



OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

32-13-426

May 21, 2013

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina' Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

Office of the Speaker
Judith T. Won Pat, Ed. D.
Date 5/22/13
Time 11:50am
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Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Department of Chamorro Affairs – Non-Appropriated Funds Fiscal Year (FY) 2012 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the reports in their entirety at www.guamopa.org.

Senseramente,

Doris Flores Brooks, CPA, CGFM
Public Auditor

GUAM LEGISLATURE
CENTRAL FILES

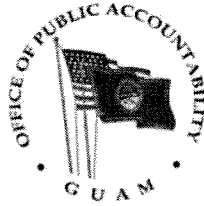
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Guam Department of Chamorro Affairs FY 2012 Financial Highlights

May 21, 2013

This Non-Appropriated Funds (NAF) audit includes the Department of Chamorro Affairs (DCA) reorganization and consists of the Hagatna Restoration and Redevelopment Authority (HRRA), the Guam Council on the Arts and Humanities (CAHA), and Guam Public Library System (GPLS). For the first time, the Guam Museum Foundation (the Foundation) is also included. There were no financial activities involving NAF for HRRA and GPLS in 2012 and 2011.

Guam Museum Foundation, Inc.

The Foundation is a legally separate, tax exempt organization. Calendar Year (CY) 2012 marked the Foundation's first year of reporting, which is directed by a seven member board of directors: five members elected amongst the Foundation's members and two appointments for the DCA Board Chairman and President. The Foundation's primary purpose is to serve as the fundraising arm for the museum. The groundbreaking for the new museum was held in February 2013. While \$27 million (M) to construct the Museum comes from the Hotel Occupancy Tax (HOT) Bonds, the Government of Guam (GovGuam) will be challenged in operating the museum as no money has been set aside for the on-going operations and maintenance of the three-story facility.

Total CY 2012 Foundation revenues amounted to \$219 thousand (K). The top three overall revenue sources were: admissions 73%, or \$159K, corporate contributions 13%, or \$28K, and grants 5%, or \$10K. Admissions consist of fees for tourists to visit the Latte of Freedom or \$3 per adult; \$2 per senior citizen; and \$1 per child. The Foundation pays a fee of \$1 per adult visitor as commission to a tour company.

Total CY 2012 expenses for program and support services amounted to \$208K. The top two expenses were: payroll and employee benefits 50%, or \$104K and commissions 20%, or \$41K. The Foundation employs three full-time employees and two part-time employees primarily to man the Latte of Freedom.

Three findings were identified in the Management Letter. The Foundation lacked closing procedures to ensure that all transactions are recorded in the proper accounting period; operated without a written accounting policy and procedures manual; and has not hired personnel with accounting background or experience to assist the Administrator in the recordkeeping of the Foundation's financial transactions.

Festival of Pacific Arts

The Festival of Pacific Arts (FESTPAC) is a traveling festival hosted every four years by a different county in Oceania. It is recognized as a major international cultural event consisting of 27 island nations. Guam has had representation at FESTPAC for the last nine festivals. For a majority of the festivals, CAHA has been appointed by the Governor to serve as the lead agency for GovGuam to spearhead Guam's participation at the quadrennial event. The FESTPAC Committee consists of 11 members from various disciplines.

Public Law 31-77 authorized \$400K from the Tourist Attraction Fund (TAF) for Guam's participation at the 11th FESTPAC in the Solomon Islands. Of the \$400K, CAHA received \$340K during Fiscal Year (FY) 2012 and was the primary source of FESTPAC revenue. The top three expenses for FESTPAC were: travel (\$154K); marketing and promotions (\$65K); and performing arts costs (\$28K) leaving a balance of \$87K in restricted funds.

An additional \$1.2M was authorized to the Guam Visitors Bureau to be held in a Trust Account for the 12th FESTPAC to be held on Guam in 2016 and Guam's participation in the 2015 Smithsonian Folklife Festival of which \$750K has been deposited into the Trust Account, leaving a balance of \$500K. This appropriation shall continue to be available until expended and is not subject to transfer or use for any other purpose.

There were two compliance findings surrounding FESTPAC travel, which include no formal process or written policy for the following: 1) Selection of delegates; 2) Travel, accommodations and transportation, including the required authorizations; 3) Travel advances, per diem and the liquidation process, including required approvals and review; 4) Allowed costs and incidental expenses, including limitations and the required documentation; and 5) Custody or safekeeping of any items or assets acquired. Over the years, OPA has received hotline tips regarding the selection of FESTPAC delegates. Also, travel advances made to three FESTPAC committee members in the amount of \$18K for 2012 FESTPAC related expenses took nearly six months to clear when the required period is within ten days after return from travel.

Department of Chamorro Affairs

DCANAF closed FY 2012 with a \$4,663 increase in net assets. This is a significant increase after two years of losses. Independent auditors, Ernst & Young, expressed an unqualified opinion for September 30, 2012. In addition, auditors made 18 adjustments to correct errors initially made by DCA, which had a cumulative effect of increasing net assets by \$21,062.

Total net assets of DCANAF exceeded its liabilities in FY 2012 by \$59K. DCA non-appropriated revenue is a culmination of four divisions within DCA: 1) Chamorro Village, 2) Research, Publication, and Training, 3) Guam Museum, and 4) President's Office. Revenues consist of Chamorro Village leases, 90% or \$489K; other income, 7% or \$37K; book sales, 3% or \$15K; and donations, 1% or \$4K. Total non-appropriated revenues decreased by \$40K, from \$585K in FY 2011 to \$545K in FY 2012.

Declines in contractual expenses, travel, meals and entertainment, advertising, and miscellaneous expenses reduced total expenses by \$89K, from \$364K to \$274K. Of the \$89K decline, 62% is attributed to contractual expenses. With an emphasis to reduce overall expenses, contractual expenses dropped by \$36K, from \$207K to \$171K, meals and entertainment was reduced by \$21K, from \$104K to \$83K, and no travel expenses were reported for FY 2012.

The major compliance issue for DCANAF is that prior year audit adjustments were not recorded in the books and several adjustments were required in order to record transactions in the proper period, which was identified as a material weakness. In addition, DCANAF has not adopted a formal policy to estimate allowance for uncollectible accounts. This policy should include a process wherein the aging of accounts receivable is reviewed to assess the collectability of individual accounts.

For a more detailed discussion on DCA's operations, refer to the Management's Discussion and Analysis or view the reports in its entirety at our website at www.guamopa.org.

*Financial Statements and
Supplementary Information*

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

*Years ended September 30, 2012 and 2011
with Report of Independent Auditors*

Department of Chamorro Affairs – Non-Appropriated Funds

Financial Statements and
Supplementary Information

Years ended September 30, 2012 and 2011

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Report of Independent Auditors

The Board of Trustees
Department of Chamorro Affairs

We have audited the accompanying 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, and which collectively comprise the DCANAF’s basic financial statements. These financial statements are the responsibility of the DCANAF’s management. Our responsibility is to express an opinion on these respective financial statements based on our audit. The basic financial statements for the DCANAF as of and for the year ended September 30, 2011 were audited by other auditors whose report, dated March 2, 2012, expressed an unqualified opinion.

Except as discussed in the following paragraph, we conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds, Government of Guam, are intended to present the statements of net assets, the related statements of changes in net assets, and cash flows of only that portion of the Government of Guam that is attributable to the transactions of the DCANAF.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the DCANAF and its discretely presented component unit as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2013, on our consideration of the DCANAF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DCANAF's financial statements. The supplementary information included in pages 30 through 33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2012 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the 2012 information is fairly stated in all material respects in relation to the 2012 financial statements as a whole. The 2011 information was subjected to auditing procedures applied by the other auditors whose report, dated March 2, 2012, referred to above, stated that such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

May 10, 2013

Department of Chamorro Affairs – Non-Appropriated Funds

Management’s Discussion and Analysis

Year ended September 30, 2012

This section of DCA - Non-Appropriated Funds (DCANAF) annual financial statement report presents management’s discussion and analysis of DCANAF’s financial performance during the year ended September 30, 2012. Please use this information in conjunction with the information furnished in DCANAF’s financial statements. This will provide better understanding of DCANAF’s financial status in accordance with U. S. generally accepted accounting principles promulgated by the Standards of the Government Accounting Standards Board (GASB).

Our Mission

To assist in the implementation of an integrated program for the preservation, development and promotion of the Chamorro Heritage of Guam, inclusion of multi-ethnic Asian and Pacific Island activities, for the public benefit and to provide specific services to the people of Guam. It is intended that the Department of Chamorro Affairs (DCA) be a catalyst in the preservation, development and promotion of learning and education, promotion of language, arts, humanities, historic and cultural preservation, research and development, restoration, presentation, museum activities and support programs significant to Guam’s history and culture, and to enhance the future of the people of Guam.

Introduction

The purpose of DCA (non-appropriated funds and appropriated funds) is to assist in the implementation of an integrated program for the preservation, development, and promotion of the Chamorro heritage of Guam for the public benefit and to provide specific services to the Chamorro people. It is a catalyst for the preservation, development, and promotion of the language, arts, humanities, historic and cultural preservation, research, restoration, presentation, museum activities, and support programs significant in Guam’s history and culture, and to enhance the future of the Chamorro people of Guam.

DCA was created in 1999 through Guam Public Law 25-69 as a non-stock, non-profit public corporation to implement an integrated program for the preservation, development and promotion of the Chamorro Heritage of Guam, for the public benefit and to provide specific services to the Chamorro people of Guam. The enabling statute further stated that the DCA be the catalyst in the preservation, development and promotion of language, arts, historic and cultural preservation, research, restoration, presentation, museum activities and support programs significant to Guam’s history and culture, and to enhance the future of the Chamorro people of Guam. DCA has been an integral component in the promotion of the Chamorro culture and represents a unique effort in government to bring together cultural programs, agencies and divisions within government which have a shared vision. The department has produced a series of books called “HALE`TA” (Our “Roots” Foundation) which chronicles the history of the Chamorro people through 4,000 years of existence on the island of Guam.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Introduction, continued

DCA has also produced other literature that promote the culture such as the official Chamorro-English Dictionary, which is a vital resource to the island's educational institutions, scholars, historians, and people wanting to learn more about the language, the "I Hinanao`ta: A Pictorial Journey Through Time" and other works that record the rich history of the Chamorro people.

DCA has the following specific purposes and is authorized to:

- Formulate and develop standards and procedural requirements with regard to the development, promotion, and preservation of the Chamorro language and culture with all relevant restitutions and programs. **5 GCA. Ch. 87, Section 87104(w) Historic Language Preservation**
- Establish a joint appointment program with Guam colleges and universities in the teaching of the Chamorro language, culture and history; and further to establish reciprocal relationships with other institutions. **5 GCA. Ch. 87, Section 87104(x) Elementary/Intermediate Education**
- Promote increased understanding of Guam's geology, biota, prehistory, history and contemporary culture. Serves as the official repository and custodian of historical artifacts of Guam and to acquire, preserve, and make available for public viewing, artifacts and archival materials relating to the cultural, historical and natural heritage of Guam. **5 GCA. Ch. 87, Section 87136(a) Geographical and Archaeological Validation**
- To provide for the preservation of all government publications including any printed or processed paper, books, periodicals, pamphlets or maps, originating in or printed with the imprint of, or at the expense and by the authority of the Government of Guam; including public records and other papers not in current use of the Executive, Judicial and Legislative Branches of the government of Guam and have been determined to have sufficient legal, historical or other value to warrant their continued preservation by the government of Guam; and also be the custodian of non-governmental historical records that contain significant information about the past or present, and are therefore worthy of long-term preservation and systematic management for historical or other research purposes. **5 GCA. Ch. 87, Section 87130(a) Heritage Archival Collection**
- Ensure the retention and preservation of our documentary heritage as the official repository and custodian of historical government and non-government records of Guam. Acquire, preserve and make available for public use, records relating to the cultural and documentary heritage of Guam; and foster research on the records in its inventory and shall disseminate the results of this and other research to the public through the media as public exhibitions, demonstrations, lectures, scholarly activities, television programs, publications and other public programs contributing to and encouraging enlightenment. **5 GCA. Ch. 87, Section 87130(c) Collective Historic Preservation & Cultural Authentication**

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Introduction, continued

- Operate under its control a public market, or markets, for Guam products at such places or places deemed proper. Any such market shall be maintained and operated at all times in a sanitary and orderly manner, beneficial to both producers and patrons alike. Producers and sellers desiring to use space within such market to display or sell their produce shall be levied a uniform fee based upon the amount of space used and period of such use. **Public Law 28-68, 5GCA.Ch.87, Section 87103(a)(viii) Chamorro Village, "I Sengsong Chamorro"**
- The Public Market Revolving Fund was created to deposit all funds collected from fees levied pursuant to Ch. 87 of 5 GCA, and to be used exclusively for the administration, operation and maintenance of the I Sengsong Chamorro", the Chamorro Village. **5 GCA, Ch.87, Section 87152 Public Market Revolving Fund**
- Serve as a depository for certain specimens and objects of natural history and of botanical, ethnological, or archaeological value or interest, and any book, treatise, or pamphlet relating to natural history, botany, ethnology, or archaeology now in possession of the University of Guam, or any territorial department, bureau, or boards. **5 GCA, Ch. 83 & 87; 21 GCA, Ch. 76, Section 76114 Guam Museum**

DCA is undergoing reorganization of all cultural and learning resources. The Hagåtña Restoration and Redevelopment Authority, Guam Council on the Arts and Humanities Agency, Guam Public Library System and Guam Education Telecommunications Corporation dba PBS Guam/KGTF were merged with DCA on October 6, 2011. The Governor exercised 48 United States Code §1422c (c), a provision of the Organic Act of Guam which reads: (c) Reorganization. The Governor shall from time to time examine the organization of the executive branch of the Government of Guam, and shall determine and carry out such changes therein as are necessary to promote effective management and to execute faithfully the purposes of this chapter and the laws of Guam. The reorganization of DCA is to centralize culturally relevant programs and services, to include preservation and the perpetuation of education of all citizens of Guam, is a step in the right direction. Such a move will right-size management and planning within the Government of Guam, essential in the enhancement of procedural and administrative efficiencies, thus reducing personnel and capital costs. "To create, develop, implement and maintain an integrated program for the preservation, promotion, and advancement of the native Chamorro and other Asian/Pacific Islander residents of Guam. It is intended that the public corporation be the guiding force in all aspects of Chamorro Culture, language, preservation, education, arts, humanities, and history, through public policy, advocacy, research, publication, authentication, restoration, presentation, and production, and by providing and overseeing a repository for historical documents, cultural artifacts and documentary and narrative film and video" will be DCA's new Mission Statement.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Introduction, continued

The reorganization is intended to streamline the Administrative Support Unit: Administrative Support, Budget and Finance, Maintenance, Human Resources (Personnel), Grants Management and Fixed Assets, Policy Reviews and Procedures, Procurement, Special Projects, Research, Planning and Development.

DCA is now comprised of:

- The President's Office - responsible for the day-to-day operations, and administers its programs and policies. The President's Office is also mandated to submit to the Governor and the Guam Legislature a detailed annual report of activities and an audited, annual financial report.
- The Research, Publications and Training - conducts, researches, publishes and produces multi-media and print materials relating to the Guam Heritage.
- The Chamorro Language and Culture - develops, promotes and preserves the Chamorro language and culture through various initiatives and activities. The Chamorro Language and Culture also studies and updates the orthographic rules of the Chamorro Language and updates the Chamorro-English and English-Chamorro Dictionary. The Chamorro Language and Culture division is included in the Research, Publication, and Training division on the supplemental schedules.
- The Guam Museum - acquires, preserves and makes available for public viewing artifacts and archival materials relating to the cultural, historical and natural heritage of Guam.

DCA's Division of Guam Museum dba the Guam and Chamorro Educational Facility (GCEF)

DCA (5GCA Ch.87) administers the Division of Guam Museum (5GCA Ch.83 & 87; 21GCA Ch. 76 Section.76114) that includes the Heritage Archival Collection (5GCA Ch.87 Section 87130 (a)), the Collective Historical Preservation (5GCA Ch.87 Section 87130 (c))and Geographical and Archaeological Validation (5GCA Ch.87 Section 87136) to provide museum services, preservation of all Government of Guam publications, fostering research on the records and its inventory, providing public exhibits, demonstrations, lectures, scholarly activities, television programs, publications, and other public programs contributing to and encouraging an understanding of the Chamorro culture, its language and rich history. The Division of Guam Museum administered by DCA promotes Guam's geology, biota, prehistory, history, and contemporary culture. The Division is also the official repository and custodian of historical artifacts of Guam and the Chamorro people. DCA will also provide venues for the appreciation of Guam's unique relationship with its sister islands in Micronesia and Asia through the understanding of shared regional cultures, traditions, practices and lore.

Management’s Discussion and Analysis, continued

Introduction, continued

The Guam Museum was “originally” built in 1932 by the US Naval Government and about a decade later it was completely destroyed by the ravages of World War II. The impacts of war and displacement began to set in, it is extremely apparent in the case of the Guam Museum as it changed homes until it was finally reduced to its current storage repository in Hagåtña. Although the former museums of Guam have experienced an array of misfortunes from war to natural disasters, the Division of Guam Museum continued to provide small venues over the years allowing public displays of some of Guam’s national treasures. DCA is in the process of building a world class facility that is home for artifacts, historic documents, art exhibits, theater, cultural entertainment, humanities programming, home for the Guam Territorial Band, a museum store, a soon to be center of educational excellence partnering with the Guam Department of Education, Guam Community College and the University of Guam; a dynamic cultural destination that reflects a “sense of Guam” and the telling of the Chamorro story, the Chamorro culture and heritage to stimulate community partnerships for a living-museum.

- The Guam Archives - serves as the official repository for all government publications including any printed or processed paper, book, periodical, pamphlet or map, originating in or printed with the imprint of, or at the expense and by the authority of the government of Guam. The Guam Archives is included in the Guam Museum division on the supplemental schedules. Under the Guam Museum, this program promotes an increased understanding of Guam’s geology, biota, prehistory, history and contemporary culture.
- The Chamorro Village - provides a venue for local art and local retailers who sell Chamorro food, local Chamorro handmade arts and crafts, and perform cultural dance and music. DCA is authorized to promulgate rules and regulations to encourage the expansion and development of markets on Guam and to encourage and develop new businesses with emphasis on culture and tourism. The Chamorro Village promotes an incubator environment for entrepreneurial businesses to grow and eventually expand in the open market. The Chamorro Village also provides support for seminars, workshops, fairs and special activities for the local community; a popular attraction is the Wednesday Night Market, which offers entertainment and a variety of food, aquaculture and produce/nursery for sale by local vendors.
- Guam Public Library System protects intellectual freedom, promote literacy, encourage lifelong learning, and maintain cultural materials. This Division’s goal must extend library resources into the community in collaboration with the University of Guam’s John F. Kennedy Library and the Micronesia Area Research Center [MARC]. Work closely with the Archives Section of the Division of Guam Museum to enhance Guam cultural and historical data (General Reference, Federal Documents, Serials, and Guam Documents). This Division shall provide programs that will assist in literacy programs for both children and adults.

Department of Chamorro Affairs – Non-Appropriated Funds

Management’s Discussion and Analysis, continued

Introduction, continued

- Hagåtña Restoration and Redevelopment Authority - provides restoration and redevelopment to the historic city of Hagåtña by means of planning, development, replanning, redesign, clearance, reconstruction, or rehabilitation, or any combination of these, of all Hagåtña, and the provisions of such residential, commercial, industrial, public, or other structures or spaces as may be appropriate or necessary in the interest of the general welfare, including recreational and other facilities incidental or Appurtenant to them. This Division shall develop a Plan that includes: planning, preparation, development, construction, acquisition, lease, disposition, reconstruction, improvement, alteration, extension, repair, maintenance and operation of the Hagåtña Restoration and Redevelopment Project. The Project includes the “reuse of properties; standardizes eligibility for ownership or occupancy of housing, dwellings and facilities; to include installation, construction or reconstruction of streets, utilities, parks, playgrounds and other public improvements”.

All taxes assessed, levied and collected by the government of Guam by virtue of the Real Property Tax Law, on improvements, buildings and structures, to be constructed within the Project, over and above the real estate taxes currently assessed, levied and collected, shall revert to the Authority for its use and disposition.

- Council on the Arts and Humanities Agency (CAHA) - develops programs in music, visual arts, cultural heritage, literature, and arts education. The Division is charged with administering federal and local monies in support of the arts in the Territory. The Division is the sole arts entity for Guam and its grants program is funded in part through a grant from the National Endowment for the Arts, Washington, D.C. and the Guam Legislature. The Division’s renewed initiatives will be to enhance nationally recommended program(s) to a local perspective. The Division is excited to announce its plans to develop new grants in the area of film, cinematography and welcomes the community-at-large to voice their recommendations to the Council in its forward movement in the presentation of the arts in all its forms.

The Division’s governing board consists of eleven (11) members, from male and female residents of Guam, appointed by the Governor of Guam with the advice of the legislature.

FESTIVAL OF PACIFIC ARTS

The Festival of Pacific Arts (FEST PAC) is a traveling festival hosted every four years by a different county in Oceania (Micronesia, Melanesia and Polynesia). Established in 1972 by the Secretariat of the Pacific Community formerly known as the South Pacific Commission, FEST PAC serves as a means to stem erosion of traditional cultural practices by exchanging and sharing cultures at each festival. FEST PAC is recognized as a major international cultural event and is the largest gathering in which Pacific peoples from twenty-seven island nations unite to gain respect and appreciation of one another within the context of the changing Pacific.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Introduction, continued

FESTIVAL OF PACIFIC ARTS, continued

Beginning in 1976, Guam has had representation at FEST PAC for the last nine festivals. For a majority of the festivals, CAHA has been appointed by the sitting Governor to serve as the lead agency for the Government of Guam to spearhead Guam's participation at the quadrennial event. Guam will host the 12th FEST PAC in 2016.

Public law 30-83 created the FEST PAC Coordinating Committee to organize, prepare and execute plans, programs and budgets for the successful conduct of FEST PAC. The following constitute the membership of the committee:

- (a) The President of DCA;
 - (b) the Executive Director of the Guam Council on the Arts and Humanities Agency;
 - (c) three (3) members, to be appointed by the Governor representing the organizations active in the promotion of the arts on Guam;
 - (d) a member of the Mayors' Council of Guam, appointed by the President of the Mayors' Council;
 - (e) two (2) members of the Legislature, to be appointed by the Speaker, who may designate himself;
 - (f) the Chairperson of the Committee on Cultural Affairs of the Guam Legislature or its successor;
 - (g) the Chairperson of the Board of Directors of the Guam Visitors Bureau or his designee; and
 - (h) the Speaker of the Guam Youth Congress or his designee.
- PBS (Public Broadcasting System, KGTF) - continues the tradition of providing Guam with outstanding television, educational outreach services and events. The Division is committed to serving the public interest by providing the people of Guam with quality educational and cultural programming which not only entertains, but offer important information about the world around us. The Division's mission and goal is one of providing alternatives to current commercial television, providing educational assistance to our classrooms, and serving the interest not only for the majority, but the minority as well. The Division seeks the means to inform the public of the importance of public broadcasting, and to secure the support, both financial and moral from the public it serves. Nationally, PBS reaches more than 120 million people through television and nearly 21 million people online, inviting them to experience the worlds of science, history, nature and public affairs; to hear diverse viewpoints; and to take front row seats to world-class drama and performances. PBS' broad array of programs has been consistently honored by the industry's coveted award competitions. Teachers of children from pre-K through 12th grade turn to PBS for digital content and services that help bring classroom lessons to life.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Introduction, continued

- Guam Museum Foundation, Inc.

The Guam Museum Foundation, Inc. (the Foundation) is a 501 (c) (3) non-profit corporation recognized locally by Department of Revenue and Taxation and the U.S. Internal Revenue Service as a tax exempt charitable organization.

The specific and primary purpose of the Foundation is to foster, advance, and support activities of the Guam Museum, a division of DCA through fundraising and grant writing efforts.

The Foundation, in the coming year, will assist DCA's Division of Guam Museum in developing a framework and discussion points for future Guam Museum by-product opportunities. It will work closely with board members as well as sub-committee members in identifying and organizing a team of professionals that will draft working documents that provide opportunities in retail and communications including, but not limited to:

1. Merchandise development
2. Membership programs
3. Branding, marketing
4. Website and social media outlets
5. E-commerce development

Financial Highlights

- The total assets of DCANAF exceeded its liabilities at September 30, 2012 by \$161,053. Of the total net assets, \$73,806 is unrestricted and available to meet DCANAF's on-going obligations. The remaining \$87,247 is restricted for Guam's participation at the FEST PAC. This is an increase of \$106,900 over net assets of \$54,153 at September 30, 2011.
- Total operating revenue increased in the current year by approximately \$340,000 or 58% primarily due to the appropriations received from Tourist Attraction Fund passed through Guam Visitors Bureau (GVB) for Guam's participation at the FEST PAC.
- Total operating expenses increased by \$193,319 or 31% due to the expenses relating to the FEST PAC.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Overview of the Financial Statements

The Financial Statements consist of management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows, and the Notes to Financial Statements.

The Statements of Net Assets are presented in a format that displays net assets (assets less liabilities equal net assets). The Statement of Net Assets details the assets and liabilities of DCANAF based on their liquidity. The resulting net assets in this statement are displayed as either unrestricted or restricted. Under Governmental Accounting Standards Board Statement Nos. 34, 37 and 38, assets are restricted when their use is subject to external restrictions (such as bond resolutions, legal agreements, statutes, etc.), with assets not falling under this category being characterized as unrestricted.

The Statements of Revenues, Expenses and Changes in Net Assets present the operating income (loss), which consists of operating revenues less operating expenses. The resulting amount (revenues less expenses) is the change in net assets for fiscal year (FY) 2012, which amount is then added to the ending balance of net assets from FY 2011 to arrive at net assets for FY 2012.

The Statements of Cash Flows report the net increase (decrease) in cash for the fiscal year. This statement includes cash flows from operating activities. The resulting net increase (or decrease) in cash is then added to the balance of cash at the beginning of the year to determine the FY 2012 ending cash balance.

DCANAF also reports the financial statements of our component unit, the Guam Museum Foundation, Inc. (the Foundation). The Foundation is a legally separate tax exempt organization whose reporting year ends December 31. While DCANAF does not control the Foundation, the resources and fundraising activities of the Foundation are almost entirely for the direct benefit of DCANAF's Guam Museum division.

Department of Chamorro Affairs – Non-Appropriated Funds

Management’s Discussion and Analysis, continued

Department-Wide Financial Analysis

Net Assets

The following information is condensed from the Statements of Net Assets:

	<u>2012</u>	<u>2011</u>	<u>% Increase (Decrease) from 2011</u>
Total assets	\$219,360	\$149,038	47.2%
Total liabilities	\$ 58,307	\$ 94,885	(38.5)%
Net assets	\$161,053	\$ 54,153	197.4%

The following information is condensed from the Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2012</u>	<u>2011</u>	<u>% Increase from 2011</u>
Total revenues	\$923,102	\$ 585,059	57.8%
Total expenses	\$816,202	\$ 622,883	31.0%
Increase (decrease) in net assets	\$106,900	\$ (37,824)	382.6%

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Economic Outlook

2011 has ushered in financial belt tightening and continued to do so in 2012. Governor Edward J.B. Calvo assumed office in January of 2011. He inherited a stagnant economy, delays in the military buildup and a barren cash drawer. The FY2012 budget law continued to project General Fund revenues to increase substantially, particularly as construction associated with the military buildup and American Recovery and Reinvestment Act (ARRA) projects continued through 2012. Allotment controls may be administered, as government expenditures are outpacing cash collections and large obligations are unbudgeted or under budgeted. The Governor has publicly called for cost austerity and has rescinded recent government staff salary adjustments to preserve cash.

The division's facility will have an increase in professional staffing and an anticipated increase of revenues generated primarily from admissions fees collected, museum store sales, promotions, conference venue fees assessed, cultural performances and multi-level fundraising activities fully supported by the non-governmental non-profit organization of the Foundation either through Membership Fees and/or donations. The Foundation functions in the same manner as the Guam Community College and the University of Guam Endowment Foundations wherein their primary mission is to support all efforts of the agencies. DCA along with GEDA and GVB is in the process of updating its May 15, 2006 Guam National Museum Feasibility Study. The 2006 study consists of 74 pages. Clearly, then, a primary focus of our feasibility assessment for the Guåhan Museum was to determine the potential and identify the optimum strategy for the project's sustainability. Capital funding through the Hotel Occupancy Tax (HOT) Bond was our first major hurdle in bringing the project to fruition, but proceeding with a \$27 million (M) investment without the security of a practical operating pro-forma would be an exercise in poor judgment. As the study will demonstrate, analogues are valuable as a research tool, but each culturally motivated or inspired venture must be examined on its own merits and in context with the residential and tourist market it is intended to serve.

The premise of the project expressed by the GVB in the brief conveyed to the Consultants in the 2006 study was a museum of Guam history, with a "Chamorro bias" that would appeal to resident and tourists alike; that it be sited somewhere in Hagåtña; that the program for the Museum be guided in some measure by the 1999 Report generated by the Museum Director and his staff; that the capital budget was fixed at \$25M then; and that a conceptual competition was conducted in parallel to the feasibility study that would be responsive to the above-described criteria. The Consultants of the 2006 study quickly modified the proposed program to reflect a balance between permanent and temporary exhibition space and the incorporation of revenue-generating venues that might best achieve the goals associated with Cultural Attractions.

Management's Discussion and Analysis, continued

Economic Outlook, continued

Clearly, all aspects of the project needed to reflect the project goal of long-term sustainability, from prominence on the landscape to a new cultural icon, to ease of accessibility by a broad range of potential visitors, to a new source of pride for residents and a distinctly different attraction for the tourist population. It is from this premise that the 2006 study recommended such flow. The new destination of the Guam Museum would also increase non-package tour repeat visitation as well. All things considered, adding a new cultural attraction within Hagåtña's geographic area already familiar to and accepted by the tour companies is a safer approach, and we agree that adding to the critical mass of cultural and retail destinations in Hagåtña is a supportable decision. Critical mass normally works in favor of both the Visitor's agendas and the economic interests of the business community. The visual presence of the Guam Museum dba the GCEF will be the newly created iconic structure commensurate with the mission established by the GVB, will be distinctive and in so far as possible clearly and easily defined as a new and powerful addition to the Island's cultural and physical landscape. In establishing the physical and visual prominence described above, care is taken to respect the integrity of nearby cultural assets that are contextual to the immediate cultural landscape and historically significant District of Hagåtña. The museum through its content and programs will seize the opportunity to provide all visitors with an overview of Guam's history, culture and art and act as a dynamic portal to the Island's many historic and cultural sites.

After touring the entire area proscribed by the GVB and now endorsed by Governor Eddie B Calvo and the Guam Legislature, inspecting the Plaza de España, Latte Park, the Japanese caves, the Cathedral, Chamorro Village and the surrounding areas, the Consultants in the 2006 Study also reached immediate agreement that the Hagåtña District offered the optimum opportunity to construct an iconic Cultural Attraction that would quickly become an exciting new "brand" for visitation. The Skinner's Plaza site completely meets all of the relevant aesthetic, operational and economic criteria.

The Guam Museum dba GCEF will be an important addition to the overall revitalization program of the Hagåtña Restoration and Redevelopment Authority's Master Plan. The museum is intended to provide a year-round complex, with a wide range of historic and cultural interpretation activities, and a quality of development that would place it as a key Guam attraction.

Bringing together a coalition of leaders from cultural, environmental and educational institutions on Guam, the museum will provide a focal point and gateway for residents and tourists to appreciate and experience Guam's history, culture, and environment. It will focus on incorporating the ideals and spirit of Chamorro culture, with a special emphasis on learning, interpretation, public participation and interaction techniques to help visitors discover or enhance their appreciation of Guam and stimulate personal creativity. Events, changing exhibits, and special themes will renew the excitement and freshness of the GCEF on a regular basis. Appropriate merchandise will be available and a café will provide both the midday and evening dining.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Economic Outlook, continued

The use of computers and multimedia technology to allow individual investigation/expression of particular themes or exhibits will also enhance interpretation. It is intended that the project will provide an opportunity to combine the great stories and history of Guam with advanced capabilities in exhibitry, software and special effects. We believe the project as conceived will find a very responsive market.

DCA is a public-nonprofit corporation and will not compete with existing Guam merchants and attractions but rather serve as a catalyst to draw more residents and visitors to the island. The non-profit mechanism is specifically designed to encourage volunteerism, community outreach, and the involvement of local school systems. The museum is designed to be a regional asset that will have a sense of ownership by the Chamorro people and all Guam residents. One only has to look at other successful museums to see that creating such a constituency is beneficial to the project and the surrounding area and is also the most financially sustainable approach.

The updated Feasibility Study will refine the development program for the project, analyze market, and assess the financial potential of the project.

Visitation to the GCEF will be derived from residents of the area and overnight tourism to Guam. The overall market for the GCEF includes a Guam resident population of about 170,000, and expanding population of an estimated 30,000 military personnel and their families, and a tourist market of over 1.2 million visitors. In addition to Guam residents, there is a substantial military presence on Guam that included the soldiers and sailors themselves, their dependents and private personnel under contract.

VISION: We suggest that the GCEF's competitive position is to be the voice of Guam history, culture preservation and sustainable development. It will be a gathering place for visitors to Guam and residents of the region to learn about, appreciate, and are entertained by what should be a magnificent resource.

Special events, performances, seasonal celebrations, and demonstrations make the GCEF a community asset that encourages repeat visitation, not just a place for passive entertainment. It also becomes more interesting for visitors. This program will attract social groups, business groups, and incentive/convention travelers back to Guam and are a significant source of revenue. Responsible retail goods that focus on culture and environmental issues and education, selected craft and specialty goods, gallery of local art, takeaway snacks and organic foods, handicrafts and custom designed goods midday service to daytime tour groups, walk in visitors, and nearby employees, a dinner service featuring Chamorro cuisine in a dramatic and respectful setting are all part of the retail and food services that the GCEF will include.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Economic Outlook, continued

The Hagåtña cliff line/Plaza de España site is well known to the regional population and is within walking distance of many businesses, and government offices. It is on the existing tour routes of many of the Guam tour operators and there are a number of complementary attractions and historical venues in the area of the museum.

The climate of Guam is agreeable in all seasons, which will allow all year operation with a minimum of disruption due to normal weather conditions. The building design incorporates protection from typhoon winds as well as earthquakes.

Although the economic well being of the Guam resident market is improving and most can afford a reasonable museum admission price, there will be a special rate structure for Guam residents and school groups to encourage the broadest possible participation in the museum by the Chamorro community and other locals.

The nature and character of the museum would seem to be a logical location for the Guam Visitor's Bureau to have a kiosk as well as an outreach location for DCA. These uses are not included in the current analysis but we believe they are worthy of consideration as mechanisms to generate revenue, increase exposure of the museum to visitors and the visitor industry, and further the role of the museum as a focal point for Chamorro culture, pride and outreach programs.

The retail shop and restaurant will be operated directly by the GCEF and museum operating costs and revenues reflect this approach. It is quite possible; however, that the museum may wish to enter into consignment of specialized goods and these will become income rather than renting out a concession space.

The Guam Museum Foundation, Inc. functions as the endowment and an integral part of sound financial planning for the GCEF.

Likewise, DCA's Division of Museum is actively seeking federal funding with the US Office of Insular Affairs' Interior grant operations to improve the current museum's capability for continued collections management services, archive assessment, natural history program development, art collections appraisal and the development of a virtual museum. DCA along with GEDA and GVB are actively updating the 2005 Feasibility Study for the GCEF. The updated information will show that tourism alone will drive major income resources for the GCEF's economic sustainability and for the continued maintenance of the facility.

On April 13, 2011, HOT Revenue Bonds, 2011 Series A, were issued for the purpose of funding the construction of a new Guam Museum, a community cultural center and certain other projects that benefit Guam's tourism industry, and refunding the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A. Construction began in February 2013 and doors open to the public in December 2014.

Department of Chamorro Affairs – Non-Appropriated Funds

Management's Discussion and Analysis, continued

Economic Outlook, continued

The division's facility will have an increase in professional staffing and an anticipated increase of revenues generated primarily from admissions fees collected, museum store sales, promotions, conference venue fees assessed, cultural performances and multi-level fundraising activities fully supported by the non-governmental non-profit organization of the Foundation, either through Membership Fees and/or donations. The Foundation functions in the same manner as the Guam Community College and the University of Guam Endowment Foundations wherein their primary mission is to support all efforts of the agencies.

The Chamorro Village revenues declined due to the amount of vendor spaces. The department lowered the number of vendor spaces for Wednesday Night Markets due to concerns of overcrowding and safety issues of ingress and egress, ADA accessibility, infractions for accessible guidelines, etc.

For DCA (non-appropriated funds and appropriated funds) specifically, the following projects are underway:

- Promoting the Chamorro Language and Culture by offering translation services to the public. General funds of \$25,000 have been approved to be spent on the project in 2011. DCA is better equipped to provide, to the public translation from Chamorro to English and vice versa.
- Construction of a new state of the art Guam Museum, which will house 4,000 years of Guam history and is funded through bond proceeds of \$27M.
- Retrofitting Chamorro Village's lighting infrastructure to be more energy efficient; which is expected to save Department of Chamorro Affairs on utility expenditures. ARRA funds of \$250,000 have been approved for this expenditure.

Contacting DCA's Financial Management

This financial report is intended to provide its readers with a general overview of DCANAF's finances and to show DCANAF's accountability for the money it receives. If you have any questions about this report or wish to request additional information, contact the Administrative Office: Terlaje Professional Building 1st Floor 194 Herman Cortez Avenue, Hagåtña, Guam 96910. Phone: 671-475-4278/9.

Department of Chamorro Affairs – Non-Appropriated Funds

Statements of Net Assets

	September 30,	
	<u>2012</u>	<u>2011</u>
Assets		
Cash:		
Unrestricted	\$ 40,212	\$ 32,524
Restricted	87,247	---
Accounts receivable, net of allowance for doubtful accounts of \$4,373 in 2012	7,225	13,159
Inventory	83,009	101,583
Other assets	<u>1,667</u>	<u>1,772</u>
Total assets	<u>\$219,360</u>	<u>\$149,038</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$40,817	\$ 48,008
Security deposits	<u>17,490</u>	<u>46,877</u>
Total liabilities	<u>58,307</u>	<u>94,885</u>
Net Assets:		
Unrestricted	73,806	54,153
Restricted - expendable	<u>87,247</u>	<u>---</u>
Total net assets	<u>161,053</u>	<u>54,153</u>
Total liabilities and net assets	<u>\$219,360</u>	<u>\$149,038</u>

See accompanying notes.

Guam Museum Foundation, Inc.

Statement of Financial Position

December 31, 2012

Assets

Cash	\$11,281
Accounts receivable	<u>6,633</u>

Total assets	<u>\$17,914</u>
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Liabilities and Net Assets

Accounts payable	\$ 7,985
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Net assets - unrestricted	<u>9,929</u>
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Total liabilities and net assets	<u>\$17,914</u>
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See accompanying notes.

Department of Chamorro Affairs – Non-Appropriated Funds

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30,	
	<u>2012</u>	<u>2011</u>
Revenues:		
Lease revenue	\$488,914	\$495,522
Appropriations (<i>Note 3</i>)	340,000	---
Other income	67,314	54,473
Book sales	14,711	19,129
Donations	<u>12,163</u>	<u>15,935</u>
Total revenues	<u>923,102</u>	<u>585,059</u>
Expenses:		
Utilities	203,124	199,026
Contractual	181,187	207,270
Travel	154,214	9,089
Meals and entertainment	83,350	104,334
Marketing and promotions	65,248	---
Performing arts costs	28,348	---
Supplies	21,271	33,252
Miscellaneous	19,019	23,175
Inventory obsolescence	11,707	---
Cost of goods sold	10,217	6,514
Advertising	9,882	19,821
Office expense	8,724	12,345
Communication	8,498	5,294
Literary arts costs	8,243	---
Rent	2,666	1,403
Bank charges	<u>504</u>	<u>1,360</u>
Total expenses	<u>816,202</u>	<u>622,883</u>
Increase (decrease) in net assets	106,900	(37,824)
Net assets at beginning of year	<u>54,153</u>	<u>91,977</u>
Net assets at end of year	<u>\$161,053</u>	<u>\$ 54,153</u>

See accompanying notes.

Guam Museum Foundation, Inc.

Statement of Activities

Year ended December 31, 2012

Revenue and support:	
Admissions	\$158,914
Corporate contributions	28,424
Grants	10,000
Fundraising activities	9,000
Rental – Hall of Governors	4,450
Souvenir sales	4,018
Donations	2,143
Other	<u>1,833</u>
Total revenue and support	<u>218,782</u>
Expenses:	
Program services:	
Education/outreach projects	14,933
Fundraising costs	9,028
Printing and reproduction	<u>4,041</u>
Total program services	<u>28,002</u>
Support services:	
Payroll and employee benefits	103,852
Commissions	40,637
Contractual services	13,760
Repairs and maintenance	6,181
Supplies	5,276
Professional fees	4,955
Communication	2,373
Miscellaneous	<u>2,813</u>
Total support services	<u>179,847</u>
Total expenses	<u>207,849</u>
Change in unrestricted net assets	10,933
Unrestricted net assets at beginning of year	(<u>1,004</u>)
Unrestricted net assets at end of year	\$ <u>9,929</u>

See accompanying notes.

Department of Chamorro Affairs – Non-Appropriated Funds

Statements of Cash Flows

	Year ended September 30,	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from lease revenue	\$494,848	\$ 506,286
Receipts from appropriations	340,000	---
Receipts from grant and donation revenue	12,163	15,935
Receipts from book sales	14,711	26,935
Receipts from other income	67,314	54,473
Payments to vendors	(834,101)	(626,090)
Net cash provided by (used in) operating activities	94,935	(22,461)
Cash at beginning of year	<u>32,524</u>	<u>54,985</u>
Cash at end of year	<u>\$127,459</u>	<u>\$ 32,524</u>
Consisting of:		
Unrestricted	\$ 40,212	\$ 32,524
Restricted	<u>87,247</u>	<u>---</u>
	<u>\$127,459</u>	<u>\$ 32,524</u>
Reconciliation of operating revenues net of operating expenses to net cash provided by (used in) operating activities		
Increase (decrease) in net assets	\$106,900	\$(37,824)
Changes in assets and liabilities:		
Accounts receivable	5,934	8,701
Inventory	18,574	7,806
Other assets	105	(1,772)
Accounts payable and accrued expenses	(7,191)	(1,435)
Security deposits	(29,387)	<u>2,063</u>
Net cash provided by (used in) operating activities	<u>\$ 94,935</u>	<u>\$(22,461)</u>

See accompanying notes.

Guam Museum Foundation, Inc.

Statement of Cash Flows

Years ended December 31, 2012

Cash flows from operating activities:	
Receipts from admissions	\$157,299
Receipts from grants and donations	40,567
Receipts from fundraising activities	9,000
Receipts from lease and other income	6,283
Cash paid to employees	(103,852)
Cash paid to vendors	<u>(107,107)</u>
Net cash provided by operating activities	2,190
Cash at beginning of year	<u>9,091</u>
Cash at end of year	<u>\$ 11,281</u>
Reconciliation of operating revenues net of operating expenses to net cash provided by operating activities	
Change in unrestricted net assets	\$ 10,933
Changes in assets and liabilities:	
Accounts receivable	(5,633)
Accounts payable	<u>(3,110)</u>
Net cash provided by operating activities	<u>\$ 2,190</u>

See accompanying notes.

Department of Chamorro Affairs – Non-Appropriated Funds

Notes to Financial Statements

Years ended September 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies

Organization

The Department of Chamorro Affairs (DCA) was created by Public Law 25-69 which became effective on July 6, 1999. DCA is a non-stock, non-profit public corporation. DCA operates out of the Government of Guam and has non-appropriated funds within each division of the department. DCA is under the control and operation of a ten-member Board of Trustees appointed by the Governor of Guam with the advice and consent of the Guam Legislature. DCA is a line agency within the executive branch of the Government of Guam and receives appropriated funds from the Government of Guam.

In October 2011, as a result of Reorganization Advisory No. 6, the Hagatna Restoration and Redevelopment Authority, the Guam Council on the Arts and Humanities Agency, the Guam Public Library System and the Guam Education Telecommunications Corporation dba PBS Guam were merged into DCA. Although the intent of Reorganization Advisory No. 6 was to integrate PBS Guam into the oversight of DCA, such oversight was not effectuated as of September 30, 2012 and, accordingly, the financial statements of PBS Guam, which is audited separately by other auditors, are not included with the financial statements of DCA.

Only the non-appropriated funds are within the scope of this report.

The Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF) is a culmination of the following divisions:

- President's Office – This department promotes the Chamorro culture within Guam and outside of Guam and provides oversight for the other departments within DCA.
- Research, Publication and Training – This program provides training, certifications, conferences and seminars thus promoting increased understanding of the Chamorro heritage. Included in Research, Publication and Training division is the Chamorro Language and culture division. The division is mandated to develop, promote and preserve the Chamorro language and culture through various initiatives and activities.
- Guam Museum – This division fosters an appreciation for Guam's culture and natural heritage by promoting increased understanding for the island's geology, biota, prehistory, and contemporary culture. The Museum serves as the official repository and custodian of historical artifacts and also acquires, preserves and makes available for public viewing, artifacts relating to the island's heritage. The Museum's other responsibilities include research on inventory and the dissemination of its results to the public through exhibitions, publications, and demonstrations. Included in the Guam Museum division is the Guam Archives division.

Department of Chamorro Affairs – Non-Appropriated Funds

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

This division is mandated to be the official depository for all government publications including printed or processed paper, book, periodical pamphlet or map, originating in or printed with imprint of, or at the expense and by the authority of the Government of Guam.

- The Chamorro Village – This division maintains day-to-day operations of the Chamorro Village to provide a market and foster an environment that promotes local products, native cultures, and tradition of Guam. The main source of revenues for DCANAF is from the Chamorro Village through its leasing activity.
- Guam Council on the Arts and Humanities – This division, which is the sole arts entity for Guam, is charged with developing programs in music, visual arts, cultural heritage, literature, and arts education.
- Hagatna Restoration and Redevelopment Authority – This division provides restoration and redevelopment of Hagatna. There were no financial activities involving non - appropriated funds in 2012 and 2011.
- Guam Public Library System – This division is in charge of the administration of library resources. There were no financial activities involving non - appropriated funds in 2012 and 2011.

Basis of Accounting

The DCANAF is considered a special-purpose government component unit engaged only in business-type activities. Accordingly, DCANAF's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant internal activity between the departments has been eliminated. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. DCANAF reports as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Department of Chamorro Affairs – Non-Appropriated Funds

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. DCANAF has implemented GASB Statement No. 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Reporting Entity

The Guam Museum Foundation Inc. (the Foundation) is a legally separate, tax exempt organization which, beginning in 2012, meets the criteria of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Foundation's fundraising activities are almost entirely for the direct benefit of DCANAF's Museum division. Furthermore, the Foundation's charter indicates that its primary and specific purpose is to serve as the fund-raising arm of DCA for the proposed museum facility, and shall oversee the continued development, design, construction and operation of the Guam Museum and the resources of the Foundation are significant to DCNFAF. Accordingly, the Foundation is considered a component unit of DCANAF and its statement of financial position and statement of activities are separately presented in the financial statements of DCANAF.

All functions and powers of the Foundation are vested in and exercised by and under the direction of the Board of Directors (Board). The Board is composed of seven members selected in accordance with the Foundation's Articles of Incorporation. Five directors are elected from the membership of the Foundation, while the other two are selected and appointed by the Governor of Guam. Employees of the Foundation are private, non-governmental employees.

The Foundation is a non-government private entity with a December 31 reporting year-end. Its financial statements are prepared in accordance with FASB standards, including FASB Accounting Standards Codification (ASC) No. 958, *Not-for-Profit Entities*.

New Accounting Standards

During the year ended September 30, 2012, DCA implemented the following pronouncements:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for periods beginning after June 15, 2012. The statement addresses reporting entity issues that have arisen since the issuance of Statement No. 14 and Statement No. 34.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The statement incorporates into the GASB's authoritative literature certain accounting and financial guidance issued on or before November 30, 1989.

Department of Chamorro Affairs – Non-Appropriated Funds

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

GASB Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

The implementation of these pronouncements did not have a material effect on the financial statements of DCA.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

DCA is currently evaluating the effects the above statement will have on its financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash

For the purpose of the statements of cash flows, cash is defined as cash on hand and in banks.

Accounts Receivable

Accounts receivable are non-interest bearing and are primarily due from tenants of the Chamorro Village.

The DCANAF performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2012 and 2011, receivables that are more than ninety days past due totaled approximately \$7,183 and \$9,067, respectively. The DCANAF does not accrue finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

Department of Chamorro Affairs – Non-Appropriated Funds

Notes to Financial Statements, continued

1. Organizational and Summary of Significant Accounting Policies, continued

Accounts Receivable, continued

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventory

Inventory as of September 30, 2012 and 2011 consists of book inventory which is recorded at the lower of cost (using first-in, first-out method) or market value.

Capital Assets and Depreciation

Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Purchases and gifts valued at more than \$50,000 and having a useful life exceeding one year are capitalized. Depreciation is computed under the straight-line method using an estimated useful life of seven years for equipment.

The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend the lives of the assets are not capitalized.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, DCANAF's policy is to apply restricted net assets first.

Net Assets

Net assets represent the residual interest in the DCANAF's assets after liabilities are deducted and consist of unrestricted and restricted net assets.

Unrestricted net assets represent resources primarily derived from Chamorro Village lease income. These resources can be used for any purpose.

Restricted net assets represent appropriations received from the Tourist Attraction Fund passed through the Guam Visitors Bureau (GVB) for Guam's participation at the Festival of Pacific Arts.

Department of Chamorro Affairs – Non-Appropriated Funds

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the 2011 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported decrease in net assets.

2. Subsequent Events

The DCANAF has evaluated subsequent events through May 10, 2013 which is also the date that the financial statements were available to be issued.

3. Appropriations from the Government of Guam

Public Law 31-77 authorizes the general appropriation from the Tourist Attraction Fund to various autonomous agencies of the Government of Guam. Specifically, Public Law 31-77 authorizes appropriation amounting to \$400,000 to GVB for the Guam Council on the Arts and Humanities Agency (CAHA) for Guam's participation at the 11th Festival of the Pacific Arts. This appropriation shall continue to be available until expended and is not subject to transfer or use for any other purpose.

During the year ended September 30, 2012, pass through appropriations received by the CAHA amounted to \$340,000.

Supplementary Information

Department of Chamorro Affairs – Non-Appropriated Funds

Combining Statement of Net Assets

September 30, 2012

	<u>President's Office</u>	<u>Chamorro Village</u>	<u>Research Publication and Training</u>	<u>Guam Museum</u>	<u>Guam Council on the Arts and Humanities</u>	<u>Combined Balance</u>
Assets						
Cash:						
Unrestricted	\$ 703	\$ 9,954	\$ 15,930	\$ 38	\$ 13,587	\$ 40,212
Restricted	-	-	-	-	87,247	87,247
Accounts receivable	-	5,822	-	-	1,403	7,225
Inventory	-	-	83,009	-	-	83,009
Other assets	-	1,667	-	-	-	1,667
	<u>-</u>	<u>1,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,667</u>
Total assets	<u>\$ 703</u>	<u>\$ 17,443</u>	<u>\$ 98,939</u>	<u>\$ 38</u>	<u>\$ 102,237</u>	<u>\$ 219,360</u>
Liabilities and net assets						
Liabilities:						
Accounts payable	\$ -	\$ 40,817	\$ -	\$ -	\$ -	\$ 40,817
Security deposits	-	17,490	-	-	-	17,490
	<u>-</u>	<u>17,490</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,490</u>
Total liabilities	<u>-</u>	<u>58,307</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,307</u>
Net assets:						
Unrestricted	703	(40,864)	98,939	38	14,990	73,806
Restricted - expendable	-	-	-	-	87,247	87,247
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,247</u>	<u>87,247</u>
Total net assets	<u>703</u>	<u>(40,864)</u>	<u>98,939</u>	<u>38</u>	<u>102,237</u>	<u>161,053</u>
Total liabilities and net assets	<u>\$ 703</u>	<u>\$ 17,443</u>	<u>\$ 98,939</u>	<u>\$ 38</u>	<u>\$ 102,237</u>	<u>\$ 219,360</u>

Department of Chamorro Affairs – Non-Appropriated Funds

Combining Statement of Net Assets

September 30, 2011

	<u>President's Office</u>	<u>Chamorro Village</u>	<u>Research Publication and Training</u>	<u>Guam Museum</u>	<u>Combined Balance</u>
Assets					
Cash - unrestricted	\$ 719	\$ 24,935	\$ 6,802	\$ 68	\$ 32,524
Accounts receivable	-	9,625	3,534	-	13,159
Inventory	-	-	101,583	-	101,583
Other assets	-	1,772	-	-	1,772
Total assets	<u>\$ 719</u>	<u>\$ 36,332</u>	<u>\$ 111,919</u>	<u>\$ 68</u>	<u>\$ 149,038</u>
Liabilities and net assets					
Liabilities:					
Accounts payable	\$ -	\$ 48,008	\$ -	\$ -	\$ 48,008
Security deposits	-	46,877	-	-	46,877
Total liabilities	<u>-</u>	<u>94,885</u>	<u>-</u>	<u>-</u>	<u>94,885</u>
Net assets-unrestricted	<u>719</u>	<u>(58,553)</u>	<u>111,919</u>	<u>68</u>	<u>54,153</u>
Total liabilities and net assets	<u>\$ 719</u>	<u>\$ 36,332</u>	<u>\$ 111,919</u>	<u>\$ 68</u>	<u>\$ 149,038</u>

Department of Chamorro Affairs – Non-Appropriated Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year ended September 30, 2012

	President's Office	Chamorro Village	Research Publication and Training	Guam Museum	Guam Council on the Arts and Humanities	Combined Balance
Revenues:						
Lease revenue	\$ -	\$ 488,914	\$ -	\$ -	\$ -	\$ 488,914
Appropriations	-	-	-	-	340,000	340,000
Other income	13	37,116	27	-	30,158	67,314
Book sales	365	-	14,346	-	-	14,711
Donations	3,851	-	102	90	8,120	12,163
Total revenues	4,229	526,030	14,475	90	378,278	923,102
Expenses:						
Utilities	-	203,124	-	-	-	203,124
Contractual	3,275	168,020	-	-	9,892	181,187
Travel	-	-	-	-	154,214	154,214
Meals and entertainment	-	83,350	-	-	-	83,350
Marketing and promotions	-	-	-	-	65,248	65,248
Performing arts costs	-	-	-	-	28,348	28,348
Supplies	150	20,214	-	-	907	21,271
Miscellaneous	637	4,014	5,179	-	9,189	19,019
Inventory obsolescence	-	-	11,707	-	-	11,707
Cost of goods sold	-	-	10,217	-	-	10,217
Advertising	-	9,882	-	-	-	9,882
Office expense	102	8,270	352	-	-	8,724
Communication	-	8,498	-	-	-	8,498
Literary arts costs	-	-	-	-	8,243	8,243
Rent	-	2,666	-	-	-	2,666
Bank charges	81	303	-	120	-	504
Total expenses	4,245	508,341	27,455	120	276,041	816,202
Increase (decrease) in net assets	(16)	17,689	(12,980)	(30)	102,237	106,900
Net assets at beginning of year	719	(58,553)	111,919	68	-	54,153
Net assets at end of year	<u>\$ 703</u>	<u>\$(40,864)</u>	<u>\$ 98,939</u>	<u>\$ 38</u>	<u>\$ 102,237</u>	<u>\$ 161,053</u>

Department of Chamorro Affairs – Non-Appropriated Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year ended September 30, 2011

	<u>President's Office</u>	<u>Chamorro Village</u>	<u>Research Publication and Training</u>	<u>Guam Museum</u>	<u>Combined Balance</u>
Revenues:					
Lease revenue	\$ -	\$ 495,522	\$ -	\$ -	\$ 495,522
Other income	669	52,805	999	-	54,473
Book sales	9,319	-	9,810	-	19,129
Donations	15,935	-	-	-	15,935
Total revenues	<u>25,923</u>	<u>548,327</u>	<u>10,809</u>	<u>-</u>	<u>585,059</u>
Expenses:					
Contractual	10,246	197,024	-	-	207,270
Utilities	-	199,026	-	-	199,026
Meals and entertainment	484	103,850	-	-	104,334
Supplies	560	32,577	115	-	33,252
Miscellaneous	156	-	21,123	1,896	23,175
Advertising	3,281	16,540	-	-	19,821
Office expense	1,298	11,047	-	-	12,345
Travel	9,089	-	-	-	9,089
Cost of goods sold	-	-	6,514	-	6,514
Communication	390	4,904	-	-	5,294
Rent	-	1,403	-	-	1,403
Bank charges	232	1,128	-	-	1,360
Total expenses	<u>25,736</u>	<u>567,499</u>	<u>27,752</u>	<u>1,896</u>	<u>622,883</u>
Increase (decrease) in net assets	187	(19,172)	(16,943)	(1,896)	(37,824)
Net assets at beginning of year	<u>532</u>	<u>(39,381)</u>	<u>128,862</u>	<u>1,964</u>	<u>91,977</u>
Net assets at end of year	<u>\$ 719</u>	<u>\$ (58,553)</u>	<u>\$ 111,919</u>	<u>\$ 68</u>	<u>\$ 54,153</u>



Compliance and Internal Control

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

Year ended September 30, 2012

Department of Chamorro Affairs – Non-Appropriated Funds

Report on Compliance and Internal Control

Year ended September 30, 2012

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited 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, and have issued our report thereon dated May 10, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the DCANAF is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered DCANAF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DCANAF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DCANAF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. This finding is listed as 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCANAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-2 and 2012-3.

DCANAF's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit DCANAF's responses and accordingly, we express no opinion on them.

We noted certain other matters that we reported to management of the DCANAF in a separate letter dated May 10, 2013.

This report is intended solely for the information and use of the Board of Trustees and Management of the DCANAF, the Office of Public Accountability of Guam, others within the entity, 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.

Ernst + Young LLP

May 10, 2013

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses

Finding No. 2012-1

Criteria or specific requirement:

Internal controls over the financial statement close process should be established and implemented to ensure that transactions are recorded in the proper period and audit adjustments are timely recorded.

Condition:

As of September 30, 2012, several prior year audit adjustments were not recorded in the books. In addition, several audit adjustments were required in order to record transactions in the proper period.

Context:

The unrecorded adjustments were discovered during our reconciliation of the beginning net assets to the audited financial statements as of October 1, 2011. We also verified, through our search for unrecorded liabilities, that certain expenses were not accrued as of September 30, 2012.

Effect:

The beginning balance of net assets did not agree with the audited balance as of September 30, 2011. The trial balance provided during the audit of September 30, 2012 financial statements of the DCANAF was not presented in accordance with the accrual basis of accounting.

Cause:

There are no monitoring controls in place to ensure current year transactions and audit adjustments are properly recorded.

Recommendation:

Management should review the financial statements to minimize material misstatements and to detect or correct errors on a timely basis.

Management's Response:

Due to the absence of division administrators, especially with the absence of Chamorro Village Manager and the absence of Administrative Assistants, monitoring of daily operations was difficult. It was during this time that these positions were vacant and the department was actively recruiting. Management will collectively review the financial statements monthly prior to closing and after closing and authorized signatures will be required. The Administrative Services Officer will then adjust books to ensure that transactions are recorded in the proper period and adjustments, if any, are timely recorded.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-2

Criteria or specific requirement:

Public Law 30-83 creates the Coordinating Committee responsible for the organization, preparation, execution of plans, programs and budgets for the 12th Festival of Pacific Arts that will be hosted by Guam in 2016. Specifically, Section 4 states that the Committee shall also establish such rules of order or procedure as it deems appropriate. In May 2011, the Governor of Guam appointed the Coordinating Committee to oversee Guam's participation in the 11th Festival of the Pacific Arts that was held in July 2012.

Condition:

There is no written policy or procedure describing the standard operating procedures on management of funds, equipment, and other properties, appropriated, loaned, contributed to, or raised for the purpose of preparing for and conducting activities relating to the Festival of the Pacific Arts.

Context:

We were informed that the minutes of the meetings of the Coordinating Committee serves as evidence of written policies. However, upon reading minutes provided to us, we could not corroborate this assertion. Accordingly, there is no formal process or written policy for the following:

- Selection of delegates;
- Travel, accommodations and transportation, including the required authorizations;
- Travel advances, per diem and the liquidation process, including required approvals and review;
- Allowed costs and incidental expenses, including limitations and the required documentation; and
- Custody or safekeeping of any items or assets acquired.

Effect:

The requirements of Public Law 30-83 on established rules of order or procedure have not been met.

Cause:

The Committee places undue reliance on discussions held during their meetings rather than formalizing a written standard procedures manual as intended under PL 30-83.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-2, continued

Recommendation:

Written policies and standard operating procedures should be established to ensure proper accountability of the funds relating to the Festival of the Pacific Arts.

Management's Response:

All divisions of the Department of the Chamorro Affairs follow government rules and regulations and comply with all public law requirements. Draft written policies and standard operating procedures were developed mirroring the Government of Guam and will be presented to the Board of Trustees in its board meeting on May 15, 2013.

The issue will also be brought up to the Coordinating Committee of the Festival of Pacific Arts to provide formal procedures and written policy on all matters pertaining to travel.

Finding No. 2012-3

Criteria or specific requirement:

Section 23104 of Title 5 Guam Code Annotated requires all persons who have completed travel on behalf of the Government of Guam to clear all travel advances within ten (10) days following the return from official travel. Furthermore, Section 1712 of the Government of Guam Travel and Transportation Manual states that advances to travelers are chargeable to the traveler's account or receivable until the account is settled in a travel voucher. In the event the advance exceeds the reimbursable amount, the traveler shall refund immediately such excess.

Condition:

The travel related expenditures were not documented in accordance with the above applicable travel laws and regulations.

Context:

Travel advances totaling \$17,500 made to three employees for 2012 FESTPAC related expenses were not cleared within the required period of ten (10) days after return from travel.

Check Number	Check Date	Amount	Return Date	Date Cleared *
0166	06/27/2012	\$7,500	07/15/2012	12/12/2012
0167	06/27/2012	\$5,000	07/15/2012	12/16/2012
0168	06/27/2012	\$5,000	07/15/2012	12/12/2012

* Submission date of receipts and other supporting documentation.

In addition, the travel advances were recorded as an outright expense rather than advances to or receivables from employees.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-3, continued

Effect:

The travel advances were not settled within the required time frame. Furthermore, funds returned by employees were not immediately deposited to the FESTPAC account.

Cause:

There is no strict implementation of the applicable travel laws and regulations.

Recommendation:

Management should enforce existing rules and regulations and ensure travel expenses as well as advances have been documented accordingly.

Management's Response:

All divisions are required to follow the Government of Guam Travel Law whether it is a government employee or non-government employee. As a result of this audit, DCA will adopt a travel policy within the department to ensure that non-profit organizations abide by the Guam Travel Law.

In addition to this, formal procedures and written policy will be completed and approved by the Coordinating Committee of the Festival of Pacific Arts. Strict guidelines will be enforced. As recommended by the Public Auditor, CAHA will seek the guidance of the Guam Visitors Bureau on proper documenting of all matters pertaining to off-island travel through non-appropriated funds.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Prior Audit Findings and Responses

Findings in the prior year Audit Report dated March 2, 2012 are as follows:

Finding No. 2011-1 Audit Adjustments

Finding:

Several adjustments were proposed as a result of audit procedures to record the financial statements on an accrual basis.

Status:

Management reflected the September 30, 2012 financial statements on an accrual basis. However, adjustments were still proposed to record certain transactions in the proper period.

Finding No. 2011-2 Report Preparation

Finding:

The Department of Chamorro Affairs does not have an internal control system designed to provide for the preparation of financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Status:

Management relied on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Finding No. 2011-3 Procurement

Finding:

There were several expenditures paid during the years audited where DCANAF funds were used for expenditures that were not considered within the best interest of DCANAF, such as food. The total amount of these expenditures was \$41,683, all of which were incurred in the first quarter of 2011 by the prior President.

Status:

The department has ceased the purchase of food. No similar finding was noted during the September 30, 2012 audit.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Prior Audit Findings and Responses, continued

Finding No. 2011-4 Travel Policy

Finding:

Travel related expenditures were not approved within the fifteen day required time period of travel.

Status:

Management has implemented a policy where all travel related expenditures utilizing Department of Chamorro Affairs' funds are approved by the President and the Board of Trustees. No similar finding was noted during the September 30, 2012 audit.



Management Letter

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

For the year ended September 30, 2012

May 10, 2013

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

In planning and performing our audit of the financial statements of Department of Chamorro Affairs - Non-Appropriated Funds (DCANAF) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCANAF's internal control. Accordingly, we do not express an opinion on the effectiveness of DCANAF's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control, as described above:

Formal Policy to Estimate Allowance for Uncollectible Accounts

Condition:

DCANAF has not adopted a written policy for calculating an estimate of allowance for uncollectible accounts. We noted that lease receivables from former tenants, which have been outstanding for more than one year, were not provided with an allowance.

Recommendation:

We recommend that DCANAF establish a written policy in determining the allowance for doubtful accounts. This policy should include a process wherein the aging of accounts receivable is reviewed to assess the collectability of individual accounts.

Deposit of Cash on Hand

Condition:

We noted that some foreign currency cash, relating to the Festival of the Pacific (FESTPAC) account, was not deposited. The cash was placed in a folder along with other receipts and documents.

All cash should be deposited in a timely manner in order to prevent loss.

Recommendation:

We suggest that DCANAF improve its control over cash by ensuring that collections, such as return of travel advances, are deposited on the next banking day.

This communication is intended solely for the information and use of management and the Board of Trustees of DCANAF, others within the organization, and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP



*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

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	4060 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	4060 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		17,067	
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)			108,900.00	



DIPATTAMENTON I KAOHAO GUINAHAN CHAMORRO
DEPARTMENT OF CHAMORRO AFFAIRS

Honorable Edward J. Calvo
Governor of Guam

Joseph A. Torres-Casiano
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

