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March 19, 2021

Commissioners
Consolidated Commission on Utilities

Dear Commissioners:

We have performed an audit of the financial statements of Guam Waterworks Authority (GWA) as of and for the year ended September 30, 2020, 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 19, 2021.

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 GWA is responsible.

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

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive font.

cc: To Management of Guam Waterworks Authority

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE

Our responsibility under (1) generally accepted auditing standards, (2) the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards") (generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the "Auditing Standards") and (3) the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) has been described in our engagement letter dated September 17, 2019. As described in that letter, the objectives of an audit conducted in accordance with the Auditing Standards and the Uniform Guidance are to:

- Express an opinion on the fairness of GWA's financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, for the year ended September 30, 2020 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2020;
- Express an opinion on whether the supplementary information that accompanies the financial statements, including the schedule of expenditures of federal awards, is fairly stated, in all material respects, in relation to the financial statements taken as a whole;
- Report on GWA'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, 2020, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- Express an opinion on GWA's compliance with requirements applicable to its sole major program and report on GWA's internal control over compliance in accordance with the Uniform Guidance.

Our responsibilities under the Auditing Standards and Uniform Guidance 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.

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

We also considered GWA'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 the Uniform Guidance. Our audit does not, however, provide a legal determination of GWA'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 GWA's 2020 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 estimated of accrued revenues, which is based on the most recent billing; management's estimate of inventory obsolescence, which is based on management's evaluation of the inventory's realizable value; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2020, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix A and Appendix B to Attachment II, summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior period presented and passed disclosures that we presented to management during the current audit engagement that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

CORRECTED 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, would have a significant effect on GWA's financial reporting process. Such adjustments, listed in Attachment I, were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period and are reflected in the 2020 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

We have evaluated the significant qualitative aspects of GWA's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF GWA

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 GWA issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in GWA's 2020 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 GWA's 2020 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2020.

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

EMPHASIS-OF-MATTER PARAGRAPH

Governor Lourdes A. Leon Guerrero issued an Executive Order on March 14, 2020, placing Guam in a Public Health Emergency due to the global pandemic caused by the novel strain of coronavirus (COVID-19). For most of remaining year, non-essential business and Government offices, including schools, were closed. GWA closed its offices to the public and required non-essential employees to work from home. The closures, predictably, also had a significant impact on Guam's visitor industry, significantly affecting the local economy. However, continued construction activity related to the military re-alignment in the region has had some mitigating effect on the pandemic-induced economic downturn.

The Public Health Emergency has also had a negative effect on GWA's revenues, requiring cost containment for the remainder of the fiscal year. While restrictions on business and government activities were relaxed in January 2021, it is unknown how quickly the economy will recover. The availability of COVID-19 testing, and vaccines should enable Guam's tourist markets to reopen by mid-2021 but the Guam Visitors Bureau has projected that the market may take a couple of years to fully recover.

EMPHASIS-OF-MATTER PARAGRAPH, CONTINUED

During the year ended September 30, 2020, GWA received a \$186,849 contribution from the U.S. Government passed through from the Government of Guam as part of the Coronavirus Aid, Relief, and Economic Security Act or CARES Act.

The proposed wording of the emphasis-of-matter paragraph follows:

COVID-19

As discussed in Note 17 to the financial statements, GWA determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. However, due to uncertainty surrounding the duration of the COVID-19 pandemic, GWA is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated March 19, 2021, on GWA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated March 19, 2021, involving GWA's compliance with requirements applicable to its sole major program and on internal control over compliance in accordance with the Uniform Guidance.

We have identified and included in Attachment III, certain deficiencies related to GWA's internal control over financial reporting that we identified during our audit.

The definition of a deficiency is also set forth in Attachment III.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment IV and should be read in conjunction with this report.

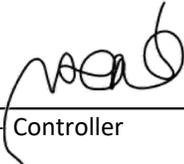
We have communicated to management, in a separate letter also dated March 19, 2021, certain deficiencies and other matters related to GWA's internal control over its information technology environment that we identified during our audit.

Guam Waterworks Authority
 Summary of Corrected Misstatements
 September 30, 2020

GL Code	Name	Debit	Credit
1 AJE To adjust net pension for FY20			
280.01	Deferred Inflows fr Pension	434,204.00	
920.30258	Pensions (DB) - Inclusions	1,024,663.00	
187.02	Deferred Outflows fr Pension	3,335,638.00	
224.9	Unfunded Retire GASB67/68		<u>4,794,505.00</u>
	To adjust net pension, deferred outflows, deferred inflows, and pension expense related to GASB 68 and 73 for FY2020	<u>4,794,505.00</u>	<u>4,794,505.00</u>
2 AJE To adjust OPEB liability for FY20			
224.10	OPEB Liability		21,506,926.00
280.02	Deferred Inflows from OPEB	6,742,273.00	
187.05	Deferred Outflows from OPEB	13,544,748.67	
920.30270DT	OPEB expense	<u>1,219,904.33</u>	
	To adjust FY20 net OPEB liability, deferred inflow of resources and deferred outflow of resources	<u>21,506,926.00</u>	<u>21,506,926.00</u>

Signed:  3/20/2021
 Taling M. Taitano - Chief Financial Officer

Signed:  03/19/21
 Gilda M. Mafnas - Assistant Chief Financial Officer

Signed:  03/19/21
 Sandra J. Santos - Controller



"Better Water. Better Lives."

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March 19, 2021

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of Guam Waterworks Authority (GWA), a component unit of the Government of Guam (GovGuam), as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise GWA's financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations or change in net position, and cash flows of GWA in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of financial position, results of operations, and cash flows, in accordance with GAAP.
- b. The design, implementation, and maintenance of internal control:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - To prevent and detect fraud
- c. 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.

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.

Letter to Deloitte & Touche
March 19, 2021
Page 2 of 14

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 accordance with GAAP. In addition:
 - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - b. Deposits 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. Required supplementary information is measured and presented within prescribed guidelines.
 - e. GWA's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
2. GWA has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. GWA has made available to you:
 - a. Summaries of actions of the Consolidated Commission on Utilities as documented at <http://guamccu.org/ccu-documents/>.
 - b. All financial records and related data for all financial transactions of GWA and for all funds administered by GWA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GWA and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
 - d. All Public Utilities Commission (PUC) Orders impacting GWA during the year and up to the report date.
4. There has been no:
 - a. Actions taken by GWA management that contravene the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to GWA.
 - 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.
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

Letter to Deloitte & Touche
March 19, 2021
Page 3 of 14

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.

6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2019 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. GWA 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 GWA and does not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting GWA involving:
 - a. Management.
 - b. Employees who have significant roles in GWA's internal control.
 - c. Others, where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting GWA's financial statements communicated by employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed Note 12 to the financial statements.
11. The methods, significant assumptions, and the data used by us in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, or disclosure that is in accordance with GAAP.
12. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of the Entity's government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and provisions of grants and contracts relating to GWA'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. GWA is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

Letter to Deloitte & Touche
March 19, 2021
Page 4 of 14

14. We have informed you of all investigations or legal proceedings that have been initiated during the year ended September 30, 2020 or are in process as of September 30, 2020.
15. We are responsible for all nonaudit services performed by you during the year ended September 30, 2020 and through March 19, 2021.
16. 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.
17. 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.
18. No events have occurred subsequent to September 30, 2020 that require consideration as adjustments to or disclosures in the schedule of expenditures of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
19. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2020.
20. No changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective actions taken by GWA with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2020.
21. Federal awards expenditures have been charged in accordance with applicable cost principles.
22. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
23. We have disclosed all contracts or other agreements with service organizations.
24. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
25. We have:
 - a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program under audit.
 - b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

Letter to Deloitte & Touche
March 19, 2021
Page 5 of 14

- d. Made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program 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 all known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance 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.
26. 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.
27. GWA's final version of our annual report containing the audited financial statements and your auditor's report thereon will be provided to you when available, and prior to its issuance.
- Except where otherwise stated below, immaterial matters less than \$264,000 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.
28. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded and reflected in the financial statements.
29. GWA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
30. Regarding related parties:
- a. We have disclosed to you the identity of GWA's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

Letter to Deloitte & Touche
March 19, 2021
Page 6 of 14

31. In preparing the financial statements in accordance 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.
32. 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.
33. There are no:
 - a. Instances of identified or suspected noncompliance with laws or regulations, or provisions of contracts or grant agreements whose effects should be considered when preparing the financial statements, or other instances that warrant the attention of those charged with governance.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Known actual or likely instances of abuse that have occurred that could be quantitatively or qualitatively material to the financial statements.
 - d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
34. During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.
35. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities.

Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

36. In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.
37. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.
38. In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.
39. In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.
40. In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have

been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

41. In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.
42. In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.
43. In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.
44. In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

Letter to Deloitte & Touche
March 19, 2021
Page 9 of 14

45. GWA 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.
46. GWA 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 2010, 2013, 2014, 2016, 2017, 2020A and 2020B Series bonds.
47. Except as described below, no department or agency of the Federal Government or GovGuam has reported a material instance of noncompliance to us.
48. GWA has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
49. 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.
50. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
51. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2020 and have been appropriately reduced to their estimated net realizable value.
52. Any billing collection is applied to the oldest balance. The Customer Care & Billing (CC&B) system is configured to pay delinquent high priority debt first for all customer classes wherein debt is relieved based on the age of the arrears. The CC&B system has not been designed for invoice matching.
53. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of GWA and do not include any items consigned to it.
54. We believe that all expenditures that have been deferred to future periods are recoverable.
55. All additions to GWA's property accounts consist of replacements or additions that are properly capitalizable.
56. There were no items of physical property contained in the property accounts of GWA 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.
57. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, deferred inflows, deferred outflows, net position and changes in net position in the financial statements in accordance with GASB Codification Section P20, *Pension Activities - Reporting for Benefits Provided through Trusts that Meet Specified Criteria - Defined Benefit*, GASB Codification Section P21, *Pension Activities - Reporting for Benefits Provided through Trusts that Meet Specified Criteria - Defined Contribution*, GASB Codification Section P22, *Pension Activities - Reporting for Benefits not Provided through Trusts that Meet Specified Criteria - Defined Benefit*, GASB Codification Section P23 - *Reporting Assets*

Accumulated for Defined Benefit Pensions not Provided through Trusts that Meet Specified Criteria, and GASB Codification Section P24, Pension Activities - Reporting for Benefits not Provided through Trusts that Meet Specified Criteria - Defined Contribution.

58. We believe that the actuarial assumptions and methods used to measure other post-employment benefit liabilities are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities, deferred inflows, deferred outflows, net position and changes in net position in the financial statements in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
59. We have no intention of terminating our participation in the GovGuam 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.
60. No evidence of fraud or dishonesty in fiscal operations of programs administered by GWA has been discovered.
61. In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. On September 17, 2013, the CCU, in GWA Resolution 42-FY2013, authorized the payment of merit bonuses in the years succeeding the CCU's approval to all eligible classified employees in accordance with the laws of Guam.

On October 20, 2017, CCU Resolution 01-FY2018 approved the creation and addition of GWA Certified, Technical and Professional (CTP) positions and the implementation of a Strategic Pay Scale for such positions as authorized by Public Law 28-159. The conversion to the CTP positions and pay scale from the unified system of position classification and compensation eliminated merit bonuses. GWA believes that no liability may ultimately arise from this matter and therefore no liability has been recognized in the financial statements.

62. In 2002, the US Government filed a complaint against GWA and the Government of Guam for alleged violations under the Federal Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). Because of GWA's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government sought both civil penalties and injunctive relief to address such non-compliance. Both GWA and the U.S. Department of Justice, Environmental and Natural Resources Division, mutually agreed in the form of a Court Order to resolve the violation issues.

In 2003, a Court Order for Preliminary Relief was filed before the District Court of Guam. The Stipulation required implementation of short-term projects and initial planning measures by GWA. GWA was required to submit a final financial plan in the Master Plan that generates sufficient revenue to cover the cost of all compliance activities and deliverables required by the Court Order for Preliminary Relief, as well as any other anticipated expenses, including any measures necessary to ensure compliance with the CWA and the SDWA and costs related to the infrastructure improvements identified in the Master Plan.

In 2006, the Court Order was amended, which required GWA to perform approximately \$220 million of capital improvement projects and perform other actions to bring GWA's system into compliance. However, GWA was unable to meet all deadlines set out in the amended Court Order. The District Court ordered the parties to stipulate as to the scope of the remaining projects and project completion dates. The parties were unable to reach an agreement on all items. As a result, on November 10, 2011, the District Court issued an order setting new deadlines for the unfinished projects and included new projects that were not part of the amended Court Order. As of September 2020, of the 93 items required by the Court Order, 92 items are either complete or in progress (e.g., continuous reporting requirement). The one delayed project is related to the repair, rehabilitation or replacement of water reservoirs estimated to cost \$42 million. Issuance of the 2020A Series Revenue Bonds provided the additional funding needed to complete this last project.

GWA filed an unopposed motion in the U.S. District Court to extend the final completion deadline to June 23, 2023 from December 30, 2020. The Court approved the extension and GWA continues its work to complete the sole remaining compliance requirement by the new deadline.

63. On November 29, 2011, the United States Environmental Protection Agency (USEPA) informed GWA that its primary treatment permits for the Hagatna and Northern District Wastewater Treatment Plants had been denied and that GWA would be required to upgrade the plants to secondary treatment. The upgrades have been estimated to cost approximately \$300 million. GWA intends to negotiate with the USEPA on the timelines for upgrading the plants, which may be deferring the upgrades for approximately 20 to 30 years. GWA is currently constructing upgrades to the Northern District Wastewater Treatment Plant which will bring the plant into compliance with secondary treatment requirements in 2021. GWA is also currently negotiating with the USEPA on the timelines for upgrading the Hagatna plant, which may be deferring the upgrades for approximately 20 to 30 years.
64. Governor Lourdes A. Leon Guerrero issued an Executive Order on March 14, 2020, placing Guam in a Public Health Emergency due to the global pandemic caused by the novel strain of coronavirus (COVID-19). For most of remaining year, non-essential business and Government offices, including schools, were closed. GWA closed its offices to the public and required non-essential employees to work from home. The closures, predictably, also had a significant impact on Guam's visitor industry, significantly affecting the local economy. However, continued construction activity related to the military re-alignment in the region has had some mitigating effect on the pandemic-induced economic downturn.

The Public Health Emergency has also had a negative effect on GWA's revenues, requiring cost containment for the remainder of the fiscal year. While restrictions on business and government activities were relaxed in January 2021, it is unknown how quickly the economy will recover. The availability of COVID-19 testing, and vaccines should enable Guam's tourist markets to reopen by mid-2021 but the Guam Visitors Bureau has projected that the market may take a couple of years to fully recover.

During the year ended September 30, 2020, GWA received a \$186,849 contribution from the U.S. Government passed through from the Government of Guam as part of the Coronavirus Aid, Relief, and Economic Security Act or CARES Act.

65. No events have occurred after September 30, 2020, but before March 19, 2021, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in the financial statements.

Letter to Deloitte & Touche
March 19, 2021
Page 12 of 14

66. Regarding required supplementary information:

- a. We confirm that we are responsible for the required supplementary information.
- b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

67. Regarding supplementary information:

- a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

Very truly yours,



Joseph T. Duenas
Chairman, Consolidated Commission on Utilities



Miguel C. Bordallo
General Manager



Taling M. Taitano
Chief Financial Officer

Letter to Deloitte & Touche
 March 19, 2021
 Page 13 of 14

APPENDIX A

Guam Waterworks Authority
 Summary of Uncorrected Misstatements
 Year Ended September 30, 2020

	Assets		Liabilities		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct overstatement of receivables		(152,065)			152,065	
To correct overstatement of capital assets		(141,157)			141,157	
To correct understatement of capital assets and contracts payable	230,554			(230,554)		
	230,554	(293,222)	-	(230,554)	293,222	-

Letter to Deloitte & Touche
 March 19, 2021
 Page 14 of 14

APPENDIX B

Guam Waterworks Authority
 Summary of Uncorrected Misstatements
 Year Ended September 30, 2019

	Assets		Liabilities		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct understatement of capital assets and contracts payable	1,159,754			(1,159,754)		
	1,159,754	-	-	(1,159,754)	-	-

SECTION I – DEFICIENCIES

We identified the following deficiencies involving GWA’s internal control over financial reporting for the year ended September 30, 2020 that we wish to bring to your attention at this time:

1. Construction in Progress (CIP)

Certain payables related to on-going projects, totaling \$1,159,754, were not timely accrued at September 30, 2019. As management considered the misstatement was not material to the financial statements, no adjustment was recorded.

Tests of Construction in Progress (CIP) current year additions identified 6 of 27 items where documentation was not readily available to demonstrate the basis of accrual of services received as of September 30, 2020. A contracts payable understatement of \$230,554 was noted as of September 30, 2020. As management considered the misstatement was not material to the financial statements, no adjustment was recorded.

Tests of completed CIP identified 2 of 19 items that were not timely transferred to capital assets resulting in a \$141,157 projected understatement of accumulated depreciation. As management considered the misstatement was not material to the financial statements, no adjustment was recorded.

We recommend management ascertain completeness of CIP reporting and perform timely transfer of completed projects.

2. Allowance for Doubtful Accounts

For the year ended September 30, 2020, GWA recognized \$2,033,768 of bad debt expense. However, a potential \$152,065 understatement of the allowance is included in the summary of uncorrected misstatements. We recommend management consider reassessment of long outstanding receivables.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention at this time:

1. Capital asset disposal

The approved disposal form for a retired asset (asset ID no. 1045749) was not readily available to ascertain completeness and verification of the disposal. We recommend management maintain sufficient documentation of property and equipment disposals.

SECTION III – DEFINITION

The definition of a deficiency is as follows:

A deficiency in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GWA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.