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January 13, 2017

Commissioners  
Consolidated Commission on Utilities

Dear Commissioners:

We have performed an audit of the financial statements of Guam Waterworks Authority (GWA) as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated January 13, 2017.

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

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

Very truly yours,

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

cc: To Management of Guam Waterworks Authority

## **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 13, 2016. 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, in relation to the financial statements as a whole, for the year ended September 30, 2016 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2016;
- To express an opinion on whether the supplementary information that accompanies the financial statements, including the schedule of expenditures of federal awards, is fairly stated, in all material respects, in relation to the financial statements taken as a whole;
- To report on GWA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2016, based on an audit of financial statements performed in accordance with standards applicable to financial audits contained in generally accepted government auditing standards; and
- To report on GWA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB 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 GWA's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of GWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GWA's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

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

## ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GWA's 2016 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 estimated of accrued revenues, which is based on the most recent billing; management's estimate of inventory obsolescence, which is based on management's evaluation of the inventory's realizable value; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2016, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## UNCORRECTED MISSTATEMENTS

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

## SIGNIFICANT ACCOUNTING POLICIES

GWA's significant accounting policies are set forth in Note 2 to GWA's 2016 financial statements. During the year ended September 30, 2016, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GWA:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued 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 provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the 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 Statements 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. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued 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 provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued 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 provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In March 2016, GASB issued 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 provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

## **OTHER INFORMATION IN THE ANNUAL REPORTS OF GWA**

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that GWA issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in GWA's 2016 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the CCU.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GWA's 2016 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 2016.

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

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

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

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

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## **MANAGEMENT'S REPRESENTATIONS**

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

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated January 13, 2017, on GWA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated January 13, 2017, involving GWA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Uniform Guidance.

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

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

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment III and should be read in conjunction with this report.

We have communicated to management, in a separate letter also dated January 13, 2017, certain deficiencies and other matters related to GWA's internal control over its information technology environment that we identified during our audit.

Although we have included management's written responses to our comments where applicable, such responses have not been subjected to the auditing procedures applied in our audit of the 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.

**GUAM WATERWORKS AUTHORITY****"Better Water. Better Lives."**

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January 13, 2017

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the Guam Waterworks Authority (GWA), a component unit of the Government of Guam (GovGuam), as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise GWA's financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations or change in net position, and cash flows of GWA in conformity with accounting principles generally accepted in the United States of America (GAAP).

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 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. 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 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. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.
  - f. Federal award expenditures have been charged in accordance with applicable cost principles.
2. GWA have provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. GWA has made available to you all:
  - a. Summaries of actions of the Consolidated Commission on Utilities (as certified by the CCU Board Secretary on January 9, 2017 which are dated as follows:

| <u>Name</u>             | <u>Date</u>        |
|-------------------------|--------------------|
| Regular Meeting         | January 26, 2016   |
| Regular Meeting         | February 23, 2016  |
| Regular Meeting         | March 22, 2016     |
| Regular Meeting         | April 26, 2016     |
| Regular Meeting         | May 24, 2016       |
| Regular Meeting         | June 7, 2016       |
| Regular Meeting         | July 26, 2016      |
| Regular Meeting         | August 23, 2016    |
| Regular Meeting         | September 27, 2016 |
| Regular Meeting         | October 25, 2016   |
| Regular Meeting         | November 22, 2016  |
| Regular Meeting (audio) | December 6, 2016   |

- b. Financial records and related data for all financial transactions of GWA and for all funds administered by GWA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GWA and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.



- 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 GWA during the year and up to the report date.
  4. There have been no:
    - a. Actions taken by GWA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GWA.
    - b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
  5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
  6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2015 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
  7. GWA has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in GWA and does not believe that the financial statements are materially misstated as a result of fraud.
  8. We have no knowledge of any fraud or suspected fraud affecting GWA involving:
    - a. Management.
    - b. Employees who have significant roles in internal control over financial reporting.
    - c. Others, 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 GWA received in communications from employees, former employees, analysts, regulators, or others.
  10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed in the notes to the financial statements.
  11. Significant assumptions used by us in making accounting estimates are reasonable.

12. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, property, cooperative agreements, interest subsidies, insurance, or direct appropriation. There were no loans or loan guarantees, and no research and development costs. Further, there were no sub-recipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and provisions of grants and contracts relating to GWA's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. GWA is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
14. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
16. No events have occurred subsequent to September 30, 2016 that require consideration as adjustments to or disclosures in the schedule of expenditures of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
17. There are no instances of known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2016.
18. There have been no changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses, have occurred subsequent to September 30, 2016.
19. Federal awards expenditures have been charged in accordance with applicable cost principles.
20. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
21. We have disclosed all contracts or other agreements with service organizations.

22. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
23. We have:
- a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program under audit.
  - b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
  - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
  - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
  - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
24. 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 OMB Uniform Grant Guidance.
25. 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 \$253,000 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.

26. Except as listed in Appendix A and Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
27. GWA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
28. Regarding related parties:
  - a. We have disclosed to you the identity of GWA's related parties and all the related party relationships and transactions of which we are aware.
  - 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.
29. 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.
30. 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.
31. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to the auditor.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

32. During fiscal year 2016, GWA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.
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The implementation of these statements did not have a material effect on the accompanying financial statements.

33. In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

34. In June 2015, GASB issued 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 provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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38. 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.
39. In March 2016, GASB issued 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 provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
40. GWA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.
41. GWA has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance, including all requirements associated with the 2010, 2013, 2014, and 2016 Series bonds.
42. No department or agency of the Federal Government or GovGuam has reported a material instance of noncompliance to us.

43. GWA has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
44. 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.
45. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
46. 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.
47. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of GWA and do not include any items consigned to it.
48. We believe that all expenditures that have been deferred to future periods are recoverable.
49. All additions to GWA's property accounts consist of replacements or additions that are properly capitalizable.
50. There were no items of physical property contained in the property accounts of GWA that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.
51. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of GWA's regulatory commission and in accordance with the provisions of FASB ASC 980, *Regulated Operations*. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of GWA's regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which GWA remains accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods. All expenditures that have been deferred to future periods are recoverable.
52. We have no intention of terminating our participation in the GovGuam Retirement plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
53. No evidence of fraud or dishonesty in fiscal operations of programs administered by GWA has been discovered.

54. In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GWA did not calculate or pay any bonuses pursuant to the law from 1991 through 2013. As of September 30, 2013, GWA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2013. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

55. In 2002, the United States Government filed a complaint against GWA and GovGuam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. GWA and the U.S. Department of Justice, Environmental and Natural Resources Division, mutually agreed in the form of Court Order to resolve the violation issues.

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

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

56. On November 29, 2011, the United States Environmental Protection Agency (USEPA) informed GWA that its primary treatment permits for the Hagatna and Northern District Wastewater Treatment Plants had been denied and that GWA would be required to upgrade the plants to secondary treatment. The upgrades have been estimated to cost approximately \$300 million. GWA intends to negotiate with the USEPA on the timelines for upgrading the plants, which may be deferring the upgrades for approximately 20 to 30 years.

57. In October 2016, Bill 2-33 was passed, enacting two new government retirement plans; the DB Life plan and the Guam Retirement Security Plan. Beginning 2018, the Security Plan and Defined Contribution plan are to become the primary systems for all new hires.

58. Except as discussed above and in note 16 to the financial statements, no events have occurred after September 30, 2016, but before January 13, 2017, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements.



59. Regarding required supplementary information:

- a. We confirm that we are responsible for the required supplementary information.
- b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

60. Regarding supplementary information:

- a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

Very truly yours,



\_\_\_\_\_  
Joseph T. Duenas  
Chairman, Consolidated Commission on Utilities



\_\_\_\_\_  
Miguel C. Bordallo, P.E.  
General Manager

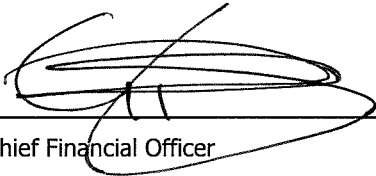


\_\_\_\_\_  
Greg P. Cruz  
Chief Financial Officer

**Guam Waterworks Authority  
Summary of Uncorrected Misstatements Relating to Current Year  
September 30, 2016**

| Uncorrected Misstatements  | STATEMENT OF CONDITION |             |                    |                                |
|--|------------------------|-------------|--------------------|--------------------------------|
|  | Assets                 | Liabilities | Net Position       | Beg. Change in<br>Net Position |
|  | Dr (Cr)                | Dr (Cr)     | of Year<br>Dr (Cr) | Dr (Cr)                        |
| 1. To record understatement of bad debt<br>Dr. Bad debt<br>Cr. Allowance for bad debt    |                        |             |                    | 512,325                        |
|  | (512,325)              |             |                    |                                |
| 2. To record capitalized interest as interest expense<br>Dr. Interest expense<br>Cr. CIP |                        |             |                    | 259,629                        |
|  | (259,629)              |             |                    |                                |
| Total uncorrected misstatements  | (771,954)              | -           | -                  | 771,954                        |

We have reviewed the uncorrected misstatements above as of September 30, 2016. The uncorrected misstatements are not material to the current year financial statements. Further, the above are not the result of fraud or illegal acts.

  
\_\_\_\_\_  
Chief Financial Officer

1.13.17  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Asst. Chief Financial Officer

01.13.17  
\_\_\_\_\_  
Date

**Guam Waterworks Authority  
Summary of Uncorrected Misstatements Relating to Prior Year  
September 30, 2016**

| Uncorrected Misstatements                                    | STATEMENT OF CONDITION |             |                         |                                |
|--|------------------------|-------------|-------------------------|--------------------------------|
|  | Assets                 | Laibilities | Net Position<br>of Year | Beg. Change in<br>Net Position |
|  | Dr (Cr)                | Dr (Cr)     | Dr (Cr)                 | Dr (Cr)                        |
| 1. To record prior year expense recorded in the current year |                        |             |                         |                                |
| Dr. Grant - Expense  |                        |             |                         | 107,746                        |
| Cr. Grant - EPA  |                        |             |                         | (107,746)                      |
| <br>   |                        |             |                         |                                |
| Total uncorrected misstatements                              | -                      | -           | -                       | -                              |

We have reviewed the uncorrected misstatements above as of September 30, 2016. The uncorrected misstatements are not material to the current year and prior year financial statements. Further, the above are not the result of fraud or illegal acts.

  
\_\_\_\_\_  
Chief Financial Officer

1.13.17  
Date

  
\_\_\_\_\_  
Asst. Chief Financial Officer

01.13.17  
Date

## SECTION I – DEFICIENCIES

We identified the following deficiencies involving GWA's internal control over financial reporting for the year ended September 30, 2016 that we wish to bring to your attention at this time:

### 1. Fixed Asset Existence

The comprehensive fixed asset inventory initiated by the Authority has not been completed as of September 30, 2016.

Of ten fixed assets (with original costs of \$8,484,987 and book values of \$2,403,049) tested for existence, the following was noted:

One asset (original cost of \$13,774 and no net book value) was inoperable and two assets (original costs of \$64,147 and net book value of \$49,796) could not be conclusively verified.

We recommend that the above assets be verified. This appears to require coordination between Operations and Accounting and these departments should work jointly on this matter. This matter was reported in our previous letter dated January 22, 2016. We further recommend the Authority perform periodic review of the status of the comprehensive fixed asset inventory.

### 2. Monitoring of Construction in Progress (CIP)

Tests of CIP noted the following:

Several CIP projects appear to have been completed prior to September 30, 2016. A total of \$6,140,594 was transferred to fixed assets at year-end. These projects were not timely transferred to fixed asset accounts and were not identified by fixed asset tag numbers.

We recommend that GWA timely update and monitor CIP projects. GWA should continue to enhance timely communication (i.e. quarterly, monthly) between Engineering, Operations and Accounting as to the status of CIP projects, capitalization periods and related matters and such communication should be documented (i.e. minutes of meetings, memos, etc.). We further recommend that project management services be allocated to specific CIP projects. This matter was reported in our previous letter dated January 22, 2016.

### 3. Inactive Accounts Receivable

The inactive accounts receivable balance for FY2016 is \$11.5M an increase of \$1M over prior year. The inactive accounts receivable balance has shown a steady 9-10% increase over the past 3 years. The Authority has not been able to timely disconnect meters and terminate accounts for non-payment, resulting in the accumulation of account receivable balances. In addition, the Authority has often taken months to resolve disputed water bills due to water leaks or water pressure issues.

We recommend that the Authority properly monitor inactive accounts.

## SECTION II – DEFINITION

The definition of a deficiency is as follows:

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

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

GWA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

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