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April 16, 2018

Commissioners
Consolidated Commission on Utilities

Dear Commissioners:

We have performed an audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated April 16, 2018.

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

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

Very truly yours,

Deloitte & Touche LLP

cc: To Management of Guam Power Authority

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 16, 2017. As described in that letter, the objectives of a financial statement audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether GPA's basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, for the year ended September 30, 2017 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2017;

- Express an opinion on whether the supplementary information that accompanies the financial statements is fairly stated, in all material respects, in relation to the financial statements taken as a whole;

- Report on GPA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2017, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and

- Express an opinion on GPA's compliance with requirements applicable to each major program and report on GPA's internal control over compliance in accordance with the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 GPA's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPA's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GPA's 2017 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 net realizable value; management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets; management's estimate of the net pension liability, deferred outflows and inflows of resources related to pension, which is based on an actuarial report issued by the Government of Guam Retirement Fund; and management's estimate of the extraordinary gain from insurance recoveries net of generator explosion damages which is based on estimated repair costs to be incurred and expected future use of the damaged property. During the year ended September 30, 2017, there were no significant changes in accounting estimates or in management's judgments relating to such estimates other than the effect of adopting Governmental Accounting Standards Board (GASB) Statement No. 73 on pension related estimates as stated below.

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 Appendix B to Attachment I, a summary of uncorrected misstatements that we presented to management during the current year audit engagement that when combined with previously identified uncorrected misstatements, were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, included in Appendix C to Attachment I, is the summary of uncorrected misstatements that we presented to management during the current audit engagement pertaining to the prior period presented that when combined with previously identified uncorrected misstatements, were determined by management to be immaterial, both individually and in the aggregate, to the prior period financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Appendix A to Attachment I and are reflected in the 2017 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

GPA's significant accounting policies are set forth in Note 1 to GPA's 2017 financial statements. During the year ended September 30, 2017, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GPA:

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the financial statements resulting in the restatement of GPA's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of the statement.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on GPA's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that GPA will record upon implementation of GASB Statement No. 75 is anticipated to be $59,348,450 as of September 30, 2017.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

We have evaluated the significant qualitative aspects of GPA's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF GPA

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that GPA issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in GPA's 2017 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the CCU.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GPA's 2017 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 2017.

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated April 16, 2018, on GPA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have communicated to management, in separate letters also dated April 16, 2018, certain deficiencies and other matters related to GPA's internal control over financial reporting and to GPA's internal control over its information technology environment that we identified during our audit.

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GUAM POWER AUTHORITY

ATURIDAT ILEKTRESEDAT GUAHAN
P O BOX 2977, AGANA, GUAM 96932-2977
Telephone: (671) 648-3066 Fax: (671) 648-3168

April 16, 2018

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise GPA's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and change in net position, and cash flows of GPA in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the 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 internal control:

   - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

   - To prevent and detect fraud.

c. Establishing and maintaining effective internal control over financial reporting.

d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of financial statements and related notes 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 financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

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

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

1. The 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. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

2. GPA has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. GPA has made available to you:

   a. All minutes of the meetings of Consolidated Commission on Utilities (CCU) or summaries of actions of recent meetings for which minutes have not yet been prepared.

   b. All financial records and related data for all financial transactions of GPA and for all funds administered by GPA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GPA 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.

   d. All Public Utilities Commission (PUC) Orders impacting GPA during the year and through the report date.

4. There have been no:

   a. Actions taken by GPA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GPA.

   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 except for the following matters:

   - In February 2011, the U.S. Environmental Protection Agency (EPA), under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3 and 4 and MEC 8 and 9 slow speed diesel units. Compliance under the diesel MACT was due on May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of $37,000 per unit per day. GPA applied for and received a one-year extension for complying with the rules with respect to its small diesel peaking units. The required stack emission equipment was installed within the extension period. As to compliance with the other units subjected to RICE MACT, GPA requested EPA to enter into a consent decree allowing time for GPA to comply with the regulations and allowing potential fines and penalties for non-compliance to be used for compliance with regulations. In January 2015, GPA submitted its compliance plan outlining the proposed timelines for inclusion in the consent decree. In August 2015, due to explosion and fire at Cabras 3 and 4 power plant, these units are no longer subject to compliance. As of September 30, 2017 and to the date of this letter, GPA is still negotiating the consent decree with EPA. GPA believes result of negotiations with EPA will defer potential fines post RICE MACT deadlines for the slow speed diesel units. If the consent decree is not reached, the maximum liability of GPA would be $186 million as of September 30, 2017. No liability that may result from potential noncompliance has been recorded in the 2017 financial statements.

   -EPA also established rules for Electric Generating Unit Maximum Achievable Control Technology (EGU MACT) which applies to Cabras 1 and 2 and Tanguisson steam boiler units. Compliance under the EGU MACT was due in April 2015. Non-compliance could result in penalty fees of $37,000 per unit per day. GPA obtained PUC approval to early terminate the associated energy conversion agreement of the Tanguisson unit. By deactivating the Tanguisson unit, GPA did not incur compliance costs for this unit. As to compliance for Cabras 1 and 2, a consent decree requested from EPA for compliance with RICE MACT is also expected to cover the EGU MACT compliance.

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 B.

6. We believe the effect 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, 2016 taken as a whole. Such uncorrected misstatements have been attached as Appendix C.

7. GPA has not performed a 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 their understanding about the risks of fraud in GPA and do 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 GPA involving:

    a. Management.

    b. Employees who have significant roles in GPA's internal control over financial reporting.

    c. Others, where 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 GPA's financial statements communicated by employees, former employees, analysts, regulators, or others.

10. There are no unasserted claims or assessments that we are aware of or 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.

11. Significant assumptions used by us in making accounting estimates are reasonable.

12. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings by federal awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

13. 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.

14. GPA's final version of its annual report containing the audited financial statements and your auditor's report thereon will be provided to you when available, and prior to its issuance.

Except where otherwise stated below, immaterial matters less than $666,000 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.

15. Except as disclosed in Appendices B and C, there are no transactions that have not been properly recorded and reflected in the financial statements.

16. GPA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

17. Regarding related parties:

    a. We have disclosed to you the identity of GPA's related parties and all the related party relationships and transactions of which we are aware.

       In October 2011, U.S. Federal Emergency Management Agency reimbursed GPA for certain typhoon related costs incurred in 2002 of approximately $1,800,000. The reimbursement was received by the Government of Guam (GovGuam) Department of Administration (DOA) which plans to offset such amount against billings to GPA related to the Autonomous Agency Collections Fund (see item 57). Due to uncertainty of receipt, GPA has not recorded the reimbursement in the financial statements.

       GPA has not had significant transactions with members of the CCU or companies affiliated with members of the CCU during 2017 and 2016.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

18. 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 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.

19. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, Claims and Judgments except as disclosed in the financial statements.

20. GPA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.

21. GPA has complied with all aspects of contractual agreements that may affect the financial statements.

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

23. 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 the requirements of the Governmental Accounting Standards Board

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

24. Regarding supplementary information:

    a. We are responsible for the preparation and fair presentation of the supplementary information in accordance 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.

25. We adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68* with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of GPA's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan.

26. We adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The implementation of this statement did not have a material effect on GPA's financial statements.

27. We adopted the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of this statement did not have a material effect on GPA's financial statements.

28. We adopted the provisions of GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The implementation of this statement did not have a material effect on GPA's financial statements.

29. We adopted the provisions of GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The implementation of this statement did not have a material effect on GPA's financial statements.

30. We adopted the provisions of GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of this statement did not have a material effect on GPA's financial statements.

31. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that GPA will record upon implementation of GASB Statement No. 75 is anticipated to be $59,348,450 as of September 30, 2017.

32. In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

33. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

34. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

35. In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

36. In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

37. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

38. GPA has power plants that were identified to be retired in the future. Upon retirement, GPA may incur costs to dismantle and clean-up the power plants. GPA has no legal or contractual obligation to perform these actions when they retire their assets; therefore, no provision for this potential cost was recorded in the accompanying financial statements.

39. Tax-exempt bonds issued have retained their tax-exempt status.

40. GPA has determined whether a capital asset has been impaired in accordance with GASB Codification Section 1400.180 – 1400.200, Impairment of Capital Assets. In making this determination, GPA considered the following factors:

    a. The magnitude of the decline in service utility is significant

    b. The decline in service utility is unexpected.

41. Except for the discount rate used to calculate total pension liability, we agree with the findings of management's expert contracted by the GovGuam Retirement Fund in evaluating the actuarial evaluation of the GovGuam's retirement plan and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting

records. The effect of assumption differences in discount rate used is included in appendices B and C.

We agree with the findings of management's expert in gauging and sampling various GPA storage tanks containing fuel oil for purposes of fiscal year-end stock inventory ascertainment and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records.

We did not give any instructions, nor cause any instructions to be given, to management's experts with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's experts.

42. 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.

43. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GPA has not experienced any losses on such accounts and management believes it is not exposed to credit risk on its deposits.

44. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

45. 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. Specifically, GPA has $2,045,387 receivable from FEMA for typhoon Dolphin in 2015 which management believes to be collectible.
46. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.

47. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of GPA and do not include any items consigned to it or any items billed to customers. Specifically, GPA considers all Cabras 3 and 4 inventories to be obsolete. As a result, the inventories were fully provided for with an allowance.

48. We have disclosed to you all additions or changes to the existing pension plan.

49. Except for the discount rate used to calculate total pension liability, we believe that the actuarial assumptions and methods used to measure pension and postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances. Except for the effect of assumption difference in discount rate used, these amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, deferred inflows, deferred outflows, net position and changes in net position in the financial statements in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not*

Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The effect of assumption differences in discount rate used is included in appendices B and C.

50. 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.

51. GPA is subject to various rate regulatory matters and, using its best estimate based on reasonable and supportable assumptions and projections, has determined that a provision for any probable and reasonably estimable disallowances or liabilities due to customers as a result of such matters is not necessary.

52. All additions to GPA's property accounts consist of replacements or additions that are properly capitalizable.

53. There were no items of physical property contained in the property accounts of GPA that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.

54. GPA's provisions for depreciation have been determined in accordance with the orders of and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and the Public Utilities Commission. Based on the present operating conditions and probable useful lives of the properties, we believe that the provisions being made using the depreciation rates in effect will be adequate to depreciate the properties over their respective useful lives.

55. GPA has evaluated the likelihood that any of its regulated operating assets or assets under construction will be abandoned. We believe the likelihood of abandonment is less than probable, except for the damaged Cabras 3 and 4 generators as disclosed in the financial statements.

56. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of GPA's regulatory commission and in accordance with the provisions of FASB ASC 980, *Regulated Operations*. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of GPA's regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which GPA remains accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods.

57. On March 31, 2011, GPA received an invoice from the GovGuam DOA of $12,250,000 representing an annual assessment of $875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund.* In September 2013, GPA received another invoice for $875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned. There was no invoice received for the years ended September 30, 2017 and 2016. GPA obtained an approval from the CCU to offer GovGuam DOA a settlement amount of $2.6 million. However, such settlement offer is conditional on the approval by the PUC of a surcharge to recover the assessment from ratepayers. The

PUC has not approved the surcharge as of September 30, 2017 and therefore, no liability or other impact has been recognized in the financial statements.

58. In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991 but was suspended by law for the years 1996, 2002, 2003 and 2004. Between 1991 and 2008, GPA did not calculate or pay any bonuses. In 2010, the Guam Legislature authorized GPA to implement a Pay for Performance program, similar to the GovGuam unified pay systems for certified, technical and professional positions, covering the evaluation period of 2009. As of September 30, 2017 and 2016, the CCU determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the financial statements.

59. Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law; accordingly, no provision has been made in the financial statements for payments to be made under this law. GPA is covered by its self-insurance and worker's compensation insurance in case of accidents due to hazardous substances.

60. In 2012, GPA developed its Integrated Resource Plan (IRP). The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as fuel diversification and the renewable energy portfolio standards. Specifically, the IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators which can utilize either Liquefied Natural Gas (LNG) or Ultra-Low Sulfur (ULS) diesel fuel oil; adding 40-45 MW of generation from renewable energy sources; and diversification of its fuel source to LNG and ULS diesel fuel oil.

    In August 2015, GPA lost 78MW of base load capacity and experienced insufficient generation reserve after the explosion and fire at the Cabras 4 Power Plant. The PUC ordered GPA to update the IRP in consideration of this event. The results of the updated IRP indicated that GPA should procure up to 180 MW of combined cycle units. In October 2016, the PUC authorized GPA to proceed with procurement which shall be based upon the Independent Power Producer (IPP) model. No approval was given in regards to bond financing, restructuring, or financing/leasing for the IPP. The PUC also ordered GPA to retire Cabras 1 and 2 upon commission of the new combined cycle plants.

    GPA reassessed the estimated useful life of Cabras 1 and 2 based on the expected retirement of these plants when the new combined cycle plant becomes operational. GPA recorded additional depreciation expense of approximately $3.7 million during the years ended September 30, 2017 and 2016 due to the revised estimated useful life of these power plants.

61. On August 31, 2015, GPA suffered an explosion and fire at its Cabras 3 and 4 generator building. GPA commissioned an investigation and evaluation of the loss of Cabras 4 generator. In 2016, it was determined that Cabras 4 was a total loss. It was later determined that repair of the Cabras 3 generator was economically not feasible. As a result, both the Cabras 3 and 4 generators and related facilities and equipment were written down to zero value at September 30, 2016.

    As of September 30, 2017, GPA received $84 million of insurance recoveries. Subsequent to September 30, 2017, GPA entered into a final insurance settlement of

$126 million. As a result, GPA recorded an additional $42 million recovery receivable at September 30, 2017. GPA applied the insurance recoveries against actual damage incurred and estimated repair costs, and presented these as an extraordinary item in the accompanying financial statements.

Total damage costs are based on GPA's current best estimate and may ultimately be materially different than estimated.

62. Other than those described in Note 13 related to bond refinancing and Note 10 related to final insurance settlement, no events have occurred after September 30, 2017 but before April 16, 2018, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Very truly yours,

Joseph T. Duenas
Chairman, Consolidated Commission on Utilities

John M. Benavente
General Manager

John J.E. Kim
Chief Financial Officer

Corazon Montellano
Asst. Chief Financial Officer

Lenora M. Sanz
Controller

Appendix A
Adjusting Journal Entries and Reclassifying Journal Entries

Adjusting Journal Entries

#	Name	Debit	Credit
	1 CAJE To write-off Inactive Balance for FY14 and the remaining balances		
144000.10	Allowance for Doubtful Acct	673,055.40	
142000.99	A/R Elect.-Conversion IA		673,055.40
		673,055.40	673,055.40
	2 CAJE To adjust depreciation expense due to change of useful life		
108344	Generators	3,027,785.93	
960344	Generators		3,027,785.93
		3,027,785.93	3,027,785.93
	3 CAJE To recognize claim from Chubb Insurance re: Pollution Liability for Cabras 3&4		
143000.20	A/R-Insured claims	884,342.23	
426000	Extraordinary gain/loss		884,342.23
		884,342.23	884,342.23
	4 CAJE To correct Macheche CT depreciation expense		
108343	Prime Movers	313,879.68	
960343	Prime Movers		313,879.68
		313,879.68	313,879.68
	5 CAJE To reverse accruals		
232000.4	AP-Accruals	85,053.55	
930000.38	Water		646.05
514000.55	Other Parts		84,407.50
		85,053.55	85,053.55
	6 CAJE To adjust negative AP due to system error		
400456	Others	51,241.23	
232000.20	Operation		51,241.23
		51,241.23	51,241.23
	7 CAJE To record invoices for Fy2017 received after closing		
107200	Others	2,559.77	
921000.65	Office supplies		1.00
908000.43	Other contractual	12,540.00	
923000.25	Engineering consultants	2,986.02	
923000.27	Other Professional Service	16,567.00	
921000.64	Janitorial	2,303.00	
931000.14	Land lease	12,000.00	
935000.28	Building Maintenance	72.80	
925100.36	Injuries & Damages	1,851.80	
107391	GP - Office Furniture & Eq.	95,200.00	
923000.27	Other Professional Service	2,474.12	
935000.32	Maint of Office Equipment		283.40
923000.43	Other Contractual Service	15,620.00	
903010.75	Collection Fees	59.95	
506000.27	Professional services	11,724.30	
501000.83	Fuel handling	1,327.50	
514000.55	Other Parts	50,842.57	
593000.35	Other Maintenance	22,902.28	
562000.27	Other Professional Service	22,750.00	
232000.4	AP-Accruals		273,496.71
		273,781.11	273,781.11

	8 CAJE To accrue NRG retention payable for interconnection costs		
101353	TR - Station Equipment	179,864.22	
232000.4	AP-Accruals		179,864.22
		179,864.22	179,864.22
	9 CAJE To correct retiree benefits		
926200.4	Supplmtl Benefits-Retirees	53,227.57	
165020	Supplemental & COLA		53,227.57
		53,227.57	53,227.57
	10 CAJE To accrue outstanding premiums		
926200.4	Supplmtl Benefits-Retirees	9,282.29	
232000.4	AP-Accruals		9,282.29
		9,282.29	9,282.29
	11 CAJE To transfer the line displacement from high to low		
151000.30	Fuel - Low Sulfur	939,327.69	
151000.10	Bunker 6		939,327.69
		939,327.69	939,327.69
	1 AJE To correct capitalization of Aggreko lease and its related amortization and depreciation		
101100	Property under capital lease	521,990.48	
960344	Generators	26,099.52	
108344	Generators		26,099.52
980427.93	Int.exp cap lease-Aggreko		56,089.25
227000.4	Oblig.- cap lease-Aggreko		521,990.48
227000.4	Oblig.- cap lease-Aggreko	56,089.25	
		604,179.25	604,179.25
	2 AJE To adjust allowance for bad debts		
144000.10	Allowance for Doubtful Acct	673,055.40	
904000.91	Provision for Bad Debts		673,055.40
		673,055.40	673,055.40
	3 AJE To correct pension liability		
926200.4	Supplmtl Benefits-Retirees		1,319,634.00
926100.4	Pension Retirement	6,887,071.00	
186000.120	Deferred outflow-Pension ret		2,142,839.00
263000	FY15-Net pension liability		3,428,566.00
253000.120	Deferred inflow-Pension ret	3,968.00	
		6,891,039.00	6,891,039.00
	4 AJE To accrue Cabras 3&4 insurance settlement		
143000.20	A/R-Insured claims	40,960,000.00	
426000	Extraordinary gain/loss		40,960,000.00
		40,960,000.00	40,960,000.00
	5 AJE To correct recording of FY18 Interruptible Load Credits		
143000.20	A/R-Insured claims		294,555.00
235000.21	Payable-Elect.-Overpayment	294,555.00	
		294,555.00	294,555.00
	6 AJE To accrue additional Cabras 3&4 loss		
426000	Extraordinary gain/loss	1,794,875.41	
232000.4	AP-Accruals		1,794,875.41
		1,794,875.41	1,794,875.41

	7 AJE To record beginning GASB 68 / 73 numbers		
263000	FY15-Net pension liability		17,850,398.00
186000.120	Deferred outflow-Pension ret	2,672,974.00	
253000.120	Deferred inflow-Pension ret		60,074.00
216000	Retained Earnings	15,237,498.00	
		17,910,472.00	17,910,472.00

Reclassifying Journal Entries

#	Name	Debit	Credit
	1 RJE To reclassify TCD and investments included in cash		
	Investments (current)	18,591,790.73	
	Investments (noncurrent)	1,999,040.00	
	Certificates of deposits (current)	17,298,407.50	
	Cash		37,889,238.23
		37,889,238.23	37,889,238.23
	2 RJE To reclass investment - noncurrent		
DT13200.42	Investments - bond funds held by trustee (noncurrent)	10,523,203.00	
132000.42	USB-2012 Bond Fund		10,523,203.00
		10,523,203.00	10,523,203.00
	3 RJE To reclass investment - current		
DT13200	Investments - bond funds held by trustee (current)	13,742,000.00	
111000.131	USB-2012B Reserve Fund		13,742,000.00
		13,742,000.00	13,742,000.00
	4 RJE To correct fuel payable balance		
232000.20	Operation	24,179,686.09	
232000.10	Oil		24,179,686.09
		24,179,686.09	24,179,686.09
	5 RJE To reclass Aggreko lease recorded as plant asset		
101100	Property under capital lease	28,944,526.00	
101344	Generators-Other Production		28,944,526.00
		28,944,526.00	28,944,526.00
	6 RJE To adjust long-term portion of accrued leave		
233020	Accrued Annual Leave & Hol.	279,693.72	
228000.10	Accum Prov for Pension/Ben		279,693.72
		279,693.72	279,693.72
	7 RJE To reclass current portion of capital leases		
227000.90	Current portion-oblig. cap l		6,380,777.00
227000.4	Oblig.- cap lease-Aggreko	6,380,777.00	
		6,380,777.00	6,380,777.00
	8 RJE To reclassify noncurrent cash		
	Cash (noncurrent)	56,907,534.86	
	Cash		56,907,534.86
		56,907,534.86	56,907,534.86

Appendix B
Uncorrected Misstatements

	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position
	Assets	Liabilities	Net Position Beg of Year	
Entry Description	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
<1> Loss on inventory write-down				774,295
Inventory	(774,295)			
To adjust valuation of materials inventory				
<2> Loss on asset retirement				3,362,145
Depreciation expense				(3,362,145)
To reclassify loss on asset retirement recorded as depreciation expense				
<3> Fixed asset	1,436,526			
Construction in Progress	(1,436,526)			
To reclassify CIP to Fixed Asset				
<4> Loss on asset write off				445,000
Depreciation expense				(445,000)
To reclassify loss on CIP written off recorded as depreciation expense				
<5> Net pension liability		819,004		
Beginning net position			(819,004)	
To correct overstatement in net pension liability carried over from prior years				
<6> Accrued leave		335,453		
Payroll expense				(335,453)
To correct accrual of annual leave				
	(774,295)	1,154,458	(819,004)	438,841

Appendix C
Prior Year Misstatements Identified in Current Year

	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position
	Assets	Liabilities	Net Position Beg of Year	
Entry Description	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
<1> TR - Station Equipment	179,864			
AP Accruals		(179,864)		
To accrue retention payable to NRG				
<2> Net pension liability		819,004		
Beginning net position			(819,004)	
To adjust overstatement in net pension liability from prior years				
	179,864	639,140	(819,004)	-