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April 8, 2013

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, 2012, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated April 8, 2013.

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 June 20, 2012. 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, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012 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, 2012 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 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") and on the schedule of expenditures of federal awards.

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.

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.

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 2012 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. During the year ended September 30, 2012, 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 2012 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 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GPA:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information OPEB plans financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In April 2012, GASB issued 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. 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 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 evaluated the effect of these statements on the financial statements of GPA.

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, 2012.

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, 2012.

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 2012 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 2012 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 2012.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR 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 Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated April 8, 2013, 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 April 8, 2013, 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 certain matters that were considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants and OMB Circular A-133.

We have communicated to management, in separate letters also dated April 8, 2013, 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 HAGÅTÑA, GUAM U.S.A. 96932-2977

April 8, 2013

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise GPA's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of 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 fair presentation of the required supplementary information, including the Management's Discussion and Analysis, accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

c. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.

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

e. The review and approval of the financial statements, accompanying schedules and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the stand-alone business-type activities checklist by the Government Finance Officers Association. Additionally, we agreed with the recorded adjustments included in Appendix A.

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

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

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

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

d. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net assets within operating revenues, non-operating revenues and expenses

e. Required supplementary information is measured and presented within prescribed guidelines.

f. The methods of measurement and presentation of the supplementary information have changed from those used in the prior period to conform with current year presentation

g. Costs of federal award have been charged in accordance with applicable cost principles.

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

3. GPA has provided to you all:

a. Financial records and related data

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

Name	Date	Name	Date
Regular Meeting	October 11, 2011	Regular Meeting	July 10, 2012
Regular Meeting	November 8, 2011	Regular Meeting	August 14, 2012
Regular Meeting	December 12, 2011	Regular Meeting	September 11, 2012
Regular Meeting	January 10, 2012	Regular Meeting	October 9, 2012
Regular Meeting	February 14, 2012	Special Meeting	October 17, 2012
Regular Meeting	March 13, 2012	Regular Meeting	November 13, 2012
Regular Meeting	April 10, 2012	Regular Meeting	December 12, 2012
Regular Meeting	May 8, 2012	Regular Meeting	January 8, 2013
Regular Meeting	June 5, 2012		

Minutes of meetings for February 2013 and March 2013 have not been transcribed. Further, certain matters related to GPA have been tabled during a Guam Waterworks Authority meeting held on May 22, 2012. We represent that there were no significant matters discussed during those meetings that would affect the September 30, 2012 financial statements.

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

4. There have been no:

a. Actions taken by GPA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GPA

   b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements except that in February 2011, EPA finalized four sets of emission standards, known as Maximum Available Control Technology (MACT) standards. Compliance under the diesel MACT is due May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of $37,000 per unit per day. GPA has requested an exemption, extension and waiver for its generation units, until a decision is made on switching to liquefied natural gas

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

6. 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.

7. 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.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting GPA received in communications from employees, former employees, analysts, regulators, or others except that we received allegations of fraud or suspected fraud, however, we were not able to confirm or substantiate such allegations

9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) Topic No. 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*.)

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

11. 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.

12. 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.

13. 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.

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. 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 subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.

16. We have:

    a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.

    b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

    d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

    e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit

    f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities

    g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

17. We are responsible for follow-up on the prior-year findings. We have prepared a summary schedule of prior-year finding reporting the status of our efforts in implementation of the prior-year's corrective action plan.

18. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.

19. No changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses, have occurred subsequent to September 30, 2012.

Except where otherwise stated below, matters less than $820,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

20. Except as listed in Appendices B and C, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

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

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

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

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

23. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

24. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

25. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC Topic No. 450 *Contingencies*.

26. 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.

27. 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 and 2010 Series bonds.

28. No department or agency of the Federal Government or the Government of Guam has reported a material instance of noncompliance to us.

29. With regard to the fair value measurements and disclosures of certain assets, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied in accordance with GAAP.

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.

    c. No events have occurred subsequent to September 30, 2012 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

30. 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.

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

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 Statement No. 53, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. 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 Statement No. 53), 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, 2012. The assumptions and factors aforementioned 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.

33. 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.

34. 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.

35. We believe that all expenditures that have been deferred to future periods are recoverable.

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

37. 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.

38. 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.

39. 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.

40. 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.

41. 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.

42. No evidence of fraud or dishonesty in fiscal operations of programs administered by GPA has been discovered.

43. 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*. 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, 2012 and therefore, no liability or other impact has been recognized in the financial statements.

44. 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. As of September 30, 2012, GPA is in the process of obtaining transfer of title and has yet to determine the fee simple value of the land. Accordingly, the land is not recognized in the financial statements.

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

46. During fiscal year 2012, GPA implemented the following pronouncements:

    - GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information OPEB plans financial statements.

    - GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

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

    Further, the following pronouncements will be effective subsequent to September 30, 2012:

    - In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011.

    - In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012.

    - In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011.

    - In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011.

- In April 2012, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2012.

- 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.

- 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.

Except for statement no. 68, for which GPA has not determined the impact on its financial statements, management does not believe that the implementation of these statements had a material effect on the financial statements of GPA.

47. 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 of Government Accounting and Financial Reporting Standards 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

48. 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 method of measurement and presentation of the supplementary information has not changed from those used in the prior period

49. Except as disclosed in note 14 of the financial statements, no events have occurred after September 30, 2012, but before April 8, 2013, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements. Further, no events have occurred subsequent to September 30, 2012 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes.

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

Journal Entries - AJE

	#	Name	Debit	Credit
<1>	253000.70	Deferred credit-1999 Bond	4,964,150	
	253000.65	Current portion-def cr-1999B	292,009	
	419100	Deferred interest income		247,715
	186000.80	Deferred debit-Term. fee		1,059,000
	186000.90	Deferred debit-Closing costs		375,159
	186000.95	Deferred debit-Lehman		3,574,285
		To adjust transaction related to the termination of the Lehman Brothers forward contract		
<2>	144000	Allowance for Doubtful Accts	1,560,564	
	142000.10	Customers Billed - Private		1,560,564
		To adjust write off of accounts in FY2009 and FY2010 per CCU approval on its meeting on 2/8/2011		
<3>	186000.66	Def.fuel cost-inv.valuation		1,112,362
	253000.50	Deferred Credits - Others	1,112,362	
		to adjust fair market of derivatives as of 9/30/12		
<4>	107214	Others	1,019,000	
	992431	A.F.U.D.C.		1,019,000
		To adjust allowance for funds used during construction		

	Statement of Net Assets			Revenues, Expenses and Changes in Net
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Net Assets Beg of Year Dr (Cr)	Income and Expenses Dr (Cr)
<1> To adjust credit balances in AR				
Dr. Accounts receivable	285,852			
Cr. Customer deposit/advances		(285,852)		
<2> To adjust provision for doubtful accounts.				
Dr. Provision for doubtful accts				230,000
Cr. Allowance for doubtful accts	(230,000)			
<3> To provide allowance for DPW and GWA long outstanding				
Dr. Provision for doubtful accts				607,370
Cr. Allowance for doubtful accts	(607,370)			
<4> to adjust retirement of fixed assets (computer towers)				
Accumulated depreciation	244,638			
Office furniture and equipment	(244,638)			
<5> To adjust revenues related to customers subjected to rate adjustments				
Revenues				528,982
Accounts receivable	(528,982)			
<6> To adjust accrued revenues unbilled.				
Revenues				238,231
Unbilled revenues	(238,231)			
<7> Extrapolated error related to a misstatement in an estimated billing				
Revenues				706,462
Receivables	(706,462)			
<8> to adjust the Dededo units' net book value that were approved for disposal				
Depreciation expense				267,923
Other production plant	(267,923)			
<9> to adjust fair market value of commodity derivatives at 9/30/2012				
Deferred Credits - Others		771,148		
Inventory Cost Change	(771,148)			
	(3,064,264)	485,296	0	2,578,968