

April 23, 2009

Consolidated Commission on Utilities (CCU)

We have performed an audit of the financial statements of Guam Waterworks Authority (GWA) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated April 23, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the GWA is responsible.

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

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

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

We considered GWA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 would not necessarily 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 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 2008 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, 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, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GWA's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

We have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, we have attached to this letter, as Appendix III, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the last interim period that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **SIGNIFICANT ACCOUNTING POLICIES**

GWA's significant accounting policies are set forth in Note 1 to GWA's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GWA:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

## **OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as GWA's 2008 Annual Report, 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. We will read the other information in GWA's 2008 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 Board.

## **DISAGREEMENTS WITH MANAGEMENT**

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

## **CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

## **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 Appendix IV, a copy of the representation letter we obtained from management.

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

## **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.

## CONTROL-RELATED MATTERS

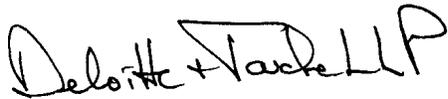
We have issued a separate report to you, also dated April 23, 2009, containing certain matters involving GWA's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated April 23, 2009, containing certain matters involving GWA's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein. We have communicated to management, in a separate letter also dated April 23, 2009, other matters that we identified during our audit.

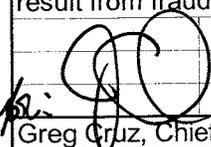
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This report is intended solely for the information and use of the Consolidated Commission on Utilities, the management of Guam Waterworks Authority and the Office of the Public Auditor of Guam and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of GWA for their cooperation and assistance during the course of this engagement.

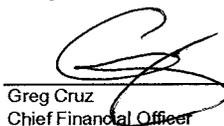
Very truly yours,

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

Journal Entries - AJE			
#	Name	Debit	Credit
<b>1 AJE To correct recording of Cola - 6244 (Posted)</b>			
265	Pension costs	-	455,693.00
Blank (4512)	Supplemental/COLA	455,693.00	-
		455,693.00	455,693.00
	WP 6244: To correct recording of Cola to proper account.		
<b>2 AJE To adjust of over recording of a/r allowance - 5312 (Posted)</b>			
11.11.109	Allowance for bad debts	84,197.00	-
390	Bad debts	-	84,197.00
		84,197.00	84,197.00
	WP 5312: To adjust for over recording of allowance.		
<b>4 AJE To adjust depreciation account - *m* (Posted)</b>			
400	Miscellaneous	246.00	-
360	Depreciation expense	-	246.00
		246.00	246.00
	*m* - To adjust depreciation expense account		
<b>5 AJE To adjust for under recording of invoices - 6121.1 (Posted)</b>			
020	Construction in progress	266,655.00	-
090	Contractor's Payable	-	253,322.00
Blank (4373)	Contract Retention Payable	-	13,333.00
		266,655.00	266,655.00
	WP 6121.1: To adjust for underaccrual of contractor invoice		
<b>6 AJE To adjust for other grant receivable - 6121.1 (Posted)</b>			
11.11.211	A/R - Local Appr.	453,074.00	-
Blank (4426)	Grants from GovGuam	-	453,074.00
		453,074.00	453,074.00
	WP 6121.1: To adjust for other grant receivable (Local Fund)		
<b>7 AJE To adjust inventory balance - 5413 (Posted)</b>			
070	Materials and supplies	-	15,600.00
350	Materials and supplies	15,600.00	-
		15,600.00	15,600.00
	WP 5413: To adjust for overrecording of inventory account.		
We concur with the recording of the adjustments and represent that they do not result from fraud or illegal acts. Rather, such represent misstatements.			
 Greg Cruz, Chief Financial Officer			5/19/09 Date

Appendix A		Assets	Liabilities	Other Equity	Income
		Dr (Cr)	Dr (Cr)	A/Cs	Statement
Current Year Known Misstatements					
To adjust for A/R overaccrual	Known	(66,307)			66,307
To adjust for overrecording of AFUDC	Likely	(16,138)			16,138
To adjust negative balance from A/R account	Known	164,236	(164,236)		
To adjust for overrecording of fixed asset	Known	2,507			(2,507)
To adjust for overaccrual of retirement	Likely		25,234		(25,234)
To adjust for under recording of Navy billing	Known	35,368			(35,368)
To adjust for over recording of GPA account	Known		17,973		(17,973)
To adjust for under recording of revenue	Likely	14,263			(14,263)
To adjust for litigation settlement	Known		(38,842)		38,842
To adjust for overrecording of unfunded liability	Likely		86,690		(86,690)
To adjust for unrecognize gain on investment	Known	80,241			(80,241)
To adjust for unrecorded liability	Known		(106,150)		106,150
<b>Total Known + Likely Current-Year Misstatements</b>		<b>214,170</b>	<b>(179,331)</b>	<b>0</b>	<b>(34,839)</b>


5/20/09  
 \_\_\_\_\_  
 Joseph Claveria Date  
 Assistant Chief Financial Officer


5-20-09  
 \_\_\_\_\_  
 Greg Cruz Date  
 Chief Financial Officer

Appendix B	Assets	Liabilities	Other Equity A/Cs	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)

PAJE 9 To adjust for underrecording of liability (wp 8311)		(14,120)		14,120
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<b>Total Known Misstatements</b>	0	(14,120)	0	14,120
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<b>Total Likely Misstatements</b>	0	0	0	0
<b>Total Known + Likely Current-Year Misstatements</b>	0	(14,120)	0	14,120

  
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 Joseph Claveria  
 Assistant Chief Financial Officer

5/20/09  
 \_\_\_\_\_  
 Date

  
 \_\_\_\_\_  
 Greg Cruz  
 Chief Financial Officer

5-20-09  
 \_\_\_\_\_  
 Date



## GUAM WATERWORKS AUTHORITY

**"Good Water Always"**

**Post Office Box 3010, Hagatna, Guam 96932**

**Phone: (671) 647-2583 Fax: (671) 646-2594**

April 23, 2009

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

We are providing this letter in connection with your audits of the Guam Waterworks Authority (the Authority) as of September 30, 2008 and 2007 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the Management's Discussion and Analysis and of the supplemental Schedules 1 - 5 accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The design and implementation of programs and controls to prevent and detect fraud.
- e. 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 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 financial statement disclosure checklist for stand-alone business-type activities obtained from 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.

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
  - a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
  - b. Deposits and investment securities are properly classified in category of custodial credit risk.
  - c. Capital assets are properly capitalized, reported, and, if applicable, depreciated.
  - d. Costs to federal awards have been charged in accordance with applicable cost principles.
  - e. Required supplementary information is measured and presented within prescribed guidelines.

2. The Authority has made available to you all:
  - a. Financial records and related data.
  - b. The minutes of the meetings of the CCU, or summaries of actions of recent meetings for which minutes have been prepared dated as follows:

12/11/07	2/19/08	3/25/08
4/22/08	5/20/08	7/8/08
8/13/08	9/9/08	

3. We have no knowledge of any fraud or suspected fraud affecting the Authority involving (1) management, (2) employees who have significant roles in the Authority's internal control, or (3) others where the fraud could have a material effect on the financial statements.
4. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, short sellers, or others.
5. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
6. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in the Authority and does not believe that the financial statements are materially misstated as a result of fraud.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.
8. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information except as set forth in your report on Internal Control and Compliance.
9. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
10. We believe the effects of any uncorrected income statement misstatements aggregated by you pertaining to the last interim period in the current year, as summarized in the accompanying Appendix B, are immaterial, both individually and in the aggregate, to the income statement for the last interim period taken as a whole.
11. We have no intention of withdrawing from the Government of Guam Retirement plans, or taking any other action that could result in an effective termination or reportable event for either of the plans. We are not aware of any occurrences that could result in the termination of the pension plan to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and cost for financial accounting purposes are appropriate in the circumstances.

Except where otherwise stated below, matters less than \$137,340 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.

12. We understand accounts receivable was tested using statistical or other sampling techniques and that certain errors in recording accounts receivable as of fiscal year end were found by you in the sample items selected. The effect of the known errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix A. We also understand that to estimate the total amount of errors in the account, a mathematical projection of the likely errors has been computed, which results in potential overstatement of \$123,003 of accounts receivable at September 30, 2008. Only additional testing and verification by either the Company or you would produce a more accurate estimate of the errors within the account. Such potential overstatement is not included as part of Appendix A. Based on our judgment of the materiality of the overstatement, we believe the effects of such potential unrecorded error, as well as the effects when considered with the items in Appendix A, are immaterial to the financial statements taken as a whole.
13. Management has identified, and disclosed to you, all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

14. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, arrangements, and guarantees (written or oral). Electricity purchases of \$14,631,816 and administrative service costs of \$272,673 were incurred with Guam Power Authority (GPA). In addition, a liability of \$5,209,285 was due to GPA as of September 30, 2008.
  - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
15. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
16. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
17. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* that have not been properly accrued or disclosed.
18. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except for the lien established by the U.S. Navy and as disclosed in note 4 to the financial statements.
19. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.

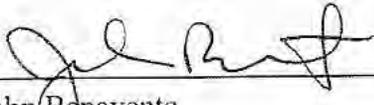
20. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the enterprise vulnerable 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.
21. The Authority has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
22. No events have occurred subsequent to September 30, 2008 that requires consideration as adjustments to, or disclosures in, the financial statements.
23. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.
24. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Authority and do not include any items consigned to it, any items billed to customers, or any items for which the liability has not been recorded.
25. We believe that all expenditures that have been deferred to future periods are recoverable.
26. All charges to the Authority's property accounts consist of replacements or additions for the purpose of increasing capacity, extending facilities, reducing operating costs, or meeting changed operating conditions.
27. There were no items of physical property contained in the property accounts of the Authority 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.
28. The Authority's accumulated provision for depreciation has been determined in accordance with the orders of and the Uniform System of Accounts prescribed by the National Association of Rural Utility Commissioners and the Public Utilities Commission of Guam. 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.
29. The Authority continues to meet the criteria for application of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*.

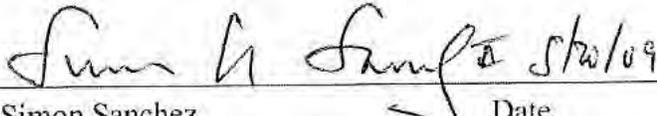
30. The Authority is a defendant in various lawsuits and has made provision for any probable and reasonably estimatable judgments. The Authority believes the resolution of other pending claims and legal proceedings will not have a material adverse effect on the Authority's financial statements.
31. We are also responsible for the representations in the Schedule of Federal Awards, which is prepared in accordance with the requirements of OMB Circular A-133, "Audits of State and Local Governments and Non-Profit Organizations." We have identified in the schedule all awards provided to the Authority in 2008 by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
32. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
33. 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
34. We have:
  - a) Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.
  - b) Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the report on compliance on compliance and internal control.
  - c) Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards.
  - d) Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
  - e) Provided to you our views on the reported findings, conclusions, and recommendations for your report.

35. We are not aware of any:
- a) Actions taken by management which contravene the provisions of Federal and Local laws or regulations or of contracts applicable to the Authority
  - b) Fraud involving management or employees who have significant roles in the internal control
  - c) Communications arising 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 as described in note 8 to the financial statements.
36. No department or agency of the Government of Guam or the US. Government has reported a material instance of noncompliance to us that has not been disclosed to you.
37. As discussed in note 8 to the financial statements, the Authority has commitments of approximately \$ 11,997,949 million under several contracts for various expansion and improvement projects.
38. On December 31, 1989, the Government of Guam issued general obligation Water System Revenue Bonds, Series 1989 in the amount of \$49,190,000. The bonds have been issued for the purpose of expanding and improving the existing water system of the Government operated by the Authority. The bond obligation is recognized by the Government of Guam.
39. Public Law 19-47 created the water and Sewer Development Fund that authorized the Authority to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time on any certain property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirement for water and/or sewer services and installation of infrastructure to be performed by the builder.
40. The United States Navy filed a claim for non-payment for water allegedly provided by the U.S. Navy to the former Public Utilities Agency of Guam and to the Authority. Pursuant to a settlement agreement with the U.S. Navy, the CCU approved an agreement to pay \$9 million to the U.S. Navy for past due water billings. As of September 30, 2008 and 2007, the balance due on this agreement is \$6,639,101 and \$7,103,582, respectively.
41. The Authority has adopted a policy of self-insuring potential risks relative to its property, plant, and equipment. The Authority has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. The Authority is of the opinion that it has suffered no material losses in the past three years related to damages to its utility plant-in-service.
42. The representations made in this letter apply also to all additional information accompanying the financial statements, including, but not limited to, the Supplemental Schedule of Operating and Maintenance Expenses on page 30 of the financial statements.

43. In estimating fair values of certain assets and liabilities, we believe that the market assumptions used were the most appropriate in the circumstances.
44. We have not adopted the provisions of Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Authority has not completed the process of evaluating the impact that will result from adopting these Statements but is of the opinion that implementation of these statements will not have a material effect on the financial statements of the Authority. The requirement of statement 49 is effective for the Authority's fiscal year ending September 30, 2008. Statements 51, 52, and 53 are effective after fiscal year ending 2009.
45. The Government of Guam and its component units, including the Authority began withholding and remitting funds to the U.S. Social Security system for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security system. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of the Authority and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.
46. As discussed in note 8 to the financial statements, the United States Government filed a complaint against the Guam Waterworks Authority and the Government of Guam for alleged violations under the Federal Clean Water Act and the Safe Drinking Water Act. Because of the Authority's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. The Authority and the U. S. Department of Justice, Environment and Natural Resources Division mutually agreed in the form of Stipulated Order to resolve the violation issues. On June 5, 2003, Stipulated Order For Preliminary Relief was filed before the District Court of Guam. The Stipulation requires implementation of short-term projects and initial planning measures by GWA. GWA is 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 Stipulated 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.
47. The management is of the opinion that compliance with applicable debt covenants occurred during the year ended September 30, 2008 and to the date of this letter.
48. Management has determined that it is appropriate to reverse Utiligy software costs payable of \$216,775 as the underlying service has not been received.

 5-19-09  
\_\_\_\_\_  
Greg Cruz Date  
Chief Financial Controller

 5-20-09  
\_\_\_\_\_  
John Benavente Date  
General Manager

 5/20/09  
\_\_\_\_\_  
Simon Sanchez Date  
Chairman