. Government, or obligations of certain of its agencies or instrumentalities.

- Investment obligations of any of the states or territories of the United States or political subdivisions thereof (other than obligations rated lower than the three highest grades by a nationally recognized rating agency) and repurchase agreements with commercial banks fully secured by U.S. Government obligations.

- Time deposits with Government Development Bank for Puerto Rico (GDB) or the Authority's Trustee under the 1974 Agreement or any bank or trust company member of the Federal Deposit Insurance Corporation having a combined capital and surplus of not less than $100 million.

Effective April 1999, the 1974 Agreement was amended to provide that permitted investments of moneys to the credit of the Self-insurance Fund be expanded (subject to the Authority's adoption of an investment policy with the consent of GDB) to coincide with the investments permitted for the pension fund for employees of the Commonwealth of Puerto Rico and its instrumentalities.

Such investments include various debt instruments, such as mortgage loans and leases, common and preferred stock, real property and various other financial instruments.

2. Summary of Significant Accounting Policies (continued)

Utility Plant

Utility plant is carried at cost, which includes labor, materials, overhead, and an allowance for the cost of funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds used to finance construction work in progress. AFUDC is capitalized as an additional cost of property and as a reduction of interest expense. Capitalized interest expense is reduced by interest income earned on related investments acquired with proceeds of tax-exempt borrowings. Such costs are recovered from customers as a cost of service through depreciation charges in future periods. Capitalized interest during the years ended June 30, 2013 and 2012 amounted to $14.1 million and $11.7 million, respectively. These amounts are net of interest income earned on investments amounting to $1.0 million and $.6 million, respectively.

Capital expenditures of $1,200 or more are capitalized at cost at the date of acquisition. Maintenance, repairs, and the cost of renewals of minor items of property units are charged to operating expenses. Replacements of major items of property are charged to the plant accounts. The cost of retired property, together with removal cost less salvage, is charged to accumulated depreciation with no gain or loss recognized.

The Authority follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

Depreciation

Depreciation is computed on the straight-line method at rates considered adequate to allocate the cost of the various classes of property over their estimated service lives. The annual composite rate of depreciation, determined by the Authority's consulting engineers, was approximately 3.58% and 4.25% for 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies (continued)

Unamortized Debt Issuance Expense

Debt issuance expenses and discounts incurred in the issuance of bonds are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related debt.

For debt refunding debt, the excess of reacquisition cost over the carrying value of long-term debt is deferred and amortized to operating expenses using the straight-line method over the remaining life of the original debt or the life of the new debt, whichever is shorter.

Pension Plan

Pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and actual contributions.

Other Postemployment Benefits

Other Postemployment Benefits (OPEB) cost of healthcare provided to employees is measured and disclosed using the accrual basis of accounting (see Note 12).

Accounting for Compensated Absences

Accumulated unpaid vacation and sick leave pay are accrued when earned and an additional amount is accrued as a liability for the employer salary-related benefits associated with compensated absences using salary rates in effect at the statement of net position date.

The cost of compensated absences expected to be paid in the next twelve months is classified as current accounts payable and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition, Fuel Costs and Purchase Power

Clients are billed monthly. Revenues are recorded based on services rendered during each accounting period, including an estimate for unbilled services. Revenues include amounts resulting from a fuel and purchased power cost recovery clause (Fuel Adjustment Clause), which is designed to permit full recovery through customer billings of fuel costs and purchased power. Fuel costs and purchased power are reflected in operating expenses as the fuel and purchased power are consumed.

Contributions in Lieu of Taxes and Governmental Subsidies

The Act exempts the Authority from all taxes that otherwise would be levied on its properties and revenues by the Commonwealth and its Municipalities, except as follows:

Municipalities

To the extent net revenues, as defined, are available, the Authority is required under the Act to make a contribution in lieu of taxes of 11% to the Commonwealth and the Municipalities of gross electric sales as follows:

The Authority is required under the Act to make a contribution in lieu of taxes to municipalities of the greater of:

a) Twenty percent of the Authority’s Adjusted Net Revenues (Net Revenues, as defined in the 1974 Agreement, less the cost of the Commonwealth rate subsidies);
b) The cost collectively of the actual electric power consumption of the municipalities; or
c) The prior five-year moving average of the contributions in lieu of taxes paid to the municipalities collectively.

2. Summary of Significant Accounting Policies (continued)

Contributions in Lieu of Taxes and Governmental Subsidies (continued)

Municipalities (continued)

If the Authority does not have sufficient funds available in any year to pay the contribution in lieu of taxes, the difference is accrued and carried forward for a maximum of three years. The contribution in lieu of taxes to Municipalities can be used to offset accounts receivable balance owed by the Municipalities to the Authority as permitted by law.

Commonwealth of Puerto Rico

To the extent net revenues are available, the Authority is also required under the Act to set aside the remainder of contribution in lieu of taxes of gross electric sales for the purpose of (i) financing capital improvements, (ii) offsetting other subsidies (other than cost of fuel adjustments to certain residential clients) of the Commonwealth, and (iii) any other lawful corporate purpose. Amounts assigned to (ii) above, are classified as a contribution in lieu of taxes in the accompanying statements of revenues, expenses and changes in net position and reduce the related accounts receivable in the statements of net position.

Contributed Capital

The Authority records contributed capital as income in the year earned. The Authority receives contributed capital in the form of cash and property from residential projects developed by third parties during recent years and local and federal agencies.

Risk Management

The Authority purchases commercial insurance covering casualty, theft, tort claims, natural disaster and other claims covering all risk property (excluding transmission and distribution lines), boiler and machinery, boiler, machinery and public liability. In addition, the Authority has a self-insured fund to pay the cost of repairing, replacing or reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under 1974 agreement.

2. Summary of Significant Accounting Policies (continued)

Estimates

The preparation of the basic financial statements in conformity with GAAP 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Interest-Rate Swap Agreements

The Authority follows the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This statement establishes guidance for the recognition, measurement, and disclosure of information regarding derivative instruments.

The interest-rate swaps are used in the area of debt management to take advantage of favorable market interest rates and to limit interest rate risk associated with variable rate debt exposure.

Under the interest-rate swap programs, the Authority pays fixed and variable rates of interest based on various indices for the term of the variable interest rate Power Revenue Bonds and receives a variable rate of interest, which is also based on various indices. These indices are affected by changes in the market. The net amount received or paid under the swap agreements is recorded as an adjustment to interest expense on the statements of revenues, expenses and changes in net position.

3. Cash and Cash Equivalents

The 1974 Agreement established the General Fund, the Revenue Fund, and certain other funds (see Note 5). All revenues (other than income from investments and construction funds obtained from financing) are deposited in these funds. The moneys held in these funds are presented as unrestricted cash and cash equivalents in the statement of net position.

3. Cash and Cash Equivalents (continued)

At June 30, 2013 and 2012, the carrying amount and bank balance of cash deposits held by the Authority and restricted cash deposits held by the Trustee under the 1974 Agreement are as follows (in thousands):

	2013		**2012**	
	Carrying Amount	**Bank Balance**	**Carrying Amount**	**Bank Balance**
Unrestricted	**$122,130**	**$ 49,499**	$199,761	$ 62,630
Restricted:				
Held by the Trustee	**369,381**	**369,381**	337,506	337,506
Held by the Authority	**61,740**	**61,740**	277,757	277,757
	$553,251	**$480,620**	$815,024	$677,893

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Bank's deposits may not be returned. The Commonwealth of Puerto Rico (the Commonwealth) requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in GDB or Economic Development Bank (EDB) are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure the Authority may not be able to recover the deposits. The Authority's policy is to deposit funds with either institution which provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

All moneys deposited with the Trustee or any other Depositary hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

4. Accounts Receivable

At June 30, receivables consist of (in thousands):

	2013	2012
Electric and related services:		
Government agencies and municipalities	**$ 617,649**	$ 429,254
Residential, industrial, and commercial	**884,776**	811,077
Recoveries under fuel adjustment clause under billed	**10,144**	41,224
Unbilled services	**195,278**	226,083
Commonwealth subsidy (fuel adjustment clause) for certain residential clients	**–**	6,326
Miscellaneous accounts and others	**14,611**	37,333
	1,722,458	1,551,297
Allowance for uncollectible accounts	**(251,283)**	(234,335)
	1,471,175	1,316,962
Receivable from insurance companies and other	**37,819**	46,540
Accrued interest on investments	**2,858**	1,060
Less other non-current receivables, mostly related to the Commonwealth	**(117,653)**	(104,780)
	$1,394,199	$1,259,782

On October 29, 1991, the Authority entered into an agreement with the Commonwealth for the payment of the outstanding fuel adjustment subsidy receivable amounting to approximately $94 million. Under this agreement, the Commonwealth was paying that amount over a fifteen-year period in installments of approximately $6.3 million per year, without interest. As of June 30, 2004, the outstanding fuel adjustment subsidy receivable amounted to approximately $31.6 million. In June 2004, the Legislature of the Commonwealth of Puerto Rico superseded the 1991 agreement with a revised agreement containing an eight-year payment schedule that totals $55.7 million. The amount owed to the Authority under the 2004 agreement includes an allocation for past due government account receivables in addition to the unpaid balance of the fuel adjustment subsidy. During the fiscal year ended on June 30, 2013, the Authority received the last installment payment of this agreement which amount to $6.3 million.

4. Accounts Receivable (continued)

In addition, the Authority has other subsidies and reimbursable costs receivable from the Commonwealth, which are reduced by means of charges (accounted for as a contribution in lieu of taxes and to the extent net revenues, as defined, are available) against a portion of the 11% of gross electric sales, after the contribution in lieu of taxes to municipalities, it is required to set aside under the Act. The portion of such receivables and other governmental receivables not expected to be collected during the next fiscal year are reflected in the accompanying statement of net position as other noncurrent receivables.

5. Restricted Assets

At June 30, 2013 and 2012, certain investments and cash deposits of the Authority were restricted to comply with long-term principal and interest debt service requirements (sinking funds) as well as for self-insurance. These restricted assets are held by the Trustee under the 1974 Agreement (see Note 3) in the following funds:

1974 Reserve Account – Reserve for payment of principal of and interest on Power Revenue Bonds in the event moneys in Bond Service Account or Redemption Account are insufficient for such purpose.

1974 Self-Insurance Fund – Fund to pay the cost of repairing, replacing or reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under the 1974 Agreement. The 1974 Self-Insurance Fund also serves as an additional reserve for the payment of the principal of and interest on the Power Revenue Bonds, and meeting the amortization requirements to the extent that moneys in the Bond Service Account, the Redemption Account and the 1974 Reserve Account are insufficient for such purpose. The Authority did not make any deposits into the 1974 Self Insurance Fund during fiscal year 2012-2013. During fiscal years 2011-2012, the Authority deposited $5 million into the 1974 Self-Insurance Fund.

Bond Service Account and Redemption Account (1974 Sinking Fund) – Current year requirements for principal of and interest on Power Revenue Bonds.

5. Restricted Assets (continued)

At June 30, cash, cash equivalents and investments held by the Trustee consist of (in thousands):

	2013		2012	
	Cash and Cash Equivalents	**Investments**	**Cash and Cash Equivalents**	**Investments**
1974 Sinking Fund - Principal	**$194,920**	**$ 569**	$185,974	$ –
1974 Sinking Fund – Interest and Capitalized Interest	**174,461**	**62,344**	141,512	154,548
1974 Reserve Account	**–**	**398,472**	–	401,735
1974 Self-Insurance Fund	**–**	**92,217**	10,020	80,352
	$369,381	**$553,602**	$337,506	$636,635

Investments held by Trustee under the 1974 Agreement are invested exclusively in securities of the U.S. Government and its agencies.

The Authority also has cash and investment securities held by the trust department of a commercial bank restricted for the following purposes:

1974 Construction Fund – Special fund created by the 1974 Agreement. The proceeds of any Power Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing improvements, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1974 Reserve Account, (iii) deposited in the Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1974 Construction Fund and held by the Authority in trust.

Reserve Maintenance Fund – Fund to pay the cost of unusual or extraordinary maintenance or repairs, not recurring annually, and renewals and replacements, including major items of equipment. The Reserve Maintenance Fund also serves as an additional reserve for the payment of principal of and interest on the Power Revenue Bonds and meeting the amortization requirements to the extent that moneys in the 1974 Sinking Fund, including money in the 1974 Reserve Account, are insufficient for such purpose. The Authority did not make any deposits into the 1974 Reserve Account during fiscal years 2012-2013 and 2011-2012.

5. Restricted Assets (continued)

At June 30, 2013 and 2012, the 1974 Construction Fund, Reserve Maintenance Fund and other restricted funds consist of (in thousands):

	2013		**2012**	
	Cash and Cash Equivalents	**Investments**	**Cash and Cash Equivalents**	**Investments**
1974 Construction Fund	**$49,370**	**$ 1,103**	$275,107	$ 1,101
Reserve Maintenance Fund	**–**	**15,818**	–	15,809
Other Restricted Funds	**12,370**	**–**	1,900	–
PREPA Client Fund	**–**	**4,759**	750	2,002
	$61,740	**$21,680**	$277,757	$18,912

Following is the composition of the investments in the 1974 Construction Fund and other special funds (in thousands):

	2013	**2012**
U.S. Government obligations	**$ 1,103**	$ 1,101
Certificate of deposit	**20,577**	17,811
	$21,680	$18,912

5. Restricted Assets (continued)

Investments

The following table provides a summary of the Authority's investments by type at June 30, 2013 (in thousands):

June 30, 2013

	Coupon Rate	Maturity Dates		Face Value	Fair Value	% of Total Portfolio
1974 Reserve Maintenance Fund						
Federal National Mortgage Association	0.52%	Feb-16	$	5,000	$ 4,972	31.4%
Federal Farm Credit Bank	0.44%	Oct-15		5,000	4,983	31.5%
Certificate of Deposits	0.15%	Sep-13		5,863	5,863	37.1%
				Total Portfolio	15,818	
1974 Self Insurance Reserve Fund						
Federal Home Loan Mortgage Corp.	5.00 to 6.50%	08/2021 to 11/2028		4,294	4,642	5.0%
Federal National Mortgage Association	.52 to 6.00%	02/2016 to 03/2030		20,432	21,186	23.0%
Federal Farm Credit Bank	.42 to .45%	10/2015 to 05/2016		45,000	44,724	48.5%
Corporate Issues	3.45 to 8.50%	12/2017 to 02/2023		8,770	9,387	10.2%
US Bank Money Market	0.10%	Aug-13		754	754	0.8%
US Treasury Nt.	8.13%	Aug-21		290	429	0.5%
Domestic Common Stocks	Various	Various		8,549	9,787	10.6%
Certificate of Deposit	0.140%	Aug-13		1,309	1,308	1.4%
				Total Portfolio	92,217	
1974 Reserve Account						
Federal Home Loan Mortgage Corporation	.90 to 5.00%	02/2016 to 12/2017		48,195	47,688	12.0%
Federal Home Loan Bank	.25 to 5.625%	02/2015 to 06/2018		24,431	25,097	6.3%
Federal National Mortgage Association	.50 to 4.625%	10/2013 to 08/2021		78,677	80,532	20.2%
Federal Farm Credit Bank	.235 to 1.08%	05/2013 to 02/2018		25,700	25,193	6.3%
US Bank Money Market	.04 to .10%	Various		4,421	4,421	1.1%
US Treasury Nt.	.25 to 4.625%	03/2014 to 02/2018		122,915	122,874	30.9%
Corporate Issues	.30 to 6.375%	07/2013 to 06/2018		72,595	74,873	18.8%
Certificates of Deposits	.25 to .45%	Jul-13		17,794	17,794	4.5%
				Total Portfolio	398,472	
1974 Sinking Fund - Principal	0.040%	Jul-13		569	569	100%
US Bank Money Market				Total Portfolio	569	
Sinking Fund - Capitalized Interest						
Federal Home Loan Mortgage Corporation	.625 to .75%	11/2014 to 20/2014		1,800	1,808	3.9%
Federal National Mortgage Association	.75 to 4.625%	10/2013 to 12/2014		7,530	7,586	16.3%
US Bank Money Market	0.100%	8/2013 to 09/2013		2,268	2,268	4.9%
Municipal Issues	.30 to 6.875%	7/2013 to 01/2015		49,750	50,182	108.2%
Corporate Issues	0.438%	Nov-13		500	500	1.1%
				Total Portfolio	62,344	
1974 PREPA Client						
Certificates of Deposits				-	4,759	100.0%
				Total Portfolio	4,759	
1974 Construction Fund						
Other - Rural Electrication Administration (REA)					1,103	100.0%
				Total Portfolio	1,103	
					$ 575,282	

5. Restricted Assets (continued)

Investments (continued)

The following table provides a summary of the Authority's investments by type at June 30, 2012 (in thousands):

June 30, 2012

	Coupon Rate	Maturity Dates	Face Value	Fair Value	% of Total Portfolio
1974 Reserve Maintenance Fund					
Federal National Mortgage Association	0.70%	Mar-15	$ 5,000	$ 5,005	31.7%
Certificate of Deposits	.16 to .19%	7/2012 to 9/2012	10,804	10,804	68.3%
			Total Portfolio	15,809	
1974 Self Insurance Reserve Fund					
Federal Home Loan Mortgage Corp.	5.00%	Mar-23	1,386	1,489	1.9%
Federal National Mortgage Association	.60 to 5.50%	10/2014 to 06/2024	39,987	40,761	50.7%
Federal Farm Credit Bank	0.60%	May-15	10,000	10,004	12.5%
Corporate Issues	.60 to 8.50%	9/2014 to 08/2019	10,320	12,046	15.0%
Certificate of Deposit	0.170%	Jul-12	16,052	16,052	20.0%
			Total Portfolio	80,352	
1974 Reserve Account					
Federal Home Loan Mortgage Corporation	1.10 to 1.30%	1/2017 to 02/2017	25,000	25,148	6.3%
Federal Home Loan Bank	1.240%	Mar-17	20,000	20,027	5.0%
Federal National Mortgage Association	1.20 to 1.75%	10/2016 to 05/2017	75,000	75,235	18.7%
Federal Farm Credit Bank	1.19 to 1.30%	03/2017 to 05/2017	40,000	40,135	10.0%
Certificates of Deposits	.14 to .40%	07/2012 to 08/2012	241,190	241,190	60.0%
			Total Portfolio	401,735	
Sinking Fund - Capitalized Interest					
Federal Home Loan Mortgage Corporation	0.625%	Dec-12	14,060	14,089	9.1%
Federal Home Loan Bank	.87 to 2.00%	08/2012 to 11/2012	10,600	10,632	6.9%
Federal National Mortgage Association	.375 to 1.00%	10/2012 to 12/2012	10,535	10,551	6.8%
US Bank Money Market	.039 to 1.00%	7/2012 to 09/2012	108,404	108,404	70.1%
US Treasury Note	0.625%	Jun-12	1,000	1,000	0.6%
Corporate Issues	.55 to 6.375%	Jul-12	9,780	9,872	6.4%
			Total Portfolio	154,548	
1974 PREPA Client					
Certificates of Deposits			2,002	2,002	100.0%
			Total Portfolio	2,002	
1974 Construction Fund					
Other - Rural Electrication Administration (REA)			1,101	1,101	100.0%
			Total Portfolio	1,101	
				$ 655,547	

5. Restricted Assets (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The 1974 Trust Agreement limits investments in:

- Government obligations, which are direct obligations of, or obligations whose principal and interest is guaranteed by the U.S. Government, or obligation of certain of its agencies or instrumentalities.
- Investment obligation of any of the states or territories of the United States or political subdivisions therefore (other than obligations rated lower than the three highest grades by a nationally recognized rating agency) and repurchase agreements with commercial banks fully secured by U.S. Government Obligations.
- Time deposits with GDB or the Authority's Trustee under the 1974 Agreement or any bank or trust company member of the Federal Deposit Insurance Corporation having a combined capital and surplus of not less than $100 million.
- Self-insurance fund (sinking fund) and PREPA client fund are allowed to invest in corporate issues, with certain restrictions (40% of the total fixed income portfolio).

As of June 30, 2013, the Authority's investments in Federal Home Loan Mortgage, Federal Home Loan Bank, Federal National Mortgage Association and Federal Farm Credit Bank and Freddie Mac were rated AA+ by Standard & Poor's (S&P) and Aaa by Moody's Investors Service.

Concentration Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer by five percent or more of total investment. The Authority's investment policy does not contain a limitation to invest in the securities of single issuer. As June 30, 2013, more than 5% of the Authority's total investments are in Federal Home Loan Mortgage, Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Certificate of Deposits.

5. Restricted Assets (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the 1974 Trust Agreement, the Authority manages its exposure to declines in fair values by limiting the maturity of its investment portfolio up to 5 years. Information about the sensitivity of the fair values of the Authority's investment to market interest fluctuations is provided by the following tables that show the distribution of the investments by maturity as of June 30, 2013 and 2012 (in thousands):

June 30, 2013

		Investment Maturities		
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**Total**
Federal Home Loan Mortgage Corporation	**$ 54,138**	**$ –**	**$ 54,138**	**$ 54,138**
Federal Home Loan Bank	**25,097**	**–**	**25,097**	**25,097**
Federal National Mortgage Association	**114,275**	**–**	**114,275**	**114,275**
Federal Farm Credit Bank	**74,900**	**715**	**74,185**	**74,900**
Certificate of Deposits	**29,725**	**29,725**	**–**	**29,725**
Other-REA Investment	**1,103**		**1,103**	**1,103**
US Treasury Note	**123,303**	**123,303**	**–**	**123,303**
US Bank Money Market	**8,012**	**8,012**	**–**	**8,012**
Municipal Issues	**50,182**	**13,717**	**36,465**	**50,182**
Domestic Common Stocks	**9,787**	**–**	**–**	**9,787**
Corporate Issues	**84,760**	**14,871**	**69,889**	**84,760**
Total Investments				**$ 575,282**

5. Restricted Assets (continued)

Interest Rate Risk (continued)

June 30, 2012

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Investment Maturities: 1-5 years	Total
Federal Home Loan Mortgage Corporation	$ 40,726	$ 14,089	$ 26,637	$ 40,726
Federal Home Loan Bank	30,659	10,632	20,027	30,659
Federal National Mortgage Association	131,552	10,551	121,001	131,552
Federal Farm Credit Bank	50,139	–	50,139	50,139
Certificate of Deposits	270,047	270,047	–	270,047
Other-REA Investment	1,101	–	1,101	1,101
US Treasury Note	1,000	1,000	–	1,000
US Bank Money Market	108,404	108,404	–	108,404
Corporate Issues	21,919	9,873	12,046	21,919
Total Investments				$ 655,547

6. Utility Plant

As of June 30, utility plant consists of:

	2013	2012
	(In thousands)	
Distribution	**$ 3,770,419**	$ 3,582,507
Transmission	**2,168,381**	2,061,408
Production	**2,764,986**	2,713,145
Other production	**1,472,402**	1,527,748
Hydroelectric	**136,182**	135,821
General	**1,563,236**	1,628,416
Irrigation systems	**34,324**	34,150
Fiber Network	**27,445**	20,106
	11,937,375	11,703,301
Less accumulated depreciation	**(6,098,403)**	(5,768,095)
	5,838,972	5,935,206
Construction in progress	**999,586**	863,970
	$ 6,838,558	$ 6,799,176

6. Utility Plant (continued)

Utility plant activity for the years ended June 30, 2013 and 2012 was as follows (in thousands):

	2012 Beginning Balance	**Increases**	**Decreases**	**Transfers**	**2013 Ending Balance**
Utility plant	**$11,703,301**	**$ –**	**$(14,345)**	**$ 248,419**	**$11,937,375**
Construction work in progress	**863,970**	**384,035**	**–**	**(248,419)**	**999,586**
Total utility plant, as restated	**12,567,271**	**384,035**	**(14,345)**	**–**	**12,936,961**
Less:					
Accumulated depreciation	**(5,768,095)**	**(344,653)**	**14,345**	**–**	**(6,098,403)**
Total utility plant, net as restated	**$ 6,799,176**	**$ 39,382**	**$ –**	**$ –**	**$ 6,838,558**

	2011 Beginning Balance	**Increases**	**Decreases**	**Transfers**	**2012 Ending Balance**
Utility plant	$ 11,156,611	$ –	$(10,924)	$ 557,614	$ 11,703,301
Construction work in progress	1,020,437	401,147	–	(557,614)	863,970
Total utility plant, as restated	12,177,048	401,147	(10,924)	–	12,567,271
Less:					
Accumulated depreciation	(5,364,446)	(414,573)	10,924	–	(5,768,095)
Total utility plant, net as restated	$ 6,812,602	$ (13,426)	$ –	$ –	$ 6,799,176

Construction work in progress at June 30, 2013 and 2012 consists principally of expansions and upgrades to the electric generation, distribution and transmission systems.

7. Defeasance of Debt

In prior years, the Authority has refunded in advance certain Power Revenue Bonds and other obligations by placing the proceeds of new debt in an irrevocable trust to provide for future debt service payments on such bonds. Accordingly, the trust accounts, assets, and liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2013, $3,951.6 million of Power Revenue Bonds which remain outstanding are considered defeased.

8. Notes Payable

The following is a summary of notes payable as of June 30, 2013 (in thousands):

June 30, 2013					
	Maturity Date	**Effective Interest Rate**	**Current Liabilities**	**Long-Term Debt**	**Total**
Notes payable, unrestricted:					
Line of credit of $64.2 million to fund payments required under a settlement agreement with municipalities	**June 2014**	**.70%+LIBOR (V)**	**$ 9,700**	$ –	**$ 9,700**
Revolving line of credit of $250 million to finance working capital	**Oct 2014**	**2.80%+LIBOR (V)**	**249,138**	–	**249,138**
Revolving line of credit of $500 million to finance working capital	**Aug 2013**	**2.25%+LIBOR (V)**	**495,242**	–	**495,242**
Line of credit of $25 million to finance improvements to Isabela Irrigation System	**June 2018**	**7.00% (V)**	**743**	–	**743**
P.R. (ULTRACOM)	**Feb 2023**	**3.25% (F)**	**842**	**7,294**	**8,136**
			755,665	**7,294**	**762,959**
Notes payable, restricted:					
Revolving line of credit of $100 million to fund swap's collateral posting			**6,100**	**–**	**6,100**
Total notes payable			**$761,765**	**$7,294**	**$769,059**

(V) – *variable interest rate*
(F) – *fixed interest rate*

8. Notes Payable (continued)

The following is a summary of notes payable as of June 30, 2012 (in thousands):

June 30, 2012	Maturity Date	Effective Interest Rate	Current Liabilities	Long-Term Debt	Total
Notes payable, unrestricted:					
Line of credit of $64.2 million to fund payments required under a settlement agreement with municipalities	June 2014	.70%+LIBOR (V)	$ 9,700	$10,458	$ 20,158
Loan of $41.5 to sale at discount the funds assigned by the Legislature of Puerto Rico through Joint Resolution 1290 of August 24, 2004, to pay the amount owed by the Commonwealth regarding the fuel subsidy	Nov 2012	4.375% (V)	4,901	–	4,901
Revolving line of credit of $210 million to finance working capital	Jul 2012	1.75%+LIBOR (V)	140,000	–	140,000
Revolving line of credit of $500 million to finance working capital	May 2013	1.75%+LIBOR (V)	399,995	–	399,995
Revolving line of credit of $50 million to finance fuel oil purchases	Jun 2012	6.00% (F)	49,031	–	49,031
Line of credit of $25 million to finance improvements to Isabela Irrigation System	June 2018	7.00% (V)	750	–	750
P.R. (ULTRACOM)	Feb 2023	3.25% (F)	842	8,136	8,978
Total notes payable			$605,219	$18,594	$623,813

(V) – *variable interest rate*
(F) – *fixed interest rate*

8. Notes Payable (continued)

Short-term debt activity for the years ended June 30, 2013 and 2012 was as follows:

	2013	2012
	(In thousands)	
Balance at beginning of year	**$ 605,219**	$ 193,700
Proceeds and transfers from long-term debt	**1,512950**	855,507
Payment of short-term debt	**(1,356,404)**	(443,988)
Balance at end of year	**$ 761,765**	$ 605,219
Notes payable – short-term:		
Unrestricted	**$ 755,665**	$ 605,219
Restricted	**6,100**	–
Total of notes payable	**$ 761,765**	$ 605,219

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2013 and 2012 were as follows:

	2013	2012
	(In thousands)	
Accounts payable, accruals, and withholdings in process of payment	**$ 791,680**	$ 650,759
Additional accruals and withholdings:		
Injuries and damages and other	**20,400**	21,396
Accrued vacation and payroll benefits	**56,179**	62,719
Accrued sick leave and payroll benefits - exclusive of benefits to be liquidated after one year of approximately $122.4 million in 2013 and $139.9 million in 2012	**31,576**	19,770
Accrued compensation	**26,432**	25,786
Accrued pension plan contribution and withholding from employees:		
Employees' Retirement System	**18,054**	17,679
Employees health plan	**6,275**	23,246
Contribution in lieu of taxes	**323,622**	189,900
Other accrued liabilities	**26,810**	27,408
	$1,301,028	$ 1,038,663

10. Other Current Liabilities Payable from Restricted Assets

	2013	2012
	(In thousands)	
Contract retainage	**$ 7,173**	$ 8,738
Other liabilities	**32,421**	42,808
	$ 39,594	$ 51,546

11. Long-Term Debt

At June 30, long-term debt consists of:

	2013	2012
	(In thousands)	
Power Revenue Bonds payable:		
Publicly offered at various dates from 1997 to 2012, interest rates ranging from 2% to 6.25%, maturing to 2042	**$8,048,485**	$8,234,090
Plus unamortized premium and debt reacquisition costs	**78,148**	77,599
Revenue bonds payable, net	**8,126,633**	8,311,689
Notes payable and bond anticipation notes	**769,059**	623,813
	8,895,692	8,935,502
Less current portion of long-term debt:		
Notes payable from unrestricted assets	**755,665**	605,219
Notes payable from restricted assets	**6,100**	–
Power revenue bonds	**399,215**	379,975
Total current portion of long-term debt	**1,160,980**	985,194
	$7,734,712	$7,950,308

11. Long-Term Debt (continued)

Long-term debt activity for the years ended June 30, 2013 and 2012 was as follows:

	2013	**2012**
	(In thousands)	
Long-term debt excluding current portion	**$ 8,935,502**	$8,088,988
New issues:		
Power revenue bonds	–	630,110
Power revenue refunding bonds	–	19,890
Debt discount and excess reacquisition costs on new bond issues, net	–	(4,751)
Defeasance of bonds	–	(21,345)
Debt discount and excess reacquisition costs on cancelled bonds, – net	–	(499)
Notes payable	**1,501,656**	866,648
	10,437,158	9,579,041
Payments:		
Power revenue bond – July 1	**(185,605)**	(175,455)
Notes payable	**(1,356,411)**	(470,572)
Total payments	**(1,542,016)**	(646,027)
Amortization of debt discount and excess reacquisition costs	**550**	2,488
Balance at end of year	**$ 8,895,692**	$8,935,502
Current portion of notes payable	**$ 761,765**	$ 605,219
Current portion of power revenue bonds	**399,215**	379,975
Total current portion of long-term debt	**$ 1,160,980**	$ 985,194

11. Long-Term Debt (continued)

Power Revenue Bonds Payable

During fiscal year 2012, the Authority issued its Power Revenue Bonds, Series 2012A and 2012B. A summary of the net proceeds of the Power Revenue Bonds, Series 2012A and 2012B and the application of the proceeds follows (in thousands):

Sources:	
Principal amount of the bonds	$ 650,000
Net original issue premium	(597)
Other available moneys	382
Total sources	$ 649,785
Application of net proceeds:	
Deposit to 1974 construction fund	$ 359,529
Deposit to reserve account	17,183
Deposit to escrow fund for the refunded bonds	22,130
Capitalized interest	82,556
Payment of Line of Credit and accrued interest	161,901
Underwriting discount and estimated legal, printing and other financing expenses	6,486
Total application of proceeds	$ 649,758

11. Long-Term Debt (continued)

Power Revenue Bonds Payable (continued)

Maturities of the Power Revenue Bonds Series 2012A, issued during fiscal year 2012 range July 1, 2028 to July 1, 2042. The Series 2012A bear fixed interest rates ranging from 5.95% to 6.25%. Interest on the Series 2012A is payable on each July 1 and January 1.

Maturity of Power Revenue Bonds Series 2012B issued during fiscal year 2012 is July 1, 2016. The Series 2012B bear a fixed interest rates ranging from 2.50% to 5.00%. Interest on the Series 2012B is payable on each July 1 and January 1.

The Authority has issued Power Revenue Bonds pursuant to the 1974 Agreement principally for the purpose of financing the cost of improvements; as such term is defined in the 1974 Agreement, and subject to the conditions and limitations set forth therein.

In the 1974 Agreement, the Authority covenants to fix, charge, and collect rates so that revenues will be sufficient to pay current expenses and to provide the greater of (i) the required deposits or transfers under the Sinking Fund, the 1974 Self-insurance Fund and the Reserve Maintenance Fund or (ii) 120% of the aggregate principal and interest requirements for the next fiscal year on account of all outstanding Power Revenue Bonds.

Gross revenues, exclusive of income on certain investments, less current expenses as defined in the Agreement have been pledged to repay Power Revenue Bonds principal and interest.

Bond Anticipation Notes

Bond anticipation notes (BANs) are used primarily to provide interim construction financing and are usually retired with the proceeds of long-term debt.

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements

To protect against the potential of rising interest rates, the Authority entered into quarterly separate pay-fixed, receive-variable interest-rate swaps at a cost anticipated to be less than what the Authority would have paid to issue fixed-rate debt. On June 30, 2013 and 2012, the Authority had the following derivative instruments outstanding: (in thousands)

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
A	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	$ 25,525	5/3/2007	7/1/2017	Pay 4.014%; receive 5Y SIFMA	Aa3/A+
B	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	17,000	5/3/2007	7/1/2018	Pay 4.054%; receive 5Y SIFMA	Aa3/A+
C	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	29,055	5/3/2007	7/1/2020	Pay 4.124%; receive 5Y SIFMA	Aa3/A+
D	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	14,570	5/3/2007	7/1/2025	Pay 4.232%; receive 67% 3M LIBOR + 0.68%	Aa3/A+
E	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	169,532	5/3/2007	7/1/2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	Aa3/A+
F	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	72,800	5/3/2007	7/1/2031	Pay 4.286%; receive 67% 3M LIBOR + 0.70%	Aa3/A+
G	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	83,343	5/3/2007	7/1/2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	A2/A
H	Basis Swap Goldman Sachs	Hedges tax risk on underlying fixed rate bonds (various) and provides expected positive cash flow accrual	500,000	7/1/2008	7/1/2037	Pay SIFMA; receive 62% 3M LIBOR + 0.29% + 0.4669%	A2/A
I	Basis Swap Deutsche Bank	Hedges tax risk on underlying fixed rate bonds (various) and provides expected positive cash flow accrual	200,000	5/10/2012	7/1/2037	Pay SIFMA; receive 62% 3M LIBOR + 0.29% + 0.4669%	A2/A
J	Basis Swap Royal Bank of Canada	Hedges tax risk on underlying fixed rate bonds (various) and provides expected positive cash flow accrual	300,000	5/10/2012	7/1/2037	Pay SIFMA; receive 62% 3M LIBOR + 0.29% + 0.4669%	Aa3/AA-
K	Commodity Swap JP Morgan	Hedge Fuel Cost	1,675	10/1/2012	10/1/2013	N.Y. Harbor No. 6 1% Cargo	Aa3/A+
L	Commodity Swap Macquire Bank	Hedge Fuel Cost	129	7/1/2012	7/1/2013	N.Y. Harbor No. 6 1% Cargo	A2/A
M	Commodity Swap Morgan Stanley	Hedge Fuel Cost	225	10/1/2012	10/1/2013	N.Y. Harbor No. 6 1% Cargo	Baa2/A-
N	Commodity Swap Scotiabank	Hedge Fuel Cost	175	7/1/2012	7/1/2013	N.Y. Harbor No. 6 1% Cargo	Aa2/A+
		Total	$ 1,414,029				

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements (continued)

Derivative instruments A through G hedge changes in cash flows of the underlying bonds – floating rate notes with coupons based on 5-year SIFMA or 67% of 3-month LIBOR index, and maturities equal to the maturities of the corresponding swaps. As such they are considered hedging derivative instruments. The total fair value of these instruments as of June 30, 2013 is negative $71.0 million.

The following tables include fiscal years 2013 and 2012 summary information for the Authority's effective hedges related to the outstanding swap agreements.

	Changes in Fair Value		Fair Value at June 30, 2013		
Instrument Type	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Interest Rate Swap	Deferred Outflows	**$ 37,468**	Fair value of derivative instruments	**$ (70,970)**	**$ 411,825**
Basis Swap	Deferred Outflows	**(4,743)**	Fair value of derivative instruments	**(7,612)**	**1,000,000**
Commodity Swap	Deferred Outflows	**(6,422)**	Fair value of derivative instruments	**(6,422)**	**2,195**
	Total	**$ 26,303**		**$ (85,004)**	**$ 1,414,020**

	Changes in Fair Value		Fair Value at June 30, 2012		
Instrument Type	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Interest Rate Swap	Deferred Outflows	$ (56,152)	Fair value of derivative instruments	$ (108,438)	$ 411,825
Basis Swap	Deferred Outflows	13,986	Fair value of derivative instruments	(2,869)	1,150,000
	Total	$ (42,166)		$ (111,307)	$ 1,561,825

The terms, fair values and credit ratings of the outstanding interest-rate swaps as of June 30, 2013, were as follows (in thousands) (excludes basis swap):

					Fair Value	
Associated Power Revenue Bonds	**6/30/2012**	**Effective Date**	**Maturity Date**	**Fixed Rate**	**2013**	**2012**
LIBOR Bonds, Series UU	$ 169,532	3-May-07	2-Jul-29	4.080%	**$ (31,846)**	$ (48,006)
LIBOR Bonds, Series UU	14,570	3-May-07	1-Jul-25	4.232%	**(2,441)**	(3,454)
LIBOR Bonds, Series UU	72,800	3-May-07	1-Jul-31	4.286%	**(14,529)**	(22,271)
LIBOR Bonds, Series UU	83,343	3-May-07	2-Jul-29	4.080%	**(15,621)**	(24,173)
Muni-BMS Bonds, Series UU	25,525	3-May-07	3-Jul-17	4.014%	**(2,071)**	(3,212)
Muni-BMS Bonds, Series UU	17,000	3-May-07	2-Jul-18	4.054%	**(1,523)**	(2,409)
Muni-BMS Bonds, Series UU	29,055	3-May-07	1-Jul-20	4.124%	**(2,939)**	(4,913)
Total	$ 411,825				**$ (70,970)**	$ (108,438)

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements (continued)

The notional amounts of the swaps match the principal amounts of the associated Power Revenue Bonds.

During fiscal years 2012-2013 and 2011-2012, the payments of fixed rate interest from the Authority exceeded the amount received as variable interest rate from swap counter parties by $16.9 million and $17.0 million, respectively.

Using rates as of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term. These debt service requirements are included in the scheduled maturities of long-term debt disclosed further on this note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Principal	Interest	Interest-Rate Swap, Net	Total
		(In thousands)		
2014	$ –	$ 3,673	$ 13,293	$ 16,966
2015	–	3,673	13,293	16,966
2016	–	3,673	13,293	16,966
2017	–	3,673	13,293	16,966
2018	–	3,673	13,293	16,966
2019-2031	411,825	37,780	138,927	588,532
Total	$ 411,825	$ 56,145	$ 205,392	$ 673,362

As of June 30, 2013 and 2012, the swaps had a negative fair value of approximately $70.9 million and $108.4 million, respectively. The negative fair value of the swaps may be countered by reduction in future net interest payments required on the variable-rate Power Revenue Bonds, creating higher synthetic rates.

As of June 30, 2013 and 2012, the Authority was not exposed to credit risk because the swaps had a negative fair value in the amount of the swaps' fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swaps counterparties were rated A2 and Aa3 as issued by Moody's Investor Services (Moody's), AA- and A+ by Standard & Poors (S&P), and A and A+ by Fitch Ratings.

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements (continued)

The derivative contract uses the International Swaps and Derivatives Association, Inc. master agreement, which includes standard termination events, such as failure to pay bankruptcy. The Authority or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts. Also, the swaps may be terminated by the Authority if the counterparties' credit quality rating falls below Baa1 as issued by Moody's or BBB+ as determined by S&P. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Basis Swap Agreement

In March 2008 (with effective date of July 1, 2008), the Authority entered into a basis swap agreement in the notional amount of $1,375 million with an amortization schedule matching certain maturities of the Authority's outstanding power revenue and revenue refunding bonds issued in various years from 2027 to 2037 (the 2008 basis swap). Under the terms of a master swap agreement, the Authority receives from its counterparty (Goldman Sachs Capital Markets, L.P., an affiliate of Goldman, Sachs & Co.) quarterly, commencing on October 1, 2008, a floating amount applied to said notional amount at a rate equal to 62% of the taxable London Inter-Bank Offering Rate (LIBOR) index reset each week plus 29 basis points (hundredths of a percent) and a fixed rate payment of 0.4669% per annum (the "basis annuity"), quarterly for the term of swap in return for quarterly payments by the Authority, commencing also on October 1, 2008, on such notional amount at a rate based on the Securities Industry and Financial Markets Association (SIFMA) municipal swap index.

On May 10, 2012, the Authority terminated a portion of notional amount of the 2008 basis swap by $225 million. In addition, the Authority entered into novation transactions to transfer the counterparty from Goldman, Sachs & Co to Deutsche Bank and Royal Bank of Canada the following notional amounts $200 million and $400 million, respectively. In addition, on April 2013 and June 2013, the Authority terminated $100 million in notional amount with Royal Bank of Canada and $50 million in notional amount with Goldman Sachs, respectively. The current outstanding notional of the Basis Swap Agreement is $1.0 billion.

The basis swap hedges the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates. Because of the tax-exemption, tax-exempt bonds trade at yields lower than taxable yields. The percent at which tax-exempt yields trade relative to taxable yields (UST or LIBOR) is referred to as MMD ratios or muni-bond ratios.

11. Long-Term Debt (continued)

Basis Swap Agreement (continued)

In order to assess effectiveness of the basis swap as a hedge, the Authority ran a regression of SIFMA ratios (as an independent variable) and MMD ratios (as dependent variable), adjusting to the specific circumstances. The result showed a high correlation. The method used can be qualified as Other Quantitative Method.

Because the MMD ratios and SIFMA ratios reflected respectively the change in the relative value of the tax-exempt rates to taxables in the bond market and the SIFMA swap market, the Authority concluded that the regression showed that the SIFMA swap could effectively hedge the bond's value attributable to basis risk between tax-exempt and taxables and, therefore, the basis swap was considered an effective hedge instrument under GASB 53.

By using derivative financial instruments to hedge the exposure to changes in interest rates, the Authority exposes itself to credit risk, market-access risk and basis risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value of the derivative contract is negative, the Authority owes to the counterparty and, therefore, does not pose credit risk to the Authority. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is acceptable under the investment policies of the Authority and of Government Development Bank for Puerto Rico (GDB), its fiscal agent.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with an interest rate swap contract is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Authority assesses market risk by continually identifying and monitoring changes in interest rate exposures that may adversely affect expected interest rate swap contract cash flows and evaluating other hedging opportunities. The Authority and GDB maintain risk management control systems to monitor interest rate cash flow risk attributable to both the Authority's outstanding or forecasted debt obligations as well as the Authority's offsetting hedge positions.

11. Long-Term Debt (continued)

Basis Swap Agreement (continued)

Basis risk arises when different indices are used in connection with a derivative instrument such as an interest rate swap contract. The 2008 basis swap exposes the Authority to basis risk should the relationship between LIBOR and the SIFMA municipal swap index converge. If a change occurs that results in the relationship moving to convergence, the expected financial benefits may not be realized. The Authority assesses basis risk by following the aforementioned market risks control system.

During the fiscal years 2012-2013 and 2011-2012, the Authority received from its counterparty $9.1 million and $10.6 million, respectively. The following table shows the cash flow benefit of the basis annuity in exchange for the Authority taking tax and other basis risks tied to the change in the relationship between LIBOR and the SIFMA municipal swap index.

	2012-2013	**2011-2012**
	(In thousands)	
Basis annuity received	**$ 2,510**	$ 5,194
LIBOR index amounts received	**8,188**	7,291
SIFMA index amounts paid	**(1,589)**	(1,877)
Net amount received	**$ 9,109**	$ 10,608

As of June 30, 2013 and 2012, the 2008 basis swap had a negative fair value to the Authority of approximately $7.6 million and $2.8 million, respectively. The negative fair value of the basis swap may be viewed as a reduction in future benefits to be received from the counterparty.

According to the Credit Support Annex of the Master Swap Agreement, the Authority shall post eligible collateral on the next business day upon notification from its counterparty, if the fair value of the 2008 basis swap is negative and exceeds the threshold amount. This amount is determined by the Authority’s credit ratings with Moody’s Investors Service and Standard & Poor’s. Based on the Authority’s ratings, the collateral posting threshold is zero. As of June 30, 2013, the Authority posted $7.6 million in collateral due to the fair value of the basis swap at that date.

The Authority and GDB entered into an agreement for a $100 million revolving line of credit to meet collateral posting requirements from the 2008 basis swap and interest rate swaps. As of June 30, 2013, there was $6.1 million outstanding in this line of credit.

As of June 30, 2013 and 2012, negative fair values of the derivative instruments are $85.0 million and $111.3 million, respectively.

11. Long-Term Debt (continued)

Commodity Swap Agreement

During the fiscal year 2012, the Authority entered into a 2012 Commodity Swap Agreement that provides it with protection against increased in the price of fuel of oil No. 6. Under these contracts which cover 10.2 million barrels. The notional amount of the swaps matches the barrel of fuel.

The premium amount established for this swap is $29.2 million, which is being amortized from June 2012 to October 2013.

The Authority paid to its counterparties $21.9 million and $141,500 for fiscal year 2013 and 2012, respectively. This derivative instruments as of June 30, 2013 had a negative fair value of $6.4 million.

Scheduled Maturities of Long-Term Debt

The scheduled maturities of long-term debt with interest thereon at June 30, 2013, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
		(In thousands)	
2014	$ 1,160,980	$ 391,582	$ 1,552,572
2015	215,262	380,066	595,318
2016	224,877	368,957	593,834
2017	238,207	357,291	595,498
2018	249,535	344,944	594,479
2019-2023	1,453,253	1,525,550	2,978,803
2024-2028	1,847,110	1,127,715	2,974,825
2029-2033	1,410,060	687,676	2,097,736
2034-2038	1,027,965	413,829	1,441,794
2039-2042	990,295	116,929	1,107,224
Total	8,817,544	5,714,539	14,532,083
Less:			
Unamortized discount and premium	(170,427)	–	(170,427)
Excess reacquisition costs	92,279	–	92,279
Interest	–	5,714,539	(5,714,539)
Total long-term debt	8,895,692		8,895,692
Current portion, net of discount and excess	(399,215)	–	(399,215)
reacquisition costs of bonds	(761,765)	–	(761,765)
Current portion of notes payable			
Total current portion	(1,160,980)	–	(1,160,980)
Long-term debt, excluding current portion	$ 7,734,712	$ –	$ 7,734,712

12. Employees' Retirement Benefits

Pension Plan

Plan Description

All of the Authority's permanent full-time employees are eligible to participate in the Authority's Pension Plan, a single employer defined benefit pension plan (the Plan) administered by the Employees' Retirement System of the Puerto Rico Electric Power Authority (the System). The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System of the Puerto Rico Electric Power Authority, PO Box 13978, San Juan, Puerto Rico 00908-3978.

Benefits include maximum retirement benefits of 75% of average basic salary (based on the three highest annual basic salaries) for employees with 30 years of service; also, reduced benefits are available upon early retirement. The Plan was amended on February 9, 1993 to provide revised benefits to new employees limiting the maximum retirement basic salary to $50,000. The plan was further amended in January 1, 2000 to provide improved retirement benefits to employees with 25 years or more of credited service. Disability and death benefits are also provided. Separation benefits fully vest upon reaching 10 years of credited service.

If a member's employment is terminated before he becomes eligible for any other benefits under this Plan, he shall receive a refund of his member contribution plus interest compounded annually. The Plan is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA).

Funding Policy and Annual Pension Cost

The contribution requirements of plan members and the Authority are established and may be amended by the Authority. The Annual Pension Cost (APC) and the Annual Required Contribution (ARC) were computed as part of an actuarial valuation performed as of June 30, 2012 and projected to June 30, 2013, based on current year demographic data.

12. Employees' Retirement Benefits (continued)

The Authority's annual pension cost for the year ended June 30, 2013 and related information for the Plan and supplemental benefits follows:

	Pension Plan
Contribution rates:	
Authority	25.78%
Average Plan members	10.34%
Annual pension cost (thousands)	$89,719
Contributions made and accruals (thousands)	$89,405
Actuarial valuation date	6/30/2011
Actuarial cost method	Individual: Entry Age Normal
Amortization method	Level percentage of pay, closed (4% payroll increases per year)
Remaining amortization period	29 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return (net of administrative expenses)*	8.5%
Projected salary increases*	4.10% – 5.40% depending on age
*Includes inflation at	3.0%
Cost-of-living adjustments	8% per year for yearly pension up to $3,600 and 4% per year for yearly pension between $3,600 and $7,200, 2% per year for yearly pension in excess of $7,200. The minimum adjustment is $300 per year. The maximum is $600 per year.

12. Employees' Retirement Benefits (continued)

Supplemental Benefits not Funded Through the System (continued)

Trend Information
(In millions)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Pension Plan:			
06/30/09	$ 78.6	100%	$ 13.5
06/30/10	75.9	100%	13.8
06/30/11	85.4	100%	14.1
06/30/12	84.6	100%	14.4
06/30/13	89.7	100%	14.7

The annual required contribution amounted to $89.7 million and $84.6 million in 2013 and 2012, respectively. The net pension obligation is included in accounts payable and accrued liabilities on the statement of net position.

Supplemental Benefits not Funded Through the System

Supplemental benefits were unfunded and such benefits were reimbursed to the System when paid up to December 31, 1999. Effective January 1, 2000, the Board of Trustees of the System approved the transfer of the obligation for supplemental benefits provided by the Authority and not funded through the System (supplemental pension obligations exchanged for forfeited sick leave benefits and the supplemental spousal survivor benefits) to the Retirement System. Also, the Board of Trustees of the System accepted an amortization period for the Plan of 40 years, which commenced on June 30, 1996.

12. Employees' Retirement Benefits (continued)

Supplemental Benefits not Funded Through the System (continued)

Supplemental Pension Obligations Exchanged for Forfeited Sick Leave Benefits

The Authority's employees with over 20 years of service are entitled to exchange accrued sick leave for supplemental pension benefits just to complete merit annuity (30 years of service) and/or be paid in cash the value of such sick leave upon separation from employment.

Other Post-Employment Benefits (OPEB)

Postemployment Health Plan

Plan Description – PREPA Retired Employees Healthcare Plan (Health Plan) is a single-employer defined benefit healthcare plan administered by the Authority. During the fiscal year 2009-2010, the Authority adopted a resolution to change the Health Plan. The Health Plan for all retirees will be capped at $300 per member per month for retirees and spouses under age 65 and $200 per member per month for retirees and spouses age 65 and over.

Membership – During the fiscal year 2009-2010, the Health Plan changed to require all new retired employees on or after September 1, 2009, to have 30 year of services to receive health benefits. Certain retired employees on or after September 1, 2009, all retired employees before September 1, 2009, their legal spouses, and certain disabled dependents are eligible to participate in the Postretirement Health Plan. To remain eligible for participation, Medicare eligible retired participants and their spouses must enroll in Medicare Part B at age 65, or whenever eligible, at their own expenses. The benefit provisions to retired employees are established and may be amended by the Authority.

12. Employees' Retirement Benefits (continued)

Other Post-Employment Benefits (OPEB) (continued)

Funding Policy and Annual OPEB Cost – The required contribution is based on projected pay-as-you-go financing requirements. The contribution requirements of plan members and the Authority are established and may be amended by the Authority.

The Annual OPEB Cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the fiscal years 2012-2013 and 2011-2012 (in thousands):

	2013	**2012**
Annual OPEB cost	**$ 28,603**	$ 28,555
Actuarial Accrued Liability (AAL)	**$ 612,674**	$ 612,674
Unfunded AAL	**$ 612,674**	$ 612,674
Funded Ratio	**0%**	0%
Annual Covered Payroll	**$ 357,405**	$ 357,405

The net OPEB obligation change is as follows (in thousands):

	2013	**2012**
Change in net OPEB obligation:		
Net OPEB obligation, beginning balance	**$ 130,712**	$ 123,616
Total annual required contribution (ARC), July 1–June 30	**27,731**	27,731
Interest on Net OPEB obligation	**5,229**	4,944
Adjustments to annual required contribution	**(4,357)**	(4,120)
Actual benefit payments, July 1–June 30	**(23,265)**	(21,459)
Net OPEB obligation, ending balance	**$ 136,050**	$ 130,712

For the fiscal years ended June 30, 2013 and 2012, the Authority's annual OPEB expense was $28.6 million and $28.6 million, respectively. This expense is included in Administrative and General Expenses.

12. Employees' Retirement Benefits (continued)

Other Post-Employment Benefits (OPEB) (continued)

Postemployment Health Plan (continued)

The OPEB expense is not equal to the Annual Required Contribution, which is considered in operating expenses in the Authority's Statement of Revenues, Expenses and Changes in Net Position.

For the fiscal year ended June 30, 2013, the Authority's annual OPEB expense of $28.6 million, which is included in Administrative and General Expenses. The OPEB expense is considered in operating expenses in the Authority's Statement of Revenues, Expenses and Changes in Net Position. The payment to the health plan for retirees and their beneficiaries totaled $23.3 million for fiscal year 2013.

The Authority's annual OPEB cost, and the net OPEB obligation for 2013 and the three preceding years were as follows:

Trend Information
(In millions)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/11	$ 27.4	81%	$ 123.6
06/30/12	$ 28.6	75%	$ 130.7
06/30/13	$ 28.6	81%	$ 136.1

12. Employees' Retirement Benefits (continued)

Other Post-Employment Benefits (OPEB) (continued)

Postemployment Health Plan (continued)

OPEB Actuarial Valuation – The Authority's other Post-Employment Benefits Program actuarial valuation was conducted by Cavanaugh Macdonald Consulting, LLC. Cavanaugh Macdonald Consulting, LLC is a member of the American Academy of Actuaries. The valuation was performed in accordance with GASB Statement No. 45 requirements.

Actuarial Methods and Assumptions:

Actuarial Valuation Date	July 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percent of Pay, Open
Remaining Amortization Period	30 years
Actuarial Assets Valuation Method	Market Value of Assets
Investment Rate of Return	4% (includes inflation rate)
Inflation Rate:	3%
Medical	Not applicable
Prescription drug	Not applicable
Dental	Not applicable
Projected Salary Increases	4%

The required schedule of funding progress included supplementary information (Schedule I) that presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

13. Revenues from Major Clients and Related Parties

Electric operating revenues from major clients and related parties are as follows:

	2013	2012
	(In thousands)	
Governmental sector, principally instrumentalities, agencies and corporations of the Commonwealth of Puerto Rico	**$ 639,849**	$ 639,818
Municipalities of the Commonwealth of Puerto Rico	**260,839**	244,265
	$ 900,688	$ 884,083

14. Net Position

As of June 30, 2013, the Authority is in a net deficit position. The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession, the volatility in oil prices, and the fact that the Authority has not increased rates to its customers at sufficient levels to offset the effects of its rising costs. Its principal challenges, some of which are interrelated, are: (i) addressing the decline in electric energy sales; (ii) addressing the volatility of oil costs; (iii) addressing high customer electric power rates; (iv) reducing government accounts receivables; and (v) improving its liquidity. The Authority is committed to take all necessary measures to ensure it achieves a healthy financial condition.

15. Contribution in Lieu of Taxes

	2013	2012
	(In thousands)	
Municipalities	**$260,839**	$244,265
Commonwealth:		
Hotels	**8,869**	9,108
Fuel adjustment subsidy	**27,843**	29,738
	$297,551	$283,111

16. Commitments and Contingencies

Environmental Matters

Facilities and operations of the Authority are subject to regulation under numerous Federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others**.**

In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of the Authority's facilities and identified several alleged instances of non-compliance related to the Authority's air, water and oil spill prevention control and countermeasures compliance programs.

The Authority and the EPA negotiated to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, the Authority and the EPA reached an agreement that resulted in a consent decree (the Consent Decree) approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, the Authority paid a civil penalty of $1.5 million, and implemented additional compliance measures amounting $4.5 million. In addition, the Consent Decree requires that the Authority improve and implement compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by the Authority and the EPA under which the Authority reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, the Authority has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. The Authority also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

PREPA has audited the Consent Decree programs and a considerable number of them can be closed since their requirements have been completed. The programs can be closed under a Stipulation of Partial Termination filed jointly, in federal court, with the Environmental Protection Agency.

16. Commitments and Contingencies (continued)

Environmental Matters (continued)

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against the Authority regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of non-compliance. Non-compliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered non-compliance event occurs, the Authority pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

Other Proceedings

In 1997, as a result of an inspection carried out by the EPA and the Puerto Rico Environmental Quality Board (the EQB) at the Authority's Palo Seco power plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco power plant and the Palo Seco General Warehouse (Depot). The Administrative Order required the Authority to carry out a Remedial Investigation/Feasibility Study (RI/FS). The RI/FS required under the order was designed to: (1) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened release of hazardous substances, pollutants, or contaminants at or from the site; and (2) determine and evaluate alternatives for the remediation or control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI was completed and a final report was submitted to EPA for evaluation.

The information gathered under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered into an Administrative Order on Consent (AOC) (CERCLA-02-2008-2022) requiring the Authority to complete a removal plan that consisted of determining if the underground water had been impacted by PCBs, the extent of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water had not been impacted by PCBs. Nevertheless, water/oil mix was found in seven monitoring wells (MWs). PCBs concentrations between 1.36-2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued under the USEPA's recommendations.

16. Commitments and Contingencies (continued)

Environmental Matters (continued)

Other Proceedings (continued)

On April 19, 2012, PREPA submitted for EPA's review and approval the final report letter for the AOC. On August 13, 2012, EPA notified PREPA by certified mail, that the final report was reviewed and determined that the work required pursuant the AOC has been fully carried out in accordance with its terms. Also the letter indicated that the notification shall not affect any continuing obligation of respondents, including but not limited to the reimbursement of EPA response costs, as specified in the AOC.

Based the findings of the RI, the Human Health Risk Assessment, the Screening Level Ecological Risk Assessment and the AOC, NO ACTION recommendation under CERCLA for the PREPA Palo Seco site is believed to be protective of human health and environment. The risk assessments indicate that the levels of residual contaminants present at the site fall within EPA's acceptable risk range. This non-action remedy complies with the federal and commonwealth requirements.

Both Orders also established a Reimbursement of Costs condition in which the Authority agreed to reimburse EPA for all costs incurred by EPA in connection to the site. The Authority has not been charged for these costs to date and therefore there is no amount recorded in the financial statements for these cost reimbursements.

In 2002, the Authority received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified the Authority and six other entities as "potentially responsible parties", as defined in the CERCLA. In 2003, the Authority agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance of responsibility. Under the AOC, the Authority committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by the Authority and the other designated potentially responsible parties. On July 2010, a proposed Plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination.

16. Commitments and Contingencies (continued)

Environmental Matters (continued)

Other Proceedings (continued)

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the Potential Responsible Parties (PRP's), both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1,000,000 through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This additional contribution was approved by PREPA's Governing Board.

On December 4, 2012, the Federal Department of Justice lodged with the Court the Consent Decree (CD) Civil Action No. 3:12-cv-01988, which requires that PREPA shall pay to EPA for the Past Response Costs of the agency the amounts of $300,000 within 30 days of the effective date; $300,000 not later than August 15, 2013 and $300,000 not later than August 15, 2014. Also, an Environmental Escrow account must be created to serve as financial assurance for the performance of the obligations under the CD. PREPA shall deposit $400,000 into the escrow account within 60 days of the effective date of the CD. The effective date of the CD has not been established yet.

This CD can be terminated upon motion by any party, provided that all public Defendants have satisfied their obligations of payments of Response Cost and Stipulated Penalties.

Compliance Programs

The Authority continues to develop and implement a comprehensive program to improve environmental compliance in all applicable environmental media. This program has been and continues to be updated to conform to new regulatory requirements.

16. Commitments and Contingencies (continued)

Compliance Programs (continued)

Air Quality Compliance

The Authority is consistently maintaining a 99% or better level of compliance with in stack opacity requirements. The Authority continues to use No. 6 fuel oil with sulfur content of 0.5% or better in its San Juan, Palo Seco and Aguirre Power Plants. The South Coast Units 5 and 6 have been converted to use natural gas and are currently operating on a 70% natural gas / 30% No. 6 fuel oil scenario. Units 3 and 4 operate minimally. This contributes to maintain air quality.

The Authority is also evaluating conversion projects for Aguirre, San Juan and Palo Seco. All the conversion will also facilitate compliance with the Mercury and Air Toxics Standards final rule.

QA/QC Continuous Monitoring Program

This program requires quarterly audits to the opacity monitors in PREPA's power plants to insure compliance with the Consent Decree Clean Air Compliance Program. Also, this program requires annual quality assurance audits to the optimization monitors at our power plants in compliance with the Consent Decree. All these reports have been performed and submitted in compliance with the Consent Decree stipulations.

Relative Accuracy Test Audit (RATA)

A Relative Accuracy Test Audit (RATA) is a test to validate and certify for a period of one year the plant's Continuous Emission Monitoring Systems (CEMS) equipment for purposes of continuous data collection. The requirements to perform this test are found at 40 CFR Part 60 Appendix F and is to insure compliance with the Plants PDS air operation permits. Annually reports have been performed and submitted in compliance with the air operation permits requirements. The Authority was not able to perform the RATA test for 2012 for Unit 3 at Cambalache Power Plant, due to operational problems with the plant. These tests were performed during February 2013.

16. Commitments and Contingencies (continued)

Compliance Programs (continued)

Title V Permitting Program

PREPA is still awaiting issuance of a Title V Permit for the Palo Seco Power Plant. The permit application was submitted in November 1996. The Environmental Quality Board continues to request additional information. The last information request was received on January 27, 2012. The information requested was submitted on February 7, 2013. No other information has been requested. The EQB has not issued a final permit.

PREPA is also awaiting issuance of a Title V for the San Juan Power Plant. A modification was submitted to include the natural gas scenario for units 5 and 6. EQB has not issued a final permit, but issued a permit shield on November 2, 2009.

In September 2011, PREPA submitted a modification of the Costa Sur Power Plant's Title V permit to include the natural gas scenario for units 5 and 6. The EQB has not issued a final Title V permit.

The Title V permit for the Aguirre Power Complex expired on February 24, 2013. A permit renewal application was submitted in February 24, 2012. The Environmental Quality Board deemed the application as complete and, on June 12, 2012 issued a permit shield.

PREPA had a scheduled meeting with the EQB (April 18, 2013) to discuss, among other things, the status of the Title V permits. Our goal is to have EQB issue all the permits in draft form to allow a comment period from PREPA. After this, the comments are either incorporated in the permit or rejected. Then, a final permit can be issued.

Water Quality Compliance

As of December 2010, the Authority had achieved and has maintained a level of compliance with the Clean Water Act regulations (NPDES permits, Drinking Water Program, OPA'90 (FRP's and Operations Manual) and SPCC Regulation) in excess of 99%.

The Authority has completed compliance plans for abating water pollution at its four major power plants - Aguirre, San Juan, South Coast, and Palo Seco, as required by the Consent Decree, Section VI, Part I.

16. Commitments and Contingencies (continued)

Compliance Programs (continued)

Water Quality Compliance (continued)

PREPA prepared and submitted the San Juan Power Plant NDPES Renewal Application on September 30, 2011. In compliance with the regulatory requirement, PREPA submitted it 180 days before the current NDPES Permit expiration date (March 31, 2012). The current NPDES Permit is administratively extended until the EPA grants a renewed permit.

Since 1977, PREPA submitted to EPA an updated request under Section 316(a) of the Clean Water Act that its South Coast power plant be permitted to discharge into the Caribbean Sea heated sea water that was previously used for cooling purposes, as part of the plant's combustion and generation process, known as "thermal effluent". EPA denied a 316(a) Thermal Variance Request in December 2000. After several discussions and meetings, EPA and PREPA agreed to perform a Detailed Engineering and Environmental Review (DEER) of alternatives to select a final alternative for the cooling water discharge that meets the water temperature standard or otherwise, qualify for a waiver request under Section 316(a) of the Water Quality Act. While the DEER was in progress EPA issued a draft permit for the power plant, which included a compliance schedule for the DEER selected alternative (Offshore Submerged Discharge – OSD). The selected alternative estimated capital cost is approximately $60 million. EPA issued a final permit in October 1, 2009 with a schedule of compliance for relocation of Outfall 001. PREPA submitted the scoping document, an inventory of the environmental studies already performed and a Joint Permit Application for the Outfall 001 relocation in December 2009. As part of the permit requirements, PREPA prepared a Preliminary Environmental Impact Statement (PEIS) including the discussions of four alternatives for the 001 Outfall by October 2011. The PEIS included an in-cove alternative to reduce the cooling water discharge temperature to a thermal tolerance temperature range based on operations improvements and partial restoration of the historic flow. On January 30, 2013, PREPA submitted a Final Environmental Impact Statement (FEA) at the Puerto Rico Management Permits Office (OGPe) including the in-cove alternative, as the preferred one.

PREPA will consult with the Environmental Protection Agency for a 316(a) Variance request at the time as the FEA comments process concludes.

16. Commitments and Contingencies (continued)

Compliance Programs (continued)

Water Quality Compliance (continued)

EPA included, as part of Section 316(a) requirements in the current San Juan Power Plant NPDES Permit, the performance of thermal plume studies and the biological monitoring program. PREPA submitted the thermal plume study plan and the QA/QC Plan for the Biological Monitoring Program in March 13, 2009, and it is waiting for EPA approvals. Also, EPA included, as another compliance requirement, the performance of a Comprehensive Demonstration Study (CDS) under the Section 316(b) of the Clean Water Act. On March 31, 2008, PREPA submitted an Impingement and Entrainment Characterization Study and Current Status Report for EPA evaluation. Also, PREPA submitted a Post-repowering Verification Study Work Plan for 316(b) in June 30, 2008 and it is waiting for EPA approval. PREPA made a reference of all the above mentioned pending work plans approvals and 316(b) reports at the San Juan Power Plant NDPES Renewal Application submitted to EPA on September 30, 2011. EPA has not responded to this petition yet.

Underground Injection Control Regulation

The Authority has prepared a compliance plan in order to comply with the Puerto Rico Environmental Quality Board's underground injection control regulations. The compliance plan contemplates the closing of septic systems where sanitary discharges can be connected to the facilities of the Puerto Rico Aqueduct and Sewer Authority. As of December 2010, the projects at San Juan, Aguirre, Palo Seco, and South Coast Power Plants for the connection of the sanitary discharges to the PRASA system were 100% completed. Consequently, the execution of the compliance plans for the closing of the septic tanks at the power plants is on-going. Currently, PREPA completed the sampling and analysis of the septic systems at Aguirre and San Juan. The sampling and analysis for the Palo Seco Power Plant septic system is 50% completed. PREPA is waiting for the Puerto Rico Environmental Quality Board evaluation in order to close the underground injection systems at Aguirre and San Juan Power Plants.

16. Commitments and Contingencies (continued)

Compliance Programs (continued)

Spill Prevention Control and Countermeasures Plan

To meet its obligations under the Spill Prevention Control and Countermeasures (SPCC), a program under the Oil Pollution Act of 1990 plan requirements and the Consent Decree, the Authority continues to implement corrective measures at all of its facilities. As of December 2010, the Authority completed all the compliance projects under the Spill Prevention Maintenance and Construction Program of the Consent Decree in accordance with the established scope of work. In July of 2002, an amendment to the SPCC regulations was adopted that affects the Authority's oil filled equipment at its electrical transmission and distribution substations. The Authority has been inspecting its substations and evaluating the impact of these new requirements for the preparation of the SPCC plan for the corresponding substations. EPA extended the regulatory deadline until November 10, 2011 to comply with the SPCC plans substations implementation. PREPA completed and signed 26 SPCC Plans for the seven Transmission and Distribution Directorate regions at December 7, 2010. PREPA is already implementing the monitoring and inspection program required under the non-contention clause stipulated at 40 CFR 112.7(k). Notwithstanding, PREPA is working with a construction program to provide the secondary containment for 67 substations located adjacent to water bodies, instead of the 316 substations considered at the initial plan. As today, PREPA completed and is in process for the secondary containment construction at 40 substations. Current project estimated cost is $2.7 million.

PCB Program

The Authority completed on 2000, a ten-year EPA-mandated program to sample and test its oil-filled transformers and other equipment in order to identify and dispose of PCB equipment. Pursuant to this program, the Authority has completed the removal and disposal of transformers with PCB concentrations of more than 500 ppm. The Authority continues with the removal and disposal of transformers with PCB concentrations between 50 and 499 ppm. According to EPA, the Authority has been the only utility to go so far with a program sample, test, identify, remove, and dispose of PCB or PCB contaminated transformers.

16. Commitments and Contingencies (continued)

Compliance Programs (continued)

Capital Improvement Program

The Authority's capital improvement program for fiscal year ended June 30, 2012 includes $8.9 million in order to comply with existing Commonwealth and federal environmental laws and regulations, including the South Coast water related projects in compliance with the Clean Water Act 316(a) and 316(b) sections previously discussed. The Authority is taking all the necessary steps to comply with all applicable environmental laws, regulations, and the Consent Decrees requirements.

Self-Insurance Health Program

Changes in the balances of the health insurance program (self-insurance risk) incurred but not recorded (IBNR) during fiscal years 2013 and 2012 were as follows:

	Liability Beginning Balance	**Expenses**	**Payments**	**Liability Ending Balance**
		(In thousands)		
2012	$7,167	$ 87,434	$ 87,413	$7,188
2013	**$7,188**	**$100,889**	**$102,807**	**$5,270**

These amounts are included in accounts payable and accrued liabilities in the statement of net position.

Contingencies

The Authority is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to the Authority, a provision has been made to cover the estimated liability. Management, based on discussions with legal counsel, believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on the Authority's financial position or results of operations.

16. Commitments and Contingencies (continued)

Contingencies (continued)

Abengoa Litigation. In May 2000, Abengoa, Puerto Rico, S.E., the Authority's original contractor for the construction of the new generating units (Units 5 and 6) at the San Juan power plant, unilaterally declared a termination of the contract and filed a complaint for breach of contract. The Authority filed a counterclaim for breach of contract and for all damages caused to the Authority by the contract termination. On September 21, 2007, the Regional Administrating Judge for the Superior Court of San Juan certified the case as complex civil litigation pursuant to the Authority's petition. On July 27, 2011, Mr. Angel F. Rossy García, a retired Commonwealth appeals court judge, was named as special master for the case. After his appointment, the special master intervened as a neutral evaluator for purposes of assisting the parties in reaching a potential settlement. The parties filed their respective position papers stating their legal contentions and case theories in August 2011. After reviewing the position papers and meeting separately with each party to discuss the strength and weakness of their respective cases, the parties were unable to reach a settlement agreement. The special master then determined that the contested issues would be resolved at trial and that the case would be bifurcated into two phases: a liability phase that would determine whether the termination was wrongful and a damages phase.

The special master has recited the actions to be taken before the final pretrial conference. Abengoa and the Authority have identified their preliminary list of witnesses expected to testify in the first phase of the trial on the issue of wrongful termination/breach of contract.

The surety company, American International Insurance Company, now AIG Puerto Rico Insurance, has not yet announced their witnesses but has manifested its position that any special defenses to joint and several liability under the performance bond be litigated during the second phase, in the event the Authority prevails against Abengoa. This approach has not yet been agreed upon or determined by the special master.

The Authority understands that it has significant probabilities of prevailing on the merits of its counterclaim against Abengoa and the surety based on the evidence collected during the discovery and case evaluation. A status hearing was held on July 12, 2013. The parties submitted a Joint Pretrial Report on November 27, 2013. The Pretrial Conference occurred on December 13, 2013.

16. Commitments and Contingencies (continued)

Contingencies (continued)

In order to mitigate its possible losses, the Authority entered into an agreement with Washington Engineers P.S.C. for the completion of the generating units, said units having entered into service in 2009. Expert reports have been developed assessing potential damages to be recovered from Abengoa, including excess amounts billed to the Authority prior to the wrongful termination.

CAPECO Litigation. In 2009, a large fire at a tank farm owned by CAPECO caused major damage to surrounding areas. The Authority stored some of its fuel at this facility. In the aftermath of the fire, numerous claims were filed against CAPECO. Some of the plaintiffs included the Authority as a defendant in these suits, alleging that the Authority failed in its duty (as the owner of fuel stored at the site) to properly monitor CAPECO's operations in the tank farm. All cases are in the initial stages and the Authority intends to vigorously defend against these claims. On August 12, 2010, CAPECO filed for bankruptcy. As a result thereof, all proceedings against CAPECO have been stayed. The proceedings against the Authority continue.

Consumer Litigation. In 2011, separate lawsuits were filed against the Authority by various consumers claiming damages allegedly caused by incorrect and unlawful billing and invoicing practices.

The lawsuits have been consolidated and certified as complex litigation, as requested by the Authority. The consumers are claiming damages in excess of $100 million and requested that the case be certified as a class action. The Authority filed its Reply in opposition to the class certification request.

Discovery proceedings have begun.

In 2011 a federal class action lawsuit was filed claiming that the Authority's rate schedules, including subsidies granted to various groups, violate federal antitrust law, specifically the Robinson-Patman Act, and the religious freedom clause of the First Amendment to the United States Constitution by discriminating against certain customers who are not entitled to subsidies and requiring certain customers to associate with persons of different religious or political views by subsidizing those views through the Authority's lower electric rates to such persons. The amount claimed in unspecified.

16. Commitments and Contingencies (continued)

Contingencies (continued)

The Authority believes the claims are without merit because several elements of the Robinson-Patman Act that the plaintiffs must prove do not exist in the Authority's case, including that it does not sell electricity in interstate commerce and because the Authority's subsidies are mandated by Commonwealth legislation rather than independent Authority actions.

Discovery proceedings have begun.

In 2011, a civil lawsuit was filed against the Authority and its directors in federal court in Puerto Rico, by eight private individuals and one local private corporation, claiming violations of the Racketeer Influenced and Corrupt Organizations Act (the "RICO Act"), including unlawful use of an enterprise to launder money generated by a pattern of racketeering activity, unlawfully acquiring or maintaining an interest in an enterprise through a pattern of racketeering activity, unlawful manipulation of an enterprise for purposes of engaging in, concealing, or benefiting from a pattern of racketeering activity, unlawful conspiracy to violate the RICO Act and conspiracy to advance a money-laundering scheme. Neither the United States federal government nor the Commonwealth government is a party in this civil lawsuit. The amount claimed is unspecified. Plaintiffs have also asked the federal court to allow them to be the representatives of a class consisting of all consumers of the electricity sold by the Authority from 2007 to the present. On September 25, 2012, the federal court dismissed all of the above claims except those claims regarding conspiracy to advance a money laundering scheme and conspiracy for acquiring an interest in an enterprise.

The federal court has not yet ruled on the issue of class certification. The Authority believes that class certification will not be granted because the grounds advanced by plaintiffs are the same as those made in a prior, unrelated Commonwealth court lawsuit against the Authority in which class certification was denied on facts very similar to those in this RICO Act lawsuit.

Discovery proceedings have begun.

The Authority believes that the undismissed RICO Act claims are without merit because the plaintiffs will be unable to prove the necessary elements of those claims, in particular those that require showing that the Authority conspired through its employees to violate the RICO Act, or that its directors or Board members obtained any interest in the Authority (other than their board position).

16. Commitments and Contingencies (continued)

Contingencies (continued)

Vitol, Inc. Litigation. In 2009, the Authority filed suit in Commonwealth court against Vitol, Inc. and certain of its affiliates and subsidiaries seeking a declaratory judgment as to the nullity of a $2 billion fuel supply agreement due to Vitol's failure to disclose certain corruption cases for which it accepted responsibility. Vitol removed this suit to federal court and presented a counterclaim alleging that the Authority owed it approximately $45 million for delivered fuel and related excise taxes. Although the case is currently in the discovery stage, the court has stayed this process until such time as certain motions regarding forum selection have been resolved.

On November 28, 2012, the Authority filed a second complaint against Vitol in the Commonwealth Court of First Instance seeking essentially the same remedies sought in the first action but as to four other contracts, after discovery revealed the date in which Vitol learned of the investigations in the corruption cases. Vitol also removed this action to the U.S. District Court for the District of Puerto Rico. The Authority claims approximately $3.5 billion in the aggregate. Vitol has resolved the claim for the $17 million in excise taxes and has stated that it will amend its counterclaim to dismiss that claim. Discovery in the case is closed. The parties have submitted motions for summary judgment against each other and are in the process of filing their respective oppositions thereto.

Ponce Landslide Litigation. In 2007, 2008 and 2009, six cases were filed against the Authority, PRASA, and other entities alleging damages resulting from landslides in a neighborhood in Ponce. The complaints allege that the Authority caused or contributed to the landslides based on its construction of transmission lines in the area. In total, the six plaintiffs have claimed approximately $19.5 million in damages. These cases, which are in the discovery stage, have been stayed by the court due to the bankruptcy of PRASA's insurer. Once proceedings in this case resume, the Authority will continue with its vigorous defense.

Asbestos Litigation. In the case of Jorge Martínez, et al. v. AEE, fifty-five plaintiffs, former Authority employees, claim that they have health problems due to the Authority's intentional failure to comply with federal and local laws regarding asbestos materials. In particular, plaintiffs claim that, during a certain time-frame, in which the Authority had the obligation to take measures regarding asbestos materials in its facilities, the Authority failed to comply with its duty to protect the plaintiffs from asbestos exposure. Plaintiffs claim $320,960,000.00 in damages.

16. Commitments and Contingencies (continued)

Contingencies (continued)

The Authority alleged employer's immunity but the courts held that a hearing on the merits of said defense was necessary before ruling on the matter of the Authority's alleged gross negligence. After the hearing as to the alleged negligence, held on several dates in July and August 2013, the Court requested that the parties submit legal briefs, which the parties are in the process of filing. If the Authority prevails on the employer immunity defense, the case will be dismissed. If the Authority does not prevail on said defense, the case will proceed to trial on negligence and damages as to every particular plaintiff. In addition to these cases, the Authority is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely the Authority's operations.

Construction and Other Commitments

As of June 30, 2013, the Authority has commitments of approximately $112.0 million on active construction, maintenance and engineering services contracts.

Natural Disaster

On September 20, 2011, Tropical Storm Irene passed through the island of Puerto Rico causing damages. Certain municipalities of the Commonwealth were declared an emergency zone by President of the United States of America, thus making it eligible for emergency assistance from the Federal Emergency Management Agency (FEMA).

As of January 31, 2013, the Authority has submitted claims to Federal Emergency Management Agency (FEMA) for the damage caused by Hurricane Irene, and has received payment of $6.2 million.

17. Recently Issued Accounting Pronouncements

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011. This statement had no impact on the Authority's financial reporting.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of Statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues have arisen since the issuance of those Statements. This statement is effective for periods beginning after June 15, 2012. This statement had no impact on the Authority's financial reporting.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. (i) Financial Accounting Standard Board (FASB) Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The implementation of this statement in fiscal year 2013 had no impact on the Authority's financial reporting, but the Authority's policy footnote was updated to reflect this guidance.

17. Recently Issued Accounting Pronouncements (continued)

GASB Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this statement in fiscal year 2013 updated the titles of certain basic financial statements and captions within the statements.

GASB Statement No. 64, *Application of Hedge Accounting Termination Provisions.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

18. Subsequent Events

On August 15, 2013, pursuant to the Trust Agreement, the Authority issued Power Revenue Bonds Series 2013 A, with a par amount of $673,145,000 to fund a portion of its capital improvement program.

The Authority paid $6.4 million from July to November 2013 related to the 2012 Commodity Swap. In addition, the 2012 Commodity Swap was expired on November 30, 2013.

Required Supplementary Information

Schedule I

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Suplementary Schedule of Funding Progress

Years Ended June 30, 2013
(In millions)

Actuarial Valuation Date	**Actuarial Value of Assets (a) Note 1**	**Actuarial Accrued Liability (AAL) (b)**	**Unfunded AAL (UAAL) (b)-(a)**	**Funded Ratio (a)/(b)**	**Covered Payroll (c)**	**UAAL Percentage of Covered Payroll [(b)-(a)]/(c)**
Pension Plan						
6/30/2008	$ 1,571	$ 2,337	$ 766	67%	$ 363	211%
6/30/2009	1,517	2,497	980	61%	364	269%
6/30/2010	1,414	2,816	1,402	50%	357	392%
6/30/2011	1,363	2,875	1,503	47%	361	419%
6/30/2012	1,285	2,986	1,701	43%	365	466%
Postemployment Health Plan*						
7/1/2007	$ –	$ 531	$ 531	0%	$ 349	152%
7/1/2008	–	587	587	0%	363	162%
7/1/2010	–	613	613	0%	357	172%

Note 1: *The system, as permitted by the GASB, reflects its investments at an average fair market value of the last five years to determine its actuarial funding.*

**Postemployment Health Plan valuation performed every two years, as required by the GASB.*

Report on Internal Control

Building a better
working world

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Puerto Rico Electric Power Authority

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Puerto Rico Electric Power Authority (the Authority), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2014. Our report includes a reference to other auditors who audited the financial statements of PREPA Holdings LLC (a blended component unit) and PREPA.Net as described in our report on the Puerto Rico Electric Power Authority's financial statements. This reports does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

January 16, 2014

Stamp No. E88353
affixed to
original of
this report.

Supplemental Schedules

Note to Schedules II-VI - Information Required by the 1974 Agreement

As of June 30, 2013 and 2012, and for the Years then Ended

Schedules II - VI present certain information which is required by the 1974 Agreement. The Net Revenues data, as defined in the 1974 Agreement (Net Revenues), presented in Schedules II and III differ in some important respects from generally accepted accounting principles (GAAP). Such differences are explained below; Schedule II also presents a reconciliation of Net Revenues with GAAP.

The most significant differences between Net Revenues and GAAP are the following:

1) Revenues do not include investment income on investments in the construction fund (see Note 5 to the financial statements);
2) Depreciation and interest expense on bonds covered by the 1974 Agreement are not included as deductions in calculating Net Revenues;
3) Amortization of debt discount and issuance costs and the allowance for funds used during construction are not considered in the computation in calculating Net Revenues;
4) Contribution in lieu of taxes is not considered a deduction for purposes of Net Revenues;
5) Net Revenues do not include revenues or expenses of the Irrigation Systems (see Note 1 to the financial statements).

For further details and information on the definition of Net Revenues, please refer to the 1974 Agreement.

Puerto Rico Electric Power Authority

Sources and Disposition of Net Revenues
Under the Provisions of the 1974 Agreement
Statements of Income (GAAP)
and Reconciliation of Net Income

Years Ended June 30, 2013 and 2012
(In thousands)

	2013			2012		
	1974 Trust Agreement	**Statement of Income (GAAP)**	**Reconciliation of Net Income**	**1974 Trust Agreement**	**Statement of Income (GAAP)**	**Reconciliation of Net Income**
Reconciliation of components of net income						
Revenues:						
Operating revenues	**$ 4,821,348**	**$ 4,843,016**		$ 5,031,429	$ 5,046,494	
Other operating revenues	**28,405**	**28,136**		14,126	18,668	
Other	**1,064**	**(2,773)**		7,123	5,052	
1974 agreement construction fund investment income and gain on sale of other properties		**32,945**			38,118	
	4,850,817	**4,901,324**	**50,507**	5,052,678	5,108,332	55,654
Current Expenses:						
As shown	**4,125,390**	**4,138,988**		4,415,264	4,431,534	
Total as defined	**4,125,390**	**4,138,988**	**(13,598)**	4,415,264	4,431,534	(16,270)
Net revenues, as defined	**$ 725,427**			$ 637,414		
Depreciation		**344,653**	**(344,653)**		414,573	(414,573)
Other post-employment benefit (OPEB)		**5,338**	**(5,338)**		(56,638)	56,638
Disposition of Revenues:						
(not classified in order of payment)						
Interest on debt	**332,504**	**399,641**		184,264	382,604	
Interest on general obligation notes	**458**	**741**		4,405	4,720	
Amortization of debt discount, financing expenses	**–**	**(10,885)**		–	(10,394)	
Amortization of bond defeasance	**–**	**15,061**		–	16,725	
Allowance for funds used during construction	**–**	**(14,065)**		–	(11,712)	
Net interest on long-term debt	**332,962**	**390,493**	**(57,531)**	188,669	381,943	(193,274)
Power revenue bonds:						
Principal	**194,920**		**194,920**	143,422		143,422
Internal Funds	**16,986**		**16,986**	15,086		15,086
Appropriation Self Insurance Fund	**–**		**–**	5,000		5,000
Contribution in lieu of taxes	**180,559**	**297,551**	**(116,992)**	285,237	283,111	2,126
Other post-employment benefit (OPEB):						
Total expenses (GAAP)		**5,177,023**			5,454,523	
Net revenues, as defined	**$ 725,427**			$ 637,414		
Net income		**$ (275,699)**	**$ (275,699)**		$ (346,191)	$ (346,191)

Schedule III

Puerto Rico Electric Power Authority

Suplemental Schedule of Sources and Disposition
of Net Revenues under the Provisions of the 1974 Agreement

Years Ended June 30, 2013 and 2012
(In thousands)

	2013	2012
Sources of Net Revenues:		
Revenues:		
Electric revenues	**$ 4,821,348**	$ 5,031,429
Other operating revenues	**28,405**	14,126
Other (principally interest)	**1,064**	7,123
	4,850,817	5,052,678
Current Expenses:		
Operations:		
Fuel	**2,603,578**	2,901,815
Purchased Power	**755,686**	684,148
Other productions	**71,655**	75,829
Transmissions and distributions	**172,318**	175,815
Customer accounting and collection	**116,351**	113,526
Administrative and general	**191,912**	251,728
Maintenance	**213,890**	212,403
	4,125,390	4,415,264
Net revenues, as defined	**$ 725,427**	$ 637,414
Disposition of Net Revenues:		
Revenue fund:		
Power revenue bonds - sinking fund requirements:		
Interest	**$ 332,504**	$ 184,264
Principal	**194,920**	143,422
Self Insurance Fund	**–**	5,000
Balance available for capital improvements and other needs	**16,986**	15,086
	544,410	347,772
General obligation notes:		
Interest	**458**	4,405
Contribution in lieu of taxes and other	**180,559**	285,237
Net revenues, as defined	**$ 725,427**	$ 637,414

Puerto Rico Electric Power Authority

Supplemental Schedule of Funds Under the Provisions of the
1974 Trust Agreement

Years Ended June 30, 2013 and 2012
(In thousands)

	2013				2012			
		Held by Authority	Restricted Deposits with Trustee			Held by Authority	Restricted Deposits with Trustee	
	Total	Other Assets	Other Assets	Non-Current Assets	Total	Other Assets	Other Assets	Non-Current Assets
By Account:								
1974 Agreement (restricted)								
Sinking Fund - principal and interest	**$ 385,119**	**$ –**	**$ 385,119**	**$ –**	$ 337,506	$ –	$ 337,506	$ –
Reserve account	**398,472**	**–**	**–**	**398,472**	401,735	–	–	401,735
Self Insurance Fund	**92,217**	**–**		**92,217**	80,352	–	–	80,352
Sinking Fund - Capitalized Interest	**47,175**	**–**	**–**	**47,175**	154,548	–	–	154,548
Reserve Maintenance Fund	**15,818**	**15,818**	**–**	**–**	15,809	15,809	–	–
Other Restricted Fund	**12,370**	**12,370**	**–**	**–**	1,900	1,900	–	–
Construction Fund								
Rural Utilities Services (RUS)	**1,103**	**1,103**	**–**	**–**	1,101	1,101	–	–
Other	**49,370**	**49,370**	**–**	**–**	275,106	275,106	–	–
PREPA Client Fund	**4,759**	**4,759**	**–**	**–**	2,752	2,752	–	–
General purpose (unrestricted)								
General (excluding Prepa Net)	**83,606**	**83,606**	**–**	**–**	183,844	183,844	–	–
Working funds	**807**	**807**	**–**	**–**	886	886	–	–
Total	**$ 1,090,816**	**$ 167,833**	**$ 385,119**	**$ 537,864**	$ 1,455,539	$ 481,398	$ 337,506	$ 636,635
By Type of Assets Held:								
Working funds	**$ 807**	**$ 807**	**$ –**	**$ –**	$ 886	$ 886	$ –	$ –
PREPA Client Fund	**4,759**	**4,759**	**–**	**–**	2,752	2,752	–	–
Cash in bank and time deposits (by depository institutions):								
Government Development Bank for Puerto Rico	**6,766**	**6,766**	**–**	**–**	60,406	60,406	–	–
Banco Popular de Puerto Rico	**32,521**	**32,521**	**–**	**–**	38,507	38,507	–	–
Citibank, N. A.	**44,052**	**44,052**	**–**	**–**	53,274	53,274	–	–
US Bank	**430,368**	**45,249**	**385,119**	**–**	611,553	274,047	337,506	–
Banco Bilbao Vizcaya (Chase), Puerto Rico	**11,166**	**11,166**	**–**	**–**	26,512	26,512	–	–
Banco Bilbao Vizcaya, Mayagüez, Puerto Rico	**179**	**179**	**–**	**–**	2,800	2,800	–	–
FirstBank, San Juan, Puerto Rico	**18,576**	**18,576**	**–**	**–**	351	351	–	–
Banco Santander, San Juan, Puerto Rico	**748**	**748**	**–**	**–**	3,030	3,030	–	–
R G Premier Bank	**2,987**	**2,987**	**–**	**–**	23	23	–	–
Western Bank, Mayagüez, P.R.	**23**	**23**	**–**	**–**	–	–	–	–
JP Morgan	**–**	**–**	**–**	**–**	–	–	–	–
Other Institutions	**–**	**–**	**–**	**–**	2	2	–	–
	552,952	**167,833**	**385,119**	**–**	800,096	462,590	337,506	–
Investment Securities	**537,864**	**–**	**–**	**537,864**	655,443	18,808	–	636,635
Total	**$ 1,090,816**	**$ 167,833**	**$ 385,119**	**$ 537,864**	$ 1,455,539	$ 481,398	$ 337,506	$ 636,635

Puerto Rico Electric Power Authority

Supplemental Schedule of Changes in Cash and Investments by Funds

Year Ended June 30, 2013
(In thousands)

2012-2013 Activity	Total	General Purposes Funds: General Fund	Revenue Fund	Working Fund	Sinking Fund: Interest 1974 Agreement	Principal 1974 Agreement	Reserve 1974 Agreement	Self Insurance Fund	Other Funds: Construction 1974 Agreement	Reserve Maintenace Fund	Subordinated Obligation Fund	Other Restricted Fund
Balances at June 30, 2012, *before interfund accounts*	**$ 1,455,539**	**$ 449,740**	**$ 14**	**$ 886**	**$ 296,060**	**$ 185,974**	**$ 401,735**	**$ 90,372**	**$ 10,297**	**$ 15,809**	**$ –**	**$ 4,652**
Operations:												
Net revenues	–	(725,427)	180,559	–	332,503	194,920	–		16,986	–	459	–
Funds provided from internal operations	715,107	715,107	–	–	–	–	–	–	–	–	–	–
1974 Agreement investment income Acct 4191	–	(966)	–	–	–	–	–	–	966	–	–	–
Investment income and other	31,870	14,691	–	–	10,146	441	3,360	1,296	1,872	57	–	7
Unrealized gain (or loss) on market value of investment	(7,339)	–	–	–	(1,218)	–	(6,622)	549	–	(48)	–	–
Offset of current year's contribution in lieu of taxes against certain government accounts receivable	–	138,198	(138,198)	–	–	–	–	–	–	–	–	–
Offset of current year's 5% contribution in lieu of taxes against Commonwealth of Puerto Rico debt and transfers to General Obligations	–	42,360	(42,360)	–	–	–	–	–	–	–	–	–
Funds used for construction	(314,905)	–	–	–	–	–	–	–	(314,905)	–	–	–
Reclassified construction costs for deferred debits	–	–	–	–	–	–	–	–	–	–	–	–
Proceeds from Federal Agencies and Insurance Companies	6,981	–	–	–	–	–	–	–	6,981	–	–	–
Financing:												
Proceeds from new bond issues-net of original discounts	–	–	–	–	–	–	–	–	–	–	–	–
Proceeds from Contributed Capital	10,898	–	–	–	–	–	–	–	10,898	–	–	–
Proceeds from refunding bonds issues-net of original discounts	–	–	–	–	–	–	–	–	–	–	–	– –
Defeased bonds-net of original discounts	–	–	–	–	–	–	–	–	–	–	–	–
Sinking Funds and account transfers	–	(8,699)	–	–	(1,649)	(243)	–	–	14	–	107	10,470
Notes issued for construction	–	–	–	–	–	–	–	–	–	–	–	–
Notes issued to working capital	32,921	32,921	–	–	–	–	–	–	–	–	–	–
Note issued to finance the adquisition on fuel oil	1,468,736	1,468,736	–	–	–	–	–	–	–	–	–	–
Payment of notes payable	(1,355,720)	(1,355,720)	–	–	–	–	–	–	–	–	–	–
Payment of interest	(414,877)	(16,611)	–	–	(397,700)	–	–	–	–	–	(566)	–
Payment of current maturities of long-term debt	(185,605)	–	–	–	–	(185,605)	–	–	–	–	–	
Proceeds from Prepa Holding	2,000	–	–	–	–	–	–	–	–	–	–	2,000
Changes in assets and liabilities:	–	–	–	–	–	–	–	–	–	–	–	–
Working funds	–	79	–	(79)	–	–	–	–	–	–	–	–
Accounts receivable (includes non-current)	(376,046)	(376,046)	–	–	–	–	–	–	–	–	–	–
Fuel oil	(74,438)	(74,438)	–	–	–	–	–	–	–	–	–	–
Materials and supplies	580	580	–	–	–	–	–	–	–	–	–	–
Prepayments and other	(5,020)	(5,020)	–	–	–	–	–	–	–	–	–	–
Deferred debits	(6,881)	(6,881)	–	–	–	–	–	–	–	–	–	–
Accounts payable and accrued liabilities (includes non-current)	101,681	101,681	–	–	–	–	–	–	–	–	–	–
Customer deposits	5,334	5,334	–	–	–	–	–	–	–	–	–	–
Interfund transfers, etc.	–	(9)	755	–	(1,337)	2	(1)	–	590	–	–	–
Total before interfund accounts	1,090,816	399,610	770	807	236,805	195,489	398,472	92,217	(266,301)	15,818	–	17,129
Add (deduct) Interfund accounts	–	(316,774)	–	–	–	–	–	–	316,774	–	–	–
Balances at June 30, 2013	**$ 1,090,816**	**$ 82,836**	**$ 770**	**$ 807**	**$ 236,805**	**$ 195,489**	**$ 398,472**	**$ 92,217**	**$ 50,473**	**$ 15,818**	**$ –**	**$ 17,129**

Puerto Rico Electric Power Authority

Supplemental Schedule of Changes in Cash and Investments by Funds

Year Ended June 30, 2012
(In thousands)

		General Purposes Funds			Sinking Fund				Other Funds			
2011-2012 Activity	**Total**	**General Fund**	**Revenue Fund**	**Working Fund**	**Interest 1974 Agreement**	**Principal 1974 Agreement**	**Reserve 1974 Agreement**	**Self Insurance Fund**	**Construction 1974 Agreement**	**Reserve Maintenace Fund**	**Subordinated Obligation Fund**	**Other Restricted Fund**
Balances at June 30, 2011	$ 1,224,255	$ 48,849	$ 14	$ 911	$ 292,034	$ 175,455	$ 377,903	$ 84,645	$ 226,352	$ 15,692	$ –	$ 2,400
Operations:												
Net revenues	–	(637,414)	285,237	–	184,264	143,422	–	5,000	15,086	–	4,405	–
Funds provided from internal operations	681,705	681,705	–	–	–	–	–	–	–	–	–	–
1974 Agreement investment income Acct 4191	–	(623)	–	–	–	–	–	–	623	–	–	–
Investment income and other	22,458	166	–	–	1,603	443	4,930	656	14,568	92	–	–
Unrealized gain (or loss) on market value of investment	2,203	–	–	–	243	–	1,820	112	–	28	–	–
Offset of current year's contribution in lieu of taxes against certain government accounts receivable	–	246,391	(246,391)	–	–	–	–	–	–	–	–	–
Offset of current year's 5% contribution in lieu of taxes against Commonwealth of Puerto Rico debt and transfers to General Obligations	–	38,846	(38,846)	–	–	–	–	–	–	–	–	–
Funds used for construction	(361,791)	–	–	–	–	–	–	–	(361,791)	–	–	–
Reclassified construction costs for deferred debits	–	–	–	–	–	–	–	–	–	–	–	–
Financing:												
Proceeds from new bond issues-net of original discounts	623,421	159,000	–	–	82,556	–	17,183	–	359,529	–	2,901	2,252
Proceeds from Contributed Capital	7,291	–	–	–	–	–	–	–	7,291	–	–	–
Proceeds from refunding bonds issues-net of												–
original discounts	21,828	–	–	–	–	–	–	–	21,828	–	–	–
Defeased bonds-net of original discounts	(21,844)	–	–	–	–	–	–	–	(21,844)	–	–	–
Sinking Funds and account transfers	–	(162,657)	–	–	116,817	42,183	–	–	–	–	3,657	–
Notes issued for construction	–	–	–	–	–	–	–	–	–	–	–	–
Notes issued for municipalities settlement agreement	–	–	–	–	–	–	–	–	–	–	–	–
Previous fiscal years transfers between funds not accounted for	–	(85,330)	–	–	–	–	–	–	85,330	–	–	
Notes issued to working capital	107,623	107,623	–	–	–	–	–	–	–	–	–	–
Note issued to finance the adquisition on fuel oil	599,995	599,995	–	–	–	–	–	–	–	–	–	–
Notes issued to finance the Debt Service Requirements	159,000	159,000	–	–	–	–	–	–	–	–	–	–
Payment of notes payable	(433,446)	(433,446)	–	–	–	–	–	–	–	–	–	–
Payment of interest	(390,954)	–	–	–	(379,991)	–	–	–	–	–	(10,963)	–
Payment to counterparties - Interest Rate Swap	–	–	–	–	–	–	–	–	–	–	–	–
Payment of current maturities of long-term debt	(175,455)	–	–	–	–	(175,455)	–	–	–	–	–	–
Payment to municipalities settlement agreement	(9,700)	(9,700)	–	–	–	–	–	–	–	–	–	–
Changes in assets and liabilities:												
Working funds	–	25	–	(25)	–	–	–	–	–	–	–	–
Accounts receivable (includes non-current)	(344,559)	(344,559)	–	–	–	–	–	–	–	–	–	–
Fuel oil	(674)	(674)	–	–	–	–	–	–	–	–	–	–
Materials and supplies	2,304	2,304	–	–	–	–	–	–	–	–	–	–
Prepayments and other	3,263	3,263	–	–	–	–	–	–	–	–	–	–
Deferred debits	23,620	23,620	–	–	–	–	–	–	–	–	–	–
Accounts payable and accrued liabilities (includes non-current)	(320,842)	(327,939)	–	–	–	–	–	–	7,097	–	–	–
Customer deposits	35,838	35,838	–	–	–	–	–	–	–	–	–	–
Interfund transfers, etc.	–	2,895	–	–	(1,466)	(74)	(101)	(41)	(1,210)	(3)	–	–
Total before interfund accounts	1,455,539	107,178	14	886	296,060	185,974	401,735	90,372	352,859	15,809	–	4,652
Add (deduct) Interfund accounts	–	(265,910)	–	–	–	–	–	–	265,910	–	–	–
Balances at June 30, 2012	$ 1,455,539	$ (158,732)	$ 14	$ 886	$ 296,060	$ 185,974	$ 401,735	$ 90,372	$ 618,769	$ 15,809	$ –	$ 4,652

Schedule VI

Puerto Rico Electric Power Authority

Supplemental Schedule of Changes in Long-Term Debt and Current Portion of Long-Term Debt

Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
Long-term debt, excluding current portion:		
Balance at beginning of year	**$ 7,950,308**	$ 7,536,736
Transfers to current liabilities:		
Power revenue bonds	**(204,295)**	(194,390)
Notes payable	**(156,546)**	(411,519)
Payment of general obligation notes:		
Notes payable	**(1,356,411)**	(470,572)
Remainder	**6,233,056**	6,460,255
New Issues:		
Power revenue bonds	**–**	630,110
Power revenue refunding bonds	**–**	19,890
Debt discount and excess reacquisition costs on new bond issues - net	**–**	(4,751)
Defeasance of bonds	**–**	(21,345)
Debt discount and excess reacquisition costs on cancelled bonds - net	**–**	(499)
Notes payable	**1,501,656**	866,648
Balance at end of year	**$ 7,734,712**	$ 7,950,308
Current portion of long-term debt:		
Balance at beginning of year	**$ 985,194**	$ 552,252
Transfer from long-term debt	**360,841**	605,909
Payments to bondholders:		
Power revenue- July 1	**(185,605)**	(175,455)
Amortization of debt discount and excess reacquisition costs	**550**	2,488
Balance at end of year	**$ 1,160,980**	$ 985,194

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