

March 25, 2010

The Board of Commissioners
Consolidated Commission on Utilities

Dear Members of the Board of Commissioners:

We have performed an audit of the financial statements of Guam Waterworks Authority (GWA) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated March 25, 2010.

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 the 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 30, 2009. 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 financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic 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, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on GWA's compliance with requirements applicable to each major federal 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 by management with the oversight of 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.

We considered GWA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 would not necessarily 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.

MANAGEMENT JUDGMENTS AND 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 2009 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, 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, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GWA's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2009 financial statements.

In addition, we have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

GWA's significant accounting policies are set forth in Note 2 to GWA's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GWA:

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GWA has not been determined.
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GWA has not been determined.
- In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.
- In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as GWA's 2009 Annual Report, 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. We will read the other information in GWA's 2009 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 Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GWA's 2009 financial statements.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of GWA's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2009.

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 2009.

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 Appendix III, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR 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.

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.

OTHER MATTERS

Subsequent to the issuance of GWA's 2008 financial statements, the Government of Guam's Department of Administration issued a determination concerning the redesignation of the Defined Benefit (DB) Plan as a cost-sharing multiple-employer plan. Prior to this determination, the DB Plan was designated as a single-employer plan, requiring GWA to measure and disclose an amount for annual pension cost. Annual pension cost amounted to GWA's annual required contributions (ARC) to the plan with the difference between the ARC and actual required contributions recognized as a net pension obligation.

The redesignation of the DB Plan as a cost-sharing multiple-employer plan resulted in the reversal of the previously reported unfunded pension liability, totaling \$7,076,388, and related pension costs of \$850,000 as well as related disclosure in the financial statements.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated March 25, 2010, containing certain matters involving GWA's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated March 25, 2010, containing certain matters involving GWA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

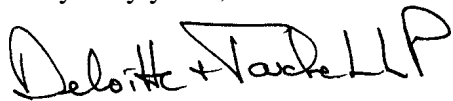
We have communicated to management, in a separate letter also dated March 25, 2010, control deficiencies and other matters that we identified during our audit.

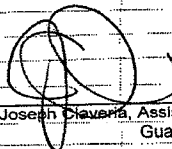

* * * * *

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.

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

Very truly yours,

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

Journal Entries - AJE			
#	Name	Debit	Credit
1 AJE To adjust other expense account - 8410 (Posted)			
220	Operating revenues, water	371,618.95	-
Blank (4381)	Contractual svc - Testing	93,080.05	-
470	Other Expense	-	464,699.00
		464,699.00	464,699.00
WP 8410: To adjust for the correction of water revenue and contractual expense accounts.			
We concur with the recording of the adjustment and represent that it does not result from fraud or illegal acts. Rather, such represent misstatements.			
 Joseph Clavens, Assistant Chief Financial Officer Guam Waterworks Authority		Date: 4/7/10	
 Greg Cruz, Chief Financial Officer Guam Waterworks Authority		Date: 2/13/10	

APPENDIX II



To adjust for the additional allowance	(154,969)		154,969
To adjust for the overrecording of revenue	(271,458)		271,458
To adjust for the unrecording of CIP amount	41,882	(41,882)	
To adjust for litigation loss		(55,000)	55,000
To adjust for litigation settlement		(38,842)	38,842
To adjust for underrecording of liability	277,417	(277,417)	

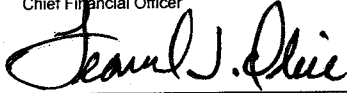




4.2.2010

Greg Cruz
Chief Financial Officer

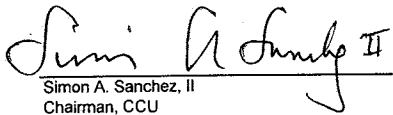
Date



4/02/2010

Leonard J. Olive
General Manager

Date



4/20/10

Simon A. Sanchez, II
Chairman, CCU

Date



GUAM WATERWORKS AUTHORITY

"Good Water Always"

Post Office Box 3010, Hagatna, Guam 96932

Phone: (671) 647-2583 Fax: (671) 646-2594

March 25, 2010

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

We are providing this letter in connection with your audits of the statements of net assets of the Guam Waterworks Authority (the Authority), as of September 30, 2009 and 2008, and the related statements of changes in net assets and cash flows for the years then ended, 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 and changes in net assets and cash flows of the Authority 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 financial statements of the Authority's net assets, related statements of revenues, expenses and change in net assets, and cash flows, in conformity with accounting principles generally accepted in the United States of America (GAAP).
- b. The fair presentation of the required supplementary information, including the Management's Discussion and Analysis, and supplemental schedules accompanying the financial statements that are presented for the purpose of additional analysis of the financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. 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 financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved. During FY 2009, management has determined that revenue and operating and maintenance funds are to be classified as restricted.
 - b. Deposits and investment securities are properly classified in 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. Costs to federal awards have been charged in accordance with applicable cost principles.

2. The Authority has made available to you all:
 - a. Summaries of actions of the Consolidated Commission on Utilities (CCU) which are dated as follows:

October 7, 2008	November 12, 2008	December 9, 2008
January 6, 2009	February 10, 2009	March 10, 2009
April 14, 2009	May 12, 2009	September 1, 2009
October 13, 2009	November 17, 2009	December 15, 2009
 - b. Financial records and related data for all financial transactions of the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Authority 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.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There has been no:
 - a. Action taken by the Authority's management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the Authority.

- b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
4. 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.
5. The Authority 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 the Authority and does not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Authority 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.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) Topic No. 450 *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*.) except as follows: The Authority is a defendant in various lawsuits and has made provision for any probable and reasonably estimatable judgments. The Authority believes the resolution of other pending claims and legal proceedings will not have a material adverse effect on the Authority's financial statements.
9. We have no intention of withdrawing from the Government of Guam Retirement plans, or taking any other action that could result in an effective termination or reportable event for either of the plans. We are not aware of any occurrences that could result in the termination of the pension plan to which we contribute.
10. 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. In addition, we have accurately completed the appropriate sections of the data collection form.

11. We are responsible for compliance with Guam and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Authority'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. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. 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 and grant agreements that could have a material effect on its federal programs.
13. 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. The types of requirements identified include: activities allowed or disallowed; allowable costs/cost principles; matching, level of effort, or earmarking; procurement; reporting; and special tests and provisions.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
 - c. 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.
 - d. 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.
 - e. 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.
 - f. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
14. We are responsible for follow-up on all prior year(s) 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.

APPENDIX III, CONTINUED

15. 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, violations of provisions of contracts or grant agreements, or abuse that you report.
16. There are no significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information except as set forth in your reports on internal control and compliance.
17. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, matters less than \$141,000 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 financial statements.

18. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
19. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
20. 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).

Electricity purchases of \$14,971,119 and \$14,631,816, respectively, and administrative service costs of \$337,716 and \$272,673, respectively, were incurred by the Authority during the years ended September 30, 2009 and 2008 with the Guam Power Authority (GPA). In addition, a liability of \$3,998,968 and \$5,209,285 was due to GPA as of September 30, 2009 and 2008, respectively.
 - b. Guarantees, whether written or oral, under which the Authority is contingently liable.
21. 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.
22. 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.
23. 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.
24. 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. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC Topic No. 450 *Contingencies* except as disclosed and/or recorded in the financial statements.
25. The Authority 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 for the lien established by the U.S. Navy as disclosed in note 4 to the financial statements.
26. The Authority 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 Series bonds.
27. No events have occurred subsequent to September 30, 2009 to the date of our signatures below, which requires consideration as adjustments to or disclosures in the financial statements. Additionally, no events have occurred subsequent to September 30, 2009, that requires consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
28. No department or agencies of the Federal Government or the Government of Guam have reported a material instance of noncompliance to us.
29. With regard to the fair value measurements and disclosures of certain assets, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
 - b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.
 - c. No events have occurred subsequent to September 30, 2009 that require adjustment to the fair value measurements and disclosures included in the financial statements.
30. During fiscal year 2009, the Authority implemented the following pronouncements:
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GWA has not been determined.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GWA has not been determined.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

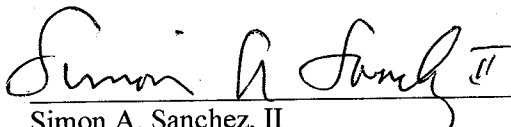
In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

31. 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.

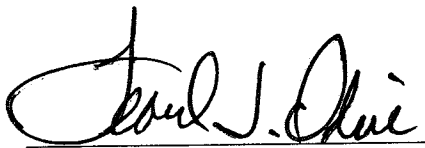
32. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Authority and do not include any items consigned to it.
33. We believe that all expenditures that have been deferred to future periods are recoverable.
34. We have no intention of terminating our participation in the Government of Guam Retirement plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
35. We represent to you that, subsequent to September 30, 2009, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).
36. The Authority has obligated, expended, received, and used public funds of the Authority in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law.
37. Money or similar assets handled by the Authority on behalf of the Government of Guam or Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
38. The Authority has complied, in all material respects, with the requirements identified in item 13 (a) above in connection with federal awards.
39. The Authority is responsible for complying, and has complied, with OMB Circular A-133.
40. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.
41. As discussed in note 8 to the financial statements, the Authority has commitments of approximately \$7,884,003 under several contracts for various expansion and improvement projects.
42. On December 31, 1989, the Government of Guam issued general obligation Water System Revenue Bonds, Series 1989 in the amount of \$49,190,000. The bonds have been issued for the purpose of expanding and improving the existing water system of the Government operated by the Authority. The bond obligation is recognized by the Government of Guam.
43. Public Law 19-47 created the water and Sewer Development Fund that authorized the Authority to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time on any certain property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirement for water and/or sewer services and installation of infrastructure to be performed by the builder.
44. The United States Navy filed a claim for non-payment for water allegedly provided by the U.S. Navy to the former Public Utilities Agency of Guam and to the Authority. Pursuant to a settlement agreement with the U.S. Navy, the CCU approved an agreement

- to pay \$9 million to the U.S. Navy for past due water billings. As of September 30, 2009 and 2008, the balance due on this agreement is \$5,689,122 and \$6,639,101, respectively.
45. The Authority has adopted a policy of self-insuring potential risks relative to its property, plant, and equipment. The Authority has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. The Authority is of the opinion that it has suffered no material losses in the past three years related to damages to its utility plant-in-service.
 46. The representations made in this letter apply also to all additional information accompanying the financial statements, including, but not limited to, the Supplemental Schedule of Operating and Maintenance Expenses on page 32 of the financial statements.
 47. As discussed in note 8 to the financial statements, the United States Government filed a complaint against the Authority and the Government of Guam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of the Authority'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. The Authority and the U. S. Department of Justice, Environment and Natural Resources Division mutually agreed in the form of Stipulated Order to resolve the violation issues. On June 5, 2003, 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 the Authority. The Authority 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.
 48. The Authority is of the opinion that compliance with applicable debt covenants occurred during the year ended September 30, 2009 and to the date of this letter.
 49. Management has determined that it is not appropriate to record Utiligy's software costs of \$216,775 as the underlying service has not been received.


Very truly yours,


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

4/6/10
 Date


 Leonard J. Olive
 General Manager

4/02/2010
 Date


 Greg Cruz
 Chief Financial Officer

4-2-2010
 Date