



*Statement on Auditing Standards No. 114
The Auditor's Communication With Those Charged
With Governance*

**Department of Chamorro Affairs –
Non-Appropriated Funds**

Year ended September 30, 2012

Ernst & Young LLP



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May 10, 2013

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

Dear Sirs:

We have performed an audit of the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated May 10, 2013.

REQUIRED COMMUNICATIONS

Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*, and other professional standards require the auditor to provide the Board of Trustees (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the DCANAF is responsible. We summarize these required communications as follows:

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS)

The financial statements are the responsibility of the DCANAF's management. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the DCANAF's internal control over financial reporting. Our responsibilities under the audit were communicated to management and outlined in an engagement letter dated November 28, 2012.

Auditors' Responsibilities under US GAAS, continued

Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DCANAF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

As part of our audit, we considered the DCANAF's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

The Adoption of, or a Change in Significant Accounting Policies

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

There were no changes in the DCANAF's significant accounting policies during the year ended September 30, 2012.

Auditor's Judgments about the Quality of the DCANAF's Accounting Principles

We discussed our judgments about the quality, not just the acceptability, of the DCANAF's accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

The DCANAF has consistently applied accounting principles generally accepted in the United States (US GAAP) and adequately disclosed required US GAAP disclosures in the financial statements.

Sensitive Accounting Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

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

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor DCANAF's operations. These budgets include determining how existing financial resources will be used in DCANAF's operations.
- Determining the adequacy of the recorded valuation of receivables, including the need for any reserve.
- Determining the need for any inventory obsolescence provision or adjustment to the lower of cost or market.

Significant Audit Adjustments

During our audit, we proposed adjusting and reclassifying entries, which DCANAF agreed to be reflected in the financial statements (see Appendix A - *Adjusting Journal Entries*).

Other Information in Documents Containing the Audited Financial Statements

We reviewed the Management's Discussion and Analyses and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants regarding any significant auditing and accounting matters during the fiscal year ended September 30, 2012.

Disagreements with Management on Financial Accounting and Reporting Matters

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

Major Issues Discussed with Management Prior to Retention

There were no major accounting issues discussed with DCANAF's management prior to our retention.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues

We are not aware of any significant unusual transactions recorded by DCANAF, or of any significant accounting policies used by DCANAF related to controversial or emerging areas for which there is lack of authoritative guidance.

Serious Difficulties Encountered in Dealing with Management in Performing the Audit

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

Fraud and Illegal Acts

We are not aware of any matters that require communication. Furthermore, DCANAF's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2011 to May 10, 2013 (see Appendix B – *Management's Representation Letter*).

Significant Deficiencies and Material Weaknesses in Internal Control

We have identified certain deficiencies in internal control during the course of our audit which has been included in our separately issued Management Letter dated May 10, 2013.

We have identified a material weakness in internal control, which has been included in our separately issued Compliance and Internal Control Report dated May 10, 2013.

Independence

We are not aware of any relationships between Ernst & Young and our related entities, and DCANAF, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to DCANAF within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

This report is intended solely for the use of DCANAF's board of trustees and management, 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. However, this report is also a matter of public record.

Very truly yours,

Ernst + Young LLP

Appendices

A – Adjusting Journal Entries

B – Management’s Representation Letters

Appendix A

Department of Chamorro Affairs

Year End: September 30, 2012

Adjusting Journal Entries

Date: 10/1/2011 To 9/30/2012

AJE

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit
AJE 01	9/30/2012	Bank of Guam The Chamorro	1040 DCA2	C0110		1,050	
AJE 01	9/30/2012	Accounts Payable	1800 DCA2	C0110			(1,050)
		To revert the stale checks back to cash and accounts payable.					
AJE 02	9/30/2012	Accounts Receivable	1100 DCA2	E0110			(3,902)
AJE 02	9/30/2012	Bad Debt Expense	6010 DCA2	E0110		3,902	
		To reverse the accounts receivable that are determined to be uncollectible.					
AJE 03	9/30/2012	Bad Debt Expense	6010 DCA2	E0110		4,373	
AJE 03	9/30/2012	Allowance for doubtful accounts	EY2012-001 DCA2	E0110			(4,373)
		To provide allowance for accounts that are deemed uncollectible.					
AJE 04	9/30/2012	Accounts Receivable	1100 DCA2	E0120		2,395	
AJE 04	9/30/2012	Other Income	4080 DCA2	E0120			(2,395)
		To reverse the credit balances in the aging of accounts receivable.					
AJE 05	9/30/2012	Accounts Payable	1800 DCA2	N0110			(4,025)
AJE 05	9/30/2012	Advertising	6000 DCA2	N0110		1,912	
AJE 05	9/30/2012	Office Supplies Expense	6076 DCA2	N0110			(1,660)
AJE 05	9/30/2012	Power	60171 DCA2	N0110		3,773	
		To record liabilities in their proper period.					
AJE 06	9/30/2012	Security Deposits	1960 DCA2	N0130		30,252	
AJE 06	9/30/2012	Other Income	4080 DCA2	N0130			(30,252)
		To reverse the security deposits that were refunded to former tenants but not cleared from the books.					
AJE 07	9/30/2012	Furniture and Fixtures	1420 DCA2	TB			(1,500)
AJE 07	9/30/2012	Equipment	1440 DCA2	TB			(8,705)
AJE 07	9/30/2012	Leasehold Improvements	1480 DCA2	TB			(1,422)
AJE 07	9/30/2012	Building Improvements	1520 DCA2	TB			(5,460)
AJE 07	9/30/2012	Retained Earnings	3040 DCA2	TB		17,087	
		To record 2011 audit adjustments.					
AJE 08	9/30/2012	Cost of goods sold	5000 DCA3	UA0110		3,350	
AJE 08	9/30/2012	Sales - books	41000 DCA3	UA0110			(3,350)
		To properly state book sales and cost of goods sold.					
AJE 09	9/30/2012	Inventory obsolescence	EY2012-02 DCA3	F0101		11,707	
AJE 09	9/30/2012	Allowance for inventory obsolescence	EY2012-03 DCA3	F0101			(11,707)
		To provide allowance for inventory obsolescence.					

Appendix A, continued

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit
AJE 10	9/30/2012	Retained Earnings	3040 DCA2			1,341	
AJE 10	9/30/2012	Miscellaneous	7095 DCA2				(1,341)
		To record equity at the audited beginning balance.					
AJE 11	9/30/2012	Retained earnings	39000 DCA1				(287)
AJE 11	9/30/2012	Miscellaneous expense	64000 DCA1			287	
		To record equity at the audited beginning balance.					
AJE 12	9/30/2012	Retained earnings	39000 DCA3			5,345	
AJE 12	9/30/2012	Miscellaneous expense	64000 DCA3				(5,345)
		To record equity at the audited beginning balance.					
AJE 13	9/30/2012	Retained earnings	501 DCA5				(8,559)
AJE 13	9/30/2012	Miscellaneous income	604 DCA5			8,559	
		To record equity at the audited beginning balance.					
AJE 14	9/30/2012	Cost of goods sold	5000 DCA3	F0101		6,867	
AJE 14	9/30/2012	Inventory	14200 DCA3	F0101			(6,867)
		To record cost of goods sold for FY2012 book sales.					
AJE 15	9/30/2012	Inventory	300 DCA5	F0100			(19,452)
AJE 15	9/30/2012	Accounts payable	400 DCA5	F0100		25,793	
AJE 15	9/30/2012	Retained earnings	501 DCA5	F0100			(6,341)
		To remove non-existing inventory and payables recorded in the 2011 general ledger.					
AJE 16	9/30/2012	Opening bal equity	500 DCA5			35,087	
AJE 16	9/30/2012	Retained earnings	501 DCA5				(7,799)
AJE 16	9/30/2012	Miscellaneous income	604 DCA5				(27,288)
		To properly state CAHA audited beginning net assets.					
AJE 17	9/30/2012	Undeposited funds	201 DCA5				(2,015)
AJE 17	9/30/2012	Miscellaneous income	604 DCA5			2,015	
		To reverse undeposited funds accumulated from prior years.					
AJE 18	9/30/2012	Undeposited funds	14999 DCA3				(3,824)
AJE 18	9/30/2012	Miscellaneous expense	64000 DCA3			3,824	
		To reverse undeposited funds accumulated from prior years.					
						168,919	(168,919)
			Net Income (Loss)			106,900.00	



DIPATTAMENTON I KAOGHAO GUINAHAN CHAMORRO
DEPARTMENT OF CHAMORRO AFFAIRS

Honorable Edward J.B. Calve
Governor of Guam

Joseph Antonio-Corcoran
President, DCA

Raymond S. Tenorio
Lieutenant Governor of Guam



May 10, 2013

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

In connection with your audit of the basic financial statements of Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), and its discretely presented component unit, collectively a component unit of the Government of Guam as of September 30, 2012 and for year then ended, we recognize that obtaining representations concerning information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the respective statement of net assets of the business-type activities and the discretely presented component unit of DCANAF and the respective changes in net assets and cash flows in conformity with US generally accepted accounting principles.

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

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

Management's responsibilities

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

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

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters

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

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Appendix B, continued

- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Department of Chamorro Affairs from whom you determined it necessary to obtain audit evidence

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

Management's responsibilities, continued

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

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

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

We have a process to track the status of audit findings and recommendations. We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

We have taken timely and appropriate steps to remedy the noncompliance with provisions of laws and regulations that you have reported.

Uncorrected misstatements

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

Internal control

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

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2012.

Appendix B, continued

Minutes and contracts

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

March 22, 2012	April 19, 2012	May 17, 2012
July 19, 2012	September 20, 2012	October 18, 2012
November 29, 2012	January 24, 2013	March 21, 2013

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

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

Significant assumptions

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

Risks and uncertainties

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

Ownership and pledging of assets

DCANAF has satisfactory title to all assets appearing in the statement of net assets. All assets to which DCANAF has satisfactory title appear in the statement of net assets.

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the statement of net assets date.

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

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

Appendix B, continued

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

We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

Inventories

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

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

There have been no reductions of the selling prices of finished goods subsequent to September 30, 2012 and none are contemplated.

Contingent liabilities

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

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

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

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

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

Oral or written guarantees

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

Appendix B, continued

Purchase commitments

At September 30, 2012, DCANAF had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2012 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

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

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

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

Independence

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

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

Conflicts of interest

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

Subsequent events

Subsequent to September 30, 2012, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or are of such significance in relation to the Government of Guam's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the net assets, changes in net assets and, where applicable, cash flows of the Government of Guam.

Appendix B, continued

Required supplementary information

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

Supplementary information

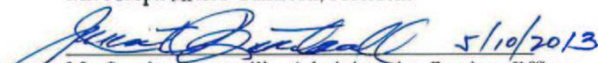
We are responsible for the presentation of the combining schedules (the "supplementary information") in accordance with U.S.GAAP. We believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. There have been no changes in the methods of measurement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

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

Very truly yours,

 5/10/2013

Mr. Joseph Artero-Cameron, President

 5/10/2013

Ms. Juanita Quentanilla, Administrative Services Officer