

June 30, 2014

Honorable Edward Baza Calvo
Governor
Government of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 30, 2014, which report included explanatory paragraphs concerning the implementation of new accounting pronouncements and correction of an error, and a reference to other auditors.

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 GovGuam is responsible.

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

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated September 12, 2013. 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 GovGuam’s basic financial statements, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 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 GovGuam’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, 2013 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 GovGuam'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 with the oversight of management and the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to GovGuam's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered GovGuam'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 GovGuam'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 ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GovGuam's 2013 financial statements include: 1) management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; 2) management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets; and 3) management's estimate of the provision for tax refunds, which is determined based on periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. During the year ended September 30, 2013, 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

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. 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 GovGuam's financial reporting process. Such adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2013 financial statements.

In addition, we have attached to this letter, as Appendices A, B and C to Attachment II, summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior period presented and passed disclosures 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

GovGuam's significant accounting policies are set forth in Note 1 to GovGuam's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GovGuam:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements of GovGuam.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements of GovGuam.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements of GovGuam.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. In addition, GASB Statement No. 65 requires that debt issuance costs, except for prepaid insurance costs, be recognized as an expense in the period incurred. As a result of this implementation, debt issuance costs originally reported as deferred assets by the governmental activities have been restated from amounts previously reported resulting in a prior-period adjustment of \$17,729,209. In addition, debt issuance costs originally reported as deferred assets by the discretely presented component units have been restated from amounts previously reported resulting in a prior-period adjustment of \$12,376,476 as follows:

Antonio B. Won Pat International Airport Authority	\$ 4,857,336
Guam Power Authority	2,248,421
Guam Waterworks Authority	4,710,036
Guam Economic Development Authority	560,683
	<u>\$ 12,376,476</u>

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GovGuam.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GovGuam.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GovGuam.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GovGuam.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GovGuam's 2013 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 2013 other than certain matters associated with *Land and Other Real Estate Held as Investments by Endowments*, which resulted in the restatement of the financial statements.

MANAGEMENT'S REPRESENTATIONS

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR 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.

OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Office of the Governor.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CONTROL-RELATED MATTERS

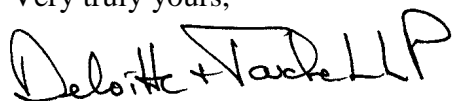
We have issued a separate report to you, also dated June 30, 2014, containing certain matters involving GovGuam's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public 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 June 30, 2014, containing certain matters involving GovGuam'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 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.

We have communicated to management, in a separate letter also dated June 30, 2014, other matters that we identified during our audit.

* * * * *

This report is intended solely for the information and use of the management of the Government of Guam, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, and pass-through entities 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,



Government of Guam
Proposed Audit Adjustments
9/30/2013

GENERAL FUND

Account Number	Name	Debit	Credit
	1 AJE To reconcile interfund balance.		
110014226	DUE TO/FROM HB DEBT SERVICE FU	10,000.00	-
310057390	ADJUST PRIOR YRS EXPN/REV	-	10,000.00
		<u>10,000.00</u>	<u>10,000.00</u>

To reconcile interfund balance as AJE has been posted to reconcile fund balance and reverse PC as adjustment had been proposed for THF.

	2 AJE To record transfer of GRT revenues to THF, TAF, and HHF.		
110014208	DUE TO/FROM TERRITORIAL HIGHWAY	-	1,206,226.37
310051200	GRT COLLECTIONS (BMD)- N.E.C.	1,206,226.37	-
110014206	DUE TO/FROM TOURIST ATTRACTION	-	1,481,852.59
310051200	GRT COLLECTIONS (BMD)- N.E.C.	1,481,852.59	-
110014602	DUE TO/FR HEALTHY FUTURES FUND	-	1,071,724.69
310051200	GRT COLLECTIONS (BMD)- N.E.C.	1,071,724.69	-
		<u>3,759,803.65</u>	<u>3,759,803.65</u>

To record transfer of GRT revenues to Territorial Highway Fund, Tourist Attraction Fund, and Healthy Futures Fund.

	3 AJE To record interfund for transfers to BPSF.		
110014208	DUE TO/FROM TERRITORIAL HIGHWAY	209,690.00	-
110014628	DUE TO/FR BETTER PUBLIC SVC	-	209,690.00
		<u>209,690.00</u>	<u>209,690.00</u>

To record interfund for transfers to BPSF based on Public Law.

	4 AJE To properly record interfund due to AJE 4 TAF.		
110014354	DUE TO/FR DSF/I.I.BOND	-	878,703.84
110014206	DUE TO/FROM TOURIST ATTRACTION	878,703.84	-
310050206	TRANSFERS IN FROM TAF	878,703.84	-
310050206	TRANSFERS IN FROM TAF	-	878,703.84
		<u>1,757,407.68</u>	<u>1,757,407.68</u>

To properly record interfund due to AJE 4 noted under TAF audit.

	5 AJE To properly record UOG appropriations.		
310050073	TRANSFER IN - UOG	-	1,021,823.00
Blank (6486)	Expenditures - UOG allotments	1,021,823.00	-
		<u>1,021,823.00</u>	<u>1,021,823.00</u>

To record additional amount of transfers in from UOG.

	6 AJE To reconcile with GDOE receivables.		
110021590	ACCRUED OTHER EXPENDITURES	310,490.67	-
310057390	ADJUST PRIOR YRS EXPN/REV	-	310,490.67
		<u>310,490.67</u>	<u>310,490.67</u>

To reconcile GovGuam payables with GDOE receivables.

	7 AJE To record bond issuance costs.		
110071110COI	BOND COST OF ISSUANCE FEES	229,255.66	-
110071110PREM	Net Original Issue Premium/Discount	-	2,957,922.80
310059994	BOND PROCEEDS	2,957,922.80	-
310059994	BOND PROCEEDS	-	229,255.66
		<u>3,187,178.46</u>	<u>3,187,178.46</u>

To record cost of issuance fee for BPT 2013C and record original issue premium.

8 AJE To properly adjust income tax provision & related accounts.			
110032110	RESERVE FOR INCOME TAX CLAIMS	-	1,444,363.45
310051101	INCOME TAX INDIVIDUAL	1,444,363.45	-
110021513	UNCLAIMED CKS - INC TAX REFUND	-	8,860,024.00
310057301	ESCHEAT MONIES UNCLAIMED CHECK	8,860,024.00	-
110032110	RESERVE FOR INCOME TAX CLAIMS	-	8,337,101.00
310051199	PROVISION FOR TAX REFUND	8,337,101.00	-
110012403	ACCTS RECBL- FEDERAL AGENCIES	2,537,000.00	-
310051199	PROVISION FOR TAX REFUND	-	2,537,000.00
		<u>21,178,488.45</u>	<u>21,178,488.45</u>

To adjust income tax provision & related accounts.

9 AJE To properly record GASB 33.			
310050760	GRT GASB 33	-	896,534.04
110011250	GRT RECEIVABLES GASB 33	896,534.04	-
		<u>896,534.04</u>	<u>896,534.04</u>

To properly record GASB 33.

10 AJE To record receivable for GHC unexpended funds.			
110012365	ACCT/REC-GUAM HOUSING CORP	985,713.00	-
110071110CU	PAYMENTS TO COMPONENT UNITS	-	985,713.00
		<u>985,713.00</u>	<u>985,713.00</u>

To record receivable for GHC unexpended funds as such is presented as a liability per GHC's FS.

11 AJE To properly record application of tax credits.			
110014602	DUE TO/FR HEALTHY FUTURES FUND	796,886.19	-
310050602	CONTRIB TO GF DPW	-	796,886.19
		<u>796,886.19</u>	<u>796,886.19</u>

To properly record application of tax credits for Layon land.

12 AJE To record transfers out to FGF.			
110014101	DUE TO/FROM FEDERAL GRANT FUND	-	1,431,430.75
310057390	ADJUST PRIOR YRS EXPN/REV	1,431,430.75	-
		<u>1,431,430.75</u>	<u>1,431,430.75</u>

To record transfer out from General Fund to Federal Grants Fund for return of funds against TANF grant periods 2003-2008 based on the reconciliation.

13 AJE To tie out Solid Waste Operations Interfund.			
110014254	DUE TO/FR LANDFILL CLOSE/OPEN	700,352.00	
110014363	DUE TO/FR LANDFILL LOAN FUND		195,655.00
310057390	ADJUST PRIOR YRS EXPN/REV		504,697.00
		<u>700,352.00</u>	<u>700,352.00</u>

To tie out Solid Waste Operations Interfund.

OTHER MISCELLANEOUS FUNDS (GASB 54)

Account Number	Name	Debit	Credit
1 AJE To record transfers in from THF to BPSF.			
362850208	TRANSFERS IN FR HWY FUND	-	209,690.00
162814100	DUE TO/FR GENERAL FUND	209,690.00	-
		<u>209,690.00</u>	<u>209,690.00</u>

To record transfers in from THF to BPSF.

GPSS FUND

Account Number	Name	Debit	Credit
1 AJE To record transfer out to GDOE for charter school.			
161814100	DUE TO/FR GENERAL FUND	-	687,500.00
161871110TOF	TRANSFERS OUT	687,500.00	-
		<u>687,500.00</u>	<u>687,500.00</u>

To record transfer out to GDOE for Charter School.

FEDERAL GRANTS FUND

Account Number	Name	Debit	Credit
1 AJE To reconcile beginning net position.			
310157390	ADJUST PRIOR YRS EXPN/REV	1,740.00	-
110141110	FUND BALANCE	-	1,740.00
		<u>1,740.00</u>	<u>1,740.00</u>

To reconcile beginning net position.

ATTACHMENT I, CONTINUED

	2 AJE To remove cancelled project .		
110131110	RESERVE FOR ENCUMBRANCES	5,500,211.11	-
110161110	ENCUMBRANCES	-	5,500,211.11
		<u>5,500,211.11</u>	<u>5,500,211.11</u>

To record removal of encumbrance for cancelled project.

	3 AJE To record transfer in from GF.		
310157390	ADJUST PRIOR YRS EXPN/REV	-	1,431,430.75
110114100	DUE TO/FROM GENERAL FUND	1,431,430.75	-
		<u>1,431,430.75</u>	<u>1,431,430.75</u>

To record transfer in from General Fund for return of funds against TANF grant periods 2003-2008 based on the reconciliation.

SPECIAL REVENUE FUNDS

Account Number	1 AJE To record FY14 advance approp.	Debit	Credit
602-290TOA	MISCELLANEOUS	-	705,660.00
DTT 03	Prepayments	705,660.00	-
		<u>705,660.00</u>	<u>705,660.00</u>

To record FY14 GMH advance appropriation from Healthy Futures Fund.

	2 AJE To properly record investment account balances.		
327057390	ADJUST PRIOR YRS EXPN/REV	39,670.00	-
327657390	ADJUST PRIOR YRS EXPN/REV	39,331.00	-
331157390	ADJUST PRIOR YRS EXPN/REV	181,571.00	-
127011900	GASB 31 MARKET VALUE ADJ	-	39,670.00
127611900	GASB 31 MARKET VALUE ADJ	-	39,331.00
131111900	GASB 31 MARKET VALUE ADJ	-	181,571.00
		<u>260,572.00</u>	<u>260,572.00</u>

To properly record investment account balances based on market value.

	3 AJE To reconcile fund balance.		
129741110	UNAPPROPRIATED SURPLUS	-	75,000.00
160241110	UNAPPROPRIATED SURPLUS	370,288.03	-
129721590	ACCRUED EXPENSE PAYABLE	75,000.00	-
360257391	GRT GASB 33	-	370,288.03
		<u>445,288.03</u>	<u>445,288.03</u>

To reconcile beginning fund balance for Fund 297 and Fund 602.

	4 AJE To remove fund deficit.		
160214100	DUE TO/FR GENERAL FUND	-	1,153,937.00
160271110TOF	TRANSFERS OUT	1,153,937.00	-
164114100	DUE TO/FR GENERAL FUND	1,153,937.00	-
364150602	TRANSFRS IN FR HEALTHY FUTURES	-	1,153,937.00
		<u>2,307,874.00</u>	<u>2,307,874.00</u>

To remove fund deficit.

	5 AJE To record transfer in from GDOE.		
163914100	DUE TO/FR GENERAL FUND	687,500.00	-
Blank (8326)	Transfers in from GPSS Fund	-	687,500.00
		<u>687,500.00</u>	<u>687,500.00</u>

To record transfer in from GDOE.

	6 AJE To properly record Fund 602 AR and Revenues.		
160214100	DUE TO/FR GENERAL FUND	1,071,724.69	-
160211250	GRT RECEIVABLES GASB 33	83,700.00	-
360251200	GRT3 MONTHLY TOBACCO & ALCOHOL	-	1,155,424.69
		<u>1,155,424.69</u>	<u>1,155,424.69</u>

To properly record GASB 33 and GRT revenues relative to the Healthy Futures Fund.

	7 AJE To properly record application of tax credits.		
160214100	DUE TO/FR GENERAL FUND	-	796,886.00
160271110TOF	TRANSFERS OUT	796,886.00	-
		<u>796,886.00</u>	<u>796,886.00</u>

To properly record application of tax credits for Layon land.

GOVERNMENT WIDE

Account Number	Name	Debit	Credit
	1 AJE To properly record landfill related assets.		
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	21,180.05
139018430	LANDFILL	4,219,328.06	-
139018431	LANDFILL - SOFTWARE EQUIPMENT	63,895.94	-
139018432	LANDFILL - TRUNKS & EQUIPMENT	127,779.00	-
139042150	INVESTMENT IN LANDFILL	21,180.05	-
139042150	INVESTMENT IN LANDFILL	-	4,411,003.00
		<u>4,432,183.05</u>	<u>4,432,183.05</u>

To properly record landfill related capital assets.

	2 AJE To properly record GDOE related assets.		
139018110	BLDG/STRUCTURES-GEN FUND	20,429,780.48	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	817,191.22
139042100	INVESTMENT IN FIXED ASSETS-GF	817,191.22	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	20,429,780.48
139018220	EQUIPMENT - FEDERAL FUND	292,419.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	58,483.80
139042200	INVESTMENT IN FIXED ASSETS-FED	58,483.80	-
139042200	INVESTMENT IN FIXED ASSETS-FED	-	292,419.00
139018120	EQUIPMENT/FUR/OTHERS-GEN FUND	842,231.06	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	120,318.72
139042100	INVESTMENT IN FIXED ASSETS-GF	120,318.72	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	842,231.06
139018110	BLDG/STRUCTURES-GEN FUND	3,942,012.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	157,681.00
139042100	INVESTMENT IN FIXED ASSETS-GF	157,681.00	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	3,942,012.00
139042100	INVESTMENT IN FIXED ASSETS-GF	3,586,063.00	-
139018500	CONSTRUCTION IN PROGRESS	-	3,586,063.00
		<u>30,246,180.28</u>	<u>30,246,180.28</u>

To properly record GDOE related capital assets.

	3 AJE To properly record equipment/computer assets.		
139018120	EQUIPMENT/FUR/OTHERS-GEN FUND	1,209,623.00	-
139018220	EQUIPMENT - FEDERAL FUND	6,212,391.00	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	887,484.43
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	273,682.21
139042100	INVESTMENT IN FIXED ASSETS-GF	273,682.21	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	1,209,623.00
139042200	INVESTMENT IN FIXED ASSETS-FED	887,484.43	-
139042200	INVESTMENT IN FIXED ASSETS-FED	-	6,212,391.00
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	597,651.01
139042100	INVESTMENT IN FIXED ASSETS-GF	597,651.01	-
		<u>9,180,831.65</u>	<u>9,180,831.65</u>

To properly record equipment/computer related capital assets for the court and depreciation.

	4 AJE To properly record federal highway infrastructure.		
139018400	INFRASTRUCTURE	-	14,918,100.00
139042200	INVESTMENT IN FIXED ASSETS-FED	14,918,100.00	-
		<u>14,918,100.00</u>	<u>14,918,100.00</u>

To properly record federal highway infrastructure.

	5 AJE To properly record depreciation for FHW.		
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	1,170,849.86	-
139042200	INVESTMENT IN FIXED ASSETS-FED	-	1,170,849.86
		<u>1,170,849.86</u>	<u>1,170,849.86</u>

To properly record depreciation for FHW.

	6 AJE To properly record depreciation for DPW Infrast.		
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	13,076,897.21
139042200	INVESTMENT IN FIXED ASSETS-FED	13,076,897.21	-
		<u>13,076,897.21</u>	<u>13,076,897.21</u>

To properly record depreciation for DPW infrastructure.

ATTACHMENT I, CONTINUED

	7 AJE To properly record CIP related projects.		
139042200	INVESTMENT IN FIXED ASSETS-FED	-	13,841,226.32
139018500	CONSTRUCTION IN PROGRESS	13,841,226.32	-
		<u>13,841,226.32</u>	<u>13,841,226.32</u>

To properly record CIP related projects.

	8 AJE To properly record depreciation.		
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	-	257,750.23
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	485,018.90	-
139018339	ALWS FOR DEPN-EQPT CONDEMNATIO	76,166.25	-
139042100	INVESTMENT IN FIXED ASSETS-GF	257,750.23	-
139042100	INVESTMENT IN FIXED ASSETS-GF	-	485,018.90
139042200	INVESTMENT IN FIXED ASSETS-FED	-	76,166.25
		<u>818,935.38</u>	<u>818,935.38</u>

To properly record depreciation for computer related capital assets.

ATTACHMENT I, CONTINUED

**UNIFIED COURT OF GUAM
OPERATIONS**

Account Number	Name	Debit	Credit
	1 AJE To properly reconcile liability and fund balance.		
2520.0001	Accrued Payroll Net Payroll	-	81,092.58
2611	Fund Balance	616,482.00	-
Blank (316)	Expenditures - operations	-	535,389.42
		<u>616,482.00</u>	<u>616,482.00</u>

To properly record accrual of law enforcement and reconcile beginning fund balance.

ACCOUNT GROUPS

Account Number	Name	Debit	Credit
	1 AJE To properly record capitalized assets.		
1420	Furniture/Equipment/Vehicles	1,209,623.00	-
1421	Accumulated Depreciation - Fur/Fix/Vehicle	-	172,803.29
1410	Building & Improvement	50,000.00	-
1411	Accumulated Depreciation Bldg & Improvement	-	1,250.00
1450	Construction in Progress	-	7,271,236.40
1610	Investment F.A. - Building & Improvement	1,250.00	-
1610	Investment F.A. - Building & Improvement	-	50,000.00
1612	Investment Fixed Assets Beginning	887,484.83	-
1612	Investment Fixed Assets Beginning	172,803.29	-
1612	Investment Fixed Assets Beginning	-	6,212,391.00
1612	Investment Fixed Assets Beginning	-	1,209,623.00
1612	Investment Fixed Assets Beginning	7,271,236.40	-
Blank (3842)	Case Management System/ERP	6,212,391.00	-
Blank (3843)	Accumulated Depreciation - Case Management System/ERP	-	887,484.83
		<u>15,804,788.52</u>	<u>15,804,788.52</u>

To properly capitalized fixed asset related items for FY2013.

GUAM LEGISLATURE

Account Number	Name	Debit	Credit
	1 AJE To reconcile fund balance.		
3010	Fund balance - prior years	-	18.17
3030	Fund balance - 23rd/sale of fixed assets	2,680.17	-
6910	Other Miscellaneous Expenses	18.17	-
4200	Interest Bearing Account/Other	-	2,680.17
		<u>2,698.34</u>	<u>2,698.34</u>

To reconcile fund balance.

We have reviewed the proposed audit adjustments summarized and agree that they should be presented at September 30, 2013. These proposed audit adjustments are the results of interpretation and not results of fraud, irregularities, or illegal acts.



 Kathy B. Kakigi
 Financial Manager
 Government of Guam, Department of Administration



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

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

Post Office Box 884 Hagatña, Guam 96932
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ATTACHMENT II



Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

June 30, 2014

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING, GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (the "Government"), as of and for the year ended September 30, 2013, which collectively comprise the Government'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 the Government in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

ATTACHMENT II, CONTINUED

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other 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 the Governmental Accounting Standards Board (GASB) Codification of Government Accounting and Financial Reporting Standards ("GASB Codification") Section 2200.153 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 - 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, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - g. Interfund, internal, and intra-government activity and balances have been appropriately classified and reported.
 - h. Deposits and investment securities are properly classified in the 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. Federal awards expenditures have been charged in accordance with applicable cost principles.
 - m. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Government has provided you:
 - a. Public Laws as enacted by the Guam Legislature.
 - b. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government except as described in your Independent Auditors' Reports on Internal Control and on Compliance. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by Government management that contravenes the provisions of federal laws and Guam 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.
5. 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.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2012 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. We have completed our procedures to evaluate the accuracy and completeness of the disclosures in our financial statements. As a result of the evaluation process, we identified certain disclosures that, although required by GAAP, have been omitted from our financial statements. Those omitted disclosures that are regarded as more than clearly trivial are attached as Appendix C. We believe the effects of the omitted disclosures are quantitatively and qualitatively immaterial, both individually and in the aggregate, to the financial statements as a whole.
8. 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 do not believe that the financial statements are materially misstated as a result of fraud.

ATTACHMENT II, CONTINUED

9. We have no knowledge of any fraud or suspected fraud affecting the Government 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.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, analysts, regulators, or others.
11. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 13 to the financial statements.
12. Significant assumptions used by us in making accounting estimates are reasonable.
13. 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. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
14. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Government'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. The Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
15. 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.
16. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

17. 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 Compliance Supplement dated July 2013.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
 - 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 subrecipients 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.
18. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
19. 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, violation of provisions of contracts or grant agreements, or abuse that you report.

ATTACHMENT II, CONTINUED

20. 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.
21. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the Government each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$3,000,000 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 basic financial statements.

22. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
23. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. 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 the Government is contingently liable.
25. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
26. 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.

27. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 13 to the financial statements.
28. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in notes 1, 2, 6 and 13 to the financial statements.
29. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
30. No department or agency of the Government has reported a material instance of noncompliance to us.
31. The Government has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
32. Except as disclosed in note 14 to the financial statements, no events have occurred after September 30, 2013, but before the date of this letter, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
33. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
34. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

35. During fiscal year 2013, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
 - GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.
 - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
 - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. In addition, GASB Statement No. 65 requires that debt issuance costs, except for prepaid insurance costs, be recognized as an expense in the period incurred. As a result of this implementation, debt issuance costs originally reported as deferred assets by the governmental activities have been restated from amounts previously reported resulting in a prior-period adjustment of \$17,729,209.

ATTACHMENT II, CONTINUED

36. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Government.
37. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Government.
38. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Government.
39. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Government.
40. Management of the Government believes that it is in compliance with all significant limitations and restrictions of the 2007 and 2009 Series A General Obligation Bonds, the 2009 Series A Limited Obligation (Section 30) Bonds, the 2011 Hotel Occupancy Tax Revenue Bonds, and the 2011, 2012 and 2013 Business Privilege Tax Revenue Bonds indentures, and the 2006 loan agreement covenants as of September 30, 2013.
41. 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.
42. Tax-exempt bonds issued have retained their tax-exempt status.

ATTACHMENT II, CONTINUED

43. The Government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
44. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
45. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
46. We have disclosed to you all additions or changes to the existing pension and other postretirement benefit plans.
47. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
48. 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.
49. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.
50. Estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue. The provision for tax refunds is evaluated on a regular basis by management and is based upon management's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to the provision for tax refunds are accounted for on a prospective basis. As of September 30, 2013, GovGuam recorded a provision for unpaid tax refunds in the amount of \$103,346,133, which includes \$637,000 relating to interest payable to taxpayers for unpaid prior year tax refunds. Of the amount recorded for provision for unpaid tax refunds, \$43,356,142 pertains to tax refunds that include the Earned Income Tax Credit.
51. Other long-term liabilities include an amount due to the Internal Revenue Service (IRS) for excess Make Work Pay Credit (MWPC) payments received under the American Recovery and Reinvestment Act of 2009. In accordance with a promissory agreement between GovGuam and the IRS, the amount due was renegotiated in the amount of \$19,937,926, which is due and payable in three equal annual amounts of \$5,500,000 commencing in June 2015 with the final payment of \$3,437,926 due and payable in June 2018. Repayment is expected through offsets of future Section 30 revenue receipts. Management has determined that this liability is correctly presented as a governmental activities long-term liability.

ATTACHMENT II, CONTINUED

52. Other long-term liabilities include an amount due to landowners in the original amount of \$29,112,970, inclusive of interest. On October 31, 2012, a Court Order was issued for the payment associated with the condemnation of land encompassing the Layon landfill. The Court Order required the payment of interest at 6% per annum calculated from January 24, 2008. GovGuam has negotiated long-term tax credit certificates with these landowners. Management has determined that this liability is correctly presented as a governmental activities long-term liability.
53. Subsequent to the issuance of GovGuam's 2012 financial statements, management determined that investment in land and other real estate of the governmental activities and the Chamorro Lands Fund were understated by \$406,640,273 due to the lack of implementation of GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. As a result of this determination, investment in land and other real estate have been restated.

Very truly yours,



Benita A. Manglona, CPA
Director
Department of Administration



Kathrine B. Kakigi, CPA
Financial Manager
Department of Administration

**Government of Guam
Summary of Current Year Uncorrected Misstatements
September 30, 2013**

Appendix A

GENERAL FUND

Dr. Expenditure	1,579,233.00
Cr. Accounts Payables	(1,579,233.00)
<i>Accrual for land judgment.</i>	

Dr. Revenues	15,000,000.00
Cr. Unearned Revenue	(15,000,000.00)
<i>To properly record revenues.</i>	

Dr. AOTC Receivable	2,220,000.00
Cr. Provision for Tax Refund	(2,220,000.00)
<i>To properly record American Opportunity Tax Credit receivable.</i>	

FEDERAL GRANTS FUND

Dr. Reserve for encumbrances	7,675,176
Cr. Encumbrances	(7,675,176)
<i>To reduce reserve of encumbrances in accordance with P.L. 27-78.</i>	

SPECIAL REVENUE FUNDS


Dr. Revenue	504,927.00
Cr. A/R	(504,927.00)
<i>To properly record A/R for G.A.A. Passenger Fees.</i>	

GOVERNMENT WIDE

Cr. Asset	(4,041,000.00)
Dr. Accumulated Depreciation	2,242,841.00
Dr. Investment in fixed assets	1,798,159.00
<i>To remove inoperable, surveyed, and non-capitalizable asset from the fixed asset schedule.</i>	

Dr. Tax credit liability	1,042,830.00
Cr. Interest Expense (Unallocated)	(1,042,830.00)
<i>To properly record tax credits applied to Layon.</i>	

We have reviewed the proposed uncorrected misstatements summarized above for the Governmental Funds and activities and agree that they will not be recorded at September 30, 2013. These uncorrected misstatements are the results of an error and not the result of fraud, irregularities or illegal acts.



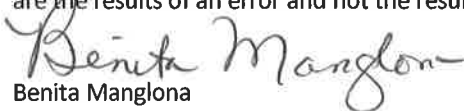
Kathy B. Kakigi
Financial Manager
Government of Guam, Department of Administration

Government of Guam
Summary of Current Year Uncorrected Misstatements
September 30, 2013

GENERAL FUND - UNIFIED COURTS OF GUAM

Dr. Accrued annual/sick leave	2,850,685.00
Cr. Expenditures	(2,850,685.00)
<i>To properly record accrued annual/sick leave.</i>	
Dr. Accrual - LE	2,914,822.00
Cr. Expenditures	(2,914,822.00)
<i>To properly record law enforcement accrual.</i>	

We have reviewed the proposed uncorrected misstatements summarized above for the Governmental Funds and activities and agree that they will not be recorded at September 30, 2013. These uncorrected misstatements are the results of an error and not the result of fraud, irregularities, or illegal acts.



Benita Manglona
Director

Government of Guam, Department of Administration

**Government of Guam
Summary of Prior Year Uncorrected Misstatements
September 30, 2013**

Appendix B

SPECIAL REVENUE FUNDS


Chamorro Land Trust Commission (CLTC)

Dr. Cash	501,791.00
Cr. Revenue	(501,791.00)
<i>To record CLTC - NAF.</i>	

Guam Ancestral Lands Commission (GALC)

Dr. Cash	2,941,908.00
Cr. Revenue	(2,941,908.00)
<i>To record GALC - NAF.</i>	

We have reviewed the proposed prior uncorrected misstatements summarized above for the Governmental Funds and activities and agree that they will not be recorded at September 30, 2013. These uncorrected misstatements are the results of an error and not the result of fraud, irregularities or illegal acts.



 Kathy B. Kakigi
 Financial Manager
 Government of Guam, Department of Administration

Government of Guam
 Summary of Passed Disclosures
 September 30, 2013

Appendix C

Footnote Number	Footnote Title	Description of Omitted or Unclear	Description of Omitted Disclosure	Dollar Amount of Omitted or Unclear
n/a	n/a	Impairment of Capital Assets	Surveyed or unidentified capital assets have not been re-evaluated or adjusted from the fixed assets register and general ledger.	\$ 2,267,965
n/a	n/a	Donor-Restricted Endowments	Omitted disclosure relative to donor-restricted endowments	\$ 5,700,681

We have reviewed the disclosure items passed above as of September 30, 2013. These disclosures are not material to the current fiscal year financial statements. The above are not the results of fraud or illegal acts.


 Kathy B. Kakigi
 Financial Manager
 Government of Guam, Department of Administration