

June 23, 2010

Honorable Felix P. Camacho  
Governor  
Government of Guam

Dear Governor Camacho:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 23, 2010, which report was modified to include a reference to other auditors.

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 GovGuam is responsible.

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

Our responsibility under generally accepted auditing standards 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 August 3, 2009. 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 each opinion unit in GovGuam’s basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 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 GovGuam’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, 2009 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 GovGuam'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 with the oversight of management and the Office of the Governor 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 Office of the Governor of their responsibilities.

We considered GovGuam'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 GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered GovGuam's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of GovGuam's compliance with those requirements.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GovGuam's 2009 financial statements include: 1) management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; 2) management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets; and 3) management's estimate of the provision for tax refunds, which is determined based on periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. During the year ended September 30, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **MATERIAL CORRECTED 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. 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. We have attached to this letter, as Appendix I, a summary of misstatements corrected by management.

## **UNCORRECTED MISSTATEMENTS**

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.

## **SIGNIFICANT ACCOUNTING POLICIES**

GovGuam's significant accounting policies are set forth in Note 1 to GovGuam's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GovGuam:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GovGuam's 2009 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 2009.

#### **SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, 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.

#### **OTHER SIGNIFICANT ISSUES 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 issues requiring communication to the Office of the Governor.

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

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

## MANAGEMENT'S REPRESENTATIONS

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

## CONTROL-RELATED MATTERS

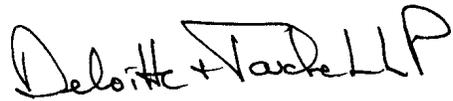
We have issued a separate report to you, also dated June 23, 2010, containing certain matters involving GovGuam's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 23, 2010, containing certain matters involving GovGuam'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 June 23, 2010, other matters that we identified during our audit.

\* \* \* \* \*

This report is intended solely for the information and use of management, the Office of the Governor, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

Summary of Proposed Audit Journal Entries

Fiscal year ended September 30, 2009

**GENERAL FUND**

Account Number	Description	Debit	Credit
<b>1 AJE Income Tax Adjustment</b>			
110012403	ACCTS RECBL-FEDERAL AGENCIES	20,173,120.00	-
110032110	RESERVE FOR INCOME TAX CLAIMS	-	29,687,315.00
110032112	RES FOR INTEREST TAX REFUNDS	16,916,420.00	-
310051101	INCOME TAX INDIVIDUAL	-	7,402,225.00
		<u>37,089,540.00</u>	<u>37,089,540.00</u>

**2 AJE To correctly record \$20 million loan payment**

110072190	NON-APPROP. EXPEND.	-	103,875.00
310059991	PROCEEDS LOAN – LANDFILL	103,875.00	-
		<u>103,875.00</u>	<u>20,103,875.00</u>

To correctly record the repayment of the BOG short-term loan.

**3 AJE To correctly record transfer of GEDA Tobacco account**

310054101	INTEREST ON BANK DEPOSITS	-	60,500.88
110071110TOA	EXPENDITURES - TRANSFERS OUT	60,500.88	-
		<u>60,500.88</u>	<u>60,500.88</u>

To record the transfer out from the General Fund to the Health & Security Trust Fund as the bank account associated with the proceeds from the GEDA Tobacco Bonds was transferred to Fund 270 in FY 2009.

**4 AJE To correctly record Hotel tax revenue - TAF**

110014206	DUE TO/FROM TOURIST ATTRACTION	-	137,795.00
310051200	GRT COLLECTIONS (BMD)- N.E.C.	137,795.00	-
		<u>137,795.00</u>	<u>137,795.00</u>

To correctly record Hotel tax revenue to Fund 206 that was incorrectly classified as GRT revenue of the General Fund

**5 AJE To correct over accrual for group life insurance**

110021590	ACCRUED OTHER EXPENDITURES	135,000.00	-
110072190	NON-APPROP. EXPEND.	-	135,000.00
		<u>135,000.00</u>	<u>135,000.00</u>

To reduce accrued liability for former group life insurance for payments made in FY 2008 and FY 2009.

Summary of Proposed Audit Journal Entries

Fiscal year ended September 30, 2009

**GENERAL FUND, Continued**

Account Number	Description	Debit	Credit
<b>6 AJE To correctly record court order payment</b>			
110072190	NON-APPROP. EXPEND.	-	20,000.00
110014239	DUE TO/FR GOVT CLAIMS FUND	20,000.00	-
		<u>20,000.00</u>	<u>20,000.00</u>
To correctly record court ordered payment as a result of civil suit as an expenditure of the Government Claims Fund.			
<b>7 AJE To record perm transfer C&amp;Q</b>			
110014209	DUE TO/FROM CUSTOMS, AGRIC INS	-	2,257,142.00
110071110TOA	EXPENDITURES - TRANSFERS OUT	2,257,142.00	-
		<u>2,257,142.00</u>	<u>2,257,142.00</u>
<b>8 AJE To correct JFK Lease</b>			
233GG	BUILDING RENT	199,620.00	-
110032117	PROVISION FOR TAX CREDITS	-	199,620.00
		<u>199,620.00</u>	<u>199,620.00</u>
<b>9 AJE To reverse revenue recorded for refunds received</b>			
110021513	INCOME TAX REFUND	-	39,917,257.47
310051101	INCOME TAX INDIVIDUAL	10,224,379.62	-
310051103	INCOME TAX WITHOLDING	16,200,000.00	-
310050750	INCOME TAX GASB 33	5,392,877.85	-
110024312	DEFERRED REV-INCOME TAX	8,100,000.00	-
		<u>39,917,257.47</u>	<u>39,917,257.47</u>

Summary of Proposed Audit Journal Entries

Fiscal year ended September 30, 2009

**OTHER GOVERNMENTAL FUNDS**

#	Name	Debit	Credit
<b>1 AJE To record permanent transfer C&amp;Q</b>			
120914100	DUE TO/FROM GENERAL FUND	2,257,142.00	-
320950100	TRANSFER IN	-	2,257,142.00
		<u>2,257,142.00</u>	<u>2,257,142.00</u>
<b>2 AJE To correctly record court ordered payment</b>			
239-290GG	MISCELLANEOUS	20,000.00	-
120914100	DUE TO/FROM GENERAL FUND	-	20,000.00
		<u>20,000.00</u>	<u>20,000.00</u>

To correctly record court ordered payment as a result of civil suit made by the General Fund as an expenditure of the Government Claims Fund.

**GOVERNMENTAL ACTIVITIES**

#	Name	Debit	Credit
<b>1 AJE To record School Leaseback</b>			
139018210	BLDGS/STRUCTURES-FEDERAL FUND	19,661,563.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	2,199,379.00
139042200	INVESTMENT IN FIXED ASSETS-FED	-	17,462,184.00
		<u>19,661,563.00</u>	<u>19,661,563.00</u>
<b>2 AJE To unwind the current year's unfunded ret. contribution</b>			
135315100	AMT TO BE PROV(EMPLOYEE BENEFI	-	50,821,197.95
135321140	ACCRUED UNFUND RET BEN	50,821,197.95	-
		<u>50,821,197.95</u>	<u>50,821,197.95</u>

To unwind the current year's entire unfunded retirement contribution as the DB Plan is a cost-sharing multiple-employer plan for the purposes of GASB 27.

<b>3 AJE To capitalize Forensic Lab and record depreciation</b>			
139018110	BLDG/STRUCTURES-GEN FUND	3,209,267.04	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	109,925.84
139042100	INVESTMENT IN FIXED ASSETS-GF	-	3,209,267.04
139042100	INVESTMENT IN FIXED ASSETS-GF	109,925.84	-
		<u>3,319,192.88</u>	<u>3,319,192.88</u>

To capitalize and record depreciation of the Forensic Science Lab.

Summary of Proposed Audit Journal Entries

Fiscal year ended September 30, 2009

**GOVERNMENTAL ACTIVITIES, Continued**

#	Name	Debit	Credit
<b>4 AJE To capitalize Northern Court and record dep.</b>			
139018110	BLDG/STRUCTURES-GEN FUND	467,647.58	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	9,352.95
139042100	INVESTMENT IN FIXED ASSETS-GF	-	467,647.58
139042100	INVESTMENT IN FIXED ASSETS-GF	9,352.95	-
		<u>477,000.53</u>	<u>477,000.53</u>

To capitalize the Northern District Court Satellite and record depreciation for the year.

**5 AJE To record GDOE additions**

139018110	BLDG/STRUCTURES-GEN FUND	137,500.00	-
139018120	EQUIPMENT/FUR/OTHERS-GEN FUND	330,500.00	-
139018220	EQUIPMENT - FEDERAL FUND	56,900.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	50,170.91
139042100	INVESTMENT IN FIXED ASSETS-GF	41,050.33	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	468,000.00
139042200	INVESTMENT IN FIXED ASSETS-FED	9,120.58	-
139042200	INVESTMENT IN FIXED ASSETS-FED	-	56,900.00
		<u>575,070.91</u>	<u>575,070.91</u>

We have reviewed the audit adjustments summarized above for the Governmental Funds and Activities and agree that they should be presented at September 30, 2009. These adjusting journal entries are the results of error and not results of fraud, irregularities or illegal acts.

Kathrine B. Kakigi  
Deputy Financial Manager

## Government of Guam

## APPENDIX A-Summary of Uncorrected Misstatements

Fiscal year ended September 30, 2009

**GENERAL FUND**

Entry Description	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance	
			Net Assets Beg	Income Statement
Dr (Cr)	Dr (Cr)	of Year	Dr (Cr)	
<b>PAJE 1 (General Fund)</b>				
DR. Revenue				318,585
CR. Accrual		(318,585)		
<i>To adjust overaccrual of GRTs</i>				
<b>PAJE 2 (General Fund)</b>				
DR. EITC payable		655,495		
CR. Revenues				(655,495)
<i>To adjust overaccrual of EITC liability</i>				
<b>PAJE 3 (General Fund)</b>				
DR. Income Tax				1,008,000
CR. Revenues		(1,008,000)		
<i>To recognize known errors on four (4) 1331 returns paid in June 2009 due to system errors</i>				
<b>Total known misstatement</b>	-	671,090	-	(671,090)

**FEDERAL GRANTS ASSISTANCE**

Entry Description	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance	
			Net Assets Beg	Income Statement
Dr (Cr)	Dr (Cr)	of Year	Dr (Cr)	
<b>PAJE 1 (Federal Grants)</b>				
DR. Expense				197,753
CR. Accounts payable		(197,753)		
DR. Accounts receivable	197,753			
CR. Revenue				(197,753)
<i>To accrue for FY2009 expenditures (CK#392083 &amp; 392101)</i>				
<b>Total known misstatement</b>	197,753	(197,753)	-	-

**Government of Guam**

APPENDIX A-Summary of Uncorrected Misstatements

Fiscal year ended September 30, 2009

**OTHER GOVERNMENTAL FUNDS**

STATEMENT OF CONDITION

Entry Description	Fund Balance		Income Statement
	Assets	Liabilities	
	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE 1 (Other Governmental Funds)</b>			
DR. Inventory	181,459		
CR. Expense			(181,459)
<i>To reconcile to inventory subsidiary (Fund 314)</i>			
<b>PAJE 2 (Other Governmental Funds)</b>			
DR. Expense			1,203,668
CR. Accounts payable		(1,203,668)	
<i>To reconcile MIP &amp; MEDICAID payables provided by DPHSS (Fund 293)</i>			
<b>PAJE 3 (Other Governmental Funds)</b>			
DR. Accounts receivable	1,676,771		
CR. Deferred revenues		(713,365)	
CR. Revenue			(963,405)
<i>To adjust A/R for Solid Waste.</i>			
<b>PAJE 4 (Other Governmental Funds)</b>			
DR. Bad debt expense			14,465
CR. Allowance for uncollectible receivables	(14,465)		
<i>To adjust allowance for receivables.</i>			
<b>PAJE 5 (Other Governmental Funds)</b>			
DR. Unreserved fund balance			489,170
CR. Reserve for encumbrances			(489,170)
<i>To adjust overstatement in encumbrances due to PC6</i>			
<b>PAJE 6 (Other Governmental Funds)</b>			
DR. Revenue			400,748
CR. Accounts receivable		(400,748)	
<i>To record PY revenues collected (Fund 214)</i>			
DR. Accounts receivable		123,702	
CR. Revenue			(123,702)
<i>To record CY revenues earned (Fund 214)</i>			
<b>Total known misstatement</b>	<b>1,843,765</b>	<b>(2,194,079)</b>	<b>350,315</b>

**Government of Guam**

APPENDIX A-Summary of Uncorrected Misstatements

Fiscal year ended September 30, 2009

**LANDFILL CIP**

STATEMENT OF CONDITION

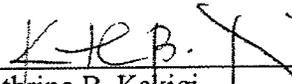
Entry Description	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE 1 (Landfill)</b>				
DR. Expense				46,154
CR. Accounts payable		(46,154)		
<i>To record additional expenditures incurred</i>				
<b>Total known misstatement</b>	-	(46,154)	-	46,154

**GOVERNMENTAL ACTIVITIES**

STATEMENT OF CONDITION

Entry Description	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE 1 (Governmental Activities)</b>				
DR. Claims Expense				1,249,766
CR. Claims Payable		(1,249,766)		
<b>Total known misstatement</b>	-	(1,249,766)	-	1,249,766

We have reviewed the above summary of uncorrected misstatements above for the Governmental Funds and Activities and agree that they should be presented at September 30, 2009. These entries are the results of error and not results of fraud, irregularities or illegal acts.

  
 \_\_\_\_\_  
 Kathrine B. Kakigi  
 Deputy Financial Manager

**Government of Guam**

APPENDIX B-Summary of Uncorrected Prior Year Misstatements

Fiscal year ended September 30, 2009

**GENERAL FUND**

Entry Description	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE 01</b>				
Dr. Bad Debts Expense				345,976
Cr. Due from Federal Grants Fund	(345,976)			
<i>To record uncollectable receivables</i>				
<b>Total known misstatement</b>	<b>(345,976)</b>	<b>-</b>	<b>-</b>	<b>345,976</b>

**FEDERAL GRANTS ASSISTANCE**

Entry Description	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE 01</b>				
Dr. Due from General Fund		345,976		
Cr. Accrued A/R WIC	(345,976)			
<i>To write off receivable 110112200</i>				
<b>Total known misstatement</b>	<b>(345,976)</b>	<b>345,976</b>	<b>-</b>	<b>-</b>

**Government of Guam**

APPENDIX B-Summary of Uncorrected Prior Year Misstatements

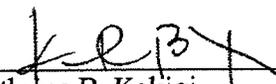
Fiscal year ended September 30, 2009

**OTHER GOVERNMENTAL FUNDS**

STATEMENT OF CONDITION

Entry Description	Fund Balance			Income Statement
	Assets	Liabilities	Net Assets Beg	
	Dr (Cr)	Dr (Cr)	of Year	Dr (Cr)
<b>PAJE 1</b>				
Dr. Bad Debts				537,236
Cr. Allowance for uncollectible receivables	(537,236)			
<i>To adjust allowance for receivables</i>				
<b>PAJE 3</b>				
Dr. Advance Deposit (110627100)		402,607		
Cr. Prior Year Adjustment (310657390)				(402,607)
<b>PAJE 4</b>				
Dr. DOC Revolving Fund A/R	248,116			
Cr. DOC Revolving Fund Revenues				(248,116)
<i>To record revenues earned in FY2008 (Fund 218)</i>				
<b>Total known misstatement</b>	<b>(289,120)</b>	<b>402,607</b>	<b>0</b>	<b>(113,487)</b>

We have reviewed the above summary of prior year uncorrected misstatements above for the Governmental Funds and agree that they should be presented at September 30, 2009. These entries are the results of error and not results of fraud, irregularities or illegal acts.

  
 \_\_\_\_\_  
 Kathrine B. Kakigi  
 Deputy Financial Manager



**Felix P. Camacho**  
Governor

**Michael W. Cruz, M.D.**  
Lieutenant Governor

**Department of Administration**  
(DIPATTAMENTON ATEMENSTRASION)  
**DIRECTOR'S OFFICE**  
(UFISINAN DIREKTOT)

Post Office Box 884 Hagatña, Guam 96932  
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



**Lourdes M. Pe**  
Director

**Joseph C. Manib**  
Deputy Director

June 23, 2010

Deloitte & Touche LLP  
361 SOUTH MARINE CORPS DRIVE  
TAMUNING GU, 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (the "Government"), as of and for the year ended September 30, 2009, which collectively comprise the Government's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Government 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 fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- 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 a general-purpose government 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 audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations with the exception of the Guam Board of Accountancy Fund. The Guam Board of Accountancy Fund was established under Public Law 27-58 to administer and enforce the licensing and practicing of Certified Public Accountants on Guam. This fund is considered to be a nonmajor governmental fund of GovGuam but is not included in the basic financial statements due to absence of account balances and financial activities. Accordingly, the omission of this fund is not considered material to either the nonmajor governmental funds or the governmental activities reporting units.
  - b. The financial statements properly classify all funds and activities, including special and extraordinary items, where applicable.
  - c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  - d. 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. The basic financial statements report \$141,660,730 of restricted net assets, of which \$45,972,842 is restricted by enabling legislation.
  - e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - g. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.
  - h. Deposits and investment securities are properly classified in the category of custodial credit risk.

- i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - j. Required supplementary information is measured and presented within prescribed guidelines.
  - k. Applicable laws and regulations are followed in adopting, approving and amending budgets.
  - l. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Government has made available to you all:
- a. Summaries of actions of legislation passed by the Government's legislative body.
  - b. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government 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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
- a. Action taken by Government management that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Government, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2008 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. We understand corporate income tax return interest expense was tested using statistical or other sampling techniques and that certain errors in computing interest expense as of September 30, 2009 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 corporate income tax return interest expense, a mathematical projection of the likely errors has been computed, which results in a potential understatement of \$1,482,000 of corporate income tax return interest expense at September 30, 2009. Only additional testing and verification by either the Government or you would produce a more accurate estimate of the errors within the interest expense. Such potential understatements are not included as part of Appendix A. Based on our judgment of the materiality of the understatements, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix A, are immaterial to the financial statements taken as a whole.
7. The Government has made available to you the results of management's 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 the Government 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 the Government involving:
  - a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others if the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in Note 13 to the basic financial statements.

11. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
  12. 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 the Government'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 Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
  13. 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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  14. The Government has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local or federal law.
  15. The Government has identified in the Schedule of Expenditures of Federal Awards all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
  16. The Government has certified to federal granting agencies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for lobbying purposes. The Government has also required, where applicable, all subrecipients of \$100,000 or more of federal funds to make the same certification.
  17. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
-

## 18. 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 as identified in Part 3 of the Compliance Supplement dated March 2009.
- b. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
- c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
- d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through Government, as applicable.
- e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
- f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
- g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
- h. 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.
- i. 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.
- j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

---

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

20. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
21. 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.
22. No organizations were identified that meet the criteria established in GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, The Financial Reporting Entity.
23. We are responsible for the fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than \$800,000 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.

24. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
25. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
26. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the Government is contingently liable.
27. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.

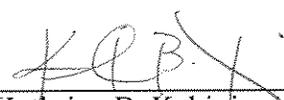
28. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the enterprise vulnerable 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.
29. 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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in Note 13 to the basic financial statements.
30. The Government 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 Notes 1, 6 and 13 to the financial statements.
31. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
32. No department or agency of the Government has reported a material instance of noncompliance to us, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
33. The Government has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1), and appropriately disclosed such derivatives in accordance with TB 03-1.
34. Other than those described in Note 14 to the financial statements, no events have occurred after September 30, 2009 but before June 23, 2010, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
35. Management has disclosed whether, subsequent to September 30, 2009, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

36. The Government is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.
37. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
  - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
  - b. The completeness and adequacy of the disclosures related to the fair values are in conformity with accounting principles generally accepted in the United States of America.
  - c. No events have occurred subsequent to September 30, 2009 and before June 23, 2010, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
38. The cost method is used to account for the Government's investment in common stock of an investee where the common stock is either nonmarketable or of which the Government has a 20 percent of lesser ownership interest and thus the Government does not have the ability to exercise significant influence over the investee's operating and financial policies.
39. During fiscal year 2009, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:
  - GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
  - GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
  - GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
  - GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

40. In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
41. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
42. In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
43. In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
44. Management of the Government believes that it is in compliance with all significant limitations and restrictions of bond covenants as of September 30, 2009.
45. The Government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.

46. Note 13 to the financial statements discloses all of the facts (i.e., significant conditions and events and management plans) of which we are aware that are relevant to commence the process in reducing the General Fund deficit position.
47. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
48. 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.
49. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Government and do not include any items consigned to it or any items billed to customers.
50. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
51. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
52. We have no intention of withdrawing from the retirement plans as disclosed in Note 12 to the financial statements or taking any other action that could result in an effective termination or reportable event for any of the plans.

  
 \_\_\_\_\_  
 John P. Camacho  
 Acting Director  
 Department of Administration

  
 \_\_\_\_\_  
 Kathrine B. Kakigi  
 Deputy Financial Manager  
 Department of Administration