

**GUAM WATERWORKS AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**INDEPENDENT AUDITORS' REPORTS ON
COMPLIANCE AND ON INTERNAL CONTROL**

YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Commissioners
Consolidated Commission on Utilities:

We have audited the financial statements of Guam Waterworks Authority (the Authority) as of and for the year ended September 30, 2011, and have issued our report thereon dated April 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

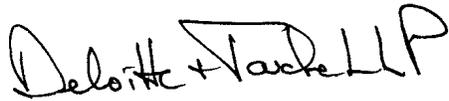
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated April 5, 2012.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of the Authority, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies 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.

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

April 5, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Commissioners
Consolidated Commission on Utilities:

Compliance

We have audited Guam Waterworks Authority's (the Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2011. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 7). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

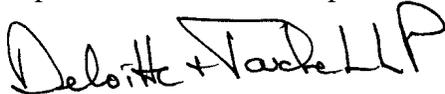
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Guam Waterworks Authority as of and for the year ended September 30, 2011, and have issued our report thereon dated April 5, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Consolidated Commission on Utilities, management of the Authority, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies 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.


April 5, 2012

GUAM WATERWORKS AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

CFDA #	Federal Grantor/Program Title	Federal Expenditures
U.S. Environmental Protection Agency		
Direct Grant		
66.418	Construction Grants for Wastewater Treatment Works	\$ 979,824
66.418	ARRA Construction Grants for Wastewater Treatment Works	1,643,682
66.468	Capitalization Grants for Drinking Water State Revolving Funds	501,250
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Funds	263,092
66.606	Surveys, Studies, Investigations and Special Purpose Grants	<u>21,618</u>
	Total U.S. Environmental Protection Agency	<u>3,409,466</u>
U.S. Department of Energy		
Pass-Through Government of Guam Department of Administration		
81.041	State Energy Program	<u>117,496</u>
	Total U.S. Department of Energy	<u>117,496</u>
U.S. Department of the Interior		
Pass-Through Government of Guam Department of Administration		
15.875	Economic, Social and Political Development of the Territories	<u>299,996</u>
	Total U.S. Department of the Interior	<u>299,996</u>
	Total Federal Program Expenditures	<u>\$ 3,826,958</u>
	Reconciliation to the basic financial statements:	
	Capitalized as construction work in progress	<u>\$ 3,826,958</u>

See Accompanying notes to Schedule of Expenditures of Federal Awards.

GUAM WATERWORKS AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

(1) Scope of Audit

Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Public Utility Commission of Guam (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119. Only the federal expenditures of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Environmental Protection Agency, U.S. Department of Energy and U.S. Department of the Interior which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All expenses and capital outlays are reported as expenditures.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2011, the Authority's expenditures and grant award notifications are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2011 Expenditures</u>
66.418 Construction Grants for Wastewater Treatment Works	\$ 2,371,500	\$ 1,643,682
66.468 Capitalization Grants for Drinking Water State Revolving Funds	<u>2,124,000</u>	<u>263,092</u>
	\$ <u>4,495,500</u>	\$ <u>1,906,774</u>

GUAM WATERWORKS AUTHORITY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | |
|--|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | No |
| 9. Identification of major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.418	Construction Grants for Wastewater Treatment Works
66.468	Capitalization Grants for Drinking Water State Revolving Funds

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Findings Section

No matters are reportable.

Part III - Federal Award Findings and Questioned Costs Section

No matters are reportable.

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Resolution of Prior Year Findings and Questioned Costs
Year Ended September 30, 2011

Questioned Costs

The status of unresolved questioned costs from prior year Single Audit Reports is as follows:

Questioned Costs per the September 30, 2005 to 2010 audit reports	\$ 472,727
Questioned Costs per the September 30, 2011 audit report	-
Questioned Costs resolved in fiscal year 2011	<u>(115,000)</u>
Total unresolved questioned costs as of September 30, 2011	\$ <u>357,727</u>