

February 8, 2011

Honorable Eddie Baza Calvo  
Governor of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A (the Funds), as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated February 8, 2011.

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

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated October 7, 2010. 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 the Funds’ basic financial statements and the accompanying supplementary information for the year ended September 30, 2010 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; and
- To report on the Funds’ internal control over financial reporting and on their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2010 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the 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 the Funds' 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 the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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.

#### **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. No significant accounting estimates are reflected in the Funds' 2010 financial statements.

#### **AUDIT ADJUSTMENTS**

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on the Funds' financial reporting process. Such adjustments, listed in Appendix A, have been recorded in the accounting records and are reflected in the 2010 financial statements.

#### **UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix B, 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**

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application.

#### **CRITICAL ACCOUNTING POLICIES AND PRACTICES**

Critical accounting policies are those that are both most important to the portrayal of the Funds' financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2010.

#### **ALTERNATIVE ACCOUNTING TREATMENTS**

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2010.

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Funds' 2010 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 2010.

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

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

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

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

#### **MANAGEMENT'S REPRESENTATIONS**

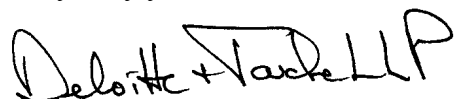
We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing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

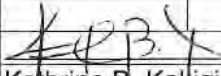
#### **CONTROL-RELATED MATTERS**

We have issued a separate report to you, also dated February 8, 2011, containing information regarding our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of law, regulations, contracts and grant agreements.

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

Very truly yours,

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

<b>Journal Entries - AJE</b>			
#	Name	Debit	Credit
<b>1 AJE To correct GASB 33 accrual - 8100 (Posted)</b>			
120611110	ACCOUNTS RECEIVABLE-HOTEL TAX	-	175,207.59
320650750	GASB 33	175,207.59	-
		175,207.59	175,207.59
	To correct GASB 33 accrual for October 2010 that do not relate to GRT receipts associated with hotel occupancy tax.		
<b>2 AJE To correct encumbrances - 7111 (Posted)</b>			
120631110	RESERVE FOR ENCUMBRANCES	18,134.67	-
120661110	ENCUMBRANCES	-	18,134.67
		18,134.67	18,134.67
	To reverse encumbrances that exceed the threshold established by PL 27-78.		
<b>3 AJE To reverse cash accrual - 5113-5114 (Posted)</b>			
5206-9206-290	TRANSFERS TO DEBT SERVICE FUND	-	809,496.04
135410312	BOND FD PRINCIPAL BNY	-	548,333.34
135410313	BOND FD INTEREST BNY	-	261,162.70
335450206	TRANSFER FROM TAF	809,496.04	-
120621560	ACCRUED OTHER EXPENSES	809,496.04	-
		1,618,992.08	1,618,992.08
	To reverse accrual recorded in Fund 206 for cash transfers that occurred in October 2010.		
I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of as of September 30, 2010. The adjustments are the result of errors and are not the result of fraud or illegal acts.			
 Kathrine B. Kakigi Deputy Financial Manager			

Summary of Uncorrected Misstatements								
Description of Misstatement	Assets		Liabilities		Equity		Income	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Current Year Misstatements								
PAJE # 1 Expenditure recorded in the wrong fiscal period					33,106			33,106
PAJE # 2 Revenues recorded in the wrong fiscal period						154,694	154,694	
PAJE # 3 Revenues recorded in the wrong fiscal period						32,944	32,944	
					33,106	187,638	187,638	33,106



**Edward J.B. Calvo**  
Governor  
**Raymond S. Tenorio**  
Lieutenant Governor

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

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

**APPENDIX C**



**Vacant**  
Acting Director  
**George A. Santos**  
Deputy Director

February 8, 2011

Deloitte & Touche  
Certified Public Accountants  
361 South Marine Corps Drive  
Tamuning, GU 96913

Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Government of Guam Tourist Attraction Fund and of those funds related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A (TAF), as of and for the year ended September 30, 2010 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 TAF 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 TAF in conformity with GAAP.
- b. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for 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 properly classify all funds and activities.
  - b. Interfund, internal, and intra-governmental activity and balances have been appropriately classified and reported.
  - c. Deposits and investment securities are properly classified in category of custodial credit risk.
  - d. Applicable laws and regulations are followed in adopting, approving and amending budgets.
2. TAF has made available to you all:
  - a. Public laws passed by the Guam Legislature pertaining to the operations of TAF.
  - b. Financial records and related data for all financial transactions of TAF and for all funds administered by TAF. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by TAF 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.
3. There has been no:
  - a. Action taken by TAF management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to TAF.
  - 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.
4. 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, 2009 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

5. TAF 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 TAF and does not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting TAF 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.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting TAF received in communications from employees, former employees, regulators, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
9. TAF has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law.
10. 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.
11. We are responsible for the fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than \$65,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.


12. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
13. TAF has no plans or intentions that may affect the carrying value or classification of assets, liabilities or fund balances.
14. 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 TAF is contingently liable.



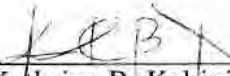
15. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
16. 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.
17. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
18. TAF has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except for the Debt Service Fund and a first lien pledge of revenues.
19. TAF has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance including bond covenants as outlined in the bond indenture.
20. No department or agency of TAF has reported a material instance of noncompliance to us.
21. Except as disclosed in Note 7 to the financial statements, no events have occurred after September 30, 2010 but before February 8, 2011, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
22. Management has disclosed whether, subsequent to September 30, 2010, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
23. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.

24. Receivables recorded in the financial statements represent valid claims against debtors for tax revenues arising on or before September 30, 2010 and have been appropriately reduced to their estimated net realizable value.
25. 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.
26. All off-balance-sheet derivative financial instruments (e.g., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments have been properly disclosed in the financial statements.
27. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
  - a. The extent, nature, and terms of financial instruments with off-balance-sheet risk.
  - b. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
28. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
  - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
  - b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.
  - c. No events have occurred subsequent to September 30, 2010 that require adjustment to the fair value measurements and disclosures included in the financial statements.
29. TAF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Very truly yours,

  
 \_\_\_\_\_  
 George A. Santos  
 Acting Director of Administration

02-09-11  
 Date

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

02-09-11  
 Date

APPENDIX A

Description of Misstatement	Assets		Liabilities		Equity		Income	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<b>Current Year Misstatements</b>								
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	-	-	-	-	33,106	187,638	187,638	33,106