

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

Government of Guam
Guam Highway Fund
(A Component Unit of the Government of Guam)

Year ended September 30, 2019



**Building a better
working world**



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June 23, 2020

Honorable Lou Leon Guerrero
Governor of Guam:

We have performed an audit of the financial statements of Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), as of and for the year ended September 30, 2019, 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 June 23, 2020.

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

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated November 15, 2019 and at our audit planning meeting with management.

Auditor's responsibility under professional standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern

The financial statements, required supplementary information and supplementary information are the responsibility of 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, as established by the American Institute of Certified Public Accountants, to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

An audit of financial statements includes 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 entity's internal control over financial reporting. Accordingly, we will express no such opinion.

Honorable Lou Leon Guerrero
Governor of Guam

An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements.

Our responsibilities are included in our audit engagement letter.

The adoption of, or a change in significant accounting policies

The Funds' significant accounting policies are set forth in footnote 1 of the financial statements. During the year ended September 30, 2019, there were no significant changes in the previously adopted accounting policies or their application.

We have evaluated the significant qualitative aspects of the Funds' accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

Sensitive accounting estimates

A discussion of sensitive accounting estimates has been included in footnote 1 of the financial statements.

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

Our views about the qualitative aspects of the entity's significant accounting practices

We are not aware of any significant accounting policies used by the Funds in controversial or emerging areas or for which there is a lack of authoritative guidance.

Our views about the qualitative aspects of the entity's significant accounting practices, continued

We are not aware of any significant unusual transactions recorded by the Funds.

A discussion of significant accounting policies has been included in footnote 1 of the financial statements.

Honorable Lou Leon Guerrero
Governor of Guam

Material corrected misstatements, related to accounts and disclosures

There are no material corrected misstatements, related to accounts and disclosures, arising from the audit.

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

Refer to “Summary of Uncorrected Misstatements” in Appendix A.

Deficiencies in internal control

We have identified an other matter in the internal controls during the course of our audit which has been included in our separately issued management letter dated June 23, 2020.

Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements

Our auditor’s report on the financial statements relates only to the financial statements and the accompanying notes.

We have reviewed the Management Discussion and Analysis and found the information presented to be consistent with the information in the audited financial statements.

Fraud and illegal acts

We are not aware of any matters that require communication.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

Representations from management

We have obtained from management a representations letter related to the audit and a copy of the management representations letter is included in Appendix B.

Changes to the terms of the audit with no reasonable justification for the change

We are not aware of any matters that require communication.

Significant findings and issues arising during the audit relating to related parties

We are not aware of any matters that require communication.

Honorable Lou Leon Guerrero
Governor of Guam

Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management

We are not aware of any matters that require communication.

Significant difficulties encountered during the audit

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

Disagreements with management

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

Management's consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

AICPA ethics ruling regarding third-party service providers

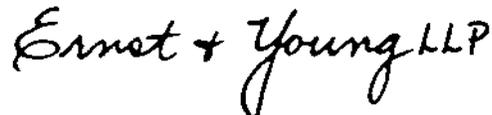
Our responsibilities are included in our audit engagement letter.

Other findings or issues regarding the oversight of the financial reporting process

There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

This report is intended solely for the 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. However, this report is also a matter of public record.

Very truly yours,



Honorable Lou Leon Guerrero
Governor of Guam

Appendix

A – Summary of Uncorrected Misstatements

B – Management Representations Letter

Appendix A – Summary of Uncorrected Misstatements, continued

Communication schedule for uncorrected misstatements

Entity: Guam Highway Fund Period Ended: 30 Sep 2019 Currency: USD

Uncorrected misstatements No.	WIP ref.	Account (Note 1)	Analysis of misstatements Debit/(Credit)				Income statement effect of the current period		Income statement effect of the prior period	
			Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Effect on the current period OCI	Prior period Debit/(Credit)	Non taxable	
(misstatements are recorded as journal entries with a description)			Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Non taxable	
			Current year income before tax							
			Current year income after tax							
							(4,731,045)			
							(4,731,045)			

I believe that the effect of the above uncorrected misstatement, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.


Edward M. Birn, Director


Gaudencio A. Rosario, Deputy Financial Manager



EY Form 430GL

1 August 2018

Appendix B – Management Representations Letter



June 23, 2020

Ernst & Young LLP
231 Ypao Road
Suite 201
Tamuning, Guam 96913

In connection with your audit of the basic financial statements of the Guam Highway Fund and of those funds related to the Government of Guam (the Government) Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), which comprise the balance sheet as of September 30, 2019, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, 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 and the results of operations of the Funds in conformity with US generally accepted accounting principles (US GAAP).

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 November 15, 2019 for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US GAAP applied on a basis consistent with that of the preceding periods. 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

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- Unrestricted access to persons within the Government 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 for each opinion unit.

Internal control

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

There have been no significant changes in internal control since September 30, 2019.

Minutes and contracts

There are no meetings of the Board of Directors and important management committees held from October 1, 2019 to June 23, 2020.

We 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.

We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to the COVID-19 pandemic.

Ownership and pledging of assets

There are no assets capitalized under capital leases. The Government has satisfactory title to all assets appearing in the balance sheet. 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, except as disclosed in the financial statements. All assets to which the Government has satisfactory title appear in the balance sheet.

Appendix B – Management Representations Letter, continued

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Receivables and revenues

Receivables recorded in the financial statements of the Funds represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to the statement of net position date, or other types of arrangements not constituting revenue. Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62—as amended.

We have disclosed to you all revenue terms (both expressed and implied). We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers.

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, 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-as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72-as amended.

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.

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.

To the extent applicable, related parties and all related party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral) have been appropriately identified, accounted for and disclosed in the financial statements.

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.

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Events of default under debt agreements

No events of default have occurred with respect to any of the Government's debt agreements.

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 GASB Statement No. 62-as amended, 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 Statement No. 62-as amended.

Oral or written guarantees

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

Purchase commitments

At September 30, 2019, the Government 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, 2019 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.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Government'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.

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The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and does not believe that the financial statements are materially misstatement as a result of fraud.

We have disclosed that there are no 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 Government.

Independence

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

Conflicts of interest

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

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the Management’s Discussion and Analysis on pages 4 through 9. 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 and Other Information

We are responsible for the preparation and fair presentation of the following schedules (the “Supplementary and Other Information”):

- Comparative Balance Sheets
- Comparative Statements of Revenues, Expenditures by Function and Changes in Fund Balances
- Comparative Statements of Revenues, Expenditures by Object and Changes in Fund Balances
- Schedule of Expenditures by Department by Object
- Schedule of Construction Project Status
- Other Supplementary Information

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We believe the supplementary and other 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 and other information from those used in the prior period.

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

Going concern

The Government's ability to continue as a going concern was evaluated and appropriate disclosures are made in the financial statements as necessary under GASB requirements.

Other representations

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.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.

The financial statements present only the Funds. They are not intended to present the financial position and results of operations of the Government in conformity with US GAAP.

Components of balance sheet (and classifications of fund balance (nonspendable fund balance, and restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

Expenditures have been appropriately classified in or allocated to functions and programs in the Statement of Revenues, Expenditures and Changes in Fund Balances, and allocations have been made on a reasonable basis.

Revenues are appropriately classified in the Statement of Revenues, Expenditures and Changes in Fund Balances.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported in the financial statements.

Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

Deposits are properly classified in the category of custodial credit risk.

Appendix B – Management Representations Letter, continued

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Investments are properly valued.

Our policy regarding whether to first apply restricted or unrestricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available is appropriately disclosed and fund balance was properly recognized under the policy.

Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

The Government has obligated, expended, received and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by the 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.

There have been no instances of payment of retainage prior to acceptance of the project at the end of the contract other than what were noted during your audit.

Money or similar assets handled by the Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate and in accordance with law.

There has been no:

- a. Action taken by the Government management that contravenes the provisions of federal laws, Guam laws, and laws and regulations, or of contracts and grants applicable to the Government.
- b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, which have been provided to you.

No evidence of fraud, possible irregularities or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Subsequent events

Subsequent to September 30, 2019, no events or transactions, including events related to the COVID-19 pandemic, 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 Government and the Government's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the Funds' financial position and the results of their operations.

Honorable Lou Leon Guerrero
Governor of Guam

Appendix B – Management Representations Letter, continued

Ernst & Young LLP
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We understand that your audit was 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 audit 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 financial statements of the Funds 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,



EDWARD M. BIRN
Director



GAUDENCIO A. ROSARIO
Deputy Financial Manager