

*The Auditor's Communication With Those Charged
With Governance*

Government of Guam
Tourist Attraction Special Revenue Fund,
Capital Projects Fund, and Debt Service Fund
(Government Funds of the Government of Guam)

Year ended September 30, 2020





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March 31, 2021

Honorable Lou Leon Guerrero
Governor of Guam

We have performed an audit of the financial statements of the Tourist Attraction Special Revenue Fund, Capital Projects Fund, and Debt Service Fund related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), as of and for the year ended September 30, 2020, 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 March 31, 2021.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist in overseeing the financial reporting and disclosure processes which the management of the Funds is responsible. We summarize these required communications as follows:

Auditors' responsibilities under auditing standards generally accepted in the United States and generally accepted government auditing standards

The financial statements are the responsibility of the Funds' management as prepared with the oversight of those charged with governance. 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 Funds' internal control over financial reporting.

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 Funds' internal control over financial reporting. Accordingly, we will 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.

Our responsibilities are included in our audit engagement letter.

Overview of the planned scope and timing of the audit

Our audit scope is consistent with the plan communicated during the November 25, 2020 entrance meeting.

Matters relevant to our evaluation of the entity's ability to continue as a going concern

We did not identify any events or conditions that led us to believe there was substantial doubt about the Funds' ability to continue as a going concern.

Our views about the qualitative aspects of the entity's significant accounting practices

The Funds have not selected or changed any significant policies or changed the application of those policies in the current year. We have discussed significant accounting policies and our views regarding accounting estimates and financial statement disclosures and related matters.

Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial

As a result of our audit procedures, no material uncorrected misstatements were brought to the attention of management during the current period.

Material corrected misstatements related to accounts and disclosures

As a result of our audit procedures, no material misstatements were brought to the attention of management that were corrected during the current period.

Significant deficiencies and material weaknesses in internal control

There were no significant deficiencies or material weaknesses in internal control identified during the audit.

We have issued a separate Management Letter dated March 31, 2021 for details of an identified deficiency.

Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements

In the event that the Funds issue an Annual Report or other documentation that includes the audited financial statements, you will be required to have the Annual Report or other information be reviewed by us. Material inconsistency or knowledge of a material misstatement of fact, if any, will be discussed with the management and to those charged with governance, if deemed necessary.

Fraud and noncompliance with laws and regulations (illegal acts)

We are not aware of any matters that require communication.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

Engagement team's involvement with preparation of the financial statements

Under GAS 2011 Revision, Chapter 3 General Standards, Paragraph 3.34 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management's ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual who possesses suitable skill, knowledge or experience and that the individual understands the services to be performed sufficiently to oversee them. The engagement team should document consideration of management's ability to oversee non-audit services to be performed.

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- The preparation of the financial statements is based on the Funds' trial balance with our understanding that the Funds' underlying books and records are maintained by the Funds' accounting department and that the final trial balance prepared by the Funds is complete.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the Funds.
- The management of the Funds' Deputy Financial Manager and General Accounting Supervisor have the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosures.
- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.

Representations we are requesting from management

We have obtained from management a letter of representations related to the audit and a copy of the letter of representations is included in Appendix A – *Management Representation Letter*.

Changes to the terms of the audit with no reasonable justification for the change

There were no changes to the terms of the audit.

Disagreements with management

There were no disagreements with management related to matters that are material to the Funds and/or require communication.

Honorable Lou Leon Guerrero
Governor of Guam

Control-related matters

We have issued a separate report dated March 31, 2021 on the Funds' internal control over financial reporting and 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*.

AICPA ethics ruling regarding third-party service providers

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Funds directly, although EY alone will remain responsible to you for the Audit Services and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.

This report is intended solely for the 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. However, this report is also a matter of public record.

Very truly yours,



Honorable Lou Leon Guerrero
Governor of Guam

Appendix

A – Management Representation Letter

Honorable Lou Leon Guerrero
Governor of Guam

Appendix A – Management Representation Letter



**DEPARTMENT OF
ADMINISTRATION**
DIPATTAMENTON ATMENESTRASION
DIRECTOR'S OFFICE
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March 31, 2021

Ernst & Young LLP
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In connection with your audit of the financial statements of the Tourist Attraction Special Revenue Fund, Capital Projects Fund, and Debt Service Fund related to the Government of Guam (the Government) Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), which comprise the balance sheet as of September 30, 2020, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, we recognize that obtaining representations from us concerning the 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 financial position and the results of operations of the Funds in conformity with US generally accepted accounting principles (US GAAP).

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 15, 2019 for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US GAAP applied on a basis consistent with that of the preceding periods.

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:

Appendix A – Management Representation Letter, continued

- 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, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Government from whom you determined it necessary to obtain evidence

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

From June 23, 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 for each opinion unit.

Internal control

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

There have been no significant changes in internal control since September 30, 2019.

Minutes and contracts

There are no meetings of ~~the Board of Directors~~ and important management committees held from October 1, 2020 to March 31, 2021.

We 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.

Appendix A – Management Representation Letter, continued

Methods, significant assumptions, and data used in making accounting estimates

The appropriateness of the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in developing accounting estimates and related disclosures, including those measured at fair value, are reasonable and supportable.

Ownership and pledging of assets

There are no assets capitalized under capital leases. The Government has satisfactory title to all assets appearing in the balance sheet. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged, except as disclosed in the financial statements. All assets to which the Government has satisfactory title appear in the balance sheet.

Receivables and revenues

Receivables recorded in the financial statements of the Funds represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to the balance sheet date, or other types of arrangements not constituting revenue. Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62—as amended.

We have disclosed to you all revenue terms (both expressed and implied). We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72-as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72-as amended.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

Appendix A – Management Representation Letter, continued

The substance of transactions with related parties as defined in GASB Statement No. 56 – as amended, has been considered and appropriate adjustments or disclosures are made in the financial statements, and information concerning these transactions and amounts have been made available to you.

To the extent applicable, related parties and all related party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral) have been appropriately identified, accounted for and disclosed in the financial statements.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Events of default under debt agreements

No events of default have occurred with respect to any of the Government's debt agreements.

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 GASB Statement No. 62-as amended.

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.

Appendix A – Management Representation Letter, continued

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 GASB Statement No. 62-as amended, nor are there any accruals for loss contingencies included in the balance sheet or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62-as amended.

Oral or written guarantees

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

Purchase commitments

At September 30, 2020, the Government had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2020 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 Government'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.

The Government 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 the Government and does not believe that the financial statements are materially misstatement as a result of fraud.

We have disclosed that there are no 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 the Government.

Appendix A – Management Representation Letter, continued

Independence

We have communicated to you the names of all the Fund's affiliates, officers and directors.

We are not aware of any business relationship between the Government 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 independent for purposes of the Government's audit.

Conflicts of interest

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

Effects of new accounting principles

As discussed in Note 1 to the financial statements, we have not completed the process of evaluating the effects that will result from adopting the amendments to the following codifications provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 84
- GASB Statement No. 87
- GASB Statement No. 89
- GASB Statement No. 90
- GASB Statement No. 91
- GASB Statement No. 92
- GASB Statement No. 93
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 97

The Government is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its balance sheet and the changes in its fund balance when such statements are adopted.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the Management's Discussion and Analysis on pages 4 through 9. 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.

Appendix A – Management Representation Letter, continued

Supplementary and Other Information

We are responsible for the preparation and fair presentation of the following schedules (the "Supplementary and Other Information"):

- Comparative Balance Sheets
- Comparative Statements of Revenues, Expenditures by Function and Changes in Fund Balances
- Comparative Statements of Revenues, Expenditures by Object and Changes in Fund Balances
- Schedule of Expenditures by Department by Object
- Schedule of Construction Project Status

We believe the supplementary and other information, including its form and content, is fairly stated in all material respects in relation to the financial statements as a whole.

There have been no changes in the methods of measurement or presentation of the supplementary and other information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Going concern

The Government's ability to continue as a going concern was evaluated and appropriate disclosures are made in the financial statements as necessary under GASB requirements.

Restatement

The restatement of the beginning fund balances of the Tourist Attraction Special Revenue Fund and the Debt Service Fund was a result of a subsequent change in management decision on the validity of the interfund balances and related transfers in/out at September 30, 2019. Management plans to ensure that the interfund balances at fiscal year ends represent valid receivables/payables at those dates.

Other representations

We have identified and disclosed to you all provisions of laws, and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.

The financial statements present only the Funds. They are not intended to present the financial position and results of operations of the Government in conformity with US GAAP.

Appendix A – Management Representation Letter, continued

Components of balance sheet (and classifications of fund balance (nonspendable fund balance, and restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

Expenditures have been appropriately classified in or allocated to functions and programs in the Statement of Revenues, Expenditures and Changes in Fund Balances, and allocations have been made on a reasonable basis.

Revenues are appropriately classified in the Statement of Revenues, Expenditures and Changes in Fund Balances.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported in the financial statements.

Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

Deposits are properly classified in the category of custodial credit risk.
Investments are properly valued.

Our policy regarding whether to first apply restricted or unrestricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available is appropriately disclosed and fund balance was properly recognized under the policy. Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

The Government has obligated, expended, received and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt or use of public funds was in accordance with any limitations, conditions or mandatory directions imposed by Guam or federal law.

Money or similar assets handled by the Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate and in accordance with law.

There has been no:

- a. Action taken by the Government management that contravenes the provisions of federal laws, Guam laws, and laws and regulations, or of contracts and grants applicable to the Government.
- 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, which have been provided to you.

No evidence of fraud, possible irregularities or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Honorable Lou Leon Guerrero
Governor of Guam

Appendix A – Management Representation Letter, continued

Subsequent events

Subsequent to September 30, 2020, no events or transactions, including events have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Government and the Government's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the Funds' financial position and the results of their operations.

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 audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and were, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Funds 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,



Edward M. Birn
Director



Mary Grace V. Edrosa, Acting Controller
For: Gaudencio A. Rosario
Deputy Financial Manager