Deloitte.

Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

March 11, 2014

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, 2013, 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 11, 2014.

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 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 August 20, 2013. 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 basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, for the year ended September 30, 2013 (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, 2013;

- To express an opinion on whether the supplementary information that accompanies the basic 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, 2013, based on an audit of financial statements performed in accordance with standards applicable to financial audits contained in generally accepted government auditing standards; and

- To report on 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 2013 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, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS, RECLASSIFICATIONS AND 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. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GPA's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2013 financial statements.

In addition, listed in Appendix B to Attachment I, is 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

GPA's significant accounting policies are set forth in Note 1 to GPA's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GPA:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

  The financial statements for September 30, 2013 and 2012 were amended to conform with the requirements of GASB Statement No. 63 and Statement No. 65.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In April 2012, GASB issued 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 provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and 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 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements, but is of the opinion that Statement 68 will materially impact GPA's financial statements.

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, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In April 2013, GASB issued 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 provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. 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 2013 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 2013 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 2013.

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 11, 2014, 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 11, 2014, 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 11, 2014, 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 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.

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

Very truly yours,

Deloitte + Touche LLP

GUAM POWER AUTHORITY

ATURIDÅT ILEKTRESEDÅT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

March 11, 2014

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, 2013 and 2012, 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 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 design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.

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

d. 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. Additionally, we agreed with the adjusting journal entries reclassification entries 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 basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

b. Deposits and investment securities are properly classified in the category of custodial credit risk.

c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

d. 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.

e. Federal award expenditures have been charged in accordance with applicable cost principles.

2. Regarding required supplementary information:

   a. We confirm that we are responsible for the required supplementary information

   b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, Comprehensive Annual Financial Report

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

3. Regarding supplementary information:

   a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.

   b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.

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

4. We have provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

5. GPA has provided you all:

   a. Financial records and related data

   b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

   c. All Public Utilities Commission (PUC) Orders impacting GPA during the year and up to the report date.

d. Summaries of actions of the Consolidated Commission on Utilities which are dated as follows:

Name	Date	Name	Date
Regular Meeting	October 9, 2012	Regular Meeting	May 15, 2013
Regular Meeting	October 17, 2012	Regular Meeting	June 4, 2013
Regular Meeting	November 13, 2012	Regular Meeting	July 9, 2013
Special Meeting	December 12, 2012	Regular Meeting	August 13, 2013
Regular Meeting	January 8, 2013	Regular Meeting	September 17, 2013
Regular Meeting	February 12, 2013	Regular Meeting	October 8, 2013
Regular Meeting	March 12, 2013	Regular Meeting	December 11, 2013
Regular Meeting	April 9, 2013	Regular Meeting	January 14, 2014

Minutes of meetings for November 12, 2013 and February 11, 2014 have not been transcribed. We represent that there were no significant matters discussed during those meetings that would affect the September 30, 2013 financial statements.

6. 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, 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 and a project is ongoing to bring these units into compliance with the rules. GPA believes the installation will be completed in advance of the deadline. 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 USEPA 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.

7. 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.

8. GPA 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 GPA and does not believe that the financial statements are materially misstated as a result of fraud.

9. We have no knowledge of any fraud or suspected fraud affecting GPA 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.

10. We have no knowledge of any allegations of fraud or suspected fraud that would materially affect the financial statements received in communications from employees, former employees, analysts, regulators, or others.

11. 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.

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

13. 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. There were no sub-recipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.

14. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of 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 control over revenues, obligations, expenditures, assets, and liabilities.

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 or 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. 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.

18. We are responsible for follow-up on the prior-year 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.

19. 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.

20. 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 $860,000 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.

21. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

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

23. 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, 2013 and 2012, GPA billed GovGuam agencies $64,072,281 and $63,893,223, respectively, for sales of electricity. Receivables from GovGuam agencies for sales of electricity were $9,282,086 and $6,906,764 at September 30, 2013 and 2012, 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, 2013 and 2012 were $17,508,372 and $17,008,972, respectively. Outstanding receivables for electricity billings are $4,016,853 and $1,527,044 at September 30, 2013 and 2012, respectively, and are included in GovGuam agencies receivable mentioned above.

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 $291,062 and $404,554 in 2013 and 2012, respectively. Outstanding receivables for administrative expenses and cost reimbursements totaled $189,356 and $197,443 as of September 30, 2013 and 2012, respectively.

Beginning in January 2012, GWA billed GPA for water and sewer charges on the facilities transferred by the Navy to GPA under the new Customer Service Agreement totaling $1,508,942 and $1,192,900 for the years ended September 30, 2013 and 2012, respectively. The amount due to GWA as of September 30, 2013 and 2012 is $960,195 and $753,513, respectively.

As of September 30, 2013, long-term receivables include an uncollateralized note receivable from the GovGuam Department of Public Works of $390,377, 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 of $216,993 under a memorandum of understanding, with monthly installments of $25,688 starting October 2009. The long-term receivable from GWA was fully provided for with allowance as of September 30, 2013.

In September 2011, GovGuam transferred, in fee simple, a parcel of land for GPA's planned consolidated central office pursuant to Public Law 31-77. Title and ownership of the land must remain with GPA for a period of at least ten years and must not be sold, leased or otherwise encumbered by GPA and shall be transferred back to the Chamorro Land Trust Commission if GPA no longer requires it.

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 financial statements.

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

24. 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.

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. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to the auditor.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, Claims and Judgments.

26. During fiscal year 2013, GPA implemented the following pronouncements:

- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 61, The Financial Reporting Entity: Omnibus, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, The Financial Reporting Entity, and No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and

Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

The financial statements for September 30, 2013 and 2012 were amended to conform with the requirements of GASB Statement No. 63 and Statement No. 65.

In April 2012, GASB issued 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 provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans, which revises existing guidance for the financial reports of most pension plans, and 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 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements, but is of the opinion that Statement 68 will materially impact GPA's financial statements.

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, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees, which requires a state or local government guarantor that offers a non-exchange 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 provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

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 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 1993, 1999, 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 or agency of the Federal Government or the Government of Guam has reported a material instance of noncompliance to us.

30. 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.

31. We have identified significant assumptions outlined in GPA's Fuel Hedging Program affecting derivatives. The assumptions are reflective of management's intent and ability to carry out specific courses of action and the significant assumptions used are consistent with GPA's plans and past experience.

32. 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, 2013.

    At September 30, 2012, GPA's commodity swaps had a net positive fair value of approximately $1,112,000. GPA did not have outstanding commodity swap agreements at September 30, 2013 when the last agreement dated August 2013 was consummated.

33. 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.

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

35. 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.

36. 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.

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

38. 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.

39. 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.

40. 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.

41. 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.

42. 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.

43. No evidence of fraud or dishonesty in fiscal operations of programs administered by GPA has been discovered other than was has been discussed to you.

44. On March 31, 2011, GPA received an invoice from the GovGuam Department of Administration (GovGuam DOA) amounting to $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. Further, in September 2013, GPA received another invoice for $875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned. 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, 2013 and therefore, no liability or other impact has been recognized in the financial statements.

45. 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 system 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 Consolidated Commission on Utilities determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the financial statements.

46. 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.

    The replacement of older generation equipment and the additional renewable energy sources are planned to take place as soon as feasible while the plan to develop LNG facilities is expected to take place in 2020 or 2021 with full LNG implementation expected to be completed by 2022.

    As of September 30, 2013, GPA has not analyzed the effect implementation of the IRP may have on its utility plant operating units and related inventory. As such, no adjustments have been considered in the financial statements.

47. No events have occurred after September 30, 2013, but before March 11, 2014, 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,

Simon Sanchez
Chairman, Consolidated Commission on Utilities

Joaquin Flores
General Manager

Randall Wiegand
Chief Financial Officer

Cora Montellano
Asst. Chief Financial Officer

Lenora Sanz
Controller

Appendix A
Adjusting Journal Entries and Reclassifying Journal Entries

Adjusting Journal Entries

	#	Name	Debit	Credit
<1>	904000	Provision for Bad Debts	216,993	
	DT1440000	Allowance for doubtful accounts - notes receivable		216,993
		To provide allowance for long term notes receivables - GWA		
<2>	216000	Retained Earnings	1,773,357	
	990428	Amortization of Debt Expense		1,773,357
		To adjust write off of debt issuance costs included in interest expense to beginning net position		
<3>	228000.11	Accum prov for self insuranc	4,627,591	
	143000.20	A/R-Insured claims		4,627,591
		To adjust AR insurance claim to be charged under the self-insurance fund		
<4>	226000.33	2012 Bonds-Underwriter di	694,183	
	226000.34	2012 Bonds-insurance prem	807,208	
	226000.35	Loss on defeasance-2012 B	280,162	
	225000	Unamortized premium on bond	690,150	
	990428	Amortization of Debt Expense		2,471,703
		To adjust amortization of debt expenses, bond premium and loss on defeasance.		

Reclassifying Journal Entries

	#	Name	Debit	Credit
<1>	227000	Obligation under capital lease	13,064,559	
	227000.01	Obligation under Capital lease, current		13,064,559
		To reclass current portion of obligation under capital lease		
<2>	232000.20	Operation	1,513,312	
	232000.10	Oil		1,513,312
		To reclass fuel oil for FS presentation purposes		
<3>	DT13200.42	Investments - bond funds held by trustee	4,845,762	
	111000.50	BOG- Working Capital Fund		4,845,762
		To reclass a portion of BOG working capital fund held by trustee to investments (maturity over 90 days).		
<4>	233020	Accrued Annual Leave & Hol.	493,460	
	228000.10	Accum Prov for Pension/Ben		493,460
		to reclass current portion of annual leave		
<5>	109364	Poles Towers & Fixtures	41,761	
	109365	Overhead Cond. & Device	7,451	
	252364	Cust adv-poles,towers &fixtu		41,761
	252365	Cust adv-Overhead con & devi		7,451
		To reclass customer deposits for construction during the year		
<6>	111000.55	BOG-2010 Surplus Fund-WCFDS	4,179,111	
	111000.89	Cathay Bank		4,179,111
		To reclass self insurance fund used for Cabras 3 claim paid for by operations		

Appendix B
Uncorrected Misstatements

	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position
	Assets	Liabilities	Net Position Beg of Year	
Entry Description	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
<1> To adjust credit balances in AR				
Accounts receivable	304,420			
Customer deposit/advances		(304,420)		
<2> To adjust unrecorded receivables				
AR Others	36,962			
Other Revenues				(36,962)
AR Others	216,054			
Other Revenues				(216,054)
<3> To adjust accrued revenues unbilled.				
Revenues				343,230
Unbilled revenues	(343,230)			
<4> To adjust provision for doubtful accounts.				
Provision for doubtful accts				316,000
Allowance for doubtful accts	(316,000)			
<5> To adjust unreleased checks				
Cash	956,034			
Accounts Payable		(956,034)		
<6> To adjust credit balances in AR inactive balances				
Accounts receivable	221,379			
Customer deposit/advances		(221,379)		
<7> To adjust depreciation on Dededo CT units				
Depreciation				260,377
Accumulated depreciation	(260,377)			
<8> To retire system software/hardware related to the prepaid				
Accum depreciation	1,270,636			
Utility plant	(1,270,636)			
<9> To adjust depreciation expense re: Legacy meters				
Accum depreciation	351,027			
Depreciation expense				(351,027)
	1,166,269	(1,481,833)	0	315,564