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June 6, 2016

Mr. Jon Fernandez  
Superintendent  
Guam Department of Education  
P.O. Box DE  
Hagatna, GU 96932

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, 2015, 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 6, 2016.

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 December 1, 2015. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on whether GDOE’s financial statements and the accompanying supplementary information for the year ended September 30, 2015, are presented fairly in relation to the financial statements as a whole, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) and to perform specified procedures on the required supplementary information for the year ended September 30, 2015;
- To express an opinion on whether the supplementary information that accompanies the financial statements including the schedule of expenditures of federal awards, is presented fairly, in all material respects, in relation to the financial statements 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, 2015, 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 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 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.

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 GDOE'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 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 was not designed to 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. No significant accounting estimates were reflected in GDOE's 2015 financial statements.

## **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 GDOE's financial reporting process. Such proposed adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2015 financial statements.

In addition, we have attached to this letter, as Appendix A to Attachment II, summaries 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 2015 financial statements. During the year ended September 30, 2015, there were no significant changes in previously adopted accounting policies or their application, except as follows:

During the year ended September 30, 2015, GDOE implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements has no impact on GDOE's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, implementation has resulted in the restatement of GDOE's fiscal year 2014 department-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of October 1, 2014 for governmental activities decreased by \$384,713,588 as a result of the implementation of GASB Statement No. 68.
- GASB 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 implementation of this statement did not have a material effect on the financial statements of GDOE.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of GDOE.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management believes that the implementation of this statement will have a material effect on the financial statements of GDOE.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management believes that the implementation of this statement will have a material effect on the financial statements of GDOE.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

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

When audited financial statements are included in documents containing other information such as GDOE's 2015 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 2015 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 2015 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2015.

## **SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, 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 FINDINGS OR ISSUES ARISING FROM THE AUDIT 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 findings or issues requiring communication to GDOE.

## **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.

## 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 Attachment II, a copy of the representation letter we obtained from management.

## CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 6, 2016, on the GDOE's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 6, 2016, involving the GDOE's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within those reports, we noted certain matters that were considered to be material weaknesses and significant deficiencies under standards established by the American Institute of Certified Public Accountants and 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.

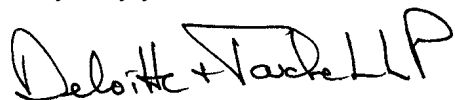
We have communicated to management, in separate letters also dated June 6, 2016, certain deficiencies and other matters related to the GDOE's internal control over financial reporting and the information technology environment that we identified during our audit.

\* \* \* \* \*

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, 2015**

<b>GOVERNMENT WIDE</b>			
<b>#</b>	<b>Name</b>	<b>Debit</b>	<b>Credit</b>
<b>1 AJE To adjust beginning net pension liability</b>			
820-370000	NET PENSION LIABILITY	-	400,356,244
820-370100	AMT TO BE PROVIDED-NET PENSION LIABILITY	400,356,244	-
		<u>400,356,244</u>	<u>400,356,244</u>
<b>2 AJE To record inflow/outflow related to pension</b>			
820-370000	NET PENSION LIABILITY	9,406,708	-
820-371500	DEFERRED INFLOWS OF RESOURCES	-	12,094,558
820-270000	DEFERRED OUTFLOWS OF RESOURCES	2,687,850	-
		<u>12,094,558</u>	<u>12,094,558</u>
<b>3 AJE To agree deferred inflows</b>			
820-370000	NET PENSION LIABILITY	22,644,759	-
820-371500	DEFERRED INFLOWS OF RESOURCES	-	22,644,759
		<u>22,644,759</u>	<u>22,644,759</u>
<b>4 AJE To record pension expense</b>			
820-370000	NET PENSION LIABILITY	-	10,327,324
820-370200	PENSION EXPENSE	10,327,324	-
		<u>10,327,324</u>	<u>10,327,324</u>
<b>5 AJE To record CY contributions as deferred outflow</b>			
820-270000	DEFERRED OUTFLOWS OF RESOURCES	40,161,339	-
820-370200	PENSION EXPENSE	-	40,161,339
		<u>40,161,339</u>	<u>40,161,339</u>
<b>6 AJE To adjust net pension liability</b>			
820-370000	NET PENSION LIABILITY	16,339,197	-
820-370200	PENSION EXPENSE	-	696,541
820-370100	AMT TO BE PROVIDED-NET PENSION LIABILITY	-	15,642,656
		<u>16,339,197</u>	<u>16,339,197</u>
<b>7 AJE To adjust JFK High School Lease</b>			
820-380100	AMT TOBE PROVIDED-C.LEASE	-	915,000
820-380300	CAPITAL LEASE -CURRENT	-	65,000
820-380200	CAPITAL LEASE-LONG TERM	980,000	-
		<u>980,000</u>	<u>980,000</u>
<b>8 AJE To adjust Tiyan Lease</b>			
820-380100	AMT TOBE PROVIDED-C.LEASE	2,369,150	-
820-380300	CAPITAL LEASE -CURRENT	97,579	-
820-380200	CAPITAL LEASE-LONG TERM	-	2,466,729
		<u>2,466,729</u>	<u>2,466,729</u>

**GUAM DEPARTMENT OF EDUCATION  
SUMMARY OF CORRECTED MISSTATEMENTS  
SEPTEMBER 30, 2015**

**GOVERNMENT WIDE, Continued**

<b>9 AJE To adjust Municipal School Leaseback</b>			
820-380100	AMT TOBE PROVIDED-C.LEASE	-	7,037,561
820-380300	CAPITAL LEASE -CURRENT	-	370,000
820-380200	CAPITAL LEASE-LONG TERM	7,580,000	-
820-280400	DEFERRED MAINT. COST	-	125,000
820-280300	PREPAYMENT-CAPITAL LEASE	-	47,439
		<u>7,580,000</u>	<u>7,580,000</u>
<b>10 AJE To adjust Okkodo Expansion LTD</b>			
820-380100	AMT TOBE PROVIDED-C.LEASE	-	775,000
820-380300	CAPITAL LEASE -CURRENT	-	55,000
820-380200	CAPITAL LEASE-LONG TERM	830,000	-
		<u>830,000</u>	<u>830,000</u>
<b>11 AJE To adjust sick leave</b>			
820-381300	DEF.CONTRIB.RETIRE/SICK	-	899,469
820-381200	EMPLOYEE BENEFITS	899,469	-
		<u>899,469</u>	<u>899,469</u>
<b>12 AJE To adjust compensated absences</b>			
820-340300	ACCRUED ANNUAL LEAVE-CURR	-	7,386
820-340700	ACCRUED ANNUAL LEAVE-LT	-	84,948
820-381200	EMPLOYEE BENEFITS	92,334	-
		<u>92,334</u>	<u>92,334</u>

**GENERAL FUND**

#	Name	Debit	Credit
<b>1 AJE To reconcile opening net position</b>			
110-029000-DTSS	MISCELLANEOUS EXPENSE ACCOUNTS	-	200
110-210000	INTERFUND CASH	-	4,106
110-441900	FUND BALANCE	4,306	-
180-210000	INTERFUND CASH	-	222,511
180-441900	FUND BALANCE	222,511	-
		<u>226,817</u>	<u>226,817</u>
<b>2 AJE To reconcile due to/from primary govt</b>			
110-110000	TRANSFERS IN FROM GF	14,315	-
110-110500	REVENUE	1	-
110-210000	INTERFUND CASH	349,990	-
110-230100	DUE FROM GENERAL FUND	-	350,001
110-330000	ACCOUNTS PAYABLE OTHERS	-	14,305
121-11000	TRANSFERS IN FROM GF	350,000	-
121-210000	INTERFUND CASH	-	350,000
130-023300-GADM	LEASE RENTAL BUILDING	-	10
130-110000	TRANSFERS IN FROM GF	397,720	-
130-210000	INTERFUND CASH	10	-
130-230000	ACCOUNTS RECEIVABLE	-	397,720
		<u>1,112,036</u>	<u>1,112,036</u>

GUAM DEPARTMENT OF EDUCATION  
SUMMARY OF CORRECTED MISSTATEMENTS  
SEPTEMBER 30, 2015

**FEDERAL GRANTS FUND**

#	Name	Debit	Credit
	<b>1 AJE To reconcile opening net position</b>		
211-210000	INTERFUND CASH	4,106	-
211-441900	FUND BALANCE	-	4,106
230-210000	INTERFUND CASH	222,511	-
230-441900	FUND BALANCE	-	222,511
		<u>226,617</u>	<u>226,617</u>





# DEPARTMENT OF EDUCATION OFFICE OF THE SUPERINTENDENT

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ATTACHMENT II



**JON J. P. FERNANDEZ**  
Superintendent of Education

June 6, 2016

Deloitte & Touche LLP  
361 South Marine Corps Drive  
Tamuning, GU 96929

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* (GDOE), as of and for the year ended September 30, 2015, 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, as applicable, of the GDOE 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 preparation and fair presentation in the basic financial statements of financial position of the governmental activities, the business-type 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 internal control:
  - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - To prevent and detect fraud
- c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information.

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 GAAP. In addition:
  - a. Such financial statements present only the financial statements of GDOE and are not intended to present fairly the financial position and results of operations of the Government of Guam in conformity with GAAP.
  - b. 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.
  - c. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - d. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - e. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - f. Required supplementary information is measured and presented within prescribed guidelines.
  - g. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - h. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - i. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards Section 2200.159 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.
  - j. 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.
  - k. 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.
  - l. The GDOE's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
  - m. The GDOE has followed GASB Codification Section 1800.178) regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.

- n. Interfund, internal, and intra-GDOE activity and balances have been appropriately classified and reported.
- o. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
- 2. The GDOE has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
- 3. The GDOE has made available to you:
  - a. Public laws as enacted by the Guam Legislature.
  - b. All minutes of the meetings of the Guam Education Board (GEB) from October 2014 through the date of this letter, which meetings were held on the following dates:

October 27, 2014	August 10, 2015
November 26, 2014	August 25, 2015
January 6, 2015	September 2, 2015
January 27, 2015	September 24, 2015
February 25, 2015	October 12, 2015
March 6, 2015	November 3, 2015
March 17, 2015	December 9, 2015
March 31, 2015	December 16, 2015
April 21, 2015	January 11, 2016
May 5, 2015	January 20, 2016
May 26, 2015	February 5, 2016
June 30, 2015	February 12, 2016
July 15, 2015	March 15, 2016
July 28, 2015	April 26, 2016

- c. All minutes of the meetings of the Education Financial Support Commission (EFSC) from October 2014 through the date of this letter, which meetings were held on the following dates:
 

October 21, 2014	September 29, 2015
November 26, 2014	October 28, 2015
January 30, 2015	November 25, 2015
February 26, 2015	November 30, 2015
March 18, 2015	December 28, 2015
April 22, 2015	January 20, 2016
May 27, 2015	February 24, 2016
June 10, 2015	March 30, 2016
July 29, 2015	April 20, 2016
August 26, 2015	
- d. All 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.

- e. 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 GDOE management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the GDOE.
  - b. Communications with 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) 2014 Special Conditions dated June 30, 2015.
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 for each opinion unit. A summary of such uncorrected misstatements has been attached as Appendix A.
6. 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 do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the GDOE involving:
  - a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others, where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the GDOE's financial statements communicated by employees, former employees, analysts, regulators, or others, except for communications from GDOE's internal auditors that have been provided concerning NAF activities and other matters which audits are still in progress.
9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed in Note 4 to the financial statements.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. 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.
12. No organizations, except the Foundation for Public Education, Inc. (Foundation), as noted below were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

On August 2013, the Foundation, was established. It is a legally separate, tax-exempt entity

which meets the criteria set forth for component units under GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. The Foundation provides financial support for the objectives, purpose and programs of GDOE. Although GDOE does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are restricted to the activities of GDOE. Because the resources held by the Foundation can only be used by, or for the benefit of GDOE, the Foundation is considered a component unit of GDOE. As of September 30, 2015, the Foundation reported minimal collections below \$25,000, therefore omission of the Foundation is not considered material to the financial statements of GDOE.

Except where otherwise stated below, immaterial matters less than \$3,000,000 collectively for governmental activities, \$1,300,000 collectively for the General Fund, \$640,000 collectively for the Federal Grants Assistance Fund, and \$10,000 collectively for the aggregate remaining fund information are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to or disclosure in, the basic financial statements.

13. Except as listed in Appendix A, there are no transactions that have not been properly recorded and reflected in the financial statements.
14. The GDOE has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. Regarding related parties:
  - a. We have disclosed to you the identity of the GDOE's related parties and all the related party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
16. 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 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.
17. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
  - c. 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 noted on Note 4F.

18. 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.
19. The GDOE has complied with all aspects of contractual agreements that may affect the financial statements.
20. No department or agency of the GDOE has reported a material instance of noncompliance to us.
21. The GDOE 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.
22. The GDOE is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors or 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 judgements, the GDOE 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 the 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 the past three fiscal years.
23. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
24. Arrangement with financial institutions involving compensating balances and other arrangements involving restriction on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
25. 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.
26. We believe that all expenditures that have been deferred for future period are recoverable.
27. We believe that the actuarial assumptions and methods used to measure pension costs for financial reporting purposes are appropriate in the circumstances.
28. We do not plan to make frequent amendments to our pension or other post-retirement benefit plans.
29. 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.

30. During the year ended September 30, 2015, GDOE implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements has no impact on GDOE's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, implementation has resulted in the restatement of GDOE's fiscal year 2014 department-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of October 1, 2014 for governmental activities decreased by \$384,713,588 as a result of the implementation of GASB Statement No. 68. Refer to Note 5 for more information regarding GDOE's pensions.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

31. In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of GDOE.

32. In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

33. In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management believes that the implementation of this statement will have a material effect on the financial statements of GDOE.
34. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management believes that the implementation of this statement will have a material effect on the financial statements of GDOE.
35. In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
36. In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.
37. As of September 30, 2015, \$55,206,200 of the Tiyan properties purchased were occupied. The remaining \$31,942,770 of properties have not been recorded as of September 30, 2015 and will be accounted for when construction is complete.

Repayment terms of the Tiyan lease have been amended per the October 2014 agreement. No subsequent changes or amendments occurred after October 2014.

38. 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 GAAP.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period



39. Regarding supplementary information:
- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GAAP.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
40. No events have occurred after September 30, 2015, but before June 6, 2016, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.



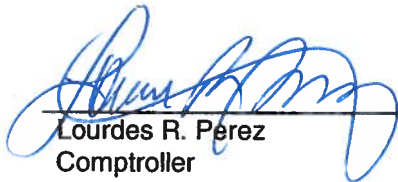
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Jon J.P. Fernandez  
Superintendent



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Taling Taitano  
Deputy Superintendent of Finance and Administrative  
Services



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Lourdes R. Perez  
Comptroller



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Franklin J.T. Cooper-Nurse  
Chief Internal Auditor

**Guam Department of Education  
 General Fund  
 Appendix A  
 Summary of Uncorrected Misstatements  
 September 30, 2015**

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct understatement of accounts payable				(812,000)			812,000	
To correct misstatement of accrued balances	300,000		153,000					(453,000)
	300,000		153,000	(812,000)			812,000	(453,000)

**Guam Department of Education  
 Federal Grants Assistance Fund  
 Appendix A  
 Summary of Uncorrected Misstatements  
 September 30, 2015**

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct misstatement of accrued balances		(300,000)	300,000					
		(300,000)	300,000					