

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

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

Year ended September 30, 2014



**Building a better
working world**



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

Tel: +1 671 649 3700
Fax: +1 671 649 3920
ey.com

June 1, 2015

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

We have performed an audit of the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States, and have issued our report thereon dated June 1, 2015.

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

At EY, we are committed to delivering the highest quality audit services, and we continually evaluate the quality of our professionals' work in order to meet or exceed your expectations.

This report is intended solely for the information and use of the Board of Trustees and management. It is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Ernst + Young LLP

REQUIRED COMMUNICATIONS

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated November 28, 2012 and at our audit planning meeting with management.

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

The financial statements and supplementary information are the responsibility of management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we will express no such opinion.

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

Our responsibilities are included in our audit engagement letter.

Sensitive Accounting Estimates

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

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

Sensitive Accounting Estimates, continued

Management’s judgment is called upon in:

- Preparing budgets that are used to administer and monitor the DCANAF’s operations. These budgets include determining how existing financial resources will be used in the DCANAF’s operations.
- Determining the assumptions used in measuring significant accounting estimates (allowance for doubtful accounts and inventory obsolescence) for financial accounting purposes.

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

Management has not selected or changed any significant accounting policies or changed the application of those policies in the current year.

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

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

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

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

Refer to the “Management Representations Letter” in Appendix A.

Material corrected misstatements, related to accounts and disclosures

Refer to “Schedule of Corrected Misstatements” in Appendix B.

Fraud and illegal acts

We are not aware of any matters that require communication.

Independence matters

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

Representations from management

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

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

We are not aware of any matters that require communication.

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

We are not aware of any matters that require communication.

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

We are not aware of any matters that require communication.

Significant difficulties encountered during the audit

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

Disagreements with management

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

Management's consultations with other accountants

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

AICPA ethics ruling regarding third-party service providers

Our responsibilities are included in our audit engagement letter.

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

Our report dated June 1, 2015, on DCANAF's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters was addressed to your attention and was based upon our audit performed in accordance with *Government Auditing Standards*.

We provided a separate letter, dated June 1, 2015, addressed to management, which describes other matters relating to DCANAF's internal control over financial reporting.

Appendices

A – Management Representations Letter

B – Schedule of Corrected Misstatements

Appendix A – Management Representations Letter



DIPATTAMENTON I KAOHAO GUINAHAN CHAMORRO
DEPARTMENT OF CHAMORRO AFFAIRS

Honorable Edward J.B. Calvo
Governor of Guam

Joseph Artero-Cameron
President, DCA

Raymond S.Tenorio
Lieutenant Governor of Guam



June 1, 2015

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



In connection with your audits of the basic financial statements of Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), a component unit of the Government of Guam as of September 30, 2014 and 2013, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of DCANAF in conformity with US generally accepted accounting principles.



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



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



Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated November 28, 2012, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding years.



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

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit

"Department of Chamorro Affairs is an Equal Opportunity Provider and Employer"

Terlaje Professional Building • 1st Floor 194 Hernan Cortez Avenue Hagåtña, Guam 96910
P.O. Box 2950 Hagåtña, Guam 96932 • Phone: (671) 475-4278/9 • Fax: (671) 475-4227

Appendix A – Management Representations Letter, continued

- Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence

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

Management's responsibilities, continued

We recognize that we are responsible for the DCANAF's compliance with the laws, regulations, grant agreements and contracts that are applicable to it. We have identified and disclosed to your representatives all laws and regulations, grant agreements and contracts that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented

There has been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

We have a process to track the status of audit findings and recommendations.

We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

We have taken timely and appropriate steps to remedy fraud, and noncompliance with provisions of laws, regulations, and contracts or grant agreements, or abuse that you have reported.

Uncorrected misstatements

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

Internal control

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

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2014.

Appendix A – Management Representations Letter, continued

All significant deficiencies and material weaknesses identified and communicated by you to the audit committee (or those charged with governance) during your previous audit engagements have been remediated or otherwise eliminated prior to September 30, 2014.

Minutes and contracts

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

October 1, 2013	December 3, 2013	January 7, 2014
February 4, 2014	March 4, 2014	April 8, 2014
March 4, 2014	May 13, 2014	June 3, 2014
August 5, 2014	September 11, 2014	

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

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

Significant assumptions

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

Risks and uncertainties

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*.

Ownership and pledging of assets

DCANAF has satisfactory title to all assets appearing in the balance sheets. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which DCANAF has satisfactory title appear in the balance sheets.

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the balance sheet dates, goods shipped on consignment, or other types of arrangements not constituting sales. All revenue recognized as of

Appendix A – Management Representations Letter, continued

the balance sheet date(s) has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) goods have been delivered or services rendered, (3) consideration to be received is fixed or determinable and (4) collectability is reasonably assured.

Receivables and revenues, continued

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

We have adequately disclosed a description of our major revenue-generating products and services, the types of arrangements (including multiple-element arrangements) used to deliver these products or services, and a description of the revenue recognition policies applicable to these products or services.

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

Inventories

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

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

Adequate provision has been made for losses under firm purchase commitments for goods or inventory. There have been no reductions of the selling prices of finished goods subsequent to September 30, 2014 and none are contemplated.

Contingent liabilities

There are no asserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with ASC 450-20, *Contingencies – Loss Contingencies*.

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

Appendix A – Management Representations Letter, continued

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

Contingent liabilities, continued

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by ASC 450, *Contingencies*, nor are there any accruals for loss contingencies included in the balance sheets or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

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

Oral or written guarantees

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

Purchase commitments

At September 30, 2014 and 2013, DCANAF had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2014 and 2013 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

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

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

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

Appendix A – Management Representations Letter, continued

Independence

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

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

Conflicts of interest

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

Subsequent events

Subsequent to September 30, 2014, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the DCANAF's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Company.

Required supplementary information

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

Supplementary information

We are responsible for the fair presentation of the supplementary information combining schedules (the "supplementary information") and its form and content in conformity with U.S. GAAP. There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information. We believe the supplementary information, including its form and content, is fairly stated in all material respects in conformity with U.S. GAAP.

* * * * *

Appendix A – Management Representations Letter, continued

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

Very truly yours,



Mr. Joseph Artero-Cameron, President



Ms. Juanita Quintanilla, Administrative Services Officer

Appendix A – Management Representations Letter, continued

Communication schedule for uncorrected misstatements

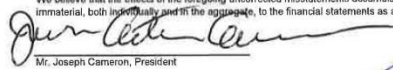
Entity: Department of Chamorro Affairs Period Ended: 30-Sep-2014 Currency: USD

No.	W/P ref.	Account	Analysis of misstatements Debit/(Credit)						Effect on the current period OCI		Income statement effect of the current period		Income statement effect of the prior period		
			Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non-taxable	Prior period Debit/(credit)	Non-taxable		
<p>Uncorrected misstatements</p> <p>(misstatements are recorded as journal entries with a description)</p>															
<p>Projected misstatements:</p>															
SAD 02	EG110	To provide allowance for accounts that are deemed uncollectible													
	DCA2	Dr. Provision for doubtful accounts										3,871			
		Cr. Allowance for doubtful accounts	(3,871)												
<p>Factual misstatements:</p>															
FY2013	SAD02	To record the turnaround effects of FY2013 uncorrected misstatements (Chamorro Village)													
		Wednesday night market expense (Chamorro Village)												700	
		Pest control contract (Chamorro Village)												600	
<p>Reclassification misstatements:</p>															
SAD 01	UAD110	To properly classify fees and other income (Chamorro Village)													
		Dr. 4230 DCA2 CV Lease Stat										2,300			
		Cr. 4090 DCA2 Other Income										(2,300)			
SAD 03	CO110	To reverse the duplicate recording of lease revenues/cash receipts.													
	DCA2	Dr. Lease revenue										1,011			
		Cr. Cash in bank	(1,011)												
Total of uncorrected misstatements before income tax			(4,880)	0	0	0	0	0	0	0	0	4,880		1,300	
Total of uncorrected misstatements			(4,880)	0	0	0	0	0	0	0	0	4,880		1,300	
Financial statement amounts			388,431	(84,875)			(203,561)					(138,377)			
Effect of uncorrected misstatements on F/S amounts			-1.2%	0.0%	0.0%	0.0%	0.0%					-3.5%		0.0%	
<p>Do not remove any categories of misstatements above, even if there are no misstatements; removing these categories may adversely affect the formulas or template functionality.</p>			<p>Memo: Total of non-taxable items (marked 'X' above)</p> <p>Uncorrected misstatements before income tax: -3.5% 4,880 1,300</p> <p>Less: Tax effect of misstatements at current year marginal rate: 0 0 0</p> <p>Uncorrected misstatements in income tax: 0 0 0</p> <p>Cumulative effect of uncorrected misstatements after tax but before turnaround: -3.5% 4,880 1,300</p>												
<p>Turnaround effect of prior period uncorrected misstatements</p> <p>All factual and projected misstatements: (1,300) (1,300)</p> <p>Judgmental misstatements: 0 0</p> <p>Cumulative effect of uncorrected misstatements, after turnaround effect: -2.6% 3,580</p> <p>Current year income before tax: (138,377)</p> <p>Current year income after tax: (128,377)</p>															

Management's Representation:

The foregoing uncorrected misstatements have been reviewed and approved.

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


 Mr. Joseph Cameron, President


 Ms. Juanita Quinterilla, Administrative Services Officer

6/1/2015

Appendix B – Schedule of Corrected Misstatements

Department of Chamorro Affairs
 Year End: September 30, 2014
 Adjusting Journal Entries
 Date: 10/1/2013 To 9/30/2014

Prepared by	Reviewed by

AJE

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence	
Net Income (Loss) Before Adjustments							232,408.00			
AJE 01	9/30/2014	Inventory	300 DCA5	T0100	6,341.00					
AJE 01	9/30/2014	Retained earnings	501 DCA5	T0100		6,449.00				
AJE 01	9/30/2014	Miscellaneous expense	EY2014-02 DCA5	T0100	108.00					
To record prior year audit adjustment on inventory balance (CAHA).					6,449.00	6,449.00	232,300.00	(108.00)		
AJE 02	9/30/2014	Retained earnings	39000 DCA3	T0100		7.00				
AJE 02	9/30/2014	Miscellaneous expense	64000 DCA3	T0100	7.00					
To correct retained earnings, beginning (RPT).					7.00	7.00	232,293.00	(7.00)		
AJE 03	9/30/2014	Accounts Receivable	1100 DCA2	T0100		660.00				
AJE 03	9/30/2014	Retained Earnings	3040 DCA2	T0100	6,525.00					
AJE 03	9/30/2014	Miscellaneous	7095 DCA2	T0100	2,410.00					
AJE 03	9/30/2014	Allowance for doubtful accounts	EY2012-01 DCA2	T0100		8,275.00				
To record prior year audit adjustment and reconcile retained earnings beginning (CV).					8,935.00	8,935.00	229,883.00	(2,410.00)		
AJE 04	9/30/2014	Accounts Receivable	1100 DCA2	E0120 DCA2	7,500.00					
AJE 04	9/30/2014	Other Income	4080 DCA2	E0120 DCA2		7,500.00				
To properly record grant received from Guam Visitors Bureau (Chamorro Village).					7,500.00	7,500.00	237,383.00	7,500.00		
AJE 05	9/30/2014	Inventory	14200 DCA3	F0101 DCA3		3,246.00				
AJE 05	9/30/2014	Other income	60100 DCA3	F0101 DCA3		211.00				
AJE 05	9/30/2014	Cost of goods sold	41000A DCA3	F0101 DCA3	3,457.00					
To record sale of books in FY2014.					3,457.00	3,457.00	234,137.00	(3,246.00)		
AJE 06	9/30/2014	Accounts Payable	1800 DCA2	N0110 DCA2		63,002.00				
AJE 06	9/30/2014	Wednesday Night Market	6041 DCA2	N0110 DCA2		1,000.00				
AJE 06	9/30/2014	Janitorial Services	6056 DCA2	N0110 DCA2		6,229.00				
AJE 06	9/30/2014	Office Supplies Expense	6076 DCA2	N0110 DCA2		1,628.00				
AJE 06	9/30/2014	Power	60171 DCA2	N0110 DCA2		4,524.00				
AJE 06	9/30/2014	Water	60172 DCA2	N0110 DCA2		29,198.00				
AJE 06	9/30/2014	Security	6058A DCA2	N0110 DCA2		6,535.00				
AJE 06	9/30/2014	Solid Waste	6060A DCA2	N0110 DCA2		13,888.00				
To record liabilities and expenses in their proper period.					63,002.00	63,002.00	171,135.00	(63,002.00)		
AJE 07	9/30/2014	Equipment	1440 DCA2	A4		124.00				
AJE 07	9/30/2014	Maintenance Supplies	6059 DCA2	A4	124.00					
To reverse fixed assets to supplies and equipment expense.					124.00	124.00	171,011.00	(124.00)		
AJE 08	9/30/2014	Inventory obsolescence	EY2012-02 DCA3	F0103 DCA3	32,634.00					
AJE 08	9/30/2014	Allowance for inventory obsolescence	EY2012-03 DCA3	F0103 DCA3		32,634.00				
To write-down inventory to net realizable value.					32,634.00	32,634.00	138,377.00	(32,634.00)		
							122,108.00	122,108.00	138,377.00	(94,031.00)

Appendix B – Schedule of Corrected Misstatements, continued

Department of Chamorro Affairs
Year End: September 30, 2014
Adjusting Journal Entries
Date: 10/1/2013 To 9/30/2014

Prepared by	Reviewed by

AJE-1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
--------	------	------	------------	-----------	-------	--------	-------------------	------------	------------

Approved by:



Ms. Juanita Quentanilla
Administrative Services Officer