

March 31, 2010

Dr. Nerissa Bretania Underwood, Ph. D
Superintendent of Education
Guam Department of Education

We have performed an audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated March 31, 2010.

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

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 10, 2009. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in GDOE’s basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on GDOE’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on GDOE 's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (OMB Circular A-133)*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of the Superintendent are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Superintendent of their responsibilities.

We considered GDOE's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GDOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered GDOE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of GDOE's compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GDOE's 2009 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GDOE's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2009 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

GDOE's significant accounting policies are set forth in Note 1 to GDOE's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GDOE:

During fiscal year 2009, GDOE implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as GDOE's 2009 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in GDOE's 2009 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GDOE's 2009 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2009.

MANAGEMENT'S REPRESENTATIONS

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated March 31, 2010, containing certain matters involving GDOE's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated March 31, 2010, containing certain matters involving GDOE's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied on 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.

OTHER MATTERS

Subsequent to the issuance of GDOE's 2008 financial statements, the Government of Guam's Department of Administration issued a determination concerning the redesignation of the Defined Benefit (DB) Plan as a cost-sharing multiple-employer plan. Prior to this determination, the DB Plan was designated as a single-employer plan, requiring GDOE to measure and disclose an amount for annual pension cost. Annual pension cost amounted to GDOE's annual required contributions (ARC) to the plan with the difference between the ARC and actual required contributions recognized as a net pension obligation.

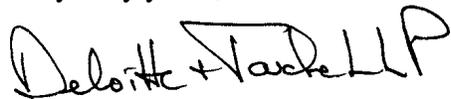
The redesignation of the DB Plan as a cost-sharing multiple-employer plan resulted in the reversal of the previously reported unfunded pension liability, totaling \$88,196,549.

* * * * *

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

We wish to thank the staff and management of GDOE for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

APPENDIX I

GENERAL FUND

<u>Account number</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>	
11.09.30.18.26.0230.0000	PE 1930*021	111,448.89	-	A
11.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	111,448.89	A
11.00.00.00.00.4050.0000	RESERVE FOR ENCUMBRANCE	111,448.89	-	A
11.00.00.00.00.4000.0000	FUND BALANCE	-	111,448.89	A
12.00.00.00.00.4000.0000	FUND BALANCE	-	90,900.44	A
12.00.00.00.00.4050.0000	RESERVE FOR ENCUMBRANCE	90,900.44	-	A
12.09.11.00.10.0250.0050	1911*004 10(TEX) 22 (LIB)	90,900.44	-	A
12.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	90,900.44	A
19.00.00.00.00.4000.0000	FUND BALANCE	-	357,500.00	A
19.00.00.00.00.4050.0000	RESERVE FOR ENCUMBRANCE	357,500.00	-	A
19.09.26.00.31.0230.0006	COMMODITIES FOR CNP	300,000.00	-	A
19.08.40.34.26.0240.0026	GOB CIP	57,500.35	-	A
11.99.99.99.99.0250.9999	Expenditures-Equipment	3,944,000.00	-	B
11	Lease Rental	748,876.00	-	B
19.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	357,500.35	B
11.09.00.00.00.1100.0000	LOCAL APPROPRIATION	-	4,692,876.00	B
11.00.00.00.00.2100.0000	INTERFUND CASH	1,460,831.65	-	C
11.00.00.00.00.1600.0000	INTEREST INCOME	-	4,079.99	C
11	TRANSFERS	-	1,456,751.66	C
		<u>7,273,406.66</u>	<u>7,273,406.66</u>	

FEDERAL GRANTS ASSISTANCE FUND

<u>Account number</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>	
21.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	140,068.21	A
21.00.00.00.00.4000.0000	FUND BALANCE	-	140,068.21	A
21.00.00.00.00.4050.0000	RESERVE FOR ENCUMBRANCE	140,068.21	-	A
21.07.20.00.20.0230.9602	TERRITORIES FREELY	113,025.00	-	A
21.07.20.00.20.0230.9604	P.V.E.I.P.	2,052.00	-	A
21.09.26.00.31.0230.1250	FNS-CHILD NUTR.-CONTRACT.	24,991.21	-	A
22.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	1,045,191.46	A
22.00.00.00.00.4000.0000	FUND BALANCE	-	1,045,191.46	A
22.00.00.00.00.4050.0000	RESERVE FOR ENCUMBRANCE	1,045,191.46	-	A
22.07.12.00.28.0230.8219	ED. TECH CONTRACTUAL	69,905.96	-	A
22.08.12.00.10.0230.8225	SUCCESS FOR ALL-CONTRACT.	399,737.62	-	A
22.08.12.00.22.0230.8202	DI - CONTRACTUAL	151,937.50	-	A
22.08.12.00.23.0230.8206		165,888.75	-	A
22.08.12.00.28.0230.8219	ED. TECH CONTRACTUAL	71,389.87	-	A
22.08.12.80.22.0230.8212		122,794.87	-	A
22.08.50.00.27.0230.9517	PART B TRANSPORTATION	26,546.89	-	A
22.08.50.70.20.0230.9402	PART C CSPD MAINT & IMP	36,990.00	-	A
21.00.00.00.00.2100.0000	INTERFUND CASH	-	1,505,368.93	C
21.99.99.99.99.9999.9999	TRANSFERS	1,505,368.93	-	C
22.00.00.00.00.2100.0000	INTERFUND CASH	2,743,086.91	-	C
22.99.99.99.99.9999.9999	TRANSFERS	-	2,743,086.91	C
23.00.00.00.00.2100.0000	INTERFUND CASH	-	2,694,469.64	C
23.99.99.99.99.9999.9999	TRANSFERS	2,694,469.64	-	C
22.00.00.00.00.1600.0000	INTEREST INCOME	4,079.99	-	C
22.00.00.00.00.2100.0000	INTERFUND CASH	-	4,079.99	C
23.00.00.00.00.2100.0000	INTERFUND CASH	-	11,940.48	C
23	REVENUE	11,940.48	-	C

FEDERAL GRANTS ASSISTANCE FUND, Continued

21.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	-	1,596,113.08	D
21.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	122,932.43	-	D
21	REVENUE	1,473,180.65	-	D
22	REVENUE	3,122,178.57	-	D
22.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	-	3,098,805.16	D
22.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	-	23,373.41	D
23.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	-	32,485.85	D
23	REVENUE	32,485.85	-	D
		<u>14,080,242.79</u>	<u>14,080,242.79</u>	

GOVERNMENT WIDE

<u>Account number</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>	
82.00.00.00.00.3402.0000	ACCRUED ANNUAL LEAVE	-	821,227.00	E
82.00.00.00.00.2100.0000	Prepayment of capital lease obligation	-	1,972,771.90	F
82.00.00.00.00.2101.0000	Deferred maintenance costs	-	2,518,262.33	F
82.00.00.00.00.2102.0000	Deferred asset-Borrowing Cost	-	104,875.00	F
82.00.00.00.00.3500.0000	Capital lease-current	-	1,057,750.00	F
82.00.00.00.00.3501.0000	Capital lease-long term	-	12,745,000.00	F
82.00.00.00.00.3502.0000	Interest and deferred maintenance payable	2,773,125.00	-	F
82	Amounts to provided	3,885,198.00	-	F & E
82	Investment in fixed assets	12,561,563.23	-	F
81.00.00.00.00.2510.0000	BUILDINGS	7,508,333.33	-	G
81.00.00.00.00.2515.0000	A/D - BUILDINGS	-	578,947.94	G
81.00.00.00.00.6000.0000	DEPRECIATION - SCHOOLS	578,947.71	-	G
81	Investment in fixed assets	-	7,508,333.10	G
		<u>27,307,167.27</u>	<u>27,307,167.27</u>	

- A) FY 2009 Liabilities
- B) JFK Lease & Equip.
- C) Residual equity transfers
- D) Reconcile Deferred and AR
- E) Reconcile Annual & Sick leave
- F) School leaseback
- G) Reconcile Fixed Assets

APPENDIX II

Guam Department of Education
 Fiscal Year Ended September 30, 2010
 Summary of Uncorrected Misstatements

GENERAL FUND

CURRENT YEAR UNCORRECTED MISSTATEMENTS		Pre-Tax Correcting Entry							Total Should Equal 0
		Balance Sheet				Income Statement			
		Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income from Cont. Ops before Income Taxes	Income Tax Expense	Disc. Ops. and Extraordinar y Items	
Entry Description	Type of Entry	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
1. To accrue for PPE 10/10/09	Known		(571,028)			571,028			0
2. To adjust for aged liabilities	Likely		286,619			(286,619)			0
3. To reflect expenditures in period incurred	Known				210,135	(210,135)			0
4. To recognize prior year POL expense	Known		(292,024)		292,024				0
5. To reverse over accrual of estimated claims	Known		165,000			(165,000)			0
6. Unrecorded liabilities	Extrapolated		(239,693)			239,693			0
7. Unrecorded liabilities	Known		(249,596)			249,596			0
8. To reverse supplemental settlements paid	Known		311,368			(311,368)			0
			(589,354)		502,159	87,195			0

FEDERAL GRANTS ASSISTANCE FUND

CURRENT YEAR UNCORRECTED MISSTATEMENTS		Pre-Tax Correcting Entry							Total Should Equal 0
		Balance Sheet				Income Statement			
		Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income from Cont. Ops before Income Taxes	Income Tax Expense	Disc. Ops. and Extraordinar y Items	
Entry Description	Type of Entry	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
1) Unrecorded liabilities	Extrapolated		(414,778)			414,778			0
	Extrapolated	414,778				(414,778)			0
2) Due to DOA	Likely		81,108			(81,108)			0
3) Unrecorded Liabilities	Known		(431,914)			431,914			0
	Known	431,914				(431,914)			0
4) To reclass DEED payments from Expenditures to Revenues	Known					262,370			262,370
	Known					(262,370)			(262,370)
5) Unrecorded liabilities	Known		(171,278)			171,278			0
	Known	171,278				(171,278)			0
6) Unrecorded liabilities	Extrapolated		(756,835)			756,835			0
	Extrapolated	756,835				(756,835)			0
		1,774,805	(1,693,697)			(81,108)			0



**FINANCIAL AFFAIRS
DEPARTMENT OF EDUCATION**

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Nerissa Bretania Underwood, Ph.D.
Superintendent of Education

Taling M. Taitano
Deputy Superintendent
Finance & Administrative Services

March 31, 2010

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam 96913-3911

Dear Sir/Madam:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, and the aggregate remaining fund information of the Guam Department of Education (GDOE, formerly the Guam Public School System), as of and for the year ended September 30, 2009, which collectively comprise the GDOE's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances of GDOE in conformity with accounting principles generally accepted in the United States of America.^{i,ii} We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, each major fund, and the aggregate remaining fund information, in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and other supplementary information accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statements preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statements disclosure checklist for general-purpose governments obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a

reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
 - a. The financial statements properly disclose all related organizations.
 - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for presentation as major are identified and presented as such.
 - d. Net asset components (invested in capital assets, net of related debt restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 - e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - f. Revenues are appropriately classified in the statement of activities within program revenues or general revenues.
 - g. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 - h. Deposits and investment securities are properly classified in category of custodial credit risk.
 - i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - j. Required supplementary information is measured and presented within prescribed guidelines.
 - k. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - l. Costs to federal awards have been charged in accordance with applicable cost principles.
2. GDOE has made available to you all:
 - a. Summaries of actions of the Guam Education Policy Board.
 - b. Financial records and related data for all financial transactions of GDOE and for all funds administered by GDOE. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GDOE and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.

- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
 - a. Action taken by GDOE management that contravenes the provisions of federal laws and Guam laws and regulations or of contracts and grants applicable to GDOE, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
 4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
 5. GDOE has not performed a formal 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 GDOE and do not believe that the financial statements are materially misstated as a result or fraud.
 6. We have no knowledge of any fraud or suspected fraud affecting GDOE involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
 7. We have no knowledge of any allegations of fraud or suspected fraud affecting GDOE received in communications from employees, former employees, regulators, or others.
 8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No.5, *Accounting for Contingencies*, except as disclosed in Note 3 to the financial statements.
 9. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
 10. We are responsible for compliance with Guam and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to GDOE's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. GDOE is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

11. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
12. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the OMB Circular A-133 Compliance Supplement dated March 2009 and the June 30, 2009 Addendum.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards, , except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Monitored sub recipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
 - f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient 's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
 - g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
 - h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

13. We are responsible for follow-up on all prior-year findings. We have prepared a summary schedule or prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
14. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse that you report.
15. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
16. No organizations were identified that meet the criteria established in GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$534,600 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustments or disclosure in the financial statements.

17. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
18. GDOE has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
19. The following, to the extent applicable, have been appropriately identified, properly recorded and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which GDOE is contingently liable.
20. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 1. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 2. The effect of the change would be material to the financial statements.

21. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
22. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, except as disclosed in Note 3 to the financial statements and as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No.5, *Accounting for Contingencies*, except as disclosed in Note 3 to the financial statements.
23. GDOE has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
24. GDOE has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
25. No division of GDOE has reported a material instance of noncompliance to us, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
26. No events have occurred subsequent to September 30, 2009 that requires consideration as adjustments to or disclosures in the financial statements.
27. GDOE has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1)*, and appropriately disclosed such derivatives in accordance with TB 03-1.
28. Management has disclosed whether, subsequent to September 30, 2009, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
29. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
30. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

31. Receivables recorded in the financial statements represent valid claims against debtors for appropriations or grants arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
32. We believe that all expenditures that have been deferred to future periods are recoverable.
33. We believe that the actuarial assumptions and methods used to measure pension costs for financial accounting purposes are appropriate in the circumstances.
34. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
35. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
36. On May 25, 2005, the Government of Guam, acting through GDOE, entered into a financing lease agreement with a third party for the design, construction and maintenance of four new schools on Guam, with lease payments funded by a pledge of U.S. Compact Impact Fund revenues. This lease qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of inception date, being the date of the completion of the new schools. As of September 30, 2009, all four schools have been completed with a net book value of \$84,953,121.
37. Subsequent to the issuance of GDOE's 2008 financial statements, GovGuam's Department of Administration issued a determination concerning the redesignation of the GovGuam's Defined Benefit Pension Plan (DB Plan) as a cost-sharing multiple-employer plan. Prior to this determination, the DB Plan was designated as a single-employer plan, requiring GDOE to measure and disclose an amount for annual pension cost. Annual pension cost amounted to GDOE's annual required contributions (ARC) to the plan with the difference between the ARC and actual required contributions recognized as a net pension obligation. The redesignation of the DB Plan as a cost-sharing multiple-employer plan resulted in the reversal of the previously reported unfunded pension liability of the governmental activities, totaling \$88,196,549.
38. During fiscal year 2009, GDOE implemented the following pronouncements:
 - GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
 - GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
 - GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

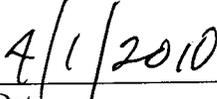
The implementation of these pronouncements did not have a material effect on GDOE's financial statements.

39. In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
40. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
41. In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
42. In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

43. We believe that all expenditures that have been deferred to future periods are recoverable.



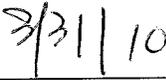
Dr. Nerissa Underwood
Superintendent



Date



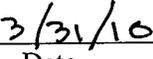
Taling Taitano
Deputy Superintendent of Finance and Administrative Services



Date



Ricardo Ang
Acting Comptroller



Date



**DEPARTMENT OF EDUCATION
OFFICE OF THE SUPERINTENDENT**

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Nerissa Bretania Underwood, Ph.D.
Superintendent of Education

March 31, 2010

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911

Dear Deloitte & Touche,

We are providing this letter in connection with your audit of the compliance requirements of the following federal award programs of Guam Department of Education (GDOE) for the year ended September 30, 2009:

CFDA Program 84.027 Special Education-Grants to States
CFDA Program 84.181 Special Education-Grants for Infants and Families
CFDA Program 84.336 Teacher Quality Partnership Grants
CFDA Program 84.922 Consolidated Grants
CFDA Program 93.600 Head Start

1. We are responsible for the compliance with Guam and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133 and provisions of grants and contracts relating to GDOE's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities, in order to achieve the objectives of: providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
2. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
3. GDOE management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
4. GDOE has made available to you all records and related data for all financial transactions of GDOE and for all funds administered by GDOE. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GDOE and provide the audit trail to be used in a review of accountability. Information presented in federal financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

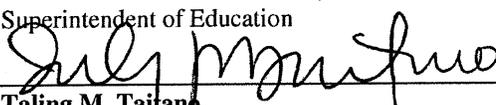
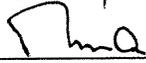
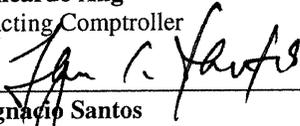
APPENDIX III, Continued

5. GDOE has obligated, expended, received, and used public funds of the Government of Guam and Federal Government in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law, except as disclosed in the Schedule of Findings and Questioned Costs.
6. Money or similar assets handled by GDOE on behalf of the Government of Guam or Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law, except as disclosed in the Schedule of Findings and Questioned Costs.
7. GDOE has identified in the Schedule of Expenditures of Federal Awards all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
8. GDOE has identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2009 and of the Compliance Supplement Addendum #1 dated June 2009.
9. We have identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
10. GDOE has complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs.
11. We have identified and disclosed interpretations of any compliance requirements that have varying interpretations.
12. GDOE has made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
13. GDOE has certified to federal granting agencies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for lobbying purposes. GDOE has also required all sub recipients of \$100,000 or more of federal funds to make the same certification.
14. GDOE has monitored sub recipient expenditures of federal financial assistance in accordance with applicable laws and regulations.

15. GDOE has taken appropriate corrective action on a timely basis after receipt of a sub recipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
16. GDOE has considered the results of sub recipients' audits and made any necessary adjustments to GDOE's own books and records.
17. GDOE has identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards including the results of other audits or program reviews.
18. GDOE is responsible for complying, and has complied, with Circular A-133, except as disclosed in the Schedule of Findings and Questioned Costs.
19. GDOE is responsible for and has accurately prepared the Summary Schedule of Prior Audit findings. The schedule contains all findings required to be included by Circular A-133.

Except where otherwise stated below, matters less than \$10,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

20. GDOE has disclosed whether, subsequent to September 30, 2009, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
21. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by GDOE has been discovered, except as disclosed in the Schedule of Findings and Questioned Costs.
22. No events have occurred subsequent to September 30, 2009, that requires consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
23. During the fiscal year ended September 30, 2009, GDOE did not expend funding awarded under the American Recovery and Reinvestment Act of 2009 (ARRA).

 Nerissa Bretania Underwood, Ph.D. Superintendent of Education	06 APR 2010 Date Signed
 Taling M. Taitano Deputy Superintendent of Finance and Administrative Services	4/6/10 Date Signed
 Ricardo Ang Acting Comptroller	4/06/10 Date Signed
 Ignacio Santos Administrator Federal Programs	4-6-10 Date Signed