



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 11, 2014

Commissioners
Consolidated Commission on Utilities

Dear Commissioners:

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

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

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 11, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

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

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

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

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

ACCOUNTING ESTIMATES

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

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendices A and B to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to both the latest period as well as the prior period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

GWA's significant accounting policies are set forth in Note 2 to GWA's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GWA:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

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

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

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

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

OTHER INFORMATION IN THE ANNUAL REPORTS OF GWA

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

DISAGREEMENTS WITH MANAGEMENT

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

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

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

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 11, 2014, on GWA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 11, 2014, involving GWA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

We have identified and included in Attachment II, certain deficiencies related to GWA's internal control over financial reporting that we identified during our audit.

The definition of a deficiency is also set forth in Attachment II.

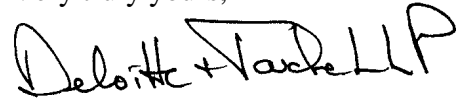
We have communicated to management, in a separate letter also dated June 11, 2014, certain deficiencies and other matters related to GWA's internal control over its information technology environment that we identified during our audit.

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

Commissioners
Consolidated Commission on Utilities
June 11, 2014
Page 6

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

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.



GUAM WATERWORKS AUTHORITY

"Good Water Always"

Post Office Box 3010, Hagatna, Guam 96932

Phone: (671) 647-2603 Fax: (671) 646-2335

June 11, 2014

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the Guam Waterworks Authority (GWA), a component unit of the Government of Guam (GovGuam), as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise GWA's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations or change in net position, and cash flows of GWA in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

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

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

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

- b. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Other supplementary information is measured and presented within prescribed guidelines.
 - f. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.
 - g. Federal award expenditures have been charged in accordance with applicable cost principles.
2. GWA have provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. GWA has provided you all:
- a. Financial records and related data for all financial transactions of GWA and for all funds administered by GWA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GWA and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
 - c. All Public Utilities Commission (PUC) Orders impacting GWA during the year and up to the report date.
 - d. Summaries of actions of the Consolidated Commission on Utilities (as certified by the CCU Board Secretary on June 11, 2014 which are dated as follows:

<u>Name</u>	<u>Date</u>	<u>Name</u>	<u>Date</u>
Regular Meeting	October 17, 2012	Regular Meeting	August 28, 2013
Regular Meeting	October 25, 2012	Regular Meeting	September 17, 2013
Regular Meeting	November 27, 2012	Regular Meeting	October 22, 2013
Regular Meeting	December 12, 2012	Regular Meeting	November 26, 2013
Regular Meeting	January 22, 2013	Regular Meeting	December 11, 2013
Regular Meeting	February 26, 2013	Regular Meeting	January 28, 2014
Regular Meeting	March 26, 2013	Regular Meeting	March 4, 2014
Regular Meeting	April 23, 2013	Regular Meeting	March 25, 2014
Regular Meeting	May 28, 2013	Regular Meeting	April 22, 2014
Regular Meeting	June 25, 2013	Regular Meeting	May 8, 2014
Regular Meeting	July 9, 2013	Regular Meeting	June 3, 2014

4. There have been no:
 - a. Actions taken by GWA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GWA.
 - b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2012 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. GWA has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in GWA and does not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting GWA involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting GWA received in communications from employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed in the notes to the financial statements.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. There were no subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.

13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to GWA's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. GWA is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
14. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
16. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplements related to the period under audit.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

17. We are responsible for follow-up on the prior-year findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
18. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
19. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
20. No changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses, have occurred subsequent to September 30, 2013.

Except where otherwise stated below, matters less than \$200,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

21. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
22. GWA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
23. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which GWA is contingently liable.
24. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
25. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

- c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
26. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to the auditor.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
27. During fiscal year 2013, GWA implemented the following pronouncements:
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements.
 - GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements.
 - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements.

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

The effect on the 2012 financial statements as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* is as follows:

Net position as of September 30, 2011, as original reported	\$ 201,347,269
Reversal of debt issuance costs	(4,710,036)
Reversal of amortization of debt issuance costs	<u>(183,315)</u>
Net position as of September 30, 2011, as restated	<u>\$ 196,453,918</u>
Change in net position for the year ended September 30, 2012, as original reported	\$ 511,743
Reversal of amortization of debt issuance costs	<u>183,315</u>
Change in net position for the year ended September 30, 2012, as restated	<u>\$ 695,058</u>

28. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GWA.
29. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GWA.

30. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GWA.
31. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GWA.
32. GWA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.
33. GWA has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance, including all requirements associated with the 2005 and 2010 Series bonds.
34. No department or agency of the Federal Government or GovGuam has reported a material instance of noncompliance to us.
35. GWA has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
36. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
37. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
38. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
39. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of GWA and do not include any items consigned to it.
40. We believe that all expenditures that have been deferred to future periods are recoverable.
41. All additions to GWA's property accounts consist of replacements or additions that are properly capitalizable.
42. There were no items of physical property contained in the property accounts of GWA that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.

Deloitte & Touche LLP

June 11, 2014

Page 9

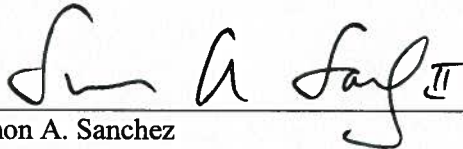
43. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of GWA's regulatory commission and in accordance with the provisions of FASB ASC 980, *Regulated Operations*. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of GWA's regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which GWA remains accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods. All expenditures that have been deferred to future periods are recoverable.
44. We have no intention of terminating our participation in the GovGuam Retirement plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
45. No evidence of fraud or dishonesty in fiscal operations of programs administered by GWA has been discovered.
46. In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GWA did not calculate or pay any bonuses pursuant to the law from 1991 through 2013. As of September 30, 2013, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2013. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.
47. In 2002, the United States Government filed a complaint against GWA and GovGuam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. GWA and the U.S. Department of Justice, Environmental and Natural Resources Division, mutually agreed in the form of Stipulated Order to resolve the violation issues.

On June 5, 2003, a Stipulated Order for Preliminary Relief was filed before the District Court of Guam. The Stipulation requires implementation of short-term projects and initial planning measures by GWA. GWA is required to submit a final financial plan in the Master Plan that generates sufficient revenue to cover the cost of all compliance activities and deliverables required by the Stipulated Order for Preliminary Relief, as well as any other anticipated expenses, including any measures necessary to ensure compliance with the CWA and the SDWA and costs related to the infrastructure improvements identified in the Master Plan.

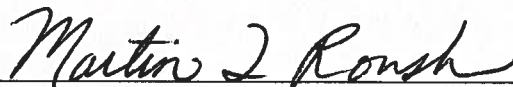
In 2006, the Stipulated Order was amended which required GWA to perform approximately \$220 million worth of capital improvement projects and perform other actions to bring GWA's system into compliance. However, GWA was unable to meet all deadlines set out in the amended Stipulated Order. The District Court ordered the parties to stipulate as to scope of remaining projects and project completion dates; however, the parties were unable to reach an agreement on all items. As a result, on November 10, 2011, the District Court issued an order setting new deadlines for the unfinished projects and establishing new projects that were not part of the amended Stipulated Order. As of September 30, 2013, the financial impact of the order has not been fully known and has been estimated to cost approximately \$450 million to \$500 million, including financing costs.

48. On November 29, 2011, the United States Environmental Protection Agency (USEPA) informed GWA that its primary treatment permits for the Hagatna and Northern District Wastewater Treatment Plants had been denied and that GWA would be required to upgrade the plants to secondary treatment. The upgrades have been estimated to cost approximately \$300 million. GWA intends to negotiate with the USEPA on the timelines for upgrading the plants, which may be deferring the upgrades for approximately 20 to 30 years.
49. No events have occurred after September 30, 2013, but before June 11, 2014, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements, except as disclosed in the notes to the financial statements.
50. No events have occurred subsequent to September 30, 2013 that requires consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
51. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
52. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

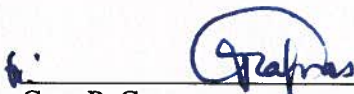
Very truly yours,



Simon A. Sanchez
Chairman, Consolidated Commission on Utilities



Martin L. Roush
General Manager



Greg P. Cruz
Chief Financial Officer

**Guam Waterworks Authority
Summary of Uncorrected Misstatements Relating to Current Year
September 30, 2013**

Uncorrected Misstatements	STATEMENT OF CONDITION			
	Assets	Liabilities	Net Position Beg	Change in Net
	Dr (Cr)	Dr (Cr)	of Year	Position
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. To close extrapolated program management (ref. P002, batch #233108) charges associated to completed projects.				
Dr. Fixed assets	140,706			
Cr. Construction in progress	(140,706)			
2. To take up estimated understatement in depreciation expense				
Dr. Depreciation expense				358,666
Cr. Accumulated depreciation	(358,666)			
3. To adjust assets that could not be sighted/verified.				
Dr. Expense				28,945
Dr. Accumulated depreciation	103,908			
Cr. Fixed assets	(132,853)			
4. To write off assets no longer existing at 9/30/2013.				
Dr. Expense				160,868
Dr. Accumulated depreciation	37,734			
Cr. Fixed assets	(198,602)			
5. To accrue liability related to SP0002-13 case				
Dr. Expense				147,000
Cr. Accrued liability		(147,000)		
Total Uncorrected Misstatements	(548,479)	(147,000)	-	695,479

We have reviewed the uncorrected misstatements above as of September 30, 2013. The uncorrected misstatements are not material to the current year financial statements. Further, the above are not the result of fraud or illegal acts.



Chief Financial Officer

06/10/14

Date



Controller

6+10.14

Date

**Guam Waterworks Authority
Summary of Uncorrected Misstatements Relating to Prior Year
September 30, 2013**

<u>Uncorrected Misstatements</u>	STATEMENT OF CONDITION			
	Assets	Liabilities	Net Position Beg of Year	Change in Net Position
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. To record understatement of prior year capitalized interest on 2010 bonds Dr. Capital Assets Cr. AFUDC	471,022			(471,022)
Total Uncorrected Misstatements	471,022	-	-	(471,022)


We have reviewed the uncorrected misstatements above as of September 30, 2013. The uncorrected misstatements are not material to the current year and prior year financial statements. Further, the above are not the result of fraud or illegal acts.




Chief Financial Officer



Date



Controller



Date

SECTION I – DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

1. Inventory Issuances

During inventory reconciliation, the Accounting Department discovered that the issuance of twelve items totaling \$62,294 by Operations were directly obtained from vendors and were not documented. As a result, these items were not recorded. This matter was corrected by GWA through a proposed adjustment.

We recommend that the Operations Department verify that all inventory issuances and receipts are documented and that related inventory documents are timely forwarded to Accounting.

2. Monitoring of Construction in Progress

a. Of twenty-eight CIP accounts tested as of September 30, 2013 aggregating \$24,313,127, the following were noted:

i. One \$956,700 CIP account (ref. P002) related to program management services identifiable to various CIP projects; however, such was not allocated to specific CIP projects.

We recommend that program management services be allocated to specific CIP projects.

ii. One \$622,341 CIP project (ref. GL #142) has not progressed for several years due to funding concerns as the project has not been included as a project to be funded.

We recommend that GWA document project plans for the project (i.e. include in the CIP plan).

b. Fifteen projects totaling \$472,920 did not indicate activity during the current year.

We recommend GWA verify that these projects remain valid CIP.

c. A significant portion of GWA's ongoing CIP projects relate to upgrades, rehabilitation, replacements, retirements or retrofits of existing plant/fixed assets which may affect carrying values and remaining estimated useful lives.

We recommend that an assessment/review of the potential impact of these CIP projects be performed and documented. We recommend proactive involvement of Accounting, Engineering and Operations Departments in the review process.

d. CIP additions during 2013 increased by \$3,846,448 (or 12%) when compared with \$32,639,845 in 2012. The level of CIP activities is expected to further increase in subsequent years.

We recommend GWA continue to enhance timely communication (i.e. quarterly, monthly) between Engineering, Operations and Accounting as to the status of CIP projects, capitalization periods and related matters and such communication be documented (i.e. minutes of meeting, memos, etc.).

3. Construction in Progress Reclassifications/Closed to Fixed Assets

Of eleven CIP projects tested aggregating \$23,315,125 closed to fixed assets during fiscal year 2013, the following were noted:

a. Ten completed projects were recorded in the fixed asset register between 61 to 320 days from the date of asset completion.

We recommend completed CIP be timely closed to fixed assets.

SECTION I – DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING, CONTINUED

3. Construction in Progress Reclassifications/Closed to Fixed Assets, Continued

- b. Three items related to projects (i.e. purchase of computers, equipment and parts, replacement of pumps and cables) that did not require substantial time to complete (i.e. less than a month).

We recommend GWA consider recording capitalizable non-CIP expenditures directly to appropriate fixed asset accounts.

- c. One \$1,216,331 project (of the eleven projects examined) was not complete at September 30, 2013. In addition, one \$172,240 project included capitalized interest and labor of \$149,664 associated with a project that is in progress as of September 30, 2013. These projects were subsequently corrected by GWA.

We recommend GWA verify that only completed projects are closed to fixed assets. We recommend that Accounting obtain formal concurrence from Engineering and Operations prior to closing CIP projects.

4. Fixed Asset Additions

Of forty-five fixed asset additions tested aggregating \$15,150,920, the following were noted:

- a. One \$281,113 addition (asset #1045743) related to an asset replacement; however, the replaced asset was not identified by Operations and associated disposals were unrecorded.

We recommend associated disposals be recorded.

- b. Estimated useful lives assigned to thirty-two assets (with original costs of \$7,050,000) were based on a 1998 study.

We recommend GWA consider updating the 1998 study. Further, we recommend GWA periodically review useful lives assigned and this will require collaboration between Accounting, Engineering and Operations Departments in the process.

5. Fixed Asset Disposals

Total fixed asset disposals during fiscal year 2013 were \$18,271,662. Of this amount:

- a. Total disposals with original costs of \$14,646,432 (net book value of \$9,159,899) were associated with meter change outs that occurred throughout the fiscal year. However, such were analyzed and recorded subsequent to year-end.
- b. Three disposals (asset #s 73381, 73390 and 73314) totaling \$2,523,543 and four disposals (asset #s 72784, 72864, 72944 and 72952) totaling \$781,239 related to projects completed in December 2012 and May 2013, respectively. These disposals were analyzed and recorded subsequent to year-end.

SECTION I – DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING, CONTINUED

5. Fixed Asset Disposals, Continued

- c. Total disposals with original costs of \$231,111 (net book values of \$133,613) related to various pumps and motors replacements that occurred throughout the year; however, this matter was analyzed and recorded subsequent to year-end.

We recommend that periodic (i.e. monthly) analysis of meter disposals and retirements be performed. We recommend proactive involvement by Accounting, Engineering, IT and Operations Departments in the process. We also recommend that disposals be timely recorded by Accounting.

6. Fixed Asset Register and GIS Reconciliation

At September 30, 2013, GWA has 2,426 of fully depreciated assets in the fixed asset register with original costs of \$36,165,663. A reconciliation of these assets to the Geographic Information System (GIS) has not been completed as of September 30, 2013.

We recommend GWA continue to reconcile the fixed asset register and the GIS system.

7. Fixed Asset Existence

Of forty-two fixed assets (with an original cost of \$8,393,255 and book value of \$2,014,262) tested, the following were noted:

- a. Seven items (original cost of \$132,853 and net book value of \$28,945) could not be located.
- b. Two items (original cost of \$198,602 and net book value of \$169,868) do not exist and appear to have been disposed of but the disposals were unrecorded.

We recommend that the above assets be verified and be written-off as necessary. This appears to require coordination between Operations and Accounting and GWA should periodically involve those departments in the process.

SECTION II – DEFINITIONS

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

The definition of a deficiency is as follows:

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