

March 11, 2010

Honorable Governor Camacho:  
Territorial Highway Fund:

Dear Governor Camacho:

We have performed an audit of the financial statements of the Territorial Highway Fund (THF) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated March 11, 2010.

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 THF is responsible.

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

Our responsibility under auditing standards generally accepted in the United States of America 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 August 18, 2009. 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 THF’s financial statements and the accompanying supplementary information for the year ended September 30, 2009 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 THF’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, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

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 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.

We considered THF'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 THF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of THF'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.

#### **MANAGEMENT JUDGMENTS AND 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 THF's 2009 financial statements.

#### **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

As the result of our audit work, we identified no matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on THF's financial reporting process.

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. There were no uncorrected misstatements or disclosure items passed identified during our audit.

#### **SIGNIFICANT ACCOUNTING POLICIES**

THF's significant accounting policies are set forth in Note 1 to THF's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application.

#### **CRITICAL ACCOUNTING POLICIES AND PRACTICES**

Critical accounting policies are those that are both most important to the portrayal of THF's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2009.

#### **ALTERNATIVE ACCOUNTING TREATMENTS**

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2009.

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to THF's 2009 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 2009.

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

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

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

#### **MANAGEMENT'S REPRESENTATIONS**

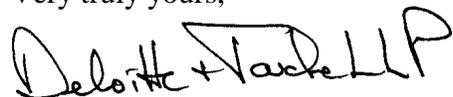
We have made specific inquiries of THF's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations THF is required to provide to its independent auditors under generally accepted auditing standards.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

#### **CONTROL-RELATED MATTERS**

We have issued a separate report to you, also dated March 11, 2010, containing information regarding our consideration of THF's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grant agreements.

This report is intended solely for the information and use of the Government of Guam, the management of the Territorial Highway Fund 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,

Handwritten signature of Deloitte + Touche LLP in black ink.

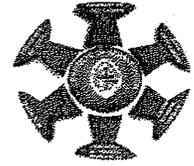


**Felix P. Camacho**  
Governor

**Michael W. Cruz, M.D.**  
Lieutenant Governor

**Department of Administration**  
(DIPATTAMENTON ATEMENSTRASION)  
**DIRECTOR'S OFFICE**  
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**Lourdes M. Perez**  
Director

**Joseph C. Manibusan**  
Deputy Director

March 11, 2010

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

We are providing this letter in connection with your audit of the basic financial statements of the Government of Guam Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (THF), as of and for the year ended September 30, 2009 for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances of THF 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 THF in conformity with accounting principles generally accepted in the United States of America.
- 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, 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 statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

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 classify all funds.
  - b. Interfund activity and balances have been appropriately classified and reported.
  - c. Fund balance reserves and designations are properly classified and, if applicable, approved.

- d. Deposits and investment securities are properly classified in category of custodial credit risk.
2. THF has made available to you all financial records and related data for all financial transactions of THF and for all funds administered by THF. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by THF 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.
  3. There has been no:
    - a. Action taken by THF management that contravenes the provisions of federal laws and Territory of Guam laws and regulations or of contracts and grants applicable to THF.
    - 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.
  4. THF has not performed a formal 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 THF and does not believe that the financial statements are materially misstated as a result of fraud.
  5. We have no knowledge of any fraud or suspected fraud affecting THF 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.
  6. We have no knowledge of any allegations of fraud or suspected fraud affecting THF received in communications from employees, former employees, analysts, regulators, or others.
  7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
  8. 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.

Except where otherwise stated below, matters less than \$60,000 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 financial statements.

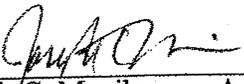
9. There are no transactions that have not been properly recorded in the accounting records underlying the basic financial statements.
10. THF has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
11. The following, to the extent applicable, have been 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). Specifically, interfund transfers from the Special Revenue Fund to the Debt Service Fund represent the transfer of pledged revenues as required by the bond indenture.

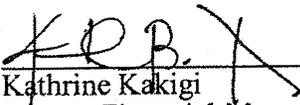
- b. Guarantees, whether written or oral, under which THF is contingently liable.
12. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
    1. 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.
    2. The effect of the change would be material to the financial statements.
  13. 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.
  14. 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 FASB Statement No. 5, *Accounting for Contingencies*.
  15. THF 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 for the debt service reserve and a first lien pledge of revenues.
  16. THF has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
  17. The minimum fund balance calculation for the year ended September 30, 2009 is materially correct and is in accordance with conditions required by the depository.
  18. At September 30, 2009 and for the year then ended, management is of the opinion that THF is in compliance with the bond covenants as outlined in the bond indenture.
  19. No department or agency of THF has reported a material instance of noncompliance to us.
  20. THF has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1)*, and appropriately disclosed such derivatives in accordance with TB 03-1.
  21. No events have occurred subsequent to September 30, 2009 that requires consideration as adjustments to or disclosure in the financial statements.
  22. Management is aware of its requirement to disclose whether, subsequent to September 30, 2009, 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. We represent to you that no such factors have occurred.

APPENDIX A, CONTINUED

23. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
24. The Government of Guam does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Very truly yours,

  
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Joseph C. Manibusan, Acting  
Director, Department of Administration

  
\_\_\_\_\_  
Kathrine Kakigi  
Deputy Financial Manager