

June 27, 2012

Taling Taitano, CPA  
Acting Superintendent of Education  
Guam Department of Education

We have performed an audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2011, 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 27, 2012.

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

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 11, 2011. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in GDOE’s basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on GDOE’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2011 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on GDOE 's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (OMB Circular A-133)*.

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

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

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

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GDOE's 2011 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2011, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GDOE's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2011 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

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

## **SIGNIFICANT ACCOUNTING POLICIES**

GDOE's significant accounting policies are set forth in Note 1 to GDOE's 2011 financial statements. During the year ended September 30, 2011, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by GDOE:

During fiscal year 2011, GDOE implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

## **OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as GDOE's 2011 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in GDOE's 2011 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GDOE's 2011 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 2011.

## **MANAGEMENT'S REPRESENTATIONS**

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

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

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

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## CONTROL-RELATED MATTERS

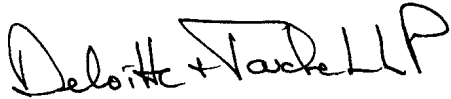
We have issued a separate report to you, also dated June 27, 2012, containing certain matters involving GDOE's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 27, 2012, containing certain matters involving GDOE's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied on our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

\* \* \* \* \*

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

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

Very truly yours,

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

**Guam Department of Education**  
**Summary of Corrected Misstatements**  
**September 30, 2011**

<b>GOVERNMENT WIDE (GW)</b>			
<b>#</b>	<b>Name</b>	<b>Debit</b>	<b>Credit</b>
<b>GW-1 AJE To adjust school leaseback</b>			
82.00.00.00.00.2803.0000	PREPAYT-CAPITAL LEASE OBL	-	24,167.00
82.00.00.00.00.2804.0000	DEFERRED MAINT. COSTS	-	174,193.85
82.00.00.00.00.2805.0000	OTHER DEFERRED ASSETS	-	104,875.05
82.00.00.00.00.3801.0000	AMT TOBE PROVIDED-C.LEASE	-	2,756,764.10
82.00.00.00.00.3802.0000	CAPITAL LEASE-LONG TERM	3,210,000.00	-
82.00.00.00.00.3803.0000	CAPITAL LEASE -CURRENT	-	150,000.00
		<u>3,210,000.00</u>	<u>3,210,000.00</u>
<b>GW-2 AJE To reverse AJE 9142</b>			
81.00.00.00.00.2550.0000	INVESTMENT IN FIXED ASSET	-	347,885.00
81.00.00.00.00.2100.0000	INTERFUND CASH	347,885.00	-
		<u>347,885.00</u>	<u>347,885.00</u>
<b>GW-3 AJE To properly record JFK School</b>			
81.00.00.00.00.2510.0000	BUILDINGS	-	1,998,906.25
81.00.00.00.00.2515.0000	A/D - BUILDINGS	-	1,314,699.96
81.00.00.00.00.2550.0000	INVESTMENT IN FIXED ASSET	3,313,606.21	-
82.00.00.00.00.3802.0000	CAPITAL LEASE-LONG TERM	131,666.68	-
82.00.00.00.00.3803.0000	CAPITAL LEASE -CURRENT	-	131,666.68
		<u>3,445,272.89</u>	<u>3,445,272.89</u>
<b>GW-4 AJE To record additional capital assets</b>			
81.00.00.00.00.2520.0000	VEHICLES	93,848.99	-
81.00.00.00.00.2525.0000	A/D - VEHICLES	-	18,769.60
81.00.00.00.00.2550.0000	INVESTMENT IN FIXED ASSET	-	75,079.39
81.00.00.00.00.2550.0000	INVESTMENT IN FIXED ASSET	-	517,884.42
	CIP	517,884.42	-
		<u>611,733.41</u>	<u>611,733.41</u>
<b>GW-5 AJE To record impairment of FQ Sanchez</b>			
81.00.00.00.00.2510.0000	BUILDINGS	-	900,000.00
81.00.00.00.00.2515.0000	A/D - BUILDINGS	234,000.00	-
81.00.00.00.00.2550.0000	INVESTMENT IN FIXED ASSET	666,000.00	-
		<u>900,000.00</u>	<u>900,000.00</u>
<b>GW-6 AJE To adjust sick leave</b>			
82.00.00.00.00.3402.0000	ACCRUED ANNUAL LEAVE	-	607,583.56
82.00.00.00.00.3812.0000	AMT TOBE PROVIDED-EBENEF	607,583.56	-
		<u>607,583.56</u>	<u>607,583.56</u>
<b>GENERAL FUND (GF)</b>			
<b>#</b>	<b>Name</b>	<b>Debit</b>	<b>Credit</b>
<b>GF-1 AJE To correct opening fund balance</b>			
11.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	100.00
11.00.00.00.00.4000.0000	FUND BALANCE	100.00	-
26.00.00.00.00.4000.0000	FUND BALANCE	-	273,170.55
26.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	273,170.55	-
		<u>273,270.55</u>	<u>273,270.55</u>

**APPENDIX I, CONTINUED**

<b>GOVERNMENT WIDE (GW)</b>			
<b>#</b>	<b>Name</b>	<b>Debit</b>	<b>Credit</b>
<b>GF-2 AJE To reverse/correct GDOE post closing adjustments</b>			
<i>To reverse AJE 9142</i>			
13.00.00.00.00.2100.0000	INTERFUND CASH	-	347,885.00
13.11.24.00.26.0450.0000	FAC & MAI - CAPITAL 1917*	347,885.00	-
<i>To correct AJE 9129 &amp; 9131</i>			
11.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	1,500,189.65	-
11.00.00.00.00.3310.0000	OVERDRAFT	-	1,500,189.65
		<u>1,848,074.65</u>	<u>1,848,074.65</u>
<b>GF-3 AJE To adjust to DOA confirmation</b>			
11.00.00.00.00.2307.0000	OTHER RECEIVABLES	-	330,603.00
EXP-290.1	Bad Debt Expense	330,603.00	-
11.00.00.00.00.1100.0000	LOCAL APPROPRIATION	-	263,183.29
11.00.00.00.00.2100.0000	INTERFUND CASH	205,764.14	-
11.00.00.00.00.2301.0000	DUE FROM DOA GENERAL FUND	207,506.24	-
11.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	102,780.14
13.00.00.00.00.2100.0000	INTERFUND CASH	-	205,764.14
13.10.00.00.00.1100.0000	LOCAL APPROPRIATION	205,764.14	-
EXP-290.2	MISCELLANEOUS	-	47,306.95
		<u>949,637.52</u>	<u>949,637.52</u>
<b>GF-4 AJE To record JFK High School Capital lease</b>			
Fund 11-OFS2	Capital asset contributions	-	65,735,000.00
EXP-450.1	Capital asset acquisitions from contributions	65,735,000.00	-
		<u>65,735,000.00</u>	<u>65,735,000.00</u>
<b>GF-5 AJE To adjust liabilities</b>			
11.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	2,346,911.69
11.00.00.00.00.3101.0000	ACCOUNTS PAYABLE OTHER	350,149.53	-
11.00.00.00.00.3401.0000	ACCRUAL	-	2,090,402.17
EXP-111	SALARIES	1,020,613.55	-
EXP-121	BENEFITS	837,149.57	-
EXP-230	CONTRACTUAL SERVICES	2,104,410.01	-
EXP-240	SUPPLIES	62,444.80	-
EXP-450	CAPITAL OUTLAY	62,546.40	-
		<u>4,437,313.86</u>	<u>4,437,313.86</u>
<b>GF-6 AJE To record JROTC contributions</b>			
<i>To reverse AJE 9128</i>			
26.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	215,677.70	-
26.11.00.00.00.1200.0030	ARMY JROTC REVENUE	-	156,605.93
26.11.00.00.00.1200.0031	AIR FORCE JROTC REVENUE	-	42,053.24
26.11.00.00.00.1200.0032	MARINE JROTC-REVENUE	-	17,018.53
		<u>215,677.70</u>	<u>215,677.70</u>
<b>GF-7 AJE To record prepaid expense</b>			
12.00.00.00.00.2400.0000	PREPAID EXPENSE	1,399,261.90	-
EXP-230	CONTRACTUAL SERVICES	-	104.00
EXP-250	EQUIPMENT	-	1,399,157.90
EXP-252	LIBRARY BOOKS	-	8,391.33
16.00.00.00.00.2400.0000	PREPAID	8,391.33	-
		<u>1,407,653.23</u>	<u>1,407,653.23</u>

**APPENDIX I, CONTINUED**

<b>FEDERAL GRANTS FUND (FG)</b>			
<b>#</b>	<b>Name</b>	<b>Debit</b>	<b>Credit</b>
<b>FG-1 AJE To record additional accrual</b>			
21.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	41,378.05	-
21.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	112,909.00
21.00.00.00.00.3401.0000	ACCRUAL	112,909.00	-
22.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	924,826.90	-
22.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	563,402.74	-
22.00.00.00.00.3000.0000	ACCOUNTS PAYABLE	-	84,150.91
22.00.00.00.00.3401.0000	ACCRUAL	84,150.91	-
24.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	977,035.70	-
24.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	76,566.87	-
Accounts payable	Accounts payable	-	1,901,862.60
Accrued Payroll	Accrued Payroll	-	681,347.66
EXP-0111 Thru 0114	Salaries and Wages	531,125.58	-
EXP-0121	Benefits	150,222.08	-
EXP-0230	CONTRACTUAL	1,587,809.53	-
EXP-0240	SUPPLIES	302,998.32	-
EXP-0250	EQUIPMENT	11,054.75	-
Revenue	Revenue	-	1,901,862.60
Revenue	Revenue	-	681,347.66
		<u>5,363,480.43</u>	<u>5,363,480.43</u>
<b>FG-2 AJE To adjust deferred revenues/AR</b>			
21.00.00.00.00.2100.0000	INTERFUND CASH	1,597.69	-
21.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	-	60,921.36
21.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	82,217.58	-
21.09.00.00.00.1200.2300	CHARACTER ED REVENUE	-	38,674.53
21.11.00.00.00.1200.7500		14,505.26	-
22.00.00.00.00.2100.0000	INTERFUND CASH	-	443,911.15
22.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	-	233,957.57
22.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	58,227.42	-
23.00.00.00.00.3107.0000	DUE TO FEDERAL AGENCIES	14,505.26	-
24.00.00.00.00.2100.0000	INTERFUND CASH	442,313.46	-
24.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	154,411.32	-
Fund 21	REVENUE	1,275.33	-
Fund 22	REVENUE	619,641.30	-
Fund 23	REVENUE	-	14,505.26
Fund 24	REVENUE	-	596,724.78
Revenue	Revenue	0.03	-
		<u>1,388,694.65</u>	<u>1,388,694.65</u>
<b>FG-3 AJE To correct AJE 972, 9103, 9156</b>			
21.00.00.00.00.2300.0000	ACCOUNTS RECEIVABLES	349,783.03	-
21.00.00.00.00.3401.0000	ACCRUAL	-	349,783.03
21.XX.XX.XX.XX.1200.3	REVENUE	-	349,783.03
21.11.26.00.31.0230.1250	FNS-CHILD NUTR.-CONTRACT.	349,783.03	-
		<u>699,566.06</u>	<u>699,566.06</u>

<b>Government-wide</b>	<b>Correcting Entry</b>				<b>Total</b>
<b>Summary of Misstatements</b>	<b>Balance Sheet</b>				<b>Total Should Equal 0</b>
	Assets	Liabilities	Balance, Net Assets,	Income Statement	
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
<b>Current-Year Known Misstatements</b>					
Claims payable		(280,000)		280,000	0
<b>Total Known Misstatements</b>	0	(280,000)		280,000	0

<b>General Fund</b>	<b>Correcting Entry</b>				<b>Total</b>
<b>Summary of Misstatements</b>	<b>Balance Sheet</b>				<b>Total Should Equal 0</b>
	Assets	Liabilities	Balance, Net Assets,	Income Statement	
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
<b>Current-Year Known Misstatements</b>					
To reconcile AP subsidiary ledger		(690,618)		690,618	0
To adjust for prior year accrual		1,365,905		(1,365,905)	0
<b>Total Known Misstatements</b>	0	675,287		(675,287)	0
<b>Current-Year Likely Misstatements</b>					
<u>Likely Misstatements (Excluding Extrapolated Items)</u>					
Understatement of accounts payable		(223,857)		223,857	0
To record funds that are not reimbursable.	(400,000)	400,000			0
<b>Total Likely Misstatements</b>	(400,000)	176,143		223,857	0
<b>Total Known + Likely Current-Year Misstatements</b>	(400,000)	851,430		(451,430)	0

<b>Federal Grants Fund</b>	<b>Correcting Entry</b>				<b>Total</b>
<b>Summary of Misstatements</b>	<b>Balance Sheet</b>				<b>Total Should Equal 0</b>
	Assets	Liabilities	Balance, Net Assets,	Income Statement	
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
<b>Current-Year Known Misstatements</b>					
<b>Total Known Misstatements</b>	0	0		0	0
<b>Current-Year Likely Misstatements</b>					
<u>Likely Misstatements (Excluding Extrapolated Items)</u>					
To adjust A/R and Deferred revenues	(311,121)	311,121			0
<b>Subtotal - Likely Misstatements (Excluding Extrapolated Items)</b>	(311,121)	311,121		0	0
<u>Likely Misstatements - Extrapolated Items</u>					
Unrecorded Liabilities (EXP)	158,656	(158,656)		158,656	0
<b>Subtotal - Likely Misstatements - Extrapolated Items</b>	158,656	(158,656)		0	0
<b>Total Likely Misstatements</b>	(152,465)	152,465		0	0
<b>Total Known + Likely Current-Year Misstatements</b>	(152,465)	152,465		0	0

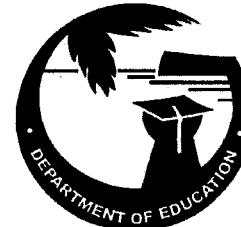




**Taling M. Taitano**  
Interim Superintendent of Education

## DEPARTMENT OF EDUCATION OFFICE OF THE SUPERINTENDENT

www.gdoe.net  
P.O. Box D.E., Hagatña, Guam 96932  
Telephone: (671)475-0457 or 300-1547/1536 • Fax: (671)472-5003



June 27, 2012

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, each major fund, and the aggregate remaining fund information of the Guam Department of Education (the "GDOE"), as of and for the year ended September 30, 2011, which collectively comprise the GDOE's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the GDOE in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

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

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

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

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

- a. The financial statements properly disclose all 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 GASB Codification of Government Accounting and Financial Reporting Standards 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-GDOE activity and balances have been appropriately classified and reported.
  - h. Deposits 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.
1. The GDOE has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
  2. The GDOE has provided you:
    - a. Minutes of the meetings of the Guam Education Board (GEB) from April 6, 2011 through the date of this letter, which meetings were held on the following dates:
 

April 6, 2011	January 12, 2012
April 27, 2011	January 25, 2012
May 23, 2011	February 17, 2012
June 30, 2011	February 29, 2012
July 19, 2011	March 20, 2012
August 26, 2011	April 9, 2012
September 22, 2011	April 25, 2012
October 19, 2011	May 16, 2012
November 30, 2011	
December 21, 2011	

- b. Minutes of the meetings of Education Financial Support Commission (EFSC) from July 30, 2010 through the date of this letter, which meetings were held on the following dates:
- |                    |                    |
|--------------------|--------------------|
| July 30, 2010      | September 28, 2011 |
| August 27, 2010    | October 31, 2011   |
| September 15, 2010 | November 30, 2011  |
| October 20, 2010   | December 16, 2011  |
| November 17, 2010  | December 28, 2011  |
| December 15, 2010  | January 25, 2012   |
| January 31, 2011   | February 25, 2012  |
| February 28, 2011  | March 29, 2012     |
| March 16, 2011     | April 25, 2012     |
| April 6, 2011      |                    |
- c. Financial records and related data for all financial transactions of the GDOE and for all funds administered by the GDOE. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the GDOE and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
- d. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
- Action taken by GDOE management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the GDOE, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - 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, except for the United States of Department of Education Federal Fiscal year (FFY) 2011 Special Conditions dated June 15, 2011.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. The GDOE 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 GDOE and don not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the GDOE involving:
- Management.
  - Employees who have significant roles in internal control over financial reporting.

- c. Others if the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the GDOE received in communications from employees, former employees, analysts, regulators, or others except for communications from GDOE's internal auditors that have been provided you concerning NAF activities.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*, except as disclosed in Note 3 to the financial statements.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. 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.
11. 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 GDOE's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The GDOE is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
13. 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.
14. 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 June 2011.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations

- d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through GDOE, 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.
15. 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.
16. 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, violations of provisions of contracts or grant agreements, or abuse that you report.
17. 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.
18. No organizations were identified that meet the criteria established in GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$640,000 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.

19. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

20. The GDOE has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
21. 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 GDOE is contingently liable.
22. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - 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.
23. 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.
24. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, except as disclosed in Note 3 to the financial statements and as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*, except as disclosed in Note 3 to the financial statements.
25. The GDOE has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in note 1.H to the financial statements.
26. The GDOE has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
27. No division of the GDOE has reported a material instance of noncompliance to us, except

- as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance..
28. No events have occurred after September 30, 2011, but before June 27, 2012, the date the financial statements were issued *or* available to be issued that require consideration as adjustments to or disclosures in the financial statements.
  29. 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 of Government Accounting and Financial Reporting Standards 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.
  30. Regarding supplementary information:
    - a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards 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 of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
    - c. The methods of measurement and presentation of the supplementary information has not changed from those used in the prior period.
  31. Management has disclosed whether, subsequent to September 30, 2011, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
  32. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
  33. Arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
  34. Receivables recorded in the financial statements represent valid claims against debtors for appropriations or grants arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
  35. We believe that all expenditures that have been deferred for future periods are recoverable.
  36. We believe that the actuarial assumptions and methods used to measure pension costs for financial accounting purposes are appropriate in the circumstances.
  37. We do not plan to make frequent amendments to our pension or other post-retirement benefit plans.
  38. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We

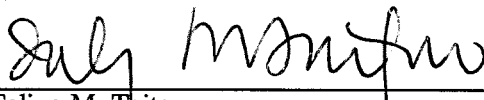
are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.

39. As of August 23, 2011, GDOE received a Certification of Substantial Completion for the JFK High School Project. GDOE's rental payments for the use of the new High School will commence in December 2011 for base and additional rentals and continue through December 1, 2040 (with incremental increases subsequent to the first payment), with varying interest rates of 5.5% - 6.875%. Title to the new High School will transfer to GDOE upon the payment of all required rents. A capital lease and the acquisition value of the school were recorded at \$65,750,000 with one year of depreciation recorded as of September 30, 2011.
40. During fiscal year 2011, GDOE implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions, and GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of these pronouncements did not have a material effect on the financial statements of the GDOE.
41. In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
42. In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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 provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
43. In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
44. In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for



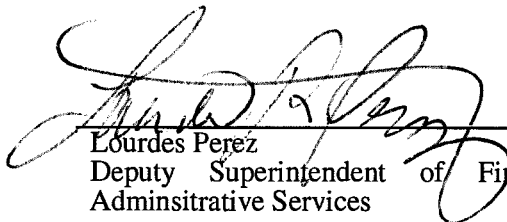
periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

45. In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
46. In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
47. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the State has been discovered.
48. On June 3, 2011, the Guam Legislature enacted Public Law 31-74 authorizing the expansion of Ukudo High School in the amount of \$21,818,000. The financing of this facility is to be funded by entering into Qualified School Construction Bonds as authorized under Section 1521 of the American Recovery and Reinvestment Act of 2009 and the issuance of tax exempt bonds of lease certificates. As of September 30, 2011, no commitment has been entered into with respect to the construction of this facility.




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Taling M. Taitano  
 Acting Superintendent of Education




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Lourdes Perez  
 Deputy Superintendent of Financial Affairs and  
 Administrative Services




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Margaret Artero  
 Acting Comptroller

APPENDIX A

<b>Government-wide</b> Summary of Misstatements	<b>Correcting Entry</b>				<b>Total</b>
	<b>Balance Sheet</b>				
	Assets	Liabilities	Balance, Net Assets,	Income Statement	
Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	<b>Total Should Equal 0</b>	
<b>Current-Year Known Misstatements</b>					
Claims payable		(280,000)		280,000	0
<b>Total Known Misstatements</b>	0	(280,000)		280,000	0
<b>General Fund</b>					
Summary of Misstatements					
	<b>Correcting Entry</b>				<b>Total</b>
	<b>Balance Sheet</b>				
	Assets	Liabilities	Balance, Net Assets,	Income Statement	
Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	<b>Total Should Equal 0</b>	
<b>Current-Year Known Misstatements</b>					
To reconcile AP subsidiary ledger		(690,618)		690,618	0
To adjust for prior year accrual		1,365,905		(1,365,905)	0
<b>Total Known Misstatements</b>	0	675,287		(675,287)	0
<b>Current-Year Likely Misstatements</b>					
<b>Likely Misstatements (Excluding Extrapolated Items)</b>					
Understatement of accounts payable		(223,857)		223,857	0
To record funds that are not reimbursable.	(400,000)	400,000			0
<b>Total Likely Misstatements</b>	(400,000)	176,143		223,857	0
<b>Total Known + Likely Current-Year Misstatements</b>	(400,000)	851,430		(451,430)	0
<b>Federal Grants Fund</b>					
Summary of Misstatements					
	<b>Correcting Entry</b>				<b>Total</b>
	<b>Balance Sheet</b>				
	Assets	Liabilities	Balance, Net Assets,	Income Statement	
Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	<b>Total Should Equal 0</b>	
<b>Current-Year Known Misstatements</b>					
<b>Total Known Misstatements</b>	0	0		0	0
<b>Current-Year Likely Misstatements</b>					
<b>Likely Misstatements (Excluding Extrapolated Items)</b>					
To adjust A/R and Deferred revenues	(311,121)	311,121			0
<b>Subtotal - Likely Misstatements (Excluding Extrapolated Items)</b>	(311,121)	311,121		0	0
<b>Likely Misstatements - Extrapolated Items</b>					
Unrecorded Liabilities (EXP)		(158,656)		158,656	0
<b>Subtotal - Likely Misstatements - Extrapolated Items</b>	158,656	(158,656)		(158,656)	0
<b>Total Likely Misstatements</b>	(152,465)	152,465		0	0
<b>Total Known + Likely Current-Year Misstatements</b>	(152,465)	152,465		0	0