

June 26, 2013

Honorable Edward Baza Calvo
Governor
Government of Guam

Dear Governor Calvo:

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, 2012, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 26, 2013, 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, has been described in our engagement letter dated October 31, 2012. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of 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, 2012 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on 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, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

- To report on 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 2012 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, 2012, 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

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GovGuam's financial reporting process. Such adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2012 financial statements.

In addition, we have attached to this letter, as Appendices A, B and C to Attachment II, summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior period presented and passed disclosures that 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 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GovGuam:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GovGuam's 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

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

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

OTHER SIGNIFICANT 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 Attachment II, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

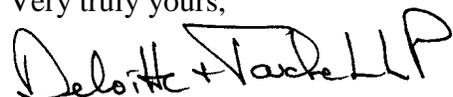
We have issued a separate report to you, also dated June 26, 2013, containing certain matters involving GovGuam's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public 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 26, 2013, 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 26, 2013, other matters that we identified during our audit.

* * * * *

This report is intended solely for the information and use of the management of the Government of Guam, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

Handwritten signature of Deloitte + Touche LLP in black ink.

Government of Guam
Proposed Audit Adjustments
9/30/2012

GENERAL FUND		Debit	Credit
1 AJE To properly record payment made.			
110021590	ACCRUED OTHER EXPENDITURES	-	833,316.00
110071110CU	PAYMENTS TO COMPONENT UNITS	833,316.00	-
		<u>833,316.00</u>	<u>833,316.00</u>
To properly record payment made by DOA on behalf of GMH based on retirement fund contribution savings appropriated by the Guam Legislature.			
2 AJE To properly record accrued payroll.			
110021550	ACCRUED PAYROLL	1,811,353.13	-
110072190	NON-APPROP. EXPEND.	-	1,811,353.13
		<u>1,811,353.13</u>	<u>1,811,353.13</u>
To properly record accrued payroll for the general fund.			
3 AJE To reconcile fund balance.			
110041110	UNAPPROPRIATED SURPLUS	5,755.00	-
310057390	ADJUST PRIOR YRS EXPN/REV	-	5,755.00
		<u>5,755.00</u>	<u>5,755.00</u>
To reconcile fund balance.			
4 AJE To reconcile fund balances and permanent transfers.			
110041110	UNAPPROPRIATED SURPLUS	-	2,331,566.00
110071110TOA	EXPENDITURES - TRANSFERS OUT	179,367.70	-
110071110TOA	EXPENDITURES - TRANSFERS OUT	1,617,893.00	-
110071110TOA	EXPENDITURES - TRANSFERS OUT	713,673.00	-
100-290TOF	MISCELLANEOUS	-	179,367.70
		<u>2,510,933.70</u>	<u>2,510,933.70</u>
To reconcile fund balances and permanent transfers.			
5 AJE To properly record transaction relative to Use Tax.			
310020802	BUSINESS IMPORTATION USE TAX	91,721.00	-
310056916	CASH SHORT/OVER-GENERAL GOV.	-	91,721.00
		<u>91,721.00</u>	<u>91,721.00</u>
To properly record business importation use tax transaction.			
6 AJE To adjust income tax provision and related accounts.			
110032110	RESERVE FOR INCOME TAX CLAIMS		15,462,850.00
110032112	RES FOR INTEREST TAX REFUNDS	16,220,000.00	
110012403	ACCTS RECBL- FEDERAL AGENCIES		1,103,556.00
110021542	PAYABLE TO FEDERAL GOVT - MWPC	346,406.00	
		<u>16,566,406.00</u>	<u>16,566,406.00</u>
To adjust income tax provision and related accounts.			
7 AJE To properly record tax credit applied to JFK lease.			
110021590	ACCRUED OTHER EXPENDITURES	1,493,000.00	-
310051200	GRT COLLECTIONS (BMD)- N.E.C.	-	1,493,000.00
		<u>1,493,000.00</u>	<u>1,493,000.00</u>
To properly record tax credits applied to PY liability for JFK Lease.			

ATTACHMENT I, CONTINUED

8 AJE To reverse provision for tax credits.			
310051200	GRT COLLECTIONS (BMD)- N.E.C.	-	748,876.00
110032117	PROVISION FOR TAX CREDITS	<u>748,876.00</u>	-
		<u>748,876.00</u>	<u>748,876.00</u>

To reverse prior year (2009) carried forward for JFK capital lease as tax credits were applied.

GPSS FUND

1 AJE To record transfers out to other funds.			
161871110TOF	TRANSFERS OUT	179,367.70	-
618-230TOA	CONTRACT	-	<u>179,367.70</u>
		<u>179,367.70</u>	<u>179,367.70</u>

To properly record transfers out to other funds for FS purposes.

FEDERAL GRANTS FUND

1 AJE To remove cancelled project.			
110131110	RESERVE FOR ENCUMBRANCES	5,500,211.11	-
110161110	ENCUMBRANCES	-	<u>5,500,211.11</u>
		<u>5,500,211.11</u>	<u>5,500,211.11</u>

To record removal of encumbrance for cancelled project.

OTHER GOVERNMENTAL FUNDS

1 AJE To reverse account closed in FY2006.			
323257390	ADJUST PRIOR YRS EXPN/REV	29,000.00	-
123210210	CASH IN BANK-MANPOWER DEV FUND	21,918.20	-
123210211	BOH MANPOWER DEVELOPMENT FUND	-	<u>50,918.20</u>
		<u>50,918.20</u>	<u>50,918.20</u>

To reverse account closed in FY2006.

2 AJE To record based on the fair market value.			
327054101	INTEREST/DIVIDEND INCOME-HAHS	-	39,669.94
127010213	CASH - HAHS SERIES B	<u>39,669.94</u>	-
		<u>39,669.94</u>	<u>39,669.94</u>

To record increase in the fair value of the GoG Health & Human Services Fund Series B.

3 AJE To record based on the fair market value.			
327654101	INTEREST/DIVIDEND INCOME	-	39,330.55
127610212	CASH-YOUTH TOBACCO 76-3000-04	<u>39,330.55</u>	-
		<u>39,330.55</u>	<u>39,330.55</u>

To record increase in the fair market value of the DRT - Youth Tobacco Education & Prevention.

4 AJE To record based on the fair market value.			
131110212	HEALTH SECURITY TRUST SERIES B	181,570.65	-
331154103	GAIN (LOSS) ON INVESTMENT	-	<u>181,570.65</u>
		<u>181,570.65</u>	<u>181,570.65</u>

To record increase in the fair market value of the GoG Health Security Trust Fund Series B.

5 AJE To record accrual for Fund 297.			
129721590	ACCRUED EXPENSE PAYABLE	-	75,000.00
297-290TOA	MISCELLANEOUS	<u>75,000.00</u>	-
		<u>75,000.00</u>	<u>75,000.00</u>

To record accrual for Fund 297.

ATTACHMENT I, CONTINUED

6 AJE To accrued GRT based on GASB 33.			
360251501	CIGARETTES	-	342,000.00
360251502	CIGARS	-	1,425.60
360251601	DISTILLED SPIRIT	-	4,716.00
360251603	MALTED FERMENTED BEVERAGES	-	14,550.48
360251602	VINOUS BEVERAGES	-	3,073.95
360251503	OTHERS	-	4,522.00
160211250	GRT RECEIVABLES GASB 33	370,288.03	-
		<u>370,288.03</u>	<u>370,288.03</u>

To accrued September 2012 GRT collected in November 2012 for customer #2188.

7 AJE To reconcile fund balance and permanent transfer.			
161941110	UNAPPROPRIATED SURPLUS	-	2,100,879.29
161971110TOF	TRANSFERS OUT	2,100,879.29	-
		<u>2,100,879.29</u>	<u>2,100,879.29</u>

To properly record permanent transfer and reconcile fund balance.

ACCOUNT GROUPS

1 AJE To properly recognize depreciation of Layon.			
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	6,232,719.55	-
139042150	Investment in Landfill	-	6,232,719.55
		<u>6,232,719.55</u>	<u>6,232,719.55</u>

To properly recognize depreciation of Layon.

2 AJE To properly record vehicles as depreciable assets.			
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	18,858.00
139018432	LANDFILL - TRUNKS & EQUIPMENT	113,458.00	-
139042150	Investment in Landfill	-	94,600.00
		<u>113,458.00</u>	<u>113,458.00</u>

To properly record vehicles as depreciable assets.

3 AJE To properly reconcile A/D rollforward for Landfill.			
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	844,434.00	-
139042150	Investment in Landfill	-	844,434.00
		<u>844,434.00</u>	<u>844,434.00</u>

To properly reconcile A/D rollforward for Landfill Software, Trucks, and Equipment.

4 AJE To properly reconcile A/D rollforward for Court.			
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	138,963.00	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	138,963.00
		<u>138,963.00</u>	<u>138,963.00</u>

To properly reconcile A/D rollforward for the Court building.

5 AJE To properly record CWIP.			
139042100	INVESTMENT IN FIXED ASSETS-GF	-	23,219.00
139042200	INVESTMENT IN FIXED ASSETS-FED	-	3,147,654.00
139018500	CONSTRUCTION IN PROGRESS	3,170,873.00	-
		<u>3,170,873.00</u>	<u>3,170,873.00</u>

To properly record Court CWIP.

ATTACHMENT I, CONTINUED

139018339	6 AJE To properly reconcile A/D rollforward for vehicles.		
139042100	ALWS FOR DEPN-EQPT CONDEMNATIO	541,593.00	-
	INVESTMENT IN FIXED ASSETS-GF	-	541,593.00
		<u>541,593.00</u>	<u>541,593.00</u>
	To properly reconcile A/D rollforward for vehicles.		
139018339	7 AJE To properly reconcile A/D rollforward for Eqpt.		
139042200	ALWS FOR DEPN-EQPT CONDEMNATIO	59,330.83	-
	INVESTMENT IN FIXED ASSETS-FED	-	59,330.83
		<u>59,330.83</u>	<u>59,330.83</u>
	To properly reconcile A/D rollforward for Equipment.		
139018339	8 AJE To properly reconcile A/D rollforward.		
139042100	ALWS FOR DEPN-EQPT CONDEMNATIO	-	107,443.31
	INVESTMENT IN FIXED ASSETS-GF	107,443.31	-
		<u>107,443.31</u>	<u>107,443.31</u>
	To properly reconcile A/D rollforward leased schools.		
139042100	9 AJE To properly record GDOE CIP.		
139018500	INVESTMENT IN FIXED ASSETS-GF	-	8,863,814.00
	CONSTRUCTION IN PROGRESS	8,863,814.00	-
		<u>8,863,814.00</u>	<u>8,863,814.00</u>
	To properly record GDOE CIP.		
135321165	10 AJE To properly recognize GASB 18 liability.		
135315675	GASB 18 LANDFILL LIABILITY	1,027,947.00	-
	AMT TO BE PROVIDED FOR LANDFIL	-	1,027,947.00
		<u>1,027,947.00</u>	<u>1,027,947.00</u>
	To properly recognize GASB 18 liability.		
139018339	11 AJE To properly reconcile rollforward of A/D.		
139042100	ALWS FOR DEPN-EQPT CONDEMNATIO	-	1,497,853.00
	INVESTMENT IN FIXED ASSETS-GF	1,497,853.00	-
		<u>1,497,853.00</u>	<u>1,497,853.00</u>
	To properly reconcile rollforward of A/D.		
139042100	12 AJE To properly record projects as capitalized.		
139042200	INVESTMENT IN FIXED ASSETS-GF	-	2,111,834.03
139018500	INVESTMENT IN FIXED ASSETS-FED	-	1,074,213.06
	CONSTRUCTION IN PROGRESS	3,186,047.09	-
		<u>3,186,047.09</u>	<u>3,186,047.09</u>
	To properly recognize projects capitalizable in nature.		

	13 AJE To properly record transfer of completed projects.		
139018120	EQUIPMENT/FUR/OTHERS-GEN FUND	73,999.00	-
139018210	BLDGS/STRUCTURES-FEDERAL FUND	221,620.89	-
139018500	CONSTRUCTION IN PROGRESS	-	295,619.89
		<u>295,619.89</u>	<u>295,619.89</u>

To properly record transfer of completed projects.

	14 AJE To properly record GDOE FA.		
139018120	EQUIPMENT/FUR/OTHERS-GEN FUND	1,222,869.00	-
139018220	EQUIPMENT - FEDERAL FUND	4,379,047.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	309,337.00
139042100	INVESTMENT IN FIXED ASSETS-GF	61,144.00	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	1,222,869.00
139042200	INVESTMENT IN FIXED ASSETS-FED	248,193.00	-
139042200	INVESTMENT IN FIXED ASSETS-FED	-	4,379,047.00
		<u>5,911,253.00</u>	<u>5,911,253.00</u>

To properly record FA additions for GDOE at Government Wide.

UNIFIED COURTS OF GUAM

Operations Fund

Account Number	Name	Debit	Credit
	1 AJE To properly record uncollectible amount.		
11010199	Due to/from GovGuam General Fund	-	313,681.00
11020700	Expenditure	313,681.00	-
		<u>313,681.00</u>	<u>313,681.00</u>

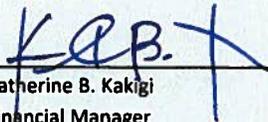
To properly record uncollectible amount relative to the health bailout agreement.

Account Groups

Account Number	Name	Debit	Credit
	1 AJE To properly record CIP.		
DTT04	Construction in Progress	3,178,845.00	-
DTT04	Construction in Progress	6,326,498.80	-
DTT05	INVESTMENT IN FIXED ASSETS-FED	-	3,178,845.00
DTT05	INVESTMENT IN FIXED ASSETS-FED	-	6,326,498.80
		<u>9,505,343.80</u>	<u>9,505,343.80</u>

To properly capitalize CIP.

We have reviewed the audit adjustments summarized above and agree that they should be recorded in the general ledger as of September 30, 2012.



 Katherine B. Kakigi
 Financial Manager
 Government of Guam, Department of Administration



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

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

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Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

June 26, 2013

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, 2012, 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 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 design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. 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.
 - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - c. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards section 2200.153 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.
 - 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.
1. Federal awards expenditures have been charged in accordance with applicable cost principles.

2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Government has provided you:
 - a. Public Laws as enacted by the Guam Legislature.
 - b. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government except as described in your Independent Auditors' Reports on Internal Control and on Compliance. 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.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by Government management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the Government.
 - 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.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2011 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. We have completed our procedures to evaluate the accuracy and completeness of the disclosures in our financial statements. As a result of the evaluation process, we identified certain disclosures that, although required by GAAP, have been omitted from our financial statements. Those omitted disclosures that are regarded as more than clearly trivial are attached as Appendix C. We believe the effects of the omitted disclosures are quantitatively and qualitatively immaterial, both individually and in the aggregate, to the financial statements as a whole.
8. The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.

9. 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.
10. 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.
11. 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*, except as disclosed in note 13 to the financial statements.
12. Significant assumptions used by us in making accounting estimates are reasonable.
13. 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. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
14. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to 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.
15. 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.
16. 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.

17. 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 August 2012.
- b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
- c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
- d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- e. 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.
- 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.

18. 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.

19. 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.
20. 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.
21. We have adopted the provisions of GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the Government each organization that meets the criteria established in GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$1,500,000 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 basic financial statements.

22. 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.
23. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. 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.
25. 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.

26. 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.
27. 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 FASB ASC 450, *Contingencies*, except as disclosed in note 13 to the financial statements.
28. 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, 2, 6 and 13 to the financial statements.
29. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
30. No department or agency of the Government has reported a material instance of noncompliance to us.
31. The Government has identified all derivative instruments as defined by GASB Codification of Government Accounting and Financial Reporting Standards Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section D40.
32. Except as disclosed in note 14 to the financial statements, no events have occurred after September 30, 2012, but before the date of this letter, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
33. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

34. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
35. During fiscal year 2012, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.
 - GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.
36. In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
37. In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.

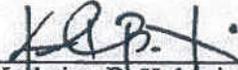
38. In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
39. In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
40. In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Government.
41. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Government.
42. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Government.
43. Management of the Government believes that it is in compliance with all significant limitations and restrictions of the 1993, 2007 and 2009 Series A General Obligation Bonds, the 2009 Series A Limited Obligation (Section 30) Bonds, the 2011 Hotel Occupancy Tax Revenue Bonds, and the 2011 and 2012 Business Privilege Tax Revenue Bonds indentures, and the 2002 and 2006 loan agreement covenants as of September 30, 2012.
44. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

45. Tax-exempt bonds issued have retained their tax-exempt status.
46. 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.
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. We have disclosed to you all additions or changes to the existing pension and other postretirement benefit plans.
50. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
51. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans.
52. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.
53. Estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue. The provision for tax refunds is evaluated on a regular basis by management and is based upon management's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to the provision for tax refunds are accounted for on a prospective basis.

Very truly yours,



Anthony C. Blaz
Acting Director
Department of Administration



Kathrine B. Kakigi, CPA
Financial Manager
Department of Administration

Government of Guam
 Summary of Uncorrected Misstatements
 September 30, 2012

APPENDIX A

GENERAL FUND**PAJE 1**

Dr. Expense	1,144,416.00
Cr. Liability	(1,144,416.00)

To properly accrue retention.

PAJE 2

Dr. Cash	1,738,374.00
Cr. Revenue	(1,738,374.00)

To record reconciling items relative to unidentified deposits per bank reconciliations.

PAJE 3

Dr. Revenue	595,874.00
Cr. A/R	(595,874.00)

To properly record based on GRT3 relative to GASB 33.

PAJE 4

Dr. Liability	310,490.00
Cr. Other Revenue	(310,490.00)

To agree to GDOE FS.

PAJE 5 (Fund 100)

Dr. Transfer out	3,000,860.00
Cr. Interfund payable	(602,886.00)
Cr. Interfund receivable	(2,397,974.00)

To record write-down of interfund receivable and increase in payable due to deficit in Fund 293, 362, and 645.

PAJE 6

Dr. Liability	1,116,821.00
Cr. Expenditures	(1,116,821.00)

To adjust for paid MIP accrual within the fiscal year.

PAJE 7 (Fund 293)

Dr. Interfund receivable	602,886.00
Cr. Transfer in	(602,886.00)

To reduce deficit in Fund 293 as this fund is funded through the General Fund. Please refer to PAJE 5 for write-down of interfund collectability.

PAJE 8 (Fund 645)

Dr. Interfund payable	2,077,951.00
Cr. Transfer in	(2,077,951.00)

To reduce deficit in Fund 645 as this fund is funded through the General Fund. Please refer to PAJE 5 for write-down of interfund collectability.

ATTACHMENT II, CONTINUED

PAJE 9 (Fund 362)
 Dr. Interfund payable 320,023.00
 Cr. Transfer in (320,023.00)
To reduce deficit in Fund 362 as this fund is funded through the General Fund. Please refer to PAJE 5 for write-down of interfund collectability.

PAJE 10 (Fund 100)
 Dr. Transfer in 1,374,297.00
 Cr. Interfund receivable (1,374,297.00)
To record write-down of interfund receivable due to deficit in Fund 205.

PAJE 11
 Dr. Reserve for Encumbrances 145,220.75
 Cr. Encumbrances (145,220.75)
To remove invalid encumbrances from reserve.

PAJE 12
 Dr. Reserve for Encumbrances 66,783.43
 Cr. Encumbrances (66,783.43)
To remove invalid encumbrances from reserve.

FEDERAL GRANTS FUND

PAJE 1
 Dr. Expense 194,438.00
 Cr. Liability (194,438.00)
 Dr. A/R 194,438.00
 Cr. Revenue (194,438.00)
To properly accrue retention.

PAJE 2
 Dr. Reserve for encumbrances 511,478.00
 Cr. Encumbrances (511,478.00)
To unencumber expired contract as of fiscal year-end.

PAJE 3
 Dr. Federal grants receivable 1,839,102.00
 Cr. GPA Payable (1,839,102.00)
To recognize payable to GPA as amount relates to FEMA collections for GPA cost overruns.

OTHER GOVERNMENTAL FUNDS

PAJE 1
 Dr. Expense 301,218.00
 Cr. A/R (301,218.00)
To properly record A/R for G.A.A. Passenger Fees.

PAJE 2
 Dr. RPT taxes receivables 276,168.00
 Cr. Deferred revenue - RPT (276,168.00)
To properly record deferred revenue - RPT.

PAJE 3 (Fund 641)
 Dr. Interfund payable 255,106.00
 Cr. Transfer in (255,106.00)
To recognize transfer in from Fund 602 as this is Funded by the Healthy Futures Fund.

PAJE 4 (Fund 602)
 Dr. Transfers out 255,106.00
 Cr. Interfund receivable (255,106.00)
To recognize transfer out to Fund 641 and recognize uncollectability of A/R.

PAJE 5 (Fund 205)
 Dr. Interfund payable 1,374,297.00
 Cr. Transfer out (1,374,297.00)
To reduce fund deficit and recognize uncollectability of A/R in Fund 100 (Refer to PAJE 10- General Fund).

ACCOUNT GROUPS

PAJE 1
 Dr. CIP 702,233.00
 Cr. Infrastructure - Federal Highway (702,233.00)
 Dr. Alows for Depn - Eqpt. Condemnation 28,089.00
 Cr. Investment in FA - FED Fund (28,089.00)
To properly reclass non-CFDA 20.205 to Construction in Progress.

AGENCY FUND

PAJE 1
 Dr. Insurance Security Deposit 471,165.00
 Cr. Insurance Security Deposit Non (471,165.00)
To agree to underlying securities held by DRT.

We have reviewed the proposed uncorrected misstatements summarized above for the Governmental Funds and activities and agree that they will not be recorded at September 30, 2012. These uncorrected misstatements are the results of error and not the result of fraud, irregularities or illegal acts.



Katherine B. Kakigi
 Financial Manager
 Government of Guam, Department of Administration

Government of Guam
 Prior Year Summary of Uncorrected Misstatements
 September 30, 2012

APPENDIX B

ACCOUNT GROUPS - known misstatements**PAJE 1**

Dr. Investment in FA- General Fund	541,593.00
Cr. Alows for Depn - Eqpt. Condemnation	(541,593.00)

To properly recognize depreciation based on capital asset policy for FY2011 additions.

PAJE 2

Dr. Investment in FA- FED	59,331.00
Cr. Alows for Depn - Eqpt. Condemnation	(59,331.00)

To properly recognize depreciation based on capital asset policy for FY2011 additions.

PAJE 3

Dr. Alows for Depn - Eqpt. Condemnation	107,443.00
Cr. Investment in FA- General Fund	(107,443.00)

To properly record depreciation and accumulated depreciation.

PAJE 4

Dr. Investment in FA- General Fund	138,963.00
Cr. Alows for Depn - Eqpt. Condemnation	(138,963.00)

To properly recognize depreciation based on capital asset policy for FY2011 additions.

PAJE 5

Dr. Investment in Landfill	844,434.00
Cr. Alows for Depn - Eqpt. Condemnation	(844,434.00)

To properly recognize depreciation based on capital asset policy for FY2011 additions.

We have reviewed the proposed prior year uncorrected misstatements summarized above for the Governmental Funds and activities and agree that they will not be recorded at September 30, 2012. These uncorrected misstatements are the results of error and not the result of fraud, irregularities or illegal acts.



Katherine B. Kakigi
 Financial Manager
 Government of Guam, Department of Administration

ATTACHMENT II, CONTINUED

Government of Guam
Disclosure Item Passed
September 30, 2012

APPENDIX C

<u>Footnote Number</u>	<u>Footnote Title</u>	<u>Description of Omitted Disclosure</u>	<u>Dollar Amount of Omitted Disclosure</u>	
none	none	Surveyed or unidentified capital assets have not been re-evaluated or adjusted from the fixed assets register and general ledger.	\$	1,290,209.00
none	none	Omitted disclosure relative to donor-restricted endowments for certain endowment foundations.	\$	5,693,929.00

We have reviewed the disclosure items passed above as of September 30, 2012. The above disclosures are not material to the current fiscal year financial statements. The above are not the results of fraud or illegal acts.



Katherine B. Kakigi
Financial Manager
Government of Guam, Department of Administration