

August 22, 2014

Honorable Eddie Baza Calvo
Governor of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds") as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon date August 22, 2014.

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 the Funds' is responsible.

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

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 12, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Funds' basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Funds' internal control over financial reporting and on their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

We considered the Funds' internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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.

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 are reflected in the Funds' 2013 financial statements.

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. We have attached to this letter, as Appendix A to Attachment I, 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.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Attachment II and are reflected in the 2013 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Funds' 2013 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 2013.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions 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 the Office of the Governor.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

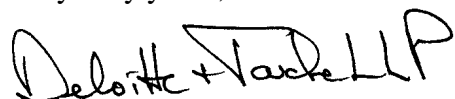
CONTROL-RELATED MATTERS

We have issued a separate report to you, dated August 22, 2014, on the Funds' 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 identified and included in Attachment III, certain deficiencies related to the Funds' internal control over financial reporting that we identified during our audit.

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

Very truly yours,

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



Eddie Baza Calvo
Governor
Ray Tenorio
Lt. Governor

Government of Guam
(Gubetnomention Guahan)
Department of Administration
(Dipattamenton Atmenestration)
DIRECTOR'S OFFICE
(Ufisinan Direktot)

Post Office Box 884 Hagatfia, Guam 96932



Benita A. Manglona
Director
John A.B. Pangellinan
Deputy Director

August 22, 2014

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

We are providing this letter in connection with your audits of the balance sheets of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the "Funds"), as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balances for the years ended September 30, 2013 and 2012, which collectively comprise the Funds' 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 Funds' in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the balance sheets and the related statements of revenues, expenditures, and changes in fund balances, in conformity with GAAP.
- b. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- 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 statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the American Institute of Certified Public Accountants disclosure checklist for State and Local Governments.

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. The financial statements present only the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with GAAP.
 - b. The financial statements properly classify all funds and activities.
 - c. Deposits and investments are properly classified in the category of custodial credit risk.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - f. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. Management has provided to you all relevant information and access as agreed in the terms of the audit engagement letter, including:
 - a. Public Laws as enacted by the Guam Legislature.
 - b. Financial records and related data for all financial transactions of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A and for all funds administered by the Government of Guam relating to the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There has been no:
 - a. Action taken by the Government of Guam or management of the Funds' that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A.
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 Government of Guam has not performed a risk assessment, including the assessment of the risk that the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government of Guam and do not believe that the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Government of Guam involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Funds' received in communications from employees, former employees, analysts, regulators, or others.

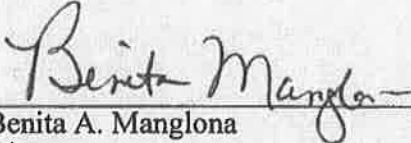
8. There are no unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Government Accounting Standards Board (GASB) Codification of Government Account and Financial Report Standards ("GASB Codification") Section C50, *Claims and Judgments*. We did not utilize the services of legal counsel with respect to litigation, claims or assessments through the date of this letter.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. 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.
11. We are responsible for the fair presentation of the additional information accompanying the basic financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A that is presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than \$80,000 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.

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

16. 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.
17. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 7 to the financial statements.
18. The Government of Guam 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 3 to the financial statements.
19. The Government of Guam has complied with all aspects of contractual agreements that may have an effect on the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A in the event of noncompliance.
20. No department or agency of the Government of Guam has reported a material instance of noncompliance to us.
21. Except as disclosed in note 9 to the financial statements, no events have occurred after September 30, 2013 but before August 22, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
22. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

23. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
24. Management has disclosed whether, subsequent to September 30, 2013, 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.
25. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
 - b. The completeness and adequacy of the disclosures related to the fair values are in conformity with accounting principles generally accepted in the United States of America.
 - c. No events have occurred subsequent to September 30, 2013 and before August 22, 2014, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
26. Management of the Funds' believe that it is in compliance with all significant limitations and restrictions of the Government of Guam Limited Obligations (Section 30) Bonds, 2009 Series A bond covenants as of September 30, 2013.
27. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
28. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.


Benita A. Manglona
Director


Kathrine B. Kikigi
Financial Manager

APPENDIX A

CURRENT YEAR UNCORRECTED MISSTATEMENTS				
Entry Description	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
SOLID WASTE OPERATIONS FUND:				
To correct understatement of interest income	60,190			(60,190)
To correct overstatement of allowance for doubtful debts	72,033			(72,033)
To correct overstatement of SWMA expenditures	39,814			(39,814)
To correct overstatement of tipping fees receivable	(108,498)			108,498
CAPITAL PROJECTS FUND:				
To correct understatement of retention payable		(30,897)		30,897
To correct understatement of other liabilities and accruals		(36,215)		36,215
Total Misstatements	63,539	(67,122)		3,573

Journal Entries - AJE

#	Name	Debit	Credit
1 AJE To take up Fund 254 adjustments			
125410701	LANDFILL SEC 30 CONSTRUCTION	-	49,481.62
325454101	INTEREST ON BANK DEPOSITS	132,615.35	-
125414100	DUE TO/FR GENERAL FUND	-	700,351.97
125419150	PREPAYMENTS	-	43,433.08
325450100	TRANSFER IN GF	-	13,500.00
325454103	GAIN (LOSS) ON INVESTMENT	109,251.77	-
5254D0910CDCE201230	LANDFILL CONSTRUCTION	436,342.98	-
254-290DSF	TRANSFERS OUT TO DEBT SERVICE FUND	128,556.57	-
		<u>806,766.67</u>	<u>806,766.67</u>
	To adjust BOG construction account to agree to investment statement.		
2 AJE To adjust receiver fees payable			
125421590	ACCRUED EXPENDITURES	335,246.47	-
5254D0910CDCE201230	LANDFILL CONSTRUCTION	-	335,246.47
		<u>335,246.47</u>	<u>335,246.47</u>
	To adjust receiver fees payable to agree to confirmation from Receiver.		
3 AJE To take up unrecorded payables			
5254D0910CDCE201230	LANDFILL CONSTRUCTION	197,924.00	-
125421110A	CONTRACTS PAYABLE	-	197,924.00
		<u>197,924.00</u>	<u>197,924.00</u>
	To accrue payable to Meeda Corporation: ref. billing for Hamon Residential transfer station period:09/01/2013-09/30/2013.		
4 AJE To adjust receivable balance			
141612101	A/R - S.W. TIPPING FEES	177,565.81	-
141624315	DEFERRED REVENUE	901,656.05	-
DTT2	Revenue adjustments	-	1,079,221.86
		<u>1,079,221.86</u>	<u>1,079,221.86</u>
	To adjust receivables and deferred revenue per GL to agree to receivables and deferred revenue per subledger.		
5 AJE To adjust payable to Far East			
141621590	ACCRUED EXPENDITURES	521,323.62	-
5416D0910CDCE203240	SWMA OPERATIONS	-	521,323.62
		<u>521,323.62</u>	<u>521,323.62</u>
	To adjust payable to Far East Equipment.		
6 AJE To take up unrecorded cash account			
DTT2	Revenue adjustments	-	56,194.55
141610422DTT	BOG Solid Waste Tipping Fees (acct. xx7011)	56,194.55	-
		<u>56,194.55</u>	<u>56,194.55</u>
	To take up unrecorded Solid Waste Tipping fees cash account		
7 AJE To record HCPS expenditures			
DTT5	Host Community Premium Benefits	313,561.94	-
DTT6	Host Community Premium Benefits payable	-	166,669.38
DTT7	Other Accrued expenses	-	146,892.56
		<u>313,561.94</u>	<u>313,561.94</u>
	To record Host Community Premium Surcharge benefits for FY 2013.		
8 AJE To adjust receiver fees payable			
141621110B	RECEIVER FEES PAYABLE	4,360.88	-
5416D0910CDCE203230	SWMA OPERATIONS	-	4,360.88
		<u>4,360.88</u>	<u>4,360.88</u>
	To adjust receiver fees payable under Operations Fund.		

ATTACHMENT II, CONTINUED

Journal Entries - AJE

#	Name	Debit	Credit
	9 AJE To adjust DSF balances		
10000A	Transfers in from General Fund	-	15,672,706.00
20000B	Debt Service - Interest	11,082,706.26	-
136314100	DUE TO/FR GENERAL FUND	195,655.09	-
336350254	Transfers in From Landfill Capital Projects Fund	-	128,556.57
336354101	INTEREST ON BANK DEPOSITS	-	62,127.63
336354103	GAIN (LOSS) ON INVESTMENT	121,236.67	-
136310704	LOB SEC 30 09A - DSF	-	1,442.97
136310213	LANDFILL SEC 30 09 BOND RES FD	-	124,764.85
20000A	Debt Service - Principal	4,590,000.00	-
		<u>15,989,598.02</u>	<u>15,989,598.02</u>

To adjust DSF GL balances to audited balances.

I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2013. The adjustments are the result of errors and are not the result of fraud or illegal acts.


 Kathrine B. Kakigi
 Financial Manager

SECTION I – DEFICIENCIES

We identified, the following deficiencies involving the Solid Waste Funds' internal control over financial reporting for the year ended September 30, 2013 that we wish to bring to your attention at this time:

1. Allowance for Doubtful Accounts

A formal policy for the recognition of the allowance for doubtful accounts is not currently in place.

We recommend that a formal policy relative to the recognition of an allowance for doubtful accounts be established.

2. Encumbrances

During tests of encumbrances, the following were noted:

- a. Of ten encumbrances aggregating \$13,607,494 tested under Fund 416, six items did not agree to audit expectations by \$1,393,643 either due to expired or invalid items. An audit reclassification was proposed to decrease the reserve.
- b. Encumbrances aggregating \$4,018,837 under Fund 254 as of September 30, 2013 were overstated by \$2,141,437 either due to expired or invalid items. An audit reclassification was proposed to correct the reserve.
- c. Encumbrances associated with two contracts were understated by \$13,307,276. An audit reclassification was proposed to correct the reserve.

<u>Contract#</u>	<u>Particulars</u>	<u>Understatement</u>
C110601722	Waste hauling services	\$ 4,510,506
C110601741	Landfill operations	<u>8,796,770</u>
		\$ <u>13,307,276</u>

We recommend that encumbrances be approved and reviewed for ongoing pertinence. Further, we recommend that reserves be recorded based on contract amounts.

SECTION II – DEFINITIONS

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies of procedures may deteriorate.

The definition of a deficiency is as follows:

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.