

June 29, 2012

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, 2011, 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 29, 2012, 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 September 12, 2011. 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, 2011 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, 2011 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 2011 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, 2011, 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 2011 financial statements. During the year ended September 30, 2011, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GovGuam:

- GASB 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.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GovGuam's 2011 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 2011.

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 Appendix III, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

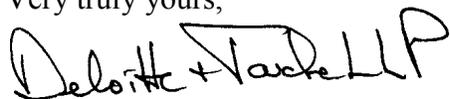
We have issued a separate report to you, also dated June 29, 2012, containing certain matters involving GovGuam's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public 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 29, 2012, 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 29, 2012, 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.

APPENDIX I

General Fund Summary of Misstatements	Correcting Entry Balance Sheet			
	Assets	Liabilities	Fund Balance, Net Assets, or Equity Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current-Year Known Misstatements				
To remove invalid encumbrances				
Dr. Reserve for encumbrance			477,224	
Cr. Encumbrance			(477,224)	
To record additional accrual				
Dr. Expense				331,980
Cr. Liability		(331,980)		
To properly record transfers				
Dr. Revenue				303,956
Cr. Accounts receivable		(303,956)		
Total Known Misstatements	0	(635,936)		635,936
Current-Year Likely Misstatements				
Likely Misstatements (Excluding Extrapolated Items)				
To record additional accrual				
Dr. Expense				793,946
Cr. Liability		(793,946)		
To properly accrue expenditures.				
To adjust accrual				
Dr. Payroll accrual		1,095,701		(1,095,701)
Cr. Expense				
Subtotal - Likely Misstatements (Excluding Extrapolated Items)	0	301,755		(301,755)
Likely Misstatements - Extrapolated Items				
Subtotal - Likely Misstatements - Extrapolated Items	0	0		0
Total Likely Misstatements	0	301,755		(301,755)
Total Known + Likely Current-Year Misstatements	0	(334,182)		334,182

Federal Grants Fund Summary of Misstatements	Correcting Entry Balance Sheet			
	Assets	Liabilities	Fund Balance, Net Assets, or Equity Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current-Year Known Misstatements				
Total Known Misstatements	0	0		0
Current-Year Likely Misstatements				
Likely Misstatements (Excluding Extrapolated Items)				
To record additional accrual				
Dr. Expense				839,698
Cr. Liability		(839,698)		
Dr. A/R	839,698			(839,698)
Cr. Revenue				
Subtotal - Likely Misstatements (Excluding Extrapolated Items)	839,698	(839,698)		0
Likely Misstatements - Extrapolated Items				
Subtotal - Likely Misstatements - Extrapolated Items	0	0		0
Total Likely Misstatements	839,698	(839,698)		0
Total Known + Likely Current-Year Misstatements	839,698	(839,698)		0

Other NonMajor Gov't Funds Summary of Misstatements	Correcting Entry Balance Sheet			
	Assets	Liabilities	Fund Balance, Net Assets, or Equity Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current-Year Known Misstatements				
Total Known Misstatements	0	0		0
Current-Year Likely Misstatements				
Likely Misstatements (Excluding Extrapolated Items)				
To remove invalid encumbrances				
Dr. Reserve for encumbrance			261,348	
Cr. Encumbrances			(261,348)	
To adjust accrual				
Dr. Accrued payroll		434,206		(434,206)
Cr. Expense				
Subtotal - Likely Misstatements (Excluding Extrapolated Items)	0	434,206		(434,206)
Likely Misstatements - Extrapolated Items				
Subtotal - Likely Misstatements - Extrapolated Items	0	0		0
Total Likely Misstatements	0	434,206		(434,206)
Total Known + Likely Current-Year Misstatements	0	434,206		(434,206)

Government of Guam 2011

#	Name	Debit	Credit
1 AJE To record transfer from THF			
5208-9208E-290	TRANSFER TO PUBLIC TRANSIT FUND	157,515.50	-
331750208	TRANSFER FROM THF	-	157,515.50
110021110	ACCOUNTS PAYABLE	1,546,088.33	-
120811131	INVESTMENT REVENUE FUND 2001	-	1,546,088.33
		<u>1,703,603.83</u>	<u>1,703,603.83</u>
	To record THF audit adjustments		
2 AJE To record TAF AJE - TAF AJE			
335450206	TRANSFER FROM TAF	-	100,468.47
320651410	OCCUPANCY TAX-HOTEL/RENTAL	-	196,621.71
5206-9206-290	TRANSFERS TO DEBT SERVICE FUND	100,468.47	-
310051200	GRT COLLECTIONS (BMD)- N.E.C.	196,621.71	-
		<u>297,090.18</u>	<u>297,090.18</u>
	To record TAF AJE # 1 and AJE # 3		
3 AJE To reverse GCC accrual			
110021110	ACCOUNTS PAYABLE	917,780.00	-
232-290TOA	MISCELLANEOUS	-	917,780.00
		<u>917,780.00</u>	<u>917,780.00</u>
	To reverse GCC accrual for MDF payments for June 2011 to Sept 2011 due to the lack of MDF receipts.		
4 AJE To reverse incorrect accrual adjustment			
110021590	ACCRUED OTHER EXPENDITURES	-	2,607,537.75
310057390	ADJUST PRIOR YRS EXPN/REV	2,607,537.75	-
		<u>2,607,537.75</u>	<u>2,607,537.75</u>
	To reverse incorrect reversal of debit balance in accruals representing the reversal of audit adjustment proposed in FY 2010 to correct a postclosing adjustment recorded by DOA (PC # J10PC0025) to reverse accruals for the Judiciary of Guam (\$1,616,441), UOG (\$1,205,903) and GCC (\$433,305). Scrutinization of the attendant supporting documentation associated with this PC indicated that DOA was reversing the difference between the original budget amount and the available balance as loaded by BBMR. DOA did not originally record accruals based on the original budget amount but rather only on the amount loaded and made available by BBMR.		
5 AJE To correct accrued expenditures			
110021590	ACCRUED OTHER EXPENDITURES	-	4,648,736.96
254-230CIP	CONTRACT	4,648,736.96	-
		<u>4,648,736.96</u>	<u>4,648,736.96</u>
	To correct accrued expenditures account for reversal of FY 2010 accrual by J11PC00018 previously reversed in FY 2011 per J110615383.		
6 AJE To expend the prepaid balance			
254-230CIP	CONTRACT	1,248,453.82	-
125419150	PREPAYMENTS	-	1,248,453.82
		<u>1,248,453.82</u>	<u>1,248,453.82</u>
7 AJE To record BOG loan prepayment			
355-290GG	MISCELLANEOUS	-	1,281,818.11
1355DT2	PREPAYMENTS	1,281,818.11	-
		<u>1,281,818.11</u>	<u>1,281,818.11</u>
	To record prepaid debt service made on 9/26/11 but due on 10/1/11.		

APPENDIX II, CONTINUED

Government of Guam 2011

#	Name	Debit	Credit
	8 AJE To reverse US Prison Bureau accrual		
100-230PLP	CONTRACT	-	1,996,317.12
110021524	DOC BUREAU OF PRISONS DEBT	1,996,317.12	-
		<u>1,996,317.12</u>	<u>1,996,317.12</u>
	To reverse accrual recorded by J110600572 as such represents accrual of unencumbered amount and does not represent accrual of actual invoices owed by GovGuam to US Bureau of Prisons.		
	9 AJE To properly record GASB 18.		
135321165	GASB 18 LANDFILL LIABILITY	1,042,304.00	-
135315675	AMT TO BE PROVIDED FOR LANDFIL	-	1,042,304.00
		<u>1,042,304.00</u>	<u>1,042,304.00</u>
	To properly record GASB 18 landfill liability.		
	10 AJE To remove revenue and record to proper fund		
310054101	INTEREST ON BANK DEPOSITS	167,394.19	-
325454101	INTEREST ON BANK DEPOSITS	-	167,394.19
		<u>167,394.19</u>	<u>167,394.19</u>
	To remove revenue and record to proper fund.		
	11 AJE To properly record COLA liability reserve		
110072190	NON-APPROP. EXPEND.	1,985,124.00	-
110032113	RESERVE FOR COLA SETTLEMENT JD	-	1,985,124.00
		<u>1,985,124.00</u>	<u>1,985,124.00</u>
	To properly record reserve for COLA settlement.		
	12 AJE To reverse taxes receivable		
110024313	DEFERRED REVENUE - GRT	148,008.85	-
310051102	INCOME TAX CORPORATION	3,626,505.02	-
310051200	GRT COLLECTIONS (BMD)- N.E.C.	14,587.18	-
110011112	INCOME TAX RECEIVABLES - FY12	-	544.27
110024312	DEFERRED REV-INCOME TAX	-	2,024,148.71
110011210	GRT RECEIVABLES FY10 ASSESMNTS	-	162,595.93
110011209	GRT RECEIVABLES FY09 ASSESMNTS	-	65,211.23
110011211	GRT RECEIVABLES FY11 ASSESMNTS	-	62,492.44
110011111	INCOME TAX RECEIVABLES FY 11	-	1,601,812.04
110011212	GRT RECEIVABLES FY12 ASSESMNTS	127,703.57	-
		<u>3,916,804.62</u>	<u>3,916,804.62</u>
	To reverse DRT tax receivable entries as DOA have taken up receivables in accordance with GASB 33.		
	13 AJE To adjust tax provision liability		
110012403	ACCTS RECBL- FEDERAL AGENCIES	4,719,310.00	-
110032110	RESERVE FOR INCOME TAX CLAIMS	-	381,347.00
110032112	RES FOR INTEREST TAX REFUNDS	-	2,507,187.00
110072191	INTEREST EXP ON TAX REFUND	2,507,187.00	-
310051199	PROVISION FOR TAX REFUND	-	5,519,744.00
110021542	PAYABLE TO FEDERAL GOVT - MWPC	1,181,781.00	-
110032110	RESERVE FOR INCOME TAX CLAIMS	-	7,888,000.00
110032117	PROVISION FOR TAX CREDITS	7,888,000.00	-
		<u>16,296,278.00</u>	<u>16,296,278.00</u>
	To adjust the Due from IRS/MWPC payable and the related tax provision liability, and correct J110612898.		
	14 AJE To reverse SAR accrual		
164521590	ACCRUED EXPENDITURES	763,849.00	-
645-290GG	MISCELLANEOUS	-	763,849.00
		<u>763,849.00</u>	<u>763,849.00</u>
	To reverse accrual recorded for the DMHSA permanent injunction as all required deposits have been met by GovGuam for FY 2011.		

APPENDIX II, CONTINUED

Government of Guam 2011

#	Name	Debit	Credit
	15 AJE To accrue for UOG cancer registry		
602-290TOA	MISCELLANEOUS	181,544.00	-
160221590	ACCRUED EXPENDITURES	-	181,544.00
		<u>181,544.00</u>	<u>181,544.00</u>

To accrue for payment to UOG for Guam Cancer Registry relating to MOU between UOG and DPHHS.

	16 AJE To correct A/R Property Tax receivables and deferred revenue		
320551701	R&T PROPERTY TAX	-	299,245.14
120524314	DEFERRED REVENUE - RPT	-	16,481,237.60
120512112	BAD CHECKS - RPT (R&T)	268.26	-
120511120	RPT TAX RECEIVABLES - GASB 33	731,357.00	-
120511305	RPT TAX RECEIVABLES FY05	45,840.98	-
120511306	RPT TAX RECEIVABLES - FY06	85,236.75	-
120511307	RPT TAX RECEIVABLES - FY07	96,228.36	-
120511397	REAL PROPERTY TAX RECEIVABLES	33,561.73	-
120511304	RPT TAX RECEIVABLES - FY04	60,078.14	-
120511303	RPT TAX RECEIVABLES - FY03	19,639.67	-
120511302	RPT TAX RECEIVABLES - FY02	46,106.46	-
120511301	RPT TAX RECEIVABLES - FY01	45,614.80	-
120511300	RPT TAX RECEIVABLES - FY00	49,785.10	-
120511311	RPT TAX RECEIVABLES - FY11	14,303,610.96	-
120511310	RPT TAX RECEIVABLES - FY10	610,138.42	-
120511309	RPT TAX RECEIVABLES - FY09	260,905.57	-
120511308	RPT TAX RECEIVABLES - FY08	179,500.63	-
120511396	ASSESSMT-REAL PROP TAX	19,685.56	-
120511395	RPT TAX RECEIVABLES FY95	9,080.60	-
120511394	RPT RECEIVABLES FY94 ASSESSMEN	6,102.95	-
120511393	RPT RECEIVABLES FY93 ASSESSMEN	17,885.32	-
120511392	RPT RECEIVABLES FY92 ASSESSMEN	9,057.41	-
120511391	RPT RECEIVABLES FY91 ASSESSMEN	15,823.78	-
120511390	RPT RECEIVABLES FY90 ASSESSMEN	10,506.38	-
120511389	RPT RECEIVABLES FY89 ASSESSMEN	9,852.41	-
120511388	RPT RECEIVABLES FY88 ASSESSMEN	4,249.14	-
120511387	RPT RECEIVABLES FY87 ASSESSMEN	5,813.35	-
120511386	RPT RECEIVABLES FY86 ASSESSMEN	4,177.18	-
120511385	RPT RECEIVABLES FY85 ASSESSMEN	3,092.70	-
120511384	RPT RECEIVABLES FY84 ASSESSMEN	3,890.37	-
120511383	RPT RECEIVABLES FY83 ASSESSMEN	8,539.49	-
120511382	RPT RECEIVABLES FY82 ASSESSMEN	7,387.35	-
120511381	RPT RECEIVABLES FY81 ASSESSMEN	3,280.60	-
120511380	RPT RECEIVABLES FY80 ASSESSMEN	183.10	-
120511399	RPT TAX RECEIVABLES - FY99	44,204.19	-
120511398	RPT TAX RECIEVABLES - FY98	29,798.03	-
		<u>16,780,482.74</u>	<u>16,780,482.74</u>

To reverse debit and credit balances within A/R - Property Taxes and Deferred Revenue representing FY 2011 billings and receipts and correctly record property tax revenues to correct GASB 33 RPT receivable based on property taxes collected during October 2011 through December 2011.

APPENDIX II, CONTINUED

Government of Guam 2011

#	Name	Debit	Credit
	17 AJE To recognize Census revenue		
163326001	CENSUS 2010 ADVANCE FUNDING	1,058,818.28	-
363355101	CENSUS FUNDING	-	1,058,818.28
		<u>1,058,818.28</u>	<u>1,058,818.28</u>
	To recognize revenue under the Census 2010 federal grant based on close out agreement at completion of the required contract procedures.		
	18 AJE To reverse AAICF receivables		
126211179	A/R PORT	-	12,250,000.00
126211167	A/R GPA	-	12,250,000.00
126211161	A/R GIAA	-	12,250,000.00
126224100	DEFERRED REVENUE	36,750,000.00	-
		<u>36,750,000.00</u>	<u>36,750,000.00</u>
	To reverse P.L 24-14 receivables and related deferred revenue as collectibility of the amounts from GIAA, GPA and PAG is currently considered remote.		
	19 AJE To properly record solid waste AR.		
141612109	ALLOWANCE FOR BAD DEBTS - TFS	-	1,459,251.29
341661003	FEE-HOUSEHOLD COLLECTION	1,459,251.29	-
		<u>1,459,251.29</u>	<u>1,459,251.29</u>
	To properly record solid waste AR based on GASB 33.		
	20 AJE To move accrual from Fund 632 to 618		
161821590	ACCRUED OTHER EXPENSE	-	250,000.00
163221590	ACCRUED OTHER EXPENSE	250,000.00	-
		<u>250,000.00</u>	<u>250,000.00</u>
	To move the accrual for GDOE to Fund 618.		
	21 AJE To recognize receivable from US Marshal		
121412125	A/R - U.S. MARSHALS/B.O.P.	88,200.00	-
321456101	DOC REVOLVING FUND	-	88,200.00
		<u>88,200.00</u>	<u>88,200.00</u>
	To recognize receivable for revenues collected in FY 2012 (J120620017, J120620104 and J120620116) relating to August and September 2011.		
	22 AJE To reduce transfer out to GPSS Fund		
361850100	TRANSFERS IN FROM GENERAL FUND	1,086,448.76	-
120571110TOF	TRANSFERS OUT	-	1,086,448.76
		<u>1,086,448.76</u>	<u>1,086,448.76</u>
	To eliminate fund balance deficit in Fund 205 and excess fund balance over actual cash transfers for GDOE recorded in Fund 618.		
	23 AJE To eliminate certain fund balance deficits		
110071110TOA	EXPENDITURES - TRANSFERS OUT	733,575.00	-
110071110TOA	EXPENDITURES - TRANSFERS OUT	927,228.00	-
110071110TOA	EXPENDITURES - TRANSFERS OUT	753,652.00	-
110071110TOA	EXPENDITURES - TRANSFERS OUT	1,271,560.00	-
329350100	TRANSFER IN	-	1,271,560.00
321450100	TRANSFERS IN FROM GENERAL FUND	-	733,575.00
322250100	TRANSFERS IN FROM GENERAL FUND	-	753,652.00
323250100	TRANSFERS IN FROM GENERAL FUND	-	927,228.00
310050602	CONTRIB TO GF DPW	2,183,467.40	-
160271110TOF	TRANSFERS OUT	-	2,183,467.40
129314100	DUE TO/FR GENERAL FUND	-	1,278,469.00
329350100	TRANSFER IN	1,278,469.00	-
164114100	DUE TO/FR GENERAL FUND	1,278,469.00	-
164171110TOF	TRANSFERS OUT	-	1,278,469.00
110627100	ADVANCED DEPOSIT	402,606.80	-
310657390	ADJUST PRIOR YRS EXPN/REV	-	402,606.80
		<u>8,829,027.20</u>	<u>8,829,027.20</u>
	To eliminate certain fund balance deficits		

APPENDIX II, CONTINUED

Government of Guam 2011

#	Name	Debit	Credit
	24 AJE To record transfer from Court		
164319150	PREPAYMENTS	-	1,500,000.00
255-111PH	REGULAR SALARY	745,539.04	-
255-240PH	SUPPLIES	21,551.95	-
325550100	TRANSFERS IN	-	5,000,000.00
325550100	TRANSFERS IN	5,799,483.98	-
325554101	INTEREST ON BANK DEPOSITS	-	5,566.70
125521120	RETENTION PAYABLE	-	61,008.27
		<u>6,566,574.97</u>	<u>6,566,574.97</u>

To correctly record the initial transfer in from the Court upon the appointment of a trustee.

	25 AJE To accrue for Feb - Sept '11		
255-111PH	REGULAR SALARY	485,863.48	-
255-240PH	SUPPLIES	5,476.46	-
125521590	ACCRUED OTHER EXPENDITURES	-	491,339.94
		<u>491,339.94</u>	<u>491,339.94</u>

To accrue for February to September 2011 FMT expenditures paid after year end.

	26 AJE To properly record long-term debt.		
135315500	AMT TO BE PROV(INFRASTRUCTURE)	-	20,821,275.00
135315600	AMT TO BE PROVIDED(WATER BOND)	-	8,208,535.00
135315600	AMT TO BE PROVIDED(WATER BOND)	4,960,000.00	-
135321150	BONDS PAYABLE(INFRASTRUCTURE)	29,029,810.00	-
135321160	BONDS PAYABLE(WATER BOND)	-	4,960,000.00
DTT02	AMT TO BE PROVIDED(HOT)	90,665,000.00	-
DTT03	BONDS PAYABLE(HOT)	-	90,665,000.00
		<u>124,654,810.00</u>	<u>124,654,810.00</u>

To properly record long-term debt for the LOB (Section 30) Series 2001A, TAF LOB Infrastructure Series 1997A, and Hotel Occupancy Tax Refund Bond, 2011 Series A.

APPENDIX II, CONTINUED

Government of Guam 2011

#	Name	Debit	Credit
	27 AJE To correct fixed asset balances.		
139018110	BLDG/STRUCTURES-GEN FUND	7,899,221.00	-
139018110	BLDG/STRUCTURES-GEN FUND	-	900,000.00
139018110	BLDG/STRUCTURES-GEN FUND	65,735,000.00	-
139018120	EQUIPMENT/FUR/OTHERS-GEN FUND	1,869,175.00	-
139018220	EQUIPMENT - FEDERAL FUND	-	727,358.00
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	900,000.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	2,281,491.48
139018400	INFRASTRUCTURE	-	53,419,670.00
139018400	INFRASTRUCTURE	882,175.00	-
139018400	INFRASTRUCTURE	42,792,329.00	-
139042100	INVESTMENT IN FIXED ASSETS-GF	54,147,028.00	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	65,955,112.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	6,688,878.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	5,021,262.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	1,210,343.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	269,398.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	731,018.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	3,174,893.00
139042100	INVESTMENT IN FIXED ASSETS-GF	1,430,000.00	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	65,735,000.00
139042100	INVESTMENT IN FIXED ASSETS-GF	-	1,869,175.00
139042100	INVESTMENT IN FIXED ASSETS-GF	2,281,491.48	-
139042200	INVESTMENT IN FIXED ASSETS-FED	-	882,175.00
139042200	INVESTMENT IN FIXED ASSETS-FED	-	2,129,098.00
139042200	INVESTMENT IN FIXED ASSETS-FED	-	1,991,554.00
139042200	INVESTMENT IN FIXED ASSETS-FED	-	248,486.00
139042200	INVESTMENT IN FIXED ASSETS-FED	-	42,792,329.00
DTT01	Construction in Progress	5,021,262.00	-
DTT01	Construction in Progress	882,175.00	-
DTT01	Construction in Progress	6,688,878.00	-
DTT01	Construction in Progress	65,955,112.00	-
DTT01	Construction in Progress	-	65,955,112.00
DTT01	Construction in Progress	-	6,688,878.00
DTT01	Construction in Progress	-	882,175.00
DTT01	Construction in Progress	731,018.00	-
DTT01	Construction in Progress	517,884.00	-
DTT01	Construction in Progress	1,991,554.00	-
DTT01	Construction in Progress	2,129,098.00	-
DTT01	Construction in Progress	-	1,430,000.00
DTT04	Layon Landill	65,741,886.00	-
DTT05	Layon Landill - Software Equipment	213,226.00	-
DTT06	Layon Landill - Trucks & Equipment	3,174,893.00	-
		<u>330,983,405.48</u>	<u>330,983,405.48</u>

To correct fixed asset balances.



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

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Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

June 29, 2012

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, 2011, 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.

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 accounting principles generally accepted in the United States of America.
- 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 accounting principles generally accepted in the United States of America. 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.
 - l. 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. 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.
7. 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.
8. 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.

9. 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.
10. Significant assumptions used by us in making accounting estimates are reasonable.
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. We have also properly identified subrecipient expenditures. 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.
14. 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.
15. 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 June 2011.
 - 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.
16. 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.
17. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
18. 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.
19. 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*.

20. 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 the Government's ability to continue as a going concern.

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 basic financial statements.

21. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
22. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
23. 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.
24. 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.
25. 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.

26. 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.
27. 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.
28. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
29. No department or agency of the Government has reported a material instance of noncompliance to us.
30. 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.
31. Except as disclosed in note 14 to the financial statements, no events have occurred after September 30, 2011, 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.
32. 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.
33. 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.
34. In December 2009, GASB issued 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 measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
35. 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.
36. 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.
37. 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.
38. 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.

39. In July 2011, GASB issued 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 provisions of this statement are effective for periods beginning after June 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. 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 2001 Series A Limited Obligation Highway Refunding Bonds, the 2001 and 2009 Series A Limited Obligation (Section 30) Bonds, and the 2011 Hotel Occupancy Tax Revenue Bonds indentures, and the 2002, 2006 and 2008 loan agreement covenants as of September 30, 2011.
41. 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.
42. Tax-exempt bonds issued have retained their tax-exempt status.
43. 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.
44. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
45. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
46. We have disclosed to you all additions or changes to the existing pension and other postretirement benefit plans.
47. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
48. 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.
49. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

50. 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 inherently 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,


BENITA A. MANGLONA
DOA Director


KATHRINE B. KAKIGI
DOA Financial Manager