

March 31, 2009

Consolidated Commission on Utilities (CCU)

We have performed an audit of the financial statements of Guam Power Authority (GPA) as of and for the year ended September 30, 2008, 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 31, 2009.

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 October 21, 2008. 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, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on 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, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on GPA’s compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

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

We considered GPA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 would not necessarily 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.

### **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GPA's 2008 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 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. We are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

### **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on GPA's financial reporting process. Such adjustments, listed in Appendix A, have been recorded in the accounting records and are reflected in the 2008 financial statements.

In addition, we have attached to this letter, as Appendix B, 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 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application. New accounting policies adopted during the year ended September 30, 2008 are also set forth in Note 1 to GPA's 2008 financial statements.

### **CRITICAL ACCOUNTING POLICIES AND PRACTICES**

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

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2008.

### **ALTERNATIVE ACCOUNTING TREATMENTS**

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2008.

### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GPA's 2008 financial statements.

### **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 2008.

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

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

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

In our judgment, we received the full cooperation of 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 Appendix C, a copy of the representation letter we obtained from management.

### **CONTROL-RELATED MATTERS**

We have issued a separate report to you, also dated March 31, 2009, containing certain matters involving the Authority's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated March 31, 2009, containing certain matters involving the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein. We have communicated to management, in a separate letter also dated March 31, 2009, other matters that we identified during our audit.

Guam Power Authority  
March 31, 2009

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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 the Public Auditor of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Deloitte & Touche LLP*

<b>Journal Entries - AJE</b>					
#	Name	Debit	Credit	Effect on IS	
	<b>1 AJE Entity adjustment - 6148(M) (Posted)</b>				
101391	GP-Off. furniture & Equipt.	17,710.00	-		
501000	Fuel-Steam Production	14,650.00	-		
921000	Office supplies & expense	735.60	-		
923000	Outside services employed	7,549.00	-		
930000	Misc General Expenses	1,500.00	-		
931000	Rents	66,795.12	-		
932000	A&G Maint-General Plant	1,645.42	-		
232000.20	Operation	-	110,585.14		
		110,585.14	110,585.14		( 92,875.14)
	To accrue invoices received after closing				
	<b>2 AJE Entity adjustment - 5355 (M) (Posted)</b>				
400441	Residential Sales	36,605.47	-		
142000.10	Customers Billed - Private	-	337,413.16		
142000.20	Customer Billed - Government	-	200,942.10		
400442.21	Non - Demand General Service	48,857.63	-		
400442.22	Demand General Service	27,719.52	-		
400442.23	Large Power P	224,230.54	-		
400445.41	Non Demand Small Service	-	18,673.66		
400445.42	Demand Small Service	216,200.79	-		
400445.43	Large L	3,414.97	-		
		557,028.92	557,028.92		( 557,028.92)
	To adjust revenue and AR-Trade for the cancel and rebills				
	<b>3 AJE To reclass bid deposit - 6342 (Posted)</b>				
235000.30	Bid Deposits	196,907.75	-		
400451	Miscellaneous Service	-	196,907.75		
		196,907.75	196,907.75		196,907.75
	To reclass bid deposits				
	<b>4 AJE Retirement fund accrual - 6841 (Posted)</b>				
926000	Employees Pension & Benefits	704,538.00	-		
263000.27	FY08	-	704,538.00		
		704,538.00	704,538.00		( 704,538.00)
	To accrue unfunded retirement.				

<b>Journal Entries - AJE</b>					
<b>#</b>	<b>Name</b>	<b>Debit</b>	<b>Credit</b>		<b>Effect on IS</b>
	<b>5 AJE Fixed Asset adjustment - 5646 (Posted)</b>				
101391	GP-Off. furniture & Equipt.	-	809,794.00		
108391	GP - Office Furniture & Eq.	404,896.00	-		
426000	Extraordinary gain/loss	404,898.00	-		
		<b>809,794.00</b>	<b>809,794.00</b>		<b>( 404,898.00)</b>
	To writedown assets to its recoverable value				
	<b>6 AJE AR-Others Allowance - 5345 (Posted)</b>				
904000	Provision for Bad Debts	109,793.00	-		
144000	Allowance for Doubtful Accts	-	109,793.00		
		<b>109,793.00</b>	<b>109,793.00</b>		<b>( 109,793.00)</b>
	to provide allowance for BP Singapore				
	<b>7 AJE Entity AJE reverse overaccrued interest - 6150 (Posted)</b>				
980427.40	1999 SeriesA Bonds	-	91,072.00		
980427.20	1993 Series A Bonds	-	143,850.00		
237000	Accrued interest payable	234,922.00	-		
		<b>234,922.00</b>	<b>234,922.00</b>		<b>234,922.00</b>
	To reverse overaccrued interest expense				
	<b>8 AJE Entity AJE to reverse offset of unapplied cash - 5349 (Posted)</b>				
142000.10	Customers Billed - Private	154,502.00	-		
142000.40	A/R - Unapplied Cash (Bank r	-	154,502.00		
		<b>154,502.00</b>	<b>154,502.00</b>		
	To reverse JV entry to offset unapplied cash against AR-Trade				
	<b>9 AJE Entity AJE correct GWA payment application - 5349 (Posted)</b>				
142000.10	Customers Billed - Private	-	148,397.00		
142000.20	Customer Billed - Government	148,397.00	-		
		<b>148,397.00</b>	<b>148,397.00</b>		
	To correct GWA payment application credited against AR-Trade				

Journal Entries - AJE					
#	Name	Debit	Credit	Effect on IS	
	<b>10 AJE Entity AJE to correct correction of accrued GD int - 5349 (Posted)</b>				
142000.10	Customers Billed - Private	-	106,175.00		
237000	Accrued interest payable	106,175.00	-		
		106,175.00	106,175.00		
	To correct the posting of accrued interest payable against the AR-Trade				
	<b>11 AJE Entity AJE to reverse applied cash - 5349 (Posted)</b>				
142000.10	Customers Billed - Private	124,139.00	-		
142000.40	A/R - Unapplied Cash (Bank r	-	124,139.00		
		124,139.00	124,139.00		
	To reverse entry made to reverse applied cash against the AR trade GL				
	<b>12 AJE Entity AJE to reclass interest paid-GD - 5349 (Posted)</b>				
142000.10	Customers Billed - Private	-	24,078.00		
980431.10	Others - Guarantee Deposit	24,078.00	-		
		24,078.00	24,078.00		
	To reclass interest paid in FY2008 for GD recorded to AR-Trade				
	<b>13 AJE Entity AJE to adjust FEMA - SA 4716 (Posted)</b>				
143000.10	Job Orders & Misc.	-	190,773.00		
232000.20	Operation	-	177,025.00		
201100	Grant by DOI	367,798.00	-		( 367,798.00)
		367,798.00	367,798.00		
	To record the cancellation of Agana to Tamuning project				
	<b>14 AJE Entity AJE to adjust AL - 6151 (Posted)</b>				
107100	CWIP - Work Orders	11,462.00	-		
233020	Accrued Annual Leave & Hol.	-	200,975.00		
506000	Misc. steam power expenses	46,947.00	-		
514000	Maint of misc steam plant	46,947.00	-		
588000	Closings/others	22,923.00	-		

Journal Entries - AJE				
#	Name	Debit	Credit	Effect on IS
903010	Customer records & collectio	13,993.00	-	
920000	Others	35,780.00	-	
598000	Closings/others	22,923.00	-	
	To record AL accrual	200,975.00	200,975.00	( 189,513.00)
<b>15 AJE Entity AJE to adjust DCRS SL - 6242 (Posted)</b>				
228000.10	Accum Prov for Pension/Ben	-	250,499.00	
926650	DC	250,499.00	-	
	To adjust the DCRS SL accrual	250,499.00	250,499.00	
<b>16 AJE Entity AJE to adjust SCADA - 5646 (Posted)</b>				
101397	GP - Communication Equip	-	3,499,291.00	
108397	GP - Communication Equip	2,099,574.00	-	
426000	Extraordinary gain/loss	1,399,717.00	-	( 1,399,717.00)
	To post SCADA adjustment	3,499,291.00	3,499,291.00	
	TOTAL			-3,394,331.31
<p>We concur with the recording of these adjustments and represent that they do not result from fraud or illegal acts. Rather, such represent misstatements.</p>				
Signed: 				
RANDALL WIEGAND				
CHIEF FINANCIAL OFFICER				

## UNRECORDED AUDIT ADJUSTMENTS

## APPENDIX B

Entry Description	Assets	Liabilities	Equity	Profit and Loss
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE#1</b>				
Other expenses Prepaid-Others To adjust LC paid off to suppliers	(125,475)			125,475
<b>PAJE#2</b>				
Bad debt expense Allowance for DA - AR-Others (GWA) To provide for AR-Others GWA	(233,977)			233,977
<b>PAJE#3</b>				
Bad debt expense Allowance for DA - NR-Others (DPW) To provide for interest portion of NR-DPW	(390,377)			390,377
<b>PAJE#4</b>				
Other expense Deferred Clearing To adjust deferred clearing account	(184,512)			184,512
<b>PAJE#5</b>				
AFUDC CWIP To reverse AFUDC capitalized on suspended projects	(330,045)			330,045
<b>PAJE#6</b>				
Retirement expense Unfunded retirement liability		(507,827)		507,827
<b>TOTAL</b>	(1,264,386)	(507,827)	0	1,772,213



# GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN  
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

March 31, 2009

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

We are providing this letter in connection with your audits of the statements of net assets of the Guam Power Authority (the Authority), as of September 30, 2008 and 2007, and the related statements of changes in net assets and cash flows for the years then ended, 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 and changes in net assets and cash flows of the Authority 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 financial statements of the Authority's net assets, related statements of revenues, expenses and change in net assets, and cash flows, in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information, including the Management's Discussion and Analysis, and supplemental schedules accompanying the financial statements that are presented for the purpose of additional analysis of the financial statements
- c. Compliance with local and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Authority'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.
- d. Establishing and maintaining effective internal control over financial reporting
- e. The design and implementation of programs and controls to prevent and detect fraud.
- f. The review and approval of the financial statements and related notes and we acknowledge your role in the preparation of this information.

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

Deloitte & Touche LLP

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 accounting principles generally accepted in the United States of America. In addition:
  - a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - b. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - c. Required supplementary information is measured and presented within prescribed guidelines.
  - d. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Authority has made available to you all:
  - a. Financial records and related data for all financial transactions of the Authority.
  - b. Minutes of meetings of the Consolidated Commission on Utilities which are dated as follows:

<u>Name</u>	<u>Date</u>
Regular Meeting	October 16, 2007
Regular Meeting	November 13, 2007
Regular Meeting	December 11, 2007
Regular Meeting	January 8, 2008
Regular Meeting	February 5, 2008
Regular Meeting	March 4, 2008
Regular Meeting	April 8, 2008
Regular Meeting	May 6, 2008
Regular Meeting	June 3, 2008
Regular Meeting	July 29, 2008
Regular Meeting	August 26, 2008
Regular Meeting	September 23, 2008
Regular Meeting	October 21, 2008
Regular Meeting	November 24, 2008
Regular Meeting	December 9, 2008
Regular Meeting	January 27, 2009

- c. Information related to federal claims for advances and reimbursements. Federal claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
3. There has been no:
  - a. Action taken by the Authority's management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the Authority.

- b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. We have no knowledge of any fraud or suspected fraud affecting the Authority involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.
6. The Authority 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 the Authority and does not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any significant allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (“FASB”) Statement No. 5, *Accounting for Contingencies*.
9. We are responsible for compliance with Guam and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Authority’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. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
10. 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. The types of requirements identified include: activities allowed or disallowed; allowable costs/cost principles; matching, level of effort, or earmarking; procurement; reporting; and special tests and provisions.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
  - c. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

- d. Identified and disclosed amounts, if any, questioned or known noncompliance with the requirements of federal awards, including the results of other audits or program reviews that could have a material effect on a major federal awards program.
11. There are no significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information except as set forth in your reports on internal control and compliance.
12. 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 \$722,200 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

13. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
14. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Guarantees, whether written or oral, under which the Authority is contingently liable.
  - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - c. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, arrangements, and guarantees (written or oral). Electricity sales to Guam Waterworks Authority (GWA) for the years ended September 30, 2008 and 2007 were \$14,528,245 and \$11,955,504, respectively, and administrative charges and cost reimbursements charged to GWA were \$280,851 and \$610,834, respectively. Outstanding receivables for administrative charges from GWA were \$1,322,476 and \$1,326,645, respectively, at September 30, 2008 and 2007. In addition, the Authority has a long-term receivable from GWA of \$5,209,286 and \$7,504,730 at September 30, 2008 and 2007, respectively.
16. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

17. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
18. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*, except as disclosed and/or recorded in the financial statements.
19. The Authority 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.
20. The Authority 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 and 1999 Series bonds.
21. No events have occurred subsequent to September 30, 2008, to the date of our signatures below, that requires consideration as adjustments to or disclosures in the financial statements except for the notice of default issued for the Authority's credit agreement underlying its \$20 million commercial paper program.
22. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Authority's ability to initiate, record, process, and report financial information.
23. No Authority or agency of the Federal Government or Government of Guam has reported a material instance of noncompliance to us.
24. With regard to the fair value measurements and disclosures of certain assets, we believe that:
  - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
  - b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.
  - c. No events have occurred subsequent to September 30, 2008 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

25. During fiscal year 2008, the Authority implemented the ff pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The Government of Guam has determined that implementation of GASB Statement No 45 does not have a material effect on its financial statements or on the financial statements of its component units.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. The effects of the implementation of this statement on GPA's financial statements have not been determined.

26. 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.
27. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
28. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Authority and do not include any items consigned to it, or any items for which the liability has not been recorded.
29. We believe that all expenditures that have been deferred to future periods are recoverable.
30. 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. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
31. We represent to you that, subsequent to September 30, 2008, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).
32. The Authority has obligated, expended, received, and used public funds of the Authority in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law.
33. Money or similar assets handled by the Authority on behalf of the Government of Guam or Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
34. The Authority has complied, in all material respects, with the requirements identified in item 11 (a) above in connection with federal awards.
35. The Authority is responsible for complying, and has complied, with OMB Circular A-133.
36. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.
37. Management of the Authority is of the opinion that accounts and notes receivable from the Government of Guam Public School System (GPSS) and the Guam Waterworks Authority are fully collectible.
38. As of September 30, 2008 and 2007, GPA has a total of \$2,931,846 and \$2,276,657, respectively, in outstanding FEMA claims for hazard mitigation projects and typhoon damages. The Authority believes such represent valid claims for typhoon damages and hazard mitigation grants and are fully collectible.

39. No events have occurred subsequent to September 30, 2008, that requires consideration as to adjustments to or disclosures in the schedule of federal awards and related notes.

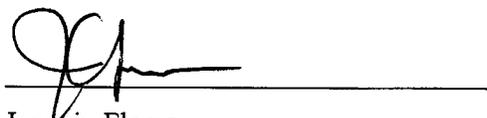
Very truly yours,



Simon Sanchez  
Chairman, Consolidated Commission on Utilities

4/14/09

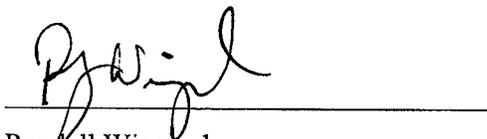
Date



Joaquin Flores  
General Manager

4/13/09

Date



Randall Wiegand  
Chief Financial Officer

4/10/09

Date



Cora Montellano  
Asst. Chief Financial Officer

4/13/09

Date