



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

April 3, 2019

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, 2018, 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 3, 2019.

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.

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,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

cc: To Management of Guam Power Authority

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 14, 2018. As described in that letter, the objectives of a financial statement audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether GPA's basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, for the year ended September 30, 2018 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2018;
- Express an opinion on whether the supplementary information that accompanies the financial statements is fairly stated, in all material respects, in relation to the financial statements taken as a whole;
- 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, 2018, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- Express an opinion on GPA's compliance with requirements applicable to each major program and report on GPA's internal control over compliance in accordance with the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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.

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

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GPA's 2018 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 depreciation expense, which is based on estimated useful lives of the respective capital assets; management's estimate of the net pension liability, deferred outflows and inflows of resources related to pension, which is based on an actuarial report issued by the Government of Guam Retirement Fund; and management's estimate of the other post-employment benefits (OPEB) liability, deferred outflows and inflows of resources related to OPEB, which is based on an actuarial report issued by the Government of Guam Department of Administration. During the year ended September 30, 2018, there were no significant changes in accounting estimates or in management's judgments relating to such estimates other than the effect of adopting Governmental Accounting Standards Board (GASB) Statement No. 75 on other post-employment benefits related estimates as stated below.

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 B to Attachment I, a summary of uncorrected misstatements that we presented to management during the current year audit engagement that when combined with previously identified uncorrected misstatements, were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, included in Appendix C to Attachment I, is the summary of uncorrected misstatements that we presented to management during the current audit engagement pertaining to the prior period presented that when combined with previously identified uncorrected misstatements, were determined by management to be immaterial, both individually and in the aggregate, to the prior period financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Appendix A to Attachment I and are reflected in the 2018 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

GPA's significant accounting policies are set forth in Note 1 to GPA's 2018 financial statements. During the year ended September 30, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GPA:

- 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*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The implementation of this statement had a material effect on the financial statements resulting in the restatement of GPA's fiscal year 2017 financial statements to reflect the reporting of the OPEB liability, deferred inflows of resources and deferred outflows of resources for its OPEB plan and the recognition of OPEB expense in accordance with the provisions of GASB Statement No. 75.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement
- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

Except for GASB Statement No. 75, the implementation of these statements did not have a material effect on GPA's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

We have evaluated the significant qualitative aspects of GPA'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 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 2018 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 2018 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 2018.

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of GPA's management about the representations embodied in the financial statements. In addition, 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 3, 2019, 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 3, 2019, involving GPA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Uniform Guidance.

We have communicated to management, in separate letters also dated April 3, 2019, 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.

* * * * *



GUAM POWER AUTHORITY

ATURIDAT ILEKTRESEDAT GUAHAN
P O BOX 2977, AGANA, GUAM 96932-2977
Telephone: 671-648-3066 Fax: 671-648-3168

April 3, 2019

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise GPA's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and change in net position, and cash flows of GPA in conformity 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 conformity 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 and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of financial statements and related notes 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 financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree 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 financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - b. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - c. Capital assets, including infrastructure assets, are properly capitalized, reported and if applicable, depreciated.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
2. GPA has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. GPA has made available to you:
 - a. All minutes of the meetings of Consolidated Commission on Utilities (CCU) or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. All financial records and related data for all financial transactions of GPA and for all funds administered by GPA. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GPA 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 GPA during the year and through the report date.
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 for the following matters:
- In February 2011, the U.S. Environmental Protection Agency (EPA), under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3 and 4 and MEC 8 and 9 slow speed diesel units. Compliance under the diesel MACT was due on May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of \$37,500 per unit per day. GPA applied for and received a one-year extension for complying with the rules with respect to its small diesel peaking units. The required stack emission equipment was installed within the extension period. As to compliance with the other units subjected to RICE MACT, GPA requested EPA to enter into a consent decree allowing time for GPA to comply with the regulations and allowing potential fines and penalties for non-compliance to be used for compliance with regulations. In January 2015, GPA submitted its compliance plan outlining the proposed timelines for inclusion in the consent decree. Cabras 3 and 4 Power Plants are no longer subject to compliance due to an explosion and fire in August 2015. As of September 30, 2018 and to the date of this letter, GPA is still negotiating the consent decree with EPA. GPA believes result of negotiations with EPA will defer potential fines post RICE MACT deadlines for the slow speed diesel units. If the consent decree is not reached, the maximum liability of GPA would be \$243 million as of September 30, 2018. No liability that may result from potential noncompliance has been recorded in the 2018 financial statements.
 - EPA also established rules for Electric Generating Unit Maximum Achievable Control Technology (EGU MACT) which applies to Cabras 1 and 2 and Tanguisson steam boiler units. Compliance under the EGU MACT was due in April 2015. Non-compliance could result in penalty fees of \$37,500 per unit per day. GPA obtained PUC approval to early terminate the associated energy conversion agreement of the Tanguisson unit. By deactivating the Tanguisson unit, GPA did not incur compliance costs for this unit. As to compliance for Cabras 1 and 2, a consent decree requested from EPA for compliance with RICE MACT is also expected to cover the EGU MACT compliance.
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. We believe the effect of the uncorrected financial statement misstatement detected in the current year that relates 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, 2018 taken as a whole. Such uncorrected misstatement has been attached as Appendix C.
7. GPA has not performed a 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 their understanding about the risks of fraud in GPA and do 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 GPA involving:
 - a. Management.
 - b. Employees who have significant roles in GPA's internal control over financial reporting.
 - 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 GPA's financial statements communicated by employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that we are aware of or 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*.
11. Significant assumptions used by us in making accounting estimates are reasonable.
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 GPA'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 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.
14. 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 federal statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on its federal programs.
15. 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.
16. No events have occurred subsequent to September 30, 2018 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
17. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2018.

18. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the Authority with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2018.
19. Federal awards expenditures have been charged in accordance with applicable cost principles.
20. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
21. 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.
22. 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.
 - 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 GPA, 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.

23. We are responsible for follow-up on all prior-year findings. We have prepared a summary schedule of prior-year findings by federal awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance.
24. We are responsible for taking corrective action on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. 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, violations of provisions of contracts or grant agreements, or abuse that you report.
25. 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.
26. GPA's final version of its 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 \$759,000 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.

27. Except as disclosed in Appendices B and C, there are no transactions that have not been properly recorded and reflected in the financial statements.
28. GPA has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
29. Regarding related parties:

- a. We have disclosed to you the identity of GPA's related parties and all the related party relationships and transactions of which we are aware.

In October 2011, U.S. Federal Emergency Management Agency reimbursed GPA for certain typhoon related costs incurred in 2002 of approximately \$1,800,000. The reimbursement was received by the Government of Guam (GovGuam) Department of Administration (DOA) which plans to offset such amount against billings to GPA related to the Autonomous Agency Collections Fund (see item 59). Due to uncertainty of receipt, GPA has not recorded the reimbursement in the financial statements.

GPA has not had significant transactions with members of the CCU or companies affiliated with members of the CCU during 2018 and 2017.

- 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.
30. 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 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.

31. There are no:

- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in the financial statements.

32. 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.

33. GPA has complied with all aspects of contractual agreements that may affect the financial statements.

34. No department or agency of GPA has reported a material instance of noncompliance to us.

35. 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 the requirements of the Governmental Accounting Standards Board.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

36. Regarding supplementary information:

- a. We are responsible for the preparation and 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 all material respects.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

37. During fiscal year 2018, GPA implemented the following pronouncements:

- 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*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The implementation of this statement had a material effect on the financial statements resulting in the restatement of GPA's fiscal year 2017 financial statements to reflect the reporting of OPEB liability, deferred inflows of resources and deferred outflows of resources and the recognition of OPEB in accordance with the provisions of GASB Statement No. 75.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

Except for GASB Statement No. 75, the implementation of these statements did not have a material effect on GPA's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

38. GPA has power plants that have been identified to be retired in the future. Upon retirement, GPA may incur costs to dismantle and clean-up the power plants. GPA has no legal or contractual obligation to perform these actions when they retire their assets; therefore, no provision for this potential cost has been recorded in the financial statements.

39. Tax-exempt bonds issued have retained their tax-exempt status.

40. GPA has determined whether a capital asset has been impaired in accordance with GASB Codification Section 1400.180 – 1400.200, *Impairment of Capital Assets*. In making this determination, GPA considered the following factors:

- a. The magnitude of the decline in service utility is significant
- b. The decline in service utility is unexpected.

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 did not give any instructions, nor cause any instructions to be given, to management's experts 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 experts.

42. 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.

43. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GPA has not experienced any losses on such accounts and management believes it is not exposed to credit risk on its deposits.
44. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
45. 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.
46. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
47. 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 or any items billed to customers. Specifically, GPA considers all Cabras 3 and 4 inventories to be obsolete. As a result, the inventories were fully provided for with an allowance.
48. We have disclosed to you all additions or changes to the existing pension plan.
49. We agree with the findings of the experts contracted by the Government of Guam Retirement Fund and the Government of Guam Department of Administration for the actuarial evaluations of the Government of Guam's retirement plan, postretirement liabilities and other post-employment benefits (OPEB). We did not give any instructions, nor cause any instructions to be given, to management's experts 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 experts.
50. We believe that the actuarial assumptions and methods used to measure pension and postretirement liabilities and costs for financial accounting purposes 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. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.
51. 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*.

52. 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.
53. GPA is subject to various rate regulatory matters and, using its best estimate based on reasonable and supportable assumptions and projections, has determined that a provision for any probable and reasonably estimable disallowances or liabilities due to customers as a result of such matters is not necessary.
54. All additions to GPA's property accounts consist of replacements or additions that are properly capitalizable.
55. 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.
56. GPA's provisions for depreciation 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 rates in effect will be adequate to depreciate the properties over their respective useful lives.
57. GPA has evaluated the likelihood that any of its regulated operating assets or assets under construction will be abandoned. We believe the likelihood of abandonment is less than probable, except for the damaged Cabras 3 and 4 generators as disclosed in the financial statements.
58. GPA continues to meet the criteria for application of FASB ASC 980, *Regulated Operations*. 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.
59. On March 31, 2011, GPA received an invoice from the GovGuam DOA of \$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*. In September 2013, GPA received another invoice for \$875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned. There was no invoice received for the years ended September 30, 2018 and 2017. 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, 2018 and therefore, no liability or other impact has been recognized in the financial statements.

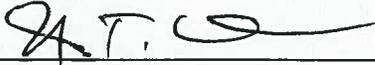
60. In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991 but was suspended by law for the years 1996, 2002, 2003 and 2004. Between 1991 and 2008, GPA did not calculate or pay any bonuses. In 2010, the Guam Legislature authorized GPA to implement a Pay for Performance program, similar to the GovGuam unified pay systems for certified, technical and professional positions, covering the evaluation period of 2009. As of September 30, 2018 and 2017, the CCU determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the financial statements.
61. Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law; accordingly, no provision has been made in the financial statements for payments to be made under this law. GPA is covered by its self-insurance and worker's compensation insurance in case of accidents due to hazardous substances.
62. In 2012, GPA developed its Integrated Resource Plan (IRP). The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as fuel diversification and the renewable energy portfolio standards. Specifically, the IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators which can utilize either Liquefied Natural Gas (LNG) or Ultra-Low Sulfur (ULS) diesel fuel oil; adding 40-45 MW of generation from renewable energy sources; and diversification of its fuel source to LNG and ULS diesel fuel oil.

In August 2015, GPA lost 78MW of base load capacity and experienced insufficient generation reserve after the explosion and fire at the Cabras 4 Power Plant. The PUC ordered GPA to update the IRP in consideration of this event. The results of the updated IRP indicated that GPA should procure up to 180 MW of combined cycle units. In October 2016, the PUC authorized GPA to proceed with procurement which shall be based upon the Independent Power Producer (IPP) model. The PUC also ordered GPA to retire Cabras 1 and 2 upon commission of the new combined cycle plants.

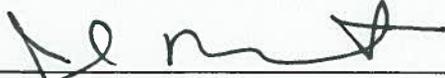
GPA reassessed the estimated useful life of Cabras 1 and 2 based on the expected retirement of these plants when the new combined cycle plant becomes operational. GPA recorded additional depreciation expense of approximately \$6.2 million and \$3.7 million during the years ended September 30, 2018 and 2017, respectively, due to the revised estimated useful life of these power plants.

63. Other than those described in Note 13, no events have occurred after September 30, 2018 but before April 3, 2019, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

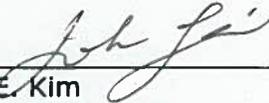
Very truly yours,



Joseph Duenas
Chairman, Consolidated Commission on Utilities



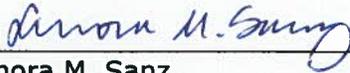
John M. Benavente, P.E.
General Manager



John J.E. Kim
Chief Financial Officer



Corazon Montellano
Asst. Chief Financial Officer



Lenora M. Sanz
Controller

**Appendix A
Adjusting Journal Entries and Reclassifying Journal Entries**

Adjusting Journal Entries

#	Name	Debit	Credit
	1 CAJE To record grant receivable from FEMA		
426000.60	Const. project expense-PY	1,217,058.92	
DT	Grants Revenue		1,217,058.92
		<u>1,217,058.92</u>	<u>1,217,058.92</u>
	1 AJE To reverse accrual of COI of 2017 bonds		
232000.90	Others	153,936.00	
990428.15	Amort-disc and exp-2017 bond		153,936.00
		<u>153,936.00</u>	<u>153,936.00</u>
	2 AJE To correct capital lease payable balance to Aggreko		
227000.4	Oblig.- cap lease-Aggreko	276,342.00	
980427.93	Int.exp cap lease-Aggreko		276,342.00
		<u>276,342.00</u>	<u>276,342.00</u>
	2 CAJE To record grant expenditures incurred from PY		
143000.51	AR- Typhoon	105,420.88	
DT	Grants Revenue		105,420.88
		<u>105,420.88</u>	<u>105,420.88</u>
	3 CAJE To close Macheche projects completed in FY18		
553000.96	Closings/Others	470,684.18	
107343	Closing		470,684.18
		<u>470,684.18</u>	<u>470,684.18</u>
	3 AJE To reinstate bid deposits of Pacific Green		
426000.60	Const. project expense-PY	1,245,000.00	
235000.30	Bid Deposits		1,245,000.00
		<u>1,245,000.00</u>	<u>1,245,000.00</u>
	4 CAJE To correct depreciation for Cabras 1 & 2		
960311	Structure & Improvemen		32,847.25
960312	Boiler Plant Equipment		100,351.40
960314	Tubogenerator Units		31,534.20
960315	Access. Electric Equip		32,305.34
960316	Misc. Power Plant		2,215.82
108311	Structure and Improvements	32,847.25	
108312	Boiler Plant Equipment	100,351.40	
108314	Turbo Generator Units	31,534.20	
108315	Accessory Electric Equipment	32,305.34	
108316	Misc. Power Plant Equipment	2,215.82	
		<u>199,254.01</u>	<u>199,254.01</u>
	4 AJE To adjust OPEB liability and related deferrals and OPEB expense		
DT1	OPEB liability	8,178,146.46	
DT3	Deferred outflow-OPEB		2,823,431.70
DT2	Deferred inflow-OPEB		13,440,299.37
926200.04	Supplmtl Benefits-Retirees	8,085,584.61	
		<u>16,263,731.07</u>	<u>16,263,731.07</u>

ATTACHMENT I, CONTINUED

5 CAJE To correct depreciation expense of Dededo CT			
108341	Structure and Improvements	339,020.76	
108342	Fuel Holders, Prod. & Access	50,184.48	
108343	Prime Movers	507,962.40	
108344	Generators	100,408.08	
108345	Accessory Electric Equip.	74,508.84	
108346	Misc. Power Plant Equip.	94,409.52	
960341	Structure & Improvem		339,020.76
960342	Fuel Holders, Prod., &		50,184.48
960343	Prime Movers		507,962.40
960344	Generators		100,408.08
960345	Access. Electric Equip		74,508.84
960346	Misc. Power Plant		94,409.52
		<u>1,166,494.08</u>	<u>1,166,494.08</u>

5 AJE To record impact of GASB 75 (beginning balances)			
DT1	OPEB liability		154,134,007.00
DT2	Deferred inflow-OPEB		1,363,744.09
DT3	Deferred outflow-OPEB	16,621,448.99	
216000	Retained Earnings	138,876,302.10	
		<u>155,497,751.09</u>	<u>155,497,751.09</u>

6 AJE To correct pension liability			
926200.04	Supplmtl Benefits-Retirees		1,295,324.00
926100.04	Pension Retirement		1,108,426.00
186000.120	Deferred outflow-Pension ret	234,134.00	
263000.28	FY15-Net pension liability	4,913,364.00	
253000.120	Deferred inflow-Pension ret		2,743,748.00
		<u>5,147,498.00</u>	<u>5,147,498.00</u>

6 CAJE To accrue interest expense on outstanding balance of customer deposits			
980431.10	Others - Guarantee Deposit	84,687.24	
237000	Accrued Interest Payable		84,687.24
		<u>84,687.24</u>	<u>84,687.24</u>

7 CAJE To record invoices for goods and services received /rendered for FY2018 after closing.			
143000.10	Job Orders & Misc.	425.00	
107200	Others	18,600.00	
923000.20	Legal Consultants	1,640.63	
923000.27	Other Professional Service	5,111.50	
930000.78	Ads & radio announcements	1,312.50	
923000.25	Engineering consultants	3,693.80	
923000.27	Other Professional Service	85.00	
923000.42	Courier Services	63.71	
935000.28	Building Maintenance	4,596.25	
925100.36	Injuries & Damages	5,888.91	
107391	GP - Office Furniture & Eq.	198.30	
923000.43	Other Contractual Service	4,039.09	
506000.15	Heavy Equipment Rental	300.00	
506000.26	EPA	3,230.00	
107398	Equipment	2,495.00	
562000.65	Office Supplies	821.00	
570000.43	Other contractual services	40,548.00	
107100	CWIP - Work Orders	10,313.00	
107100	CWIP - Work Orders	14,828.75	
107100	CWIP - Work Orders	234.88	
107100	CWIP - Work Orders	2,015.00	
232000.4	AP-Accruals		120,440.32
		<u>120,440.32</u>	<u>120,440.32</u>

ATTACHMENT I, CONTINUED

8 CAJE Accrual of NRG charges - Ramp Rate Lost Revenue			
501000.87	Renewables	102,131.69	
232000.4	AP-Accruals		102,131.69
		<u>102,131.69</u>	<u>102,131.69</u>
9 CAJE To accrue Mobil invoices waiting for documentation			
547000.84	Fuel consumed	140,387.63	
232000.4	AP-Accruals		140,387.63
		<u>140,387.63</u>	<u>140,387.63</u>
10 CAJE To accrue rebates for A/C, washers and dryers			
908003.43	Rebates- Washer/Dryers	8,400.00	
908001.43	Rebates-Split A/Cs	102,825.00	
232000.4	AP-Accruals		111,225.00
		<u>111,225.00</u>	<u>111,225.00</u>
11 CAJE To reclassify receipt of material for installation at a later date			
59410.1541	TEMES Inventory	116,630.79	
514000.55	PMC -Temes Charges		116,630.79
		<u>116,630.79</u>	<u>116,630.79</u>
12 CAJE To correct CWIP and accounts payable balances			
232000.20	Operation	108,978.79	
107200	Others		108,978.79
		<u>108,978.79</u>	<u>108,978.79</u>
13 CAJE To correct fuel payable balance			
232000.20	Operation	20,324,667.14	
232000.10	Oil		20,324,667.14
		<u>20,324,667.14</u>	<u>20,324,667.14</u>
14 CAJE To accrue additional invoices			
107391	GP - Office Furniture & Eq.	56,942.50	
570000.43	Other contractual services	25,641.50	
232000.4	AP-Accruals		82,584.00
		<u>82,584.00</u>	<u>82,584.00</u>
15 CAJE To correct sick leave accrual			
926650.6	DC		2,677,246.30
228000.12	Accum Prov-50% DCRS SL	2,677,246.30	
		<u>2,677,246.30</u>	<u>2,677,246.30</u>
16 CAJE To correct annual leave accrual			
506000.96	Closings/others	29,053.06	
514000.96	Closings/others	29,053.06	
588000.96	Closing/others	17,715.28	
598000.96	Closings/others	17,715.28	
903010.96	Closing/Others	4,960.28	
920000.96	Others	12,046.39	
583000.96	Closing and Others	7,086.11	
228000.10	Accum Prov for Pension/Ben		117,629.46
		<u>117,629.46</u>	<u>117,629.46</u>

Reclassifying Journal Entries

#	Name	Debit	Credit
1 RJE To reclass CY grant expenditures recorded in net position			
201100.10	Grant by DOI	112,397.19	
201100.30	Grant by FEMA	3,777.75	
DT	Grants Revenue		116,174.94
		<u>116,174.94</u>	<u>116,174.94</u>
2 RJE To reclass current portion of capital leases			
227000.90	Current portion-oblig. cap l	4,513,478.00	
227000.4	Oblig.- cap lease-Aggreko		4,513,478.00
		<u>4,513,478.00</u>	<u>4,513,478.00</u>
3 RJE To reclass investment			
DT13200	Investments - bond funds held by trustee (current)	13,742,000.00	
111000.131	USB-2012B Reserve Fund		13,742,000.00
		<u>13,742,000.00</u>	<u>13,742,000.00</u>
4 RJE To reclass amounts reported as cash but should be classified as investment			
DT13200.42	Investments - bond funds held by trustee (noncurrent)	10,562,833.00	
132000.42	USB-2012 Bond Fund		10,562,833.00
		<u>10,562,833.00</u>	<u>10,562,833.00</u>
5 RJE To reclass extraordinary gain			
426000.60	Const. project expense-PY	1,920,434.02	
426000	Extraordinary gain/loss		1,920,434.02
		<u>1,920,434.02</u>	<u>1,920,434.02</u>

**Appendix B
Uncorrected Misstatements**

Entry Description	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position
	Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Beg of Year Dr (Cr)	Dr (Cr)
<1> Bad debts expense Allowance for bad debts <i>To adjust allowance for bad debts</i>	(197,000)			197,000
<2> Accrued leave Payroll expense <i>To correct accrual of annual leave</i>		305,946		(305,946)
	(197,000)	305,946	0	(108,946)

**Appendix C
Prior Year Misstatements Identified in Current Year**

	Statement of Net Position			Statement of Revenues, Expenses and Changes in Net Position
	Assets	Liabilities	Net Position Beg of Year	
Entry Description	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<1> Property, plant and equipment Construction in progress <i>To reclassify CIP to Fixed Asset</i>	1,493,078 (1,493,078)			
	-	-	-	-