

*The Auditor's Communication With Those Charged
With Governance*

Guam Preservation Trust

Year ended September 30, 2017



**Building a better
working world**



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March 13, 2018

The Board of Directors
Guam Preservation Trust

We have performed an audit of the financial statements of Guam Preservation Trust, a component unit of the Government of Guam, as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated March 13, 2018.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Trust is responsible. We summarize these required communications as follows:

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)

The financial statements are the responsibility of the Trust's management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the Trust's internal control over financial reporting.

Our audit included consideration of 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 Trust's internal control over financial reporting. Accordingly, we will express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Our responsibilities are included in our audit engagement letter.

The Adoption of, or a Change in Significant Accounting Policies

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

Effective October 1, 2016, the Trust implemented:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes accounting and financial reporting standards for pensions that do not meet the requirements set forth in Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, and makes some modifications to GASB Statements No. 67 and 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016. This Statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, and Statement No. 50, *Pension Disclosures*.
- GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclosure information about those agreements.
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit plans and to state or local governmental employers whose employees are provided with such pensions.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized costs for financial reporting purposes.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government.

Auditors' Judgement about the Quality of the Trust's Accounting Principles

We discussed our judgment about the quality, not just the acceptability, of the Trust's accounting principles as applied in its financial reporting, including the consistency of the accounting policy and their application and the clarity and completeness of the financial statements and related disclosures.

Sensitive Accounting Estimates

Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Board is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor the Trust's operations. These budgets include determining how existing financial resources will be used in the Trust's operations.
- Determining the valuation of investments held.
- Evaluating whether there are indications that the carrying value of the Trust's long-lived assets is impaired.
- Determining the reasonableness of economic useful lives assigned to depreciable assets.
- Determining the adequacy of the allowance for doubtful accounts.

Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial

Certain uncorrected misstatements accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) were identified during the audit and pertaining to the latest period presented, which were determined by the Trust's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix B – *Summary of Uncorrected Misstatements*).

Material corrected misstatements, related to accounts and disclosures

As a result of our audit procedures, material misstatements were brought to the attention of management and were corrected during the current period (see Appendix C – *Summary of Corrected Misstatements*). During our audit, several post-closing journal entries were recorded while we were conducting fieldwork.

Other Information in Documents Containing the Audited Financial Statements

We reviewed the Management's Discussion and Analysis and Supplementary Information to the financial statements to ensure consistency with the audited financial statements.

Consultations with Other Accountants

We are not aware of any consultations that management may have had with other accountants regarding any significant auditing and accounting matters during the fiscal year ended September 30, 2017.

Disagreements with Management on Financial Accounting and Reporting Matters

There were no material disagreements with the Trust's management on financial accounting and reporting matters during the audit.

Major Issues Discussed with Management Prior to Retention

There were no major accounting issues discussed with the Trust's management prior to our retention.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues

We are not aware of any significant unusual transactions recorded by the Trust, or of any significant accounting policies used by the Trust related to controversial or emerging areas for which there is lack of authoritative guidance.

Serious Difficulties Encountered in Dealing with Management in Performing the Audit

There were no serious difficulties encountered in dealing with management in performing the audit.

Fraud and illegal acts

We are not aware of any matters that require communication. Furthermore, the Trust's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2016 to March 13, 2018 (See Appendix A – *Management Representation Letter*).

Control Related Matters

We have communicated to management, in a separate letter also dated March 13, 2018, certain deficiencies and other matters that we identified during the audit.

Independence

We are not aware of any relationships between Ernst & Young and our related entities, and the Trust, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Trust within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

This report is intended solely for the information and use of the Trust's board of directors, management 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. However, this report is also a matter of public record.

Very truly yours,

A handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

Appendix A – Management Representation Letter



GUAM PRESERVATION TRUST

INANGOKKON INADAHI GUA'HAN

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Tel: (671) 472-9439/40 • Fax: (671) 477-2047

March 13, 2017

Ernst & Young LLP
Ernst & Young Building
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Tamuning, Guam 96931

In connection with your audit of the basic financial statements of the Guam Preservation Trust (the Trust) as of September 30, 2017 and for year then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position of the Trust, and the respective changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles.

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.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's Responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated December 2, 2016, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding years.

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Trust from whom you determined it necessary to obtain evidence

Ernst & Young LLP assisted in drafting the format of the financial statement footnotes and the formatting of the various fund financial statements that appear in the Trust's financial statements in accordance with standards of the Governmental Accounting Standards Board. Management accepts responsibility for the fund financial statements that appear in the Trust's financial

Appendix A – Management Representation Letter, continued

statements as our own and have prepared the source documents for all transactions and have maintained accounting control.

We have made available to your representatives all financial records and related data.

The financial statements properly classify all funds and activities.

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. Required supplementary information (MD&A) and other schedules are measured and presented within prescribed guidelines.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Governmental entities

We recognize that we are responsible for the Trust's compliance with the laws, regulations, and contracts that are applicable to it. We have identified and disclosed to your representatives, all laws and regulations that have direct and material effect on the determination of financial statement amounts.

Uncorrected Misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Internal Control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2017.

Minutes and Contracts

The dates of meeting of directors and committees of directors from October 1, 2016 to date of this letter are as follows:

- October 13, 2016
- February 13, 2017
- August 18, 2017
- January 31, 2018
- December 12, 2016
- April 10, 2017
- September 29, 2017
- March 9, 2018
- January 9, 2017
- July 10, 2017
- December 6, 2017

We have made available to you all minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

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Appendix A – Management Representation Letter, continued

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Significant assumptions

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.

Ownership and Pledging of Assets

There are no properties capitalized under capital leases. The Trust has satisfactory title to all assets appearing in the statements of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which the Trust has satisfactory title appear in the statement of net position.

Receivables

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the statement of net position date, goods shipped on consignment, or other types of arrangements not constituting sales. Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the statement of net position date in respect of any sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date.

We have disclosed to you all sales terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

Prepayments

We believe that all material expenditures for which recognition has been deferred to future periods are recoverable.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers,

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Appendix A – Management Representation Letter, continued

pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Contingent Liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with GASB 62.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by generally accepted accounting principles other than those accrued or disclosed in the financial statements, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB 62.

Oral or written guarantees

There are no oral or written, including guarantees of the debt of others.

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Appendix A – Management Representation Letter, continued

Pension Benefits

We have disclosed to you all significant pension benefits promised and have made available to you all significant summary plan descriptions, benefit communications, and all other relevant information, including plan changes that constitute the plan.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the management's discussion and analysis on pages 4 through 12, which have been measured and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We believe that the significant assumptions and interpretations used are reasonable.

Supplementary information

We are responsible for the preparation and fair presentation of the Governmental Funds Balance Sheet/Statement of Net Position; Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities; and the Schedule of Grant Projects Reserved for Encumbrances (the "supplementary information").

We believe the supplementary information, including the form and content, is fairly stated in all material respects in relation to the basis financial statements as a whole.

There have been no changes in the methods or measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Effects of new accounting principles

As discussed in Note 1 to the financial statements, we have not completed the process of evaluating the effects that will result from adopting the amendments to the following codification provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 75
- GASB Statement No. 81
- GASB Statement No. 82
- GASB Statement No. 83
- GASB Statement No. 84
- GASB Statement No. 85
- GASB Statement No. 86
- GASB Statement No. 87

The Trust is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the changes in its financial position when such statements are adopted.

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Appendix A – Management Representation Letter, continued

Fraud

We acknowledge our responsibility for the design and implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Trust's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Trust.

Independence

We are not aware of any capital lease, material cooperative arrangement, or other business relationship between the Trust and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Trust's audits.

Conflicts of Interest

There are no instances where any officer or employee of the Trust has an interest in a company with which the Trust does business that would be considered a "conflict of interest." Such an interest would be contrary to Trust policy.

Other Representations

- We have identified and disclosed to you, all laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- We have identified and disclosed to you violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have followed applicable laws and regulations in adopting, approving and amending budgets, deposits and investments, including collateral requirements on depository accounts and investments.

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Appendix A – Management Representation Letter, continued

- The financial statements properly classify all funds and activities in accordance with GASB Statement No. 54 – as amended.
- Components of net position (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Special and extraordinary items are appropriately classified and reported.
- Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.
- Investments are properly valued.
- Capital assets are properly capitalized, reported and, if applicable, depreciated.
- The Trust's ability to continue as a going concern was evaluated.
- The supplementary information (management's discussion and analysis and other financial information) have been prepared in conformity with accounting principles generally accepted in the United States as required by the Governmental Accounting Standards Board, and are consistent with the accounting principles used to prepare basis financial statements. There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Subsequent Events

Subsequent to September 30, 2017, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to the Trust's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position, and cash flows of the Trust.

We recognize that we are responsible for the Trust's compliance with the laws, regulations, grant agreement, and contracts that are applicable to it. We have identified and disclosed to your representatives all laws and regulations that have a direct and material effect on the determination of the financial statement amounts.

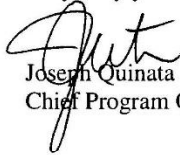
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Appendix A – Management Representation Letter, continued

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States as promulgated by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and was, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of the Trust and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Joseph Quinata
Chief Program Officer

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Appendix C – Summary of Corrected Misstatements, continued

Communication schedule for corrected misstatements

Entity: Guam Preservation Trust Period ended: 30-Sep-2017 Currency: USD

Corrected misstatements	Analysis of misstatements									
	W/P ref.	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	Non taxable
No.			Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
AJE 07	N0100	To reverse a portion of the deferred revenue that was earned as of year-end.								
		2400 - Deferred revenue			2,771					
		4200 - Pacific Preservation Project Grant							(2,771)	
Total of corrected misstatements before income tax			(8,981)	0	(2,970)	0	406,610	0	(394,659)	
Financial statement amounts			12,723,933	0	(65,938)	0	(12,637,995)		979,706	
Effect of corrected misstatements on F/S amounts			-0.1%	0.0%	3.5%	0.0%	-3.2%		-40.3%	



EY Form 430GL

19 October 2016