

March 30, 2015

Commissioners  
Consolidated Commission on Utilities

Dear Commissioners:

We have performed an audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2014, 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 30, 2015.

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

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

Our responsibility under generally accepted auditing standards 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 August 22, 2014. 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 GPA’s financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, for the year ended September 30, 2014 (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, 2014;
- 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 GPA’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2014, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- To report on GPA’s compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (“OMB Circular A-133”).

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

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, CONTINUED**

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

We also considered GPA'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 GPA'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 GPA's 2014 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of 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, 2014, there were no significant changes in accounting estimates or in management's judgments relating to such estimates, except for the change in the estimated useful lives of certain generation units due to impending decommissioning.

### **UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix B to Attachment I, a summary of uncorrected misstatements 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.

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

## **MATERIAL CORRECTED MISSTATEMENTS**

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Appendix A to Attachment I and are reflected in the 2014 financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES**

GPA's significant accounting policies are set forth in Note 1 to GPA's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GPA:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of GPA and will require a restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that GPA will record upon implementation of Statement 68 is anticipated to be \$79,419,290.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

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

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that GPA issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in GPA's 2014 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the CCU.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GPA's 2014 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 2014.

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

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

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

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

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

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

## **MANAGEMENT'S REPRESENTATIONS**

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

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated March 30, 2015, on GPA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated March 30, 2015, involving GPA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within those reports, we noted a certain matter that was considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have communicated to management, in separate letters also dated March 30, 2015, certain deficiencies and other matters related to GPA's internal control over financial reporting and to GPA's internal control over its information technology environment that we identified during our audit.

Although we have included management's written responses to our comments contained in the reports, 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.

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

Very truly yours,

A handwritten signature in cursive script that reads "Deloitte + Touche LLP".



**GUAM POWER AUTHORITY**  
ATURIDAT ILEKTRESEDAT GUAHAN  
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March 30, 2015

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise GPA's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations or change in net position, and cash flows of GPA in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

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

Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

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

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

1. The financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - b. 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.
  - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - d. Capital assets are properly capitalized, reported and if applicable, depreciated.
  - e. Required supplementary information is measured and presented within prescribed guidelines.
  - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - g. Federal award expenditures have been charged in accordance with applicable cost principles.
2. GPA has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. GPA has provided you:
  - a. Minutes of the meetings of Consolidated Commission on Utilities or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - b. Financial records and related data for all financial transactions of GPA and for all funds administered by GPA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GPA and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
    - d. All Public Utilities Commission (PUC) Orders impacting GPA during the year and up to the report date.
  4. There have been no:
    - a. Actions taken by GPA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GPA.
    - b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements except that in February 2011, The U.S. Environmental Protection Agency (EPA), under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3&4 and MEC 8&9 slow speed diesel units. Compliance under the diesel MACT was due May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of \$37,000 per unit per day. GPA applied for and received a one year extension for complying with the rules with respect to its small diesel peaking units. The required stack emission equipment was installed within the extension period. As to compliance with the other units subjected to RICE MACT, GPA has engaged the assistance of EPA along with the US Department of Justice (USDOJ) to negotiate a consent decree that will allow sufficient time to implement recommendations in its Integrated Resource Plan. GPA believes ongoing negotiations with EPA and USDOJ will defer potential fines post RICE MACT deadlines for the slow speed diesel units. No liability that may result from potential noncompliance has been recorded in the financial statements.

EPA also established rules for Electric Generating Unit Maximum Achievable Control Technology (EGU MACT) which applies to Cabras 1&2 and Tanguisson steam boiler units. Compliance under the EGU MACT is due in April 2015. Non-compliance could result in penalty fees of \$37,000 per unit per day. GPA obtained PUC approval to early terminate the associated energy conversion agreement of the Tanguisson units. By deactivating the Tanguisson units prior to May 2015, GPA will not have to incur compliance costs for these units. As to compliance for Cabras 1&2, a consent decree currently being negotiated with EPA and USDOJ for compliance with RICE MACT is also expected to cover the EGU MACT compliance.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.



6. We believe the effect of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2013 taken as a whole. Such uncorrected misstatements have been attached as Appendix C.
7. GPA has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in GPA and do not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting GPA involving:
  - a. Management.
  - b. Employees who have significant roles in GPA's internal control over financial reporting.
  - c. Others, when the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting GPA's financial statements communicated by employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. 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.
13. We are responsible for the compliance with local, state and federal laws, rules and regulations, including compliance with the requirements with U.S. OMB Circular A-133, and provisions of grants and contracts relating to GPA'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. GPA is responsible for maintaining accounting and administrative controls over revenues, obligations, expenditures, assets and liabilities.

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

18. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
19. GPA has certified to federal granting agencies 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.
20. GPA is responsible for complying, and has complied, with Circular A-133.
21. 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, immaterial matters less than \$868,000 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.

22. Except as disclosed in Appendices B and C, there are no transactions that have not been properly recorded and reflected in the financial statements.
23. GPA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. 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).

During the years ended September 30, 2014 and 2013, GPA billed GovGuam agencies \$62,311,432 and \$64,072,281, respectively, for sales of electricity. Receivables (excluding long-term receivables) from GovGuam agencies were \$7,740,973 and \$9,282,086 at September 30, 2014 and 2013, respectively.

GPA provides electrical and administrative services to Guam Waterworks Authority (GWA), a component unit of the GovGuam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2014 and 2013 were \$16,439,681 and \$17,508,372, respectively. Outstanding receivables for electricity billings are \$2,777,902 and \$4,016,853 at September 30, 2014 and 2013, respectively.

On June 23, 2009, GPA and GWA entered into a Memorandum of Understanding (MOU) where each agency agrees to provide administrative, operational, maintenance, repair and other specified services on behalf of the other agency and each will reimburse the other for their actual costs for providing said services. The MOU also covers the repayment period for prior

services rendered by GPA. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements were \$229,321 and \$291,062 in 2014 and 2013, respectively. Outstanding receivables for administrative expenses and cost reimbursements totaled \$241,355 and \$189,356 as of September 30, 2014 and 2013, respectively.

GWA billed GPA for water and sewer charges on the facilities transferred by the Navy to GPA under the utility services contract totaling \$1,250,747 and \$1,179,630 for the years ended September 30, 2014 and 2013, respectively. The amount due to GWA as of September 30, 2014 and 2013 is \$1,466,885 and \$960,195, respectively.

As of September 30, 2013, long-term receivables include an uncollateralized note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002. The note bears interest at 4.35%, per annum with the final installment payment due in April 2007. Long-term receivables also include a non-interest bearing receivable due from GWA under an MOU, with monthly installments of \$25,688 starting October 2009. As of September 30, 2013, receivables from DPW and GWA are \$390,377 and \$216,993, respectively. The receivable from DPW was fully collected in February 2014 and the balance with GWA was fully provided with an allowance as of September 30, 2013 and written off on September 30, 2014.

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

GPA has not had significant transactions with members of the CCU or companies affiliated with members of the CCU during 2014 and 2013.

- b. Guarantees, whether written or oral, under which GPA is contingently liable.
25. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
  - b. The effect of the change would be material to the financial statements.
26. There are no:
- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements

- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
27. GPA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.
28. GPA has complied with aspects of contractual agreements that may affect the financial statements, including all requirements associated with the 2010 and 2012 Series bonds.
- Further, GPA considered the refunding of its 1993 and 1999 bonds as an advance refunding meeting the requirements of an in-substance defeasance and as such, the 1993 and 1999 bonds were removed from the financial statements.
29. No department of GPA or agency of the Federal Government or the Government of Guam has reported a material instance of noncompliance to us.
30. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information
  - b. The required supplementary information is measured and presented in accordance with the requirements of the Governmental Accounting Standards Board
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
31. Regarding supplementary information:
- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance GAAP
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
32. We adopted the provisions of GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.

33. We adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
34. We adopted the provisions of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.
35. In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of GPA and will require a restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that GPA will record upon implementation of Statement 68 is anticipated to be \$79,419,290.
36. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.
37. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.
38. GPA 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.
39. GPA has properly identified all derivative instruments and any financial instruments that contain embedded derivatives. GPA's hedging activities are in accordance with its documented and approved hedging and risk management

policies, and all appropriate hedge documentation was in place at the inception of the hedge in accordance with GASB Codification Section D40, *Derivatives Instruments*. Specifically, we have appropriately designated all hedging instruments as either fair value or cash flow hedges. The timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives for which GPA has elected to measure the financial instruments at fair value in their entirety (pursuant to the provisions of GASB Codification Section D40), and hedged items have been determined based on GAAP using prevailing market prices or by using financial models that are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at September 30, 2014.

GPA did not have outstanding commodity swap agreements at September 30, 2014 and 2013.

40. The Company did not record the asset retirement obligation related to its power plants because we do not have sufficient information to estimate the fair value of the asset retirement obligation. We do not believe any unrecorded asset retirement liability will be material to the financial statements.
41. 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.
42. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
43. 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.
44. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of GPA and do not include any items consigned to it.
45. All additions to GPA's property accounts consist of replacements or additions that are properly capitalized.
46. There were no items of physical property contained in the property accounts of GPA that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.
47. GPA's provisions for depreciation and decommissioning have been determined in accordance with the orders of and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and the Public Utilities Commission. Based on the present operating conditions and probable useful lives of the

properties, we believe that the provisions being made using the depreciation and decommissioning rates in effect will be adequate to depreciate and decommission the properties over their respective useful lives.

48. GPA, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The financial statements referred to above reflect all adjustments required by GASB Statement 42.
49. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of GPA's regulatory commission and in accordance with the provisions of FASB ASC 980, *Regulated Operations*. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of GPA's regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which GPA remains accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods. All expenditures that have been deferred to future periods are recoverable.
50. We have no intention of terminating our participation in the Government of Guam Retirement plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
51. We agree with the findings of management's expert in gauging and sampling various GPA storage tanks containing fuel oil for purposes of fiscal year-end stock inventory ascertainment and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We further agree with the findings of the expert contracted by the GovGuam Retirement Fund for the actuarial evaluation of the Government of Guam's retirement plan. We did not give any instructions, nor cause any instructions to be given, to management's expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's expert.
52. No evidence of fraud or dishonesty in fiscal operations of programs administered by GPA has been discovered.
53. As of September 30, 2014, GPA owes the Navy \$2,194,600 representing the electricity supplied to GPA's customers from Navy dedicated facilities from September 1, 2012 through February 28, 2014, payable through September 30, 2015.
54. On March 31, 2011, GPA received an invoice from the GovGuam DOA of \$12,250,000 representing an annual assessment of \$875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. In September 2013, GPA received another invoice for \$875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned.



There was no invoice received for the year ended September 30, 2014. GPA obtained an approval from the CCU to offer GovGuam DOA a settlement amount of \$2.6 million. However, such settlement offer is conditional on the approval by the PUC of a surcharge to recover the assessment from ratepayers. The PUC has not approved the surcharge as of September 30, 2014 and therefore, no liability or other impact has been recognized in the accompanying financial statements.

55. In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991 but was suspended by law for the years 1996, 2002, 2003 and 2004. Between 1991 and 2008, GPA did not calculate or pay any bonuses. In 2010, the Guam Legislature authorized GPA to implement a Pay for Performance program, similar to the GovGuam unified pay systems for certified, technical and professional positions, covering the evaluation period of 2009. As of September 30, 2013, GPA recognized and paid \$55,000 in merit bonus to approximately 27 employees not covered under the new pay system for the period October 2008 through September 2013. The CCU determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the accompanying financial statements.

56. In 2012, GPA developed its Integrated Resource Plan (IRP) which was approved by the CCU and the PUC on December 12, 2012 and July 30, 2013, respectively. The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as fuel diversification and the renewable portfolio standards. Specifically, the IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators which can utilize either Liquefied Natural Gas (LNG) or Ultra-Low Sulfur (ULS) diesel fuel oil; adding 40-45 MWh of generation from renewable energy sources; and diversification of its fuel source to LNG and ULS diesel fuel oil.

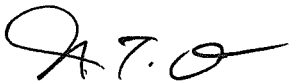
In October 2014, CCU decided to put LNG on hold as Guam does not have the seaport facility to offload and process LNG from ships for use at GPA's power plant. CCU approved instead to build a new power plant by 2020 to meet tougher federal air emission standards. The new power plant will be powered by ultra-low-sulfur diesel. GPA intends for new units to be capable of dual fuel firing if LNG is made available on Guam. GPA presented this for PUC approval but was denied as the information provided by GPA is not sufficient to justify procuring a new power plant. PUC ordered GPA to submit a revised analysis and Resource Implementation Plan before September 30, 2015. GPA continues to work with the PUC and its consultants in evaluating the need and capacity requirements for a new power plant.

GPA reassessed the estimated useful lives of Cabras 1&2 and Cabras 3&4 based on the expected retirement of these plants when a new power plant becomes operational by 2020. The estimated useful life of Tanguission plant was

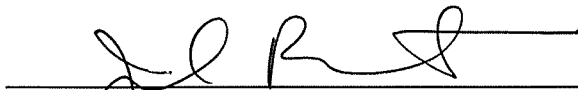
reassessed to end in line with the expiration of the associated energy conversion agreement. GPA recorded additional depreciation expense due to the revised estimated useful lives which is included in the accompanying statements of revenues, expenses, and changes in net position.

57. Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law. GPA is covered by its self-insurance and worker's compensation insurance in case of accidents due to hazardous substance.
58. In November 2014, CCU approved the deactivation of Dededo Combustion Turbine 1 & 2 due to its inefficiencies and high operating costs. GPA has not yet completed the plan of action and analyzed the effect of deactivation on the power plants. No adjustment to the estimated useful life of the assets has been made in the financial statements. The power plants have a net book value of \$11.6 million at September 30, 2014.
59. Other than those described in Note 13 to the financial statements, no events have occurred after September 30, 2014, but before March 30, 2015, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements.

Very truly yours,



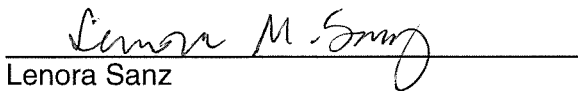
Joseph Duenas  
 Chairman, Consolidated Commission on Utilities



John Benavente  
 Interim General Manager



Cora Montellano  
 Asst. Chief Financial Officer



Lenora Sanz  
 Controller

**Appendix A**  
**Adjusting Journal Entries and Reclassifying Journal Entries**

**Adjusting Journal Entries**

#	Name	Debit	Credit
<b>1 AJE To adjust allowance for bad debts</b>			
904000	Provision for Bad Debts	-	1,184,000.00
144000.10	Allowance for Doubtful Ac	1,184,000.00	-
		<u>1,184,000.00</u>	<u>1,184,000.00</u>
<b>1 CAJE To adjust accrued AL</b>			
233020	Accrued Annual Leave & Hol.	-	46,395.03
506000	Misc. Steam Power Exp.	9,510.98	-
514000	Maint of misc steam plant	9,510.98	-
583000	Closing/Others	4,639.50	-
588000	Closing/others	5,799.38	-
903010	Customer records & collectio	3,247.65	-
920000	Others	7,887.16	-
598000	Closings/others	5,799.38	-
		<u>46,395.03</u>	<u>46,395.03</u>
<b>2 CAJE To adjust accrued SL</b>			
926650	DC	260,373.34	-
228000.12	Accum Prov-50% DCRS SL	-	260,373.34
		<u>260,373.34</u>	<u>260,373.34</u>
<b>3 CAJE To write off fully depreciated asset</b>			
105020	Gov Guam Contrib. Piti 4&5	-	4,177,478.53
108250	Accumulated Deprn. - Intan.	4,177,478.53	-
		<u>4,177,478.53</u>	<u>4,177,478.53</u>
<b>4 CAJE To write off misc intangible asset</b>			
101303	Software & Program Costs	-	176,509.81
421000	Other amortization	176,509.81	-
		<u>176,509.81</u>	<u>176,509.81</u>
<b>5 CAJE To accrue FY14 retainage</b>			
107200	Labor	1,536,183.27	-
232000.70	Retention payable	-	1,536,183.27
		<u>1,536,183.27</u>	<u>1,536,183.27</u>

**ATTACHMENT I, CONTINUED**

Appendix A, continued

**6 CAJE To book FY14 AP accruals**

107200	Labor	-	112,485.93
183000	General Engineering-Clearing	32,680.00	-
183000	General Engineering-Clearing	435.00	-
189000	Garage - Clearing	1,140.27	-
501000	Fuel-Steam Production	16,144.32	-
506000	Misc. Steam Power Exp.	10,049.30	-
548000	Generation Expenses	9,600.00	-
549000	Misc. Other Power Generation	82,300.00	-
553000	Maint of Gen Electric plant	3,450.00	-
570000	Maint. of Station Equip	73,006.53	-
582000	Station Expenses	120.39	-
592000	Maint. of Station Equipment	2,043.25	-
593000	Maint. of Overhead Lines	5,801.60	-
921000	Office supplies & expense	2,450.00	-
921000	Office supplies & expense	685.01	-
921000	Office supplies & expense	482.57	-
923000	Other contractual services	8,987.00	-
923000	Other contractual services	7,210.00	-
925100	Injuries & Damages	-	10,813.93
930000	Miscellaneous Gen. expense	80,157.49	-
930000	Miscellaneous Gen. expense	5,810.00	-
931000	Rental	69,227.42	-
151000.20	Diesel	-	709.90
143000.10	Job Orders & Misc.	23,314.96	-
232000.20	Operation	-	492,557.59
935000	Building Maintenance	1,043.17	-
935000	Building Maintenance	12,337.09	-
107341	Closing	168,091.98	-
		<u>616,567.35</u>	<u>616,567.35</u>

**7 CAJE To recognize in income long-outstanding deposit**

400456	Others	-	109,818.48
235000.20	Customers' Deposit-Inacti	-	2,418.04
142000.10	Customers Billed - Privat	109,818.48	-
142000.10	Customers Billed - Privat	2,418.04	-
		<u>112,236.52</u>	<u>112,236.52</u>

**8 CAJE To adjust revenue from US Navy**

400445.44	Navy	-	27,576.35
400445.44	Navy	2,194,599.57	-
232000.60	Sub Contract Due Navy	-	2,194,599.57
228000.11	Accum prov for self insur	27,576.35	-
		<u>2,222,175.92</u>	<u>2,222,175.92</u>

**9 CAJE To write-off long outstanding bid deposits**

235000.30	Bid Deposits	264,229.17	-
400456	Others	-	264,229.17
		<u>264,229.17</u>	<u>264,229.17</u>

**10 CAJE To adjust fuel under/over due to Navy adj**

501000	Fuel-Steam Production	-	1,690,664.10
186000.60	Deferred Fuel Cost	1,690,664.10	-
		<u>1,690,664.10</u>	<u>1,690,664.10</u>

<b>11 CAJE To write off long-outstanding receivables</b>			
141000.10	Notes-Receivable Current	-	216,993.00
144000.10	Allowance for Doubtful Ac	789,785.09	-
142000.10	Customers Billed - Privat	-	789,785.09
144000.40	Allow for doubtful acct-L	216,993.00	-
		<u>1,006,778.09</u>	<u>1,006,778.09</u>

**Reclassifying Journal Entries**

#	Name	Debit	Credit
<b>1 RJE To reclass current portion of capital lease oblig</b>			
227000	Obligation under capital lease	5,709,686.00	-
227000.01	Obligation under Capital lease, current	-	5,709,686.00
		<u>5,709,686.00</u>	<u>5,709,686.00</u>
<b>2 RJE To reclass current portion of annual leave</b>			
228000.10	Accum Prov for Pension/Be	371,298.00	-
233020	Accrued Annual Leave & Hol.	-	371,298.00
		<u>371,298.00</u>	<u>371,298.00</u>
<b>3 RJE To reclass cash equivalents to investments</b>			
111000.50	BOG- Working Capital Fund	-	4,855,561.21
DT13200.42	Investments - bond funds held by trustee	4,855,561.21	-
		<u>4,855,561.21</u>	<u>4,855,561.21</u>
<b>4 RJE To reclass amounts reported as investment but should be classified as cash</b>			
111000.142	USB-2014 Bond Reserve Fun	-	5,085,000.00
DT11000.142	USB-2014 Bond Reserve Fund	5,085,000.00	-
		<u>5,085,000.00</u>	<u>5,085,000.00</u>
<b>5 RJE To correct PY fuel payable already paid</b>			
232000.10	Oil	1,513,312.00	-
232000.20	Operation	-	1,513,312.00
		<u>1,513,312.00</u>	<u>1,513,312.00</u>
<b>6 RJE To reclassify CY fuel payable</b>			
232000.10	Oil	-	25,595,069.97
232000.20	Operation	25,595,069.97	-
		<u>25,595,069.97</u>	<u>25,595,069.97</u>

**Appendix B**  
**Uncorrected Misstatements**

Entry Description	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position Dr (Cr)
	Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Beg of Year Dr (Cr)	
<b><u>Proposed Reclassifying Journal Entries</u></b>				
<1> Loss on Retirement Depreciation Expense <i>To reclassify loss on retirement that were booked as depreciation expense</i>				617,712 (617,712)
<2> Investments Cash Held by Trustee <i>To reclassify cash equivalents to investment account</i>	827,198 (827,198)			
<b><u>Proposed Adjusting Journal Entries</u></b>				
<1> Cash Accounts Payable <i>To adjust unreleased checks</i>	1,602,859	(1,602,859)		
<2> Loss on Inventory Write off Other assets <i>To write off remaining Tanguisson inventory</i>	(224,261)			224,261
<3> AR Private Customer Deposit <i>To adjust credit balances in AR inactive balances</i>	470,409	(470,409)		
<4> Construction work in progress Accounts Payable <i>To record additional payable based on confirmation reply</i>	120,000	(120,000)		
<5> Depreciation Expense Accumulated Depreciation <i>To adjust difference in recalculation of accelerated depreciation for Cabras plants and to recognize additional depreciation due to Tanguisson plant closure in April 2015</i>	(1,012,000)			1,012,000
<6> Accumulated Depreciation-Other Prod Depreciation Expense-Other Prod <i>To adjust depreciation take up twice</i>	424,207			(424,207)
<7> AR Private Electricity Sales <i>To record rebill of cancelled FY14 sales of electricity</i>	303,563			(303,563)
<8> Loss on CIP Write-off CIP <i>To write off CIP related to Tanguisson (job order 100082)</i>	(487,892)			487,892
<9> Electricity Sales Unbilled Revenues <i>To adjust unbilled revenue</i>	(305,998)			305,998
<10> Accounts Payable Misc. Other Power Generation <i>To adjust payable to KEWP based on revised invoice received</i>		246,900		(246,900)
	890,886	(1,946,368)	0	1,055,482

Appendix C  
 Prior Year Misstatements Identified in Current Year

Entry Description	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position Dr (Cr)
	Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Beg of Year Dr (Cr)	
<1> To write off debt issuance cost				
DR. Beg net position			1,888,648	
DR. Amortization of debt issuance cost				2,534,594
CR. Debt issuance cost	(4,423,242)			
<2> To reverse revenues and costs billed to Navy already billed to civilian customers				
DR. Revenues from Navy				1,457,307
DR. Deferred fuel costs	1,245,424			
DR. Beg net position			35,746	
CR. Production fuel costs				(1,129,293)
CR. Payable to Navy		(1,609,184)		
	(3,177,818)	(1,609,184)	1,924,394	2,862,609