

March 10, 2011

The Board of Commissioners
Consolidated Commission on Utilities

Dear Members of the Board of Commissioners:

We have performed an audit of the financial statements of Guam Waterworks Authority (the Authority) as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated March 10, 2011.

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

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 8, 2010. 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 the Authority’s financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the Authority’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, 2010 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the Authority’s compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

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

We considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

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

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2010 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

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

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

Management does not believe that the implementation of these statements had a material effect on the financial statements of the Authority.

For the year ended September 30, 2011, the following pronouncements will be adopted by the Authority:

- In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010.
- In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.
- In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Authority.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Authority.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2010 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information the Authority's 2010 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2010 financial statements.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

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

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2010.

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 2010.

MANAGEMENT'S REPRESENTATIONS

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated March 10, 2011, on the Authority'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 March 10, 2011, containing certain matters involving the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

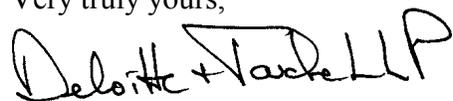
We have communicated to management, in a separate letter also dated March 10, 2011, control deficiencies and other matters that we identified during our audit.

* * * * *

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

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

Very truly yours,

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

Guam Waterworks Authority
 Summary of Uncorrected Misstatements
 September 30, 2010

Current Year Misstatements	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. Extrapolated overstatement in inventory	(71,240)			71,240
2. Adjust AFUDC	281,587			(281,587)
3. Accrue settlement liability		(80,000)		80,000
4. Adjust capitalized interest	(90,859)			90,859
5. Capitalize cost of financing	83,188			(83,188)
Total Known, Likely & Extrapolated Misstatements	202,656	(80,000)	-	(122,656)



 Gilda Malinos
 Controller


 Greg Cruz
 Chief Financial Officer

03/10/11

 Date
 3/10/11

 Date



GUAM WATERWORKS AUTHORITY

"Good Water Always"

Post Office Box 3010, Hagatna, Guam 96932

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

March 10, 2011

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 assets of the Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise GWA's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of GWA in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

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

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

Deloitte & Touche LLP
 March 10, 2011
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We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Net asset components (invested in capital assets, net of related debt; 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. Costs to federal awards have been charged in accordance with applicable cost principles.

2. GWA has made available to you all:
 - a. Financial records and related data for all financial transactions of GWA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of GWA and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
 - c. Summaries of actions of the Consolidated Commission on Utilities which are dated as follows:

<u>Name</u>	<u>Date</u>
Regular Meeting	October 13, 2009
Regular Meeting	November 17, 2009
Regular Meeting	December 15, 2009
Regular Meeting	January 26, 2010
Regular Meeting	February 23, 2010
Regular Meeting	March 23, 2010
Regular Meeting	April 20, 2010
Regular Meeting	May 25, 2010
Regular Meeting	June 8, 2010
Regular Meeting	July 27, 2010
Regular Meeting	August 24, 2010
Regular Meeting	September 28, 2010
Regular Meeting	October 26, 2010
Regular Meeting	November 24, 2010
Regular Meeting	December 14, 2010
Special Meeting	January 4, 2011
Regular Meeting	January 25, 2011

3. There have been no: (1) action taken by GWA management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GWA; and (2) 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.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. 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.
6. We have no knowledge of any fraud or suspected fraud affecting GWA involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
7. 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.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) Topic No. 450 Contingencies (formerly FASB Statement No. 5, *Accounting for Contingencies*.) GWA is a defendant in various lawsuits and has made provision for any probable and reasonably estimatable judgments. GWA believes the resolution of other pending claims and legal proceedings will not have a material adverse effect on the GWA's financial statements.
9. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.

10. We are responsible for compliance with Guam and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to 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.
11. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs.
 - c. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - d. Identified and disclosed all amounts, questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - e. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - f. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
12. We are responsible for follow-up on all prior year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
13. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse that you report.

14. There are no significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect GWA's ability to initiate, record, process, and report financial information except as set forth in your reports on internal control and compliance.
15. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements that could have a material effect on its federal programs.
16. 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.
17. 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, 2010.
18. We have resolved all significant deficiencies and material weaknesses identified and communicated to the Consolidated Commission on Utilities (CCU) during the previous audit of internal control over financial reporting.
19. GWA 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 \$166,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

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

22. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

- a. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

GWA receives electrical and administrative services from Guam Power Authority (GPA), a component unit of the Government of Guam also governed by the CCU. Electricity purchases from GPA for the years ended September 30, 2010 and 2009 were \$14,344,013 and \$14,971,119, respectively, and GWA was also charged \$488,918 and \$337,716, respectively, for administrative services provided by GPA. Outstanding payables for power purchases, administrative expenses and cost reimbursements owed by GWA to GPA amounted to \$1,033,794 and \$2,784,039 as of September 30, 2010 and 2009, respectively. In addition, GWA has long-term debt of \$1,237,496 and \$3,998,968 due to GPA at September 30, 2010 and 2009, respectively.

- b. Guarantees, whether written or oral, under which GWA is contingently liable.

23. 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.

24. 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.

25. There are no:

- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC Topic No. 450 *Contingencies* except as disclosed in the financial statements.

26. 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.
27. GWA has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance, including all requirements associated with the 2005 Series bonds.
28. Except as disclosed in note 18 to the financial statements, no events have occurred after September 30, 2010, but before March 10, 2011, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements.
29. No department or agency of the Federal Government or the Government of Guam has reported a material instance of noncompliance to us.
30. With regard to the fair value measurements and disclosures of certain assets, we believe that:
 - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied in accordance with GAAP.
 - b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.
 - c. No events have occurred subsequent to September 30, 2010 that require adjustment to the fair value measurements and disclosures included in the financial statements.
31. 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.
32. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
33. During fiscal year 2010, GWA implemented the following pronouncements:
 - GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
 - GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GWA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GWA.

34. 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.
35. 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.

36. We believe that all expenditures that have been deferred to future periods are recoverable.
37. 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.
38. We represent to you that, subsequent to September 30, 2010, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).
39. GWA has obligated, expended, received, and used public funds of GWA in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law.
40. Money or similar assets handled by GWA on behalf of the Government of Guam or Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
41. GWA is responsible for complying, and has complied, with OMB Circular A-133, except as disclosed in the Schedule of Findings and Questioned Costs.
42. GWA has identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated June 2010.
43. GWA certifies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for lobbying purposes.
44. GWA has 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.
45. No evidence of fraud or dishonesty in fiscal operations of programs administered by GWA has been discovered.
46. As discussed in note 9 to the financial statements, GWA's contract commitments with projects currently in construction approximate \$3,304,587 at September 30, 2010.
47. On December 31, 1989, the Government of Guam issued general obligation Water System Revenue Bonds, Series 1989 in the amount of \$49,190,000. The bonds have been issued for the purpose of expanding and improving the existing water system of the Government operated by GWA. The bond obligation is recognized by the Government of Guam.

48. Public Law 19-47 created the water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge (SDC) schedule, which assesses a charge on each user who connects for the first time on any certain property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirement for water and/or sewer services and installation of infrastructure to be performed by the builder. During the year ended September 30, 2010, SDC revenues amounted to \$794,128.
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. The United States Navy filed a claim for non-payment for water allegedly provided by the U.S. Navy to the former Public Utilities Agency of Guam and to GWA. Pursuant to a settlement agreement with the U.S. Navy, the CCU approved an agreement to pay \$9 million to the U.S. Navy for past due water billings. As of September 30, 2010 and 2009, the balance due on this agreement is \$4,159,524 and \$5,689,122, respectively.
52. 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.
53. GWA has adopted a policy of self-insuring potential risks relative to its property, plant, and equipment. GWA has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. GWA is of the opinion that it has suffered no material losses in the past three years related to damages to its utility plant-in-service. Subsequent to September 30, 2010, GWA obtained insurance coverage to mitigate potential risks to a certain extent.

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54. As discussed in note 9 to the financial statements, the United States Government filed a complaint against GWA and the Government of Guam 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, Environment and Natural Resources Division mutually agreed in the form of Stipulated Order to resolve the violation issues. On June 5, 2003, Stipulated Order For Preliminary Relief was filed before the District Court of Guam. The Stipulation requires implementation of short-term projects and initial planning measures by GWA. GWA is required to submit a final financial plan in the Master Plan, that generates sufficient revenue to cover the cost of all compliance activities and deliverables required by the Stipulated Order for Preliminary Relief, as well as any other anticipated expenses, including any measures necessary to ensure compliance with the CWA and the SDWA and costs related to the infrastructure improvements identified in the Master Plan.
55. GWA is of the opinion that compliance with applicable debt covenants occurred during the year ended September 30, 2010 and to the date of this letter.
56. Management has determined that it is not appropriate to record utility billing software costs of \$216,775 as the underlying service has not been received.
57. Unamortized debt issuance costs include costs related to the issuance of the Series 2005 bonds. These costs and the bond premium of the Series 2005 bonds are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

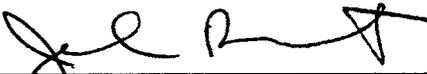
Very truly yours,



Simon Sanchez
Chairman, Consolidated Commission on Utilities

Date

03/22/11



John Benavente
General Manager

Date

March 17, 2011



Greg Cruz
Chief Financial Officer

Date

3/18/2011

APPENDIX II, CONTINUED

APPENDIX B

Guam Waterworks Authority
 Summary of Uncorrected Misstatements
 September 30, 2010

Current Year Misstatements	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. Extrapolated overstatement in inventory	(71,240)			71,240
2. Adjust AFUDC	281,587			(281,587)
3. Accrue settlement liability		(80,000)		80,000
4. Adjust capitalized interest	(90,859)			90,859
5. Capitalize cost of financing	83,188			(83,188)
Total Known, Likely & Extrapolated Misstatements	202,656	(80,000)	-	(122,656)



 Gilda Marras
 Controller



 Greg Cruz
 Chief Financial Officer

03/10/14

 Date

3/10/14

 Date