

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

**Department of Chamorro Affairs**  
**Non-Appropriated Funds**  
(A Component Unit of the Government of Guam)

*Year ended September 30, 2018*



**Building a better  
working world**



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January 24, 2020

The Board of Trustees  
Department of Chamorro Affairs – Non-Appropriated Funds

We have performed an audit of the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), a component unit of the Government of Guam, as of and for the year ended September 30, 2018, 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 January 24, 2020.

## **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 DCANAF 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 DCANAF's management. 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 DCANAF's internal control over financial reporting.

### **Auditors' Responsibilities under US GAAS and GAGAS, continued**

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 DCANAF's internal control over financial reporting. Accordingly, we 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.

As part of our audit, we considered the DCANAF's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

As described in our engagement letter dated February 18, 2017, the objective of a financial statement audit performed in accordance with US GAAS and GAGAS is as follows:

1. To express an opinion on whether the basic financial statements of the DCANAF are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. To conduct an audit (when applicable) in accordance with the Single Audit Act Amendments of 1996 and the provisions of Title 2 U.S Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express an opinion on compliance for each major program and to render the required reports.
2. To provide a report on internal control over financial reporting related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, noncompliance with which could have a material effect on the financial statements, as required by *Government Auditing Standards*. We did not perform sufficient procedures to render an opinion on internal control over financial reporting nor on compliance with provisions of laws, regulations, contracts or grant agreements and other matters, and therefore, we did not express such an opinion.
3. To report (when applicable) on the fairness of the schedule of expenditures of federal awards when considered in relation to the financial statements as a whole. We also will report on internal control related to major programs and provide an opinion on compliance with laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance.

### **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, 2017, the DCANAF implemented the following:

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017. This Statement replaces the requirement of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.
- In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- In March 2016, GASB issued Statement No. 82, *Pension Issues*. This Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

### **Auditor’s Judgments about the Quality of the DCANAF’s Accounting Principles**

We discussed our judgments about the quality, not just the acceptability, of the DCANAF’s accounting principles as applied in its financial reporting, including the consistency of the accounting policies 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 DCANAF’s operations. These budgets include determining how existing financial resources will be used in the DCANAF’s operations.
- Determining the adequacy of the recorded valuation of receivables and inventory, including the need for any reserve.

### **Material Corrected Misstatements**

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 A – *Summary of Corrected Misstatements*). During our audit, several post-closing journal entries were recorded while we were conducting our fieldwork.

### **Uncorrected Misstatements 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 DCANAF’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*).

### **Other Information in Documents Containing the Audited Financial Statements**

We reviewed the Management’s Discussion and Analysis and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

### **Consultation 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, 2018.

### **Disagreements with Management on Financial Accounting and Reporting Matters**

There were no material disagreements with the DCANAF'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 DCANAF'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 DCANAF, or of any significant accounting policies used by the DCANAF 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 DCANAF's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2017 to January 24, 2020 (see Appendix C – *Management's Representation Letter*).

### **Control Related Matters**

We have identified a material weakness and significant deficiencies in our separately issued Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated January 24, 2020.

Management's written responses to our comments 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.

**Independence**

We are not aware of any relationships between Ernst & Young and our related entities, and the DCANAF, 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 DCANAF within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

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This report is intended solely for the use of the DCANAF's board of directors and management, 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,

*Ernst + Young LLP*

## Appendix

A – Summary of Corrected Misstatements

B – Summary of Uncorrected Misstatements

C – Management’s Representation Letter



A – Summary of Corrected Misstatements, continued

Communication schedule for corrected misstatements

Entity: Department of Chamorro Affairs – Non-Appropriated Funds

Period ended: 30-Sep-2018

Currency: USD

No.	W/P ref.	Account	Assets		Liabilities		Equity		Income statement effect			
			Current	Non-current	Current	Non-current	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable
<b>Corrected misstatements</b>												
<b>(misstatements are recorded as journal entries with a description)</b>												
AJE 08	F0101 DCA3	To reconcile the inventory balance per audit to the inventory balance per books Cost of goods sold	1,147								(1,147)	
AJE 09	F0102 DCA3	To provide a 100% valuation allowance for all books with less than 10% movement in its inventory subsequent to year end Provision for inventory obsolescence										2,079
AJE 10	UA0100 DCA3	To reverse the provision for cost of inventory sold that was previously provided a 100% valuation allowance. Cost of goods sold Provision for inventory obsolescence										501 (501)
AJE 11	UA0100 DCA7	To recognize the reversal of the allowance to amounts receivable from the Guam Museum Operator in FY18 Accounts receivable: allowance for doubtful account Revenues: Other		69,386								(69,386)
AJE 12	UA0100 DCA7	To recognize the amounts received related to FY17 of the Guam Museum in FY18 on a modified accrual basis Revenues: Other Accounts receivable		(94,830)								94,830
AJE 13	UA0100 DCA7	To record the gross revenues related to admissions, events and net revenues from Café and Gift Shop operations for FY18 Accounts receivable Revenues: Other		60,657								(60,657)
AJE 14	UA0100 DCA7	To provide an allowance for receivables in dispute for FY18 Revenue: Other Accounts receivable: allowance for doubtful account		(46,690)								46,690



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A – Summary of Corrected Misstatements, continued

**Communication schedule for corrected misstatements**

Entity: Department of Chamorro Affairs - Non-Appropriated Funds      Period ended: 30-Sep-2018      Currency: USD

No.	W/P ref.	Account	Analysis of misstatements						Income statement effect of the current period
			Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	
			Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	
<b>Corrected misstatements</b>									
<b>(misstatements are recorded as journal entries with a description)</b>									
AJE 15	VD0100 DCA1	To recognize amounts received from GEDA related to the Guam Museum and paid to Galaide for construction as pass-through rather than as donation and expense Accounts receivable: Other receivables Donation Contractual expense	147,709					59,965 (207,694)	
AJE 16	E0120 DCA2	To reclassify accounts receivable credit balances to accounts payable Accounts receivable Accounts payable	4,306		(4,306)				
AJE 17	E0130 DCA2	To provide allowance for doubtful accounts for >90 days and those evicted subsequent to year end Revenues Trade receivable: Allowance for doubtful accounts	(28,938)					28,938	
AJE 18	N0110 DCA2	To accrue for contractual, repairs and maintenance, and utility services received by Chamorro Village for months within Fiscal Year 2018 Contractual: Maintenance Contractual: Security Utilities Supplies and equipment: repairs Accounts payable			(11,999)			3,971 3,951 3,579 897	
AJE 19	UA0100 DCA2	To reclassify janitorial expense erroneously booked under liberation carnival income account Contractual: Janitorial expense Other income: Liberation						900 (900)	
<b>Total of corrected misstatements before income tax</b>			639,580	(45,000)	(18,104)	0	(181,082)	0	
<b>Financial statement amounts</b>			1,168,578	0	(216,224)	0	(952,354)	(190,989)	
<b>Effect of corrected misstatements on F/S amounts</b>			54.7%	0.0%	8.4%	0.0%	19.0%	207.0%	

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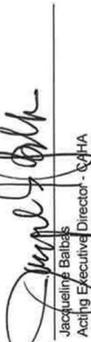
The Board of Trustees  
Department of Chamorro Affairs – Non-Appropriated Funds

A – Summary of Corrected Misstatements, continued

Management's representation:  
I have reviewed, agreed and approved the foregoing proposed adjusting entries listed above  
and have reflected those in the financial statements.

  
Ann Marie Arceo  
President

  
Sherrie Balcinias (CAHA)  
Administrative Officer

  
Jacqueline Balboa  
Acting Executive Director - CAHA

  
Jennifer Paulino  
Program Coordinator I



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B – Summary of Uncorrected Misstatements

Communication schedule for uncorrected misstatements												
Entity:		Department of Chamorro Affairs – Non-Appropriated Funds		Period Ended:		30-Sep-2018		Currency:		USD		
No.	W/P ref.	Account (Note 1)	Analysis of misstatements				Effect on the current period OCI		Income statement effect of the prior period			
			Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non-Debit/(Credit)	Non-Debit/(Credit)
(misstatements are recorded as journal entries with a description )			(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)					
<b>Uncorrected misstatements:</b>												
FY17	SAD	N0120	To reconcile the general ledger balance with the AP Summary (Chamorro Village).									
		DCA2									888	
FY17	SAD	C0110	To reconcile the general ledger balance with the Bank Recon Summary (Chamorro Village).									
		DCA2									505	
FY17	SAD	C0100	To zero out the GL balance of CAHA's account 101 for which no transaction has been recorded since 2009 and the account remain is unused.									
		DCA4									(830)	
FY17	SAD	E0110	To record amounts not collected as of July 2018 from outstanding receivables as of September 2017 as a correction on recorded revenues.									
		DCA4									1,756	
FY17	SAD	N0110	To reflect: Network purchases made on September 2017 but only recorded as expense when paid as expense for FY2017									
		DCA4									1,984	
FY18	SAD	C0110	To reconcile the general ledger balance with the Bank Recon Summary (Chamorro Village).									
		DCA2									395	

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B – Summary of Uncorrected Misstatements, continued

Communication schedule for uncorrected misstatements		Entity: Department of Chamorro Affairs - Non-Appropriated Funds	Period Ended: 30-Sep-2018	Currency: USD			
No.	WIP ref.	Account (Note 1) (misstatements are recorded as journal entries with a description)	Analysis of misstatements Debit/(Credit)			Income statement effect of the prior period	
			Assets Current Debit/(Credit) (Note 2)	Liabilities Current Debit/(Credit) (Note 2)	Equity components Debit/(Credit) (Note 2)	Prior period Debit/(Credit)	Non taxable
<b>Uncorrected misstatements</b>							
FY18 SAD 02	CO100 DCA4	To zero out the GL balance of CAHA's account 101 for which no transaction has been recorded since 2008 and the account remain is unused. Cash 830 Other income					
FY18 SAD 03	CO100 DCA7	To properly reflect the cash balance as of fiscal year end Cash 336 Other income				(830)	
FY18 SAD 04	EO100 DCA4	To reverse the duplicate posting related to a collection made from ASC Accounts receivable 2,000 Cash (2,000)				(336)	
<b>Projected misstatements:</b>							
FY17 SAD 06	EO120 DCA2	To adjust the balance for allowance for doubtful accounts based on accounts with over 90 day balance with certain adjustments Lease revenue Accounts receivable, allowance for doubtful accounts					900
<b>Reclassification misstatements:</b>							
FY18 SAD 05	NO120 DCA2	To reclassify the overpayments to vendors during the year Accounts receivable 1,214 Accounts payable (1,214)					

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B – Summary of Uncorrected Misstatements, continued

Entity: Department of Chamorro Affairs - Non-Appropriated Funds Period Ended: 30-Sep-2018 Currency: USD

**Communication schedule for uncorrected misstatements**

No.	W/P ref.	Account (Note 1)	Analysis of misstatements Debit/(Credit)				Effect on the current period OCI		Income statement effect of the prior period	
			Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Debit/(Credit)	Debit/(Credit)	Prior period Debit/(Credit)	Non taxable
<b>Uncorrected misstatements</b>										
(misstatements are recorded as journal entries with a description )										
FY18	UA0100	To reclass the purchase of maintenance supplies from main pavilion revenues to expense								
SAD	DCA1	Grant expense						3,560		
06		Other income						(3,560)		
FY18	UA0120	To reclass the purchase of maintenance supplies from main pavilion revenues to expense								
SAD	DCA2	Contractual Maintenance expense						685		
07		Lease revenue						(685)		
FY18	VD0100	To reclassify water usage charged to Chamorro Village Food tenants as CV does not have an principal agent relationship with GWA.								
SAD	DCA2	Utilities						25,286		
08		Lease revenue						(25,286)		
<b>Total of uncorrected misstatements before income tax</b>			1,985	0	(1,214)	0	0	0	0	0
<b>Total of uncorrected misstatements</b>			1,985	0	(1,214)	0	0	0	0	0
Financial statement amounts			1,985,578	0	(216,224)	0	(952,354)	(190,891)	(88,294)	0
Effect of uncorrected misstatements on F/S amounts			0.2%	0.0%	0.6%	0.0%	0.0%	0.4%	-5.9%	0
<b>Management's recalculation:</b>			Memo: Total of non-taxable items (marked 'X' above)							
We believe that the effects of any uncorrected misstatements summarized in this 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 as a whole.			Uncorrected misstatements before income tax 0.9%							
			Less: Tax effect of misstatements at current year marginal rate 0%							
			Uncorrected misstatements in income tax 0							
			Cumulative effect of uncorrected misstatements after tax but before turnaround 0.4%							
			Turnaround effect of prior period uncorrected misstatements (771)							
			After tax Memo: Before tax (5,216)							
			Judgmental misstatements (Note 3): 0							
			Cumulative effect of uncorrected misstatements, after turnaround effect 3.1%							
			Current year income before tax (88,294)							
			Current year income after tax (90,889)							

Signature:  President  
 Shwene Batocvas  
 Administrative Officer

Signature:  Acting Executive Director, CAA  
 Josephina Blayas  
 Acting Executive Director, CAA

Signature:  Program Coordinator I  
 Jeffrey Pauaso  
 Program Coordinator I

19 October 2016

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DIPĀTTAMENTON I KAOHAO GUINAHAN CHAMORU  
Department of Chamorro Affairs



Anna Marie B. Arceo  
*Mās Ge'helo*



Lourdes A. Leon Guerrero  
*Maga'haga*  
Joshua F. Tenorio  
*Sigundo Maga'låhi*

January 24, 2020

Ernst & Young LLP  
231 Ypao Road  
Suite 201, Ernst & Young Building  
Tamuning, Guam

In connection with your audits of the financial statements of Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), a component unit of the Government of Guam as of September 30, 2018 and 2017 and for years 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, change in financial position and cash flows of DCANAF in conformity with US 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 February 18, 2017, 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:



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C – Management’s Representation Letter, continued

- 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 DCANAF from whom you determined it necessary to obtain evidence

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

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 have communicated to you all significant deficiencies and 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, 2018.

***Minutes and contracts***

The dates of meetings of shareholders, directors, committees of directors and important management committees are as follows:

**Department of Chamorro Affairs**

November 9, 2017  
December 12, 2017  
January 30, 2018  
March 15, 2018  
April 4, 2018  
May 31, 2018  
July 10, 2018  
September 6, 2018  
October 9, 2018  
November 20, 2018  
December 21, 2018  
January 30, 2019  
September 17, 2019  
November 17, 2019

**Guam Council on the Arts and**

**Humanities**

October 19, 2017  
December 5, 2017  
January 12, 2018  
February 12, 2018  
March 6, 2018  
August 7, 2018  
September 26, 2018  
February 26, 2019  
March 19, 2019  
April 18, 2019  
May 16, 2019  
June 13, 2019  
July 11, 2019  
August 15, 2019  
September 24, 2019  
October 15, 2019  
November 15, 2019

C – Management’s Representation Letter, continued

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

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***

Except for assets capitalized under capital leases, DCANAF has satisfactory title to all assets appearing in the balance sheets. 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 DCANAF has satisfactory title appear in the balance sheets (except assets leased to others under sales-type, direct financing or leveraged leases).

***Receivables and revenues***

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 dates, 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—as amended.

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

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.

***Inventories***

Inventories, including goods that are defective, slow-moving, obsolete or unusable, are stated at amounts not in excess of their estimated net realizable values.

Physical counts and measurements of inventories were made by competent employees under the supervision of management and book records were appropriately adjusted after giving recognition to cut-off for materials received and products shipped.

Adequate provision has been made for losses under firm purchase commitments for goods or inventory. There have been no reductions of the selling prices of finished goods subsequent to September 30, 2017 and none are contemplated

***Related party relationships and transactions***

C – Management’s Representation Letter, continued

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

The substance of transactions with related parties as defined in GASB Statement No. 56—as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts have been made available to you.

***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.

***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 *Statement No. 62*—as amended.

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 GASB *Statement No. 62*—as amended, *Contingencies*, nor are there any accruals for loss contingencies included in the balance sheets or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB *Statement No. 62*—as amended.

We have not consulted legal counsel concerning litigation, claims or assessments.

***Oral or written guarantees***

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

***Purchase commitments***

At September 30, 2018 and 2017, DCANAF had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2018 and 2017 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

***Fraud***

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

C – Management’s Representation Letter, continued

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We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in DCANAF’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 DCANAF.

***Independence***

We are not aware of any capital lease, material cooperative arrangement or other business relationship between DCANAF 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 DCANAF’s audits.

***Conflicts of interest***

There are no instances where any officer or employee of DCANAF has an interest in a company with which DCANAF does business that would be considered a “conflict of interest.” Such an interest would be contrary to DCANAF’s policy.

***Required supplementary information***

We acknowledge our responsibility for the required supplementary information on management’s discussion and analysis, which have been measured and presented in conformity with the guidelines established by the Governmental Accounting Standards Board. 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 are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

***Supplementary information***

We are responsible for the preparation and fair presentation of the following schedules (the “supplementary information”).

- Combining Statement of Net Position
- Combining Statement of Revenues, Expenses and Changes in Net Position

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

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.

C – Management’s Representation Letter, continued

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*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. 83
- GASB Statement No. 84
- GASB Statement No. 87
- GASB Statement No. 88
- GASB Statement No. 89
- GASB Statement No. 90
- GASB Statement No. 91

DCANAF 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.

*Other*

We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

Provisions for uncollectible receivables have been properly identified and recorded. We believe that the amount recorded as receivable related to the operations of Guam Museum is supported by the facts outlined in written agreements with Galaide Group, LLC. We believe that the allowance provided to the difference between the recorded receivable and the amount received from Galaide Group, LLC is reasonable based on the current uncertainty of collection and ongoing dispute with Galaide Group, LLC.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

*Subsequent events*

Subsequent to September 30, 2018, 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 DCANAF’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 or cash flows of the DCANAF.

C – Management’s Representation Letter, continued

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We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as established 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 were, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of DCANAF as a whole, 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,



Ms. Ann Marie Arceo, President



Ms. Sherrie Barcinas, Administrative Officer (CAHA)



Ms. Jacqueline Balbas, Acting Executive Director (CAHA)



Ms. Jennifer Paulino, Program Coordinator I (Chamorro Village)