



Felix P. Camacho
Governor

Michael W. Cruz, M.D.
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)

DIRECTOR'S OFFICE

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Lourdes M. Perez
Director

Joseph C. Manibusan
Deputy Director

MAR 26 2010

30-10-0254

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MAR 26 2010 10:20 AM

The Honorable Judith T. Won Pat
Speaker, 30th Guam Legislature
155 Hesler Place
Hagatña, Guam 96910

RE: Audited Government of Guam Territorial Highway Fund for Fiscal Year Ended September 30, 2009

Dear Madame Speaker:

Hafa Adai! We are pleased to provide you with a copy of the audited *Government of Guam Territorial Highway Fund Financial Statements and Additional Information and Independent Auditors' Report* for fiscal year ended September 30, 2009. This report can also be viewed in its entirety at www.doa.guam.gov.

Should you have any questions relating to this matter, please contact our office at (671) 475-1101.

Si Yu'os Ma'ase!

Sincerely,

[Handwritten signature of Lourdes M. Perez]
LOURDES M. PEREZ
Director of Administration

Enclosure

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND
(A GOVERNMENTAL FUND OF THE
GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT

Honorable Felix P. Camacho
Governor of Guam:

We have audited the accompanying balance sheet of the Territorial Highway Fund (THF) and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2009 and the related statement of revenues, expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of the Government of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audit.

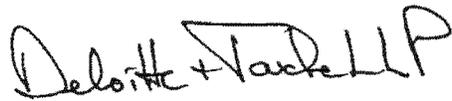
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we 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, as well as 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 present only the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2009, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supplementary information on pages 15 to 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Government of Guam's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2010, on our consideration of the THF'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.

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

March 11, 2010

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Balance Sheet
September 30, 2009

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,677,257	\$ -	\$ 1,925	\$ 3,679,182
Restricted assets:				
Cash and cash equivalents	-	3,902,727	142,695	4,045,422
Investments	-	-	7,543,764	7,543,764
Taxes receivable	833,474	-	-	833,474
Total assets	\$ 4,510,731	\$ 3,902,727	\$ 7,688,384	\$ 16,101,842
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 5,529	\$ -	\$ 5,529
Accrued payroll and other	96,898	-	-	96,898
Due to General Fund	2,765,165	-	-	2,765,165
Total liabilities	2,862,063	5,529	-	2,867,592
Commitments				
<u>FUND BALANCES</u>				
Fund balances:				
Reserved for:				
Continuing appropriations	890,094	1,584,508	-	2,474,602
Debt service	-	-	7,686,459	7,686,459
Encumbrances	304,423	58,852	-	363,275
Unreserved	454,151	2,253,838	1,925	2,709,914
Total fund balances	1,648,668	3,897,198	7,688,384	13,234,250
Total liabilities and fund balances	\$ 4,510,731	\$ 3,902,727	\$ 7,688,384	\$ 16,101,842

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2009

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 9,441,039	\$ -	\$ -	\$ 9,441,039
Licenses, fees and permits	8,515,769	-	-	8,515,769
Use of money and property	5,872	21,790	21,727	49,389
Total revenues	<u>17,962,680</u>	<u>21,790</u>	<u>21,727</u>	<u>18,006,197</u>
Expenditures:				
Current:				
General government	3,034,727	7,200	-	3,041,927
Protection of life and property	66,614	-	-	66,614
Transportation	7,333,351	-	-	7,333,351
Payments to UOG Capital Improvement Fund	500,000	-	-	500,000
Payments to Village Streets Fund	855,485	-	-	855,485
Payments to Public Transit Fund	613,122	-	-	613,122
Payments to Better Public Service Fund	852,163	-	-	852,163
Capital projects	-	1,230,926	-	1,230,926
Debt service:				
Principal	-	-	5,050,000	5,050,000
Interest	-	-	980,400	980,400
Total expenditures	<u>13,255,462</u>	<u>1,238,126</u>	<u>6,030,400</u>	<u>20,523,988</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,707,218</u>	<u>(1,216,336)</u>	<u>(6,008,673)</u>	<u>(2,517,791)</u>
Other financing sources (uses):				
Operating transfers in	-	7,200	3,632,100	3,639,300
Operating transfers out	(3,639,300)	-	-	(3,639,300)
Total other financing sources (uses), net	<u>(3,639,300)</u>	<u>7,200</u>	<u>3,632,100</u>	<u>-</u>
Net change in fund balances	1,067,918	(1,209,136)	(2,376,573)	(2,517,791)
Fund balances at the beginning of the year	580,750	5,106,334	10,064,957	15,752,041
Fund balances at the end of the year	<u>\$ 1,648,668</u>	<u>\$ 3,897,198</u>	<u>\$ 7,688,384</u>	<u>\$ 13,234,250</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Territorial Highway Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Territorial Highway Fund, created by 5 GCA 54102, was established for the purpose of performing maintenance of Guam's highways and roadways, and implementing highway safety plans, programs and projects. Revenues are derived from Federal grants, liquid fuel taxes, vehicle registration fees and certain licenses. On April 1, 2001, Limited Obligation Highway Refunding Bonds, 2001 Series A, were issued to refund Limited Obligation Highway Bonds, 1992 Series A, which were issued on June 1, 1992. The Capital Projects Fund is used to account for the construction of highway projects from bond proceeds. The Debt Service Fund is used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

B. Fund Accounting

The accompanying financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances (deficit). The assets, liabilities and fund balances (deficit) of the Territorial Highway Fund and funds related to the Limited Obligation Highway Refunding Bonds, 2001 Series A, are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include liquid fuel taxes and automotive surcharges. Miscellaneous revenues from other financing sources, including motor vehicle license and registration fees, are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due. Tax rates levied and fees imposed are as follows:

Liquid Fuel Taxes:

Aviation Fuel Tax	\$ 0.04 per gallon
Diesel Fuel Tax	\$ 0.10 per gallon
All Other Fuel Tax	\$ 0.11 per gallon

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Automotive Surcharges:

Mass Transit Automotive Surcharge (Diesel Fuel)	\$ 0.04 per gallon
Automotive Surcharge (all other fuel except fuel used for aviation)	\$ 0.04 per gallon

Motor Vehicle Registration Fees/Driver's Licenses:

Taxi Drivers - Identification Card	\$ 25.00
Endorsement	<u>3.50</u>
Total for Taxi Drivers	\$ <u>28.50</u>
Driver's License (and all others)	\$ <u>25.00</u>

The amount of the annual license and registration fee shall be determined based on vehicle gross weight with fees ranging from \$10 to \$38 for vehicles weighing under 1,000 pounds to 8,000 pounds and over plus three dollars and fifty cents (\$3.50) for each 500 pounds or fraction thereof in excess of 7,999 pounds. Additionally, fees are subject to percentage adjustments based on vehicle model year with respect to vehicles whose gross weight is not in excess of 7,999 pounds, as follows:

<u>Model Year</u>	<u>Percent of Fees</u>
1949 and earlier	50%
1950 through 1953	75%
1954 and subsequent	100%

Vehicles having a gross weight of one hundred forty thousand (140,000) pounds or more, and which are used temporarily or intermittently, may be issued a permit, in lieu of the annual license and registration, for a period not to exceed thirty (30) consecutive days. The fee for each thirty (30) consecutive day period or any fraction thereof shall be One Hundred Dollars (\$100.00).

In lieu of all other license and registration fees, implements of husbandry and road building and construction equipment other than motor trucks, trailers, semi-trailers and pole or pipe dollies, operated on highways only in moving from one site to another, shall be subject to annual registration. The fee for such registration shall be Three Dollars and Fifty Cents (\$3.50) for each one thousand pounds of gross weight of said vehicles.

D. Appropriations

The Attorney General of Guam has opined that legislative appropriations sufficient to cover debt service and operating and maintenance costs are consciously provided for under Public Law 18-2 and Resolution 75, adopted on April 23, 1985.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

E. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the Territorial financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. As of September 30, 2009, there were no outstanding interdepartmental work requests pertaining to land acquisitions. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

F. Cash and Cash Equivalents

Cash and cash equivalents include short-term investments in U.S. Treasury obligations and commercial paper with maturity dates within three months of the date acquired.

G. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

H. Receivables

Receivables are due from businesses residing on the island of Guam and are uncollateralized and non-interest bearing.

I. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Receivables/Payables, Continued

The interfund balances at September 30, 2009, are summarized below:

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Due to General Fund	\$ <u>2,765,165</u>	\$ <u>-</u>	\$ <u>-</u>

J. Restricted Assets

The bond indenture relating to the Limited Obligation Highway Refunding Bonds, 2001 Series A, requires amounts to be restricted for capital projects and set aside for debt service principal and interest. These amounts have been classified as restricted assets.

K. Fund Balance

In the accompanying financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose, which includes continuing appropriations, amounts reserved for debt service, and amounts committed to liquidate contracts and purchase orders of the prior period. Designations of fund balance represent tentative management plans that are subject to change. The unreserved fund balances represent the amount available for future operations.

L. Management Estimates

The preparation of financial statements in conformity with 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.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(2) Deposits and Investments, Continued

The deposit and investment policies of GovGuam are governed by 5 GCA 21, Investments and Deposits, in conjunction with applicable bond indentures. The Director of Administration is responsible for the safekeeping of all monies paid into the Treasury of Guam. The Director of Administration invests any monies of GovGuam that are deemed not necessary for immediate use. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificate of deposit of, or bankers' acceptances issued by, any eligible institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the governmental entity or its agent in the entity's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the entity's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name.

As of September 30, 2009, the carrying amount of cash and cash equivalents was \$7,724,604 and the corresponding bank balances were \$7,724,604, which represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2009.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

- Category 1 Investments that are insured or registered, or securities held by the governmental entity or its agent in the entity's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the entity's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2009.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Bond indentures limit investments in commercial paper rated in the highest rating category issued by Standard and Poor's and which mature no more than 270 days after the date of purchase.

At September 30, 2009, the Debt Service Fund relating to the Limited Obligation Highway Refunding Bonds, 2001 Series A, recorded fixed income securities as follows:

	<u>S & P Credit Rating</u>	<u>Maturity Date</u>	<u>Total</u>
U.S. government agencies:			
Federal Home Loan Mortgage Corporation	AAA	11/02/2009	4,400,000
Corporate notes:			
HSBC Finance Corporation	A/Negative/A-1	05/03/2010	872,303
HSBC Finance Corporation	A/Negative/A-1	02/26/2010	437,120
HSBC Finance Corporation	A/Negative/A-1	12/14/2009	437,702
General Electric Capital Corporation	AAA	11/02/2009	958,770
General Electric Capital Corporation	AAA	11/10/2009	<u>437,869</u>
			<u>\$ 7,543,764</u>

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. There was no interest rate risk for investments as of September 30, 2009. GovGuam does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(3) Interfund Transfer Activity

Interfund transfers from the Territorial Highway Fund to the Debt Service Fund represent the transfer of pledged revenues as required by the bond indenture. Interfund transfer activity during the year ended September 30, 2009, is summarized below:

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Transfers Out To:			
Capital Projects Fund	\$ 7,200	\$ -	\$ -
Debt Service Fund	<u>3,632,100</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,639,300</u>	<u>\$ -</u>	<u>\$ -</u>
Transfers In From:			
Territorial Highway Fund	<u>\$ -</u>	<u>\$ 7,200</u>	<u>\$ 3,632,100</u>

(4) Bonds Payable

Defeased Debt of the Government of Guam Limited Obligation Highway Bonds, 1992 Series A

On April 1, 2001, the Limited Obligation Highway Refunding Bonds, 2001 Series A (2001 Bonds) were issued to refund the Limited Obligation Highway Bonds, 1992 Series A (1992 Bonds), which were issued on June 1, 1992. The 1992 Bonds mature annually on May 1, 1994 through May 1, 2003, with a term bond maturity on May 1, 2012. Interest on the 1992 Bonds was payable semiannually on May 1 and November 1 of each year. The advance refunding met the requirements of an in-substance defeasance and the 1992 Bonds were removed from GovGuam's General Long-Term Debt Account Group. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments of the old and new debt) of \$1,878,801 and a total reduction in the debt service by \$4,359,985.

The Limited Obligation Highway Refunding Bonds, 2001 Series A (2001 Bonds) are serial bonds, dated April 1, 2001 and were issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. Interest is variable between 3.125% to 5.5%. The 2001 Bonds maturing on May 1, 2012, are subject to redemption prior to their stated maturity, at the option of GovGuam, from any source of available funds, on any date on or after May 1, 2011.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(4) Bonds Payable, Continued

Defeased Debt of the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, Continued

Minimum future debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,260,000	\$ 765,775	\$ 6,025,775
2011	5,485,000	542,225	6,027,225
2012	<u>5,765,000</u>	<u>259,425</u>	<u>6,024,425</u>
	<u>\$ 16,510,000</u>	<u>\$ 1,567,425</u>	<u>\$ 18,077,425</u>

The 2001 Bonds are limited obligations of GovGuam payable entirely from a first lien pledge of revenues. Revenues are defined in the bond indentures as all amounts received by GovGuam, the Trustee, the Paying Agent, the Co-Trustee or the Depository as proceeds of liquid fuel taxes or as vehicle registration and license fees, all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the indenture. Proceeds from the 2001 Bonds totaled \$60,102,919 and were used in the following manner: \$53,147,332 was deposited into the Escrow account; \$5,170,500 was deposited in the Bond Reserve Fund account which is accounted for in the Debt Service Fund; accrued interest of \$144,157 was deposited in the Bond Fund account. Bond issuance costs and other related expenditures, totaling \$1,640,930, were paid to the respective recipients.

In accordance with the bond indentures, the depository has established trust accounts as follows:

- Construction Fund – amounts deposited therein are used for (1) the purpose of implementing capital improvement highway projects pursuant to Public Law 21-110 signed by the Governor on June 1, 1992, (2) the payment of principal of and interest on the bonds. The Construction Fund account is accounted for within the Capital Projects Fund.
- Costs of Issuance Fund – amounts deposited therein are used for the payment of costs of issuance of the series of bonds. The Cost of Issuance Fund account is accounted for within the Debt Service Fund.

All pledged revenues are to be deposited into a special fund designated as the Revenue Fund, except that all interest and other profit from the investment of moneys in the Construction Fund and the Rebate Fund shall be retained therein. The Revenue Fund account is accounted for within the Territorial Highway Fund. On or before the fifth day of each month following the month in which the 2001 Bonds are delivered, the depository shall transfer from the Revenue Fund for deposit into the following funds the specified amounts in the following order of priority:

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(4) Bonds Payable, Continued

Defeased Debt of the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, Continued

- Bond Fund – an amount equal to the sum of (1) the aggregate amount of interest to accrue during each interest accrual period and principal payment period upon all then outstanding bonds in equal monthly amounts, plus (2) an amount, which, if paid in equal monthly installments in each month prior to the next May 1, would aggregate to the amount of principal then becoming due and payable on the outstanding bonds, plus (3) an amount which, if paid in equal monthly installments in each month prior to the next May 1, would aggregate to the amount required for the mandatory sinking fund payments due. The Bond Fund account is accounted for within the Debt Service Fund.
- Bond Reserve Fund – an amount needed to increase the amount in the Bond Reserve Fund to meet the bond reserve fund requirement. The bond reserve fund requirement is defined as an amount to make up for any deficiency in the Bond Fund. The deficiency in the Bond Fund represents insufficiency of funds to pay the principal of the mandatory sinking account payments and interest on the bonds. The Bond Reserve Fund account is accounted for within the Debt Service Fund.
- Maintenance and Operation Fund – the amount of maintenance and operations expenditures budgeted by GovGuam to be paid during the next succeeding calendar month. Amounts in the Maintenance and Operation Fund are to be used for the purpose of paying GovGuam highway maintenance and operation costs. The Maintenance and Operation Fund account is accounted for within the Territorial Highway Fund.
- Surplus Fund – the balance remaining in the Revenue Fund after the foregoing deposits. Amounts in the Surplus Fund are to be used for the purpose of paying other costs and expenditures budgeted by GovGuam. The Surplus Fund account is accounted for within the Territorial Highway Fund.

During the year ended September 30, 2009, payments were made to the trustee, totaling \$6,030,400, of which \$5,050,000 represents payment on principal and \$980,400 as interest:

Bonds payable at September 30, 2008	\$ 21,560,000
Principal repayment	<u>5,050,500</u>
Bonds payable at September 30, 2009	\$ <u>16,510,000</u>

Tax revenues and vehicle registration/license fees of the Territorial Highway Fund have been pledged to repay 2001 Series A bond principal and interest. Total debt service for the 2001 Series A bond for the year ended September 30, 2009 amounted to \$6,030,400, which represents 33.6% of 2009 tax revenues and vehicle registration/license fees collected.

At September 30, 2009, \$7,686,459 of the fund balance in the Debt Service Fund is reserved for debt service purposes.

At September 30, 2009, management of the Funds is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2009

(5) Payments to Other Funds

Public Law 26-48 authorizes reimbursement to the University of Guam (UOG) for debt service on a U.S. Department of Agriculture (USDA) loan obtained for construction of the College of Business and Public Administration building. During the year ended September 30, 2009, \$500,000 was transferred to the UOG Capital Improvements Fund for payment to UOG. Under Public Law 26-48, \$500,000 is appropriated annually to UOG until such time that the USDA loan is repaid in full.

During the year ended September 30, 2009, \$855,485 was transferred to the Village Streets Fund in accordance with Public Law 23-128, as amended by Public Law 30-38.

During the year ended September 30, 2009, \$613,122 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2009, \$852,163 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

(6) Commitments

Construction Contracts

During the year ended September 30, 2006, the Capital Projects Fund entered into various construction contracts as follows:

Islandwide Village Street Restoration (Design-Build)	\$ 17,823,299
Islandwide Pothole Repairs - Southern Region	1,743,910
Islandwide Pothole Repairs - Northern Region	<u>3,605,291</u>
	\$ <u>23,172,500</u>

Capital-related expenditures of \$1,230,926 were incurred under these contracts during the year ended September 30, 2009. At September 30, 2009, outstanding commitments under these contracts amounted to \$1,584,508.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Balance Sheets
September 30, 2009 and 2008

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2009	2008	2009	2008	2009	2008
ASSETS						
Cash and cash equivalents	\$ 3,677,257	\$ 2,678	\$ -	\$ -	\$ 1,925	\$ 2,393,004
Restricted assets:						
Cash and cash equivalents	-	-	3,902,727	6,241,459	142,695	532,047
Investments	-	-	-	-	7,543,764	7,139,906
Taxes receivable	833,474	779,244	-	-	-	-
Due from General Fund	-	83,392	-	-	-	-
Total assets	<u>\$ 4,510,731</u>	<u>\$ 865,314</u>	<u>\$ 3,902,727</u>	<u>\$ 6,241,459</u>	<u>\$ 7,688,384</u>	<u>\$ 10,064,957</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 5,529	\$ 1,135,125	\$ -	\$ -
Accrued payroll and other	96,898	284,564	-	-	-	-
Due to General Fund	2,765,165	-	-	-	-	-
Total liabilities	<u>2,862,063</u>	<u>284,564</u>	<u>5,529</u>	<u>1,135,125</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Fund balances:						
Reserved for:						
Related assets	-	83,392	-	-	-	-
Continuing appropriations	890,094	-	1,584,508	2,607,993	-	-
Debt service	-	-	-	-	7,686,459	7,671,953
Encumbrances	304,423	278,368	58,852	244,693	-	-
Unreserved	454,151	218,990	2,253,838	2,253,648	1,925	2,393,004
Total fund balances	<u>1,648,668</u>	<u>580,750</u>	<u>3,897,198</u>	<u>5,106,334</u>	<u>7,688,384</u>	<u>10,064,957</u>
Total liabilities and fund balances	<u>\$ 4,510,731</u>	<u>\$ 865,314</u>	<u>\$ 3,902,727</u>	<u>\$ 6,241,459</u>	<u>\$ 7,688,384</u>	<u>\$ 10,064,957</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Schedules of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficits)
Years Ended September 30, 2009 and 2008

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2009	2008	2009	2008	2009	2008
Revenues:						
Taxes	\$ 9,441,039	\$ 9,766,312	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	8,515,769	8,841,292	-	-	-	-
Use of money and property	5,872	700	21,790	127,930	21,727	76,801
Total revenues	17,962,680	18,608,304	21,790	127,930	21,727	76,801
Expenditures:						
Current:						
General government	3,034,727	2,842,542	7,200	6,540	-	-
Protection of life and property	66,614	-	-	-	-	-
Transportation	7,333,351	6,271,999	-	-	-	-
Payments to UOG Capital Improvement Fund	500,000	1,000,000	-	-	-	-
Payments to Village Streets Fund	855,485	-	-	-	-	879,786
Payments to Public Transit Fund	613,122	336,942	-	-	-	-
Payments to Better Public Service Fund	852,163	-	-	-	-	-
Capital projects	-	-	1,230,926	1,360,820	-	-
Debt service:						
Principal	-	-	-	-	5,050,000	4,850,000
Interest	-	-	-	-	980,400	1,180,463
Total expenditures	13,255,462	10,451,483	1,238,126	1,367,360	6,030,400	6,910,249
Excess (deficiency) of revenues over (under) expenditures	4,707,218	8,156,821	(1,216,336)	(1,239,430)	(6,008,673)	(6,833,448)
Other financing sources (uses):						
Transfers in from other funds	-	3,070,392	-	-	-	-
Operating transfers in	-	-	7,200	5,770	3,632,100	7,683,290
Operating transfers out	(3,639,300)	(7,689,060)	-	-	-	-
Total other financing sources (uses), net	(3,639,300)	(4,618,668)	7,200	5,770	3,632,100	7,683,290
Net change in fund balances (deficits)	1,067,918	3,538,153	(1,209,136)	(1,233,660)	(2,376,573)	849,842
Fund balances (deficits) at the beginning of the year	580,750	(2,957,403)	5,106,334	6,339,994	10,064,957	9,215,115
Fund balances at the end of the year	\$ 1,648,668	\$ 580,750	\$ 3,897,198	\$ 5,106,334	\$ 7,688,384	\$ 10,064,957

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Schedules of Revenues, Expenditures by Object, and Changes in Fund Balances (Deficits)
Years Ended September 30, 2009 and 2008

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2009	2008	2009	2008	2009	2008
Revenues:						
Taxes	\$ 9,441,039	\$ 9,766,312	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	8,515,769	8,841,292	-	-	-	-
Use of money and property	5,872	700	21,790	127,930	21,727	76,801
Total revenues	17,962,680	18,608,304	21,790	127,930	21,727	76,801
Expenditures:						
Salaries and wages - regular	5,254,736	4,488,177	-	-	-	-
Salaries and wages - overtime	-	2,761	-	-	-	-
Salaries and wages - fringe benefits	1,619,879	1,312,939	-	-	-	-
Travel	-	2,971	-	-	-	-
Contractual services	2,925,679	2,548,489	-	-	-	-
Supplies	319,715	373,174	-	-	-	-
Equipment	12,038	14,414	-	-	-	-
Utilities - power and water	235,928	360,578	-	-	-	-
Communications	48,117	-	-	-	-	-
Capital outlays	17,850	-	1,230,926	1,360,820	-	-
Grants and subsidies	2,820,770	1,336,942	-	-	-	879,786
Principal retirement	-	-	-	-	5,050,000	4,850,000
Interest and fiscal charges	-	-	-	-	980,400	1,180,463
Miscellaneous	750	11,038	7,200	6,540	-	-
Total expenditures	13,255,462	10,451,483	1,238,126	1,367,360	6,030,400	6,910,249
Excess (deficiency) of revenues over (under) expenditures	4,707,218	8,156,821	(1,216,336)	(1,239,430)	(6,008,673)	(6,833,448)
Other financing sources (uses):						
Transfers in from other funds	-	3,070,392	-	-	-	-
Operating transfers in	-	-	7,200	5,770	3,632,100	7,683,290
Operating transfers out	(3,639,300)	(7,689,060)	-	-	-	-
Total other financing sources (uses), net	(3,639,300)	(4,618,668)	7,200	5,770	3,632,100	7,683,290
Net change in fund balances (deficits)	1,067,918	3,538,153	(1,209,136)	(1,233,660)	(2,376,573)	849,842
Fund balances (deficits) at the beginning of the year	580,750	(2,957,403)	5,106,334	6,339,994	10,064,957	9,215,115
Fund balances at the end of the year	\$ 1,648,668	\$ 580,750	\$ 3,897,198	\$ 5,106,334	\$ 7,688,384	\$ 10,064,957

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2009 and 2008

	2009	2008
Office of the Governor:		
Veteran Affairs:		
Supplies	\$ 7,319	\$ -
Equipment	3,223	-
Total Office of the Governor	10,542	-
Department of Administration:		
Division of Accounts:		
Contractual services	19,000	18,000
Grants and subsidies	1,352,163	1,000,000
Principal retirement	5,050,000	4,850,000
Interest and fiscal charges	980,400	1,180,463
Miscellaneous	7,950	10,040
	7,409,513	7,058,503
Public Transit:		
Salaries and wages - regular	137,916	137,483
Salaries and wages - fringe benefits	43,338	43,036
Travel	-	2,971
Contractual services	2,550,325	2,212,273
Utilities - power and water	-	272
Communications	5,845	-
Grants and subsidies	613,122	336,942
	3,350,546	2,732,977
Total Department of Administration	10,760,059	9,791,480
Department of Public Works:		
CIP Administration/Operations:		
Salaries and wages - regular	1,326,756	1,123,833
Salaries and wages - overtime	-	29
Salaries and wages - fringe benefits	400,984	334,715
Contractual services	27,199	38,702
Supplies	9,486	14,236
	1,764,425	1,511,515
Building Maintenance:		
Salaries and wages - regular	908,011	975,900
Salaries and wages - overtime	-	1,150
Salaries and wages - fringe benefits	264,000	267,360
Contractual services	28,590	2,575
Supplies	9,077	21,991
Equipment	6,640	14,414
Capital outlays	17,850	-
	1,234,168	1,283,390

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2009 and 2008

	2009	2008
Department of Public Works, Continued:		
Highway Maintenance Division:		
Salaries and wages - regular	2,830,879	2,230,225
Salaries and wages - overtime	-	1,582
Salaries and wages - fringe benefits	896,117	662,425
Contractual services	300,565	276,938
Supplies	293,833	336,948
Utilities - power and water	235,928	360,306
Communications	42,272	-
Equipment	2,175	-
Miscellaneous	-	7,539
	4,601,769	3,875,963
Transportation Division:		
Capital outlays	1,230,926	1,360,820
Total Department of Public Works	8,831,288	8,031,688
Department of Land Management:		
Operations:		
Salaries and wages - regular	-	5,403
Salaries and wages - fringe benefits	-	20,735
Total Department of Land Management	-	26,138
Mayor's Council of Guam:		
Operations:		
Grants and subsidies	855,485	879,786
Total Mayor's Council of Guam	855,485	879,786
Department of Law:		
Salaries and wages - regular	51,174	-
Salaries and wages - fringe benefits	15,440	-
Total Department of Law	66,614	-
	\$ 20,523,988	\$ 18,729,092

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2009 and 2008

	2009	2008
Employees at end of year:		
Department of Administration	4	4
Department of Public Works	106	113
	110	117
Highway Bond Cash and Investments:		
Highway Bond Fund	\$ 2,516,144	\$ 2,505,923
Highway Bond Reserve Fund	5,170,315	5,166,030
Operations and Maintenance Fund	1,089,222	636,799
Surplus Fund	1,475,040	350,437
Revenue Fund	1,111,068	1,403,841
Cost of Issuance Fund	1,925	1,927
	\$ 11,363,714	\$ 10,064,957
Bond Interest Rates at Maturity Dates:	2001 Bonds	2001 Bonds
May 2010	4.250%	4.250%
May 2011	4.250%	4.250%
May 2012	4.500%	4.500%

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Construction Project Status
Year Ended September 30, 2009

	Total Budget	Expenditures Year Ended September 30, 2009	Cumulative Prior Year Expenditures	Outstanding Encumbrances	Continuing Appropriations
Northern Road Repair Projects					
Pothole repair route 29 - Northern	\$ 10,596	\$ 4,392	\$ 6,204	\$ -	\$ -
Pothole repair temp traffic - Northern	414,800	-	207,400	-	207,400
Pothole repair pardon sign - Northern	12,000	-	6,000	-	6,000
Islandwide pothole repair - Route 1	121,854	121,854	-	-	-
Pothole repair route 3A - Northern	13,905	-	-	-	13,905
Pothole repair route 7 & 7A - Northern	79,535	-	-	-	79,535
Pothole repair route 8 - Northern	245,850	14,488	231,362	-	-
Pothole repair route 10 & 10A - Northern	215,342	30,011	42,395	-	142,936
Pothole repair route 15 - Northern	2,316,145	101,462	2,214,683	-	-
Pothole repair route 16 - Northern	63,074	-	-	-	63,074
Pothole repair route 25 - Northern	33,605	-	-	-	33,605
Pothole repair route 26 - Northern	78,584	-	-	-	78,584
Sub-Total	<u>3,665,290</u>	<u>272,207</u>	<u>2,708,044</u>	<u>-</u>	<u>625,039</u>
Southern Road Repair Projects					
Islandwide pothole repair - Route 1 Southern	49,556	-	-	-	49,556
Pothole repair pardong sign - Southern	16,800	-	8,400	-	8,400
Pothole repair route 2 - Southern	63,244	-	19,800	-	43,444
Pothole repair route 11 & 11A - Southern	82,800	-	17,400	-	65,400
Pothole repair route 12 - Southern	114,891	-	26,400	-	88,491
Pothole repair route 12A - Southern	21,600	-	-	-	21,600
Pothole repair route 17 - Southern	1,182,649	25,369	622,127	-	535,153
Pothole repair route 19 - Southern	61,800	-	-	-	61,800
Pothole repair road restor bey3'	19,250	-	-	-	19,250
Pothole repair temp traffic - Southern	131,320	-	65,660	-	65,660
Sub-Total	<u>1,743,910</u>	<u>25,369</u>	<u>759,787</u>	<u>-</u>	<u>958,754</u>
Agat Road Repair Projects					
Agat road repair - Kiko Chela Street	41,125	8,510	32,615	-	-
Agat road repair - Calle De Los Marterez	145,364	129,206	16,158	-	-
Agat road repair - Father Follard Street	100,545	71,631	28,914	-	-
Sub-Total	<u>287,034</u>	<u>209,347</u>	<u>77,687</u>	<u>-</u>	<u>-</u>
Barrigada Road Repair Projects					
Barrigada road repair - Joleen L G Street	78,247	37,131	41,116	-	-
Barrigada road repair - Lizama Street	27,885	27,885	-	-	-
Barrigada road repair - Lalo Street	47,648	47,648	-	-	-
Barrigada road repair - Anderson Street	114,569	7,269	107,300	-	-
Barrigada road repair - Kaila Street	173,173	151,487	21,686	-	-
Sub-Total	<u>441,522</u>	<u>271,420</u>	<u>170,102</u>	<u>-</u>	<u>-</u>
Dededo Road Repair Projects					
Dededo road repair - Alageta Street	58,852	-	-	58,852	-
Sub-Total	<u>58,852</u>	<u>-</u>	<u>-</u>	<u>58,852</u>	<u>-</u>
Mangilao Road Repair Projects					
Mangilao road rapair - Kinney's Road	129,580	31,682	97,535	-	363
Mangilao road rapair - Baza Lane	1,246	286	960	-	-
Mangilao road rapair - Apiag Street	41,122	2,731	38,391	-	-
Mangilao road rapair - Chalan Avilla	24,515	24,515	-	-	-
Sub-Total	<u>196,463</u>	<u>59,214</u>	<u>136,886</u>	<u>-</u>	<u>363</u>
Santa Rita Road Repair Projects					
Santa Rita road rapair - Blas Dela Cruz Street	88,750	450	88,300	-	-
Santa Rita road rapair - Joaquin Diaz Drive	55,572	33,472	22,100	-	-
Santa Rita road rapair - Pale Ferdinand Way	168,700	900	167,800	-	-
Santa Rita road rapair - Sgt E Cruz Street	79,100	900	78,200	-	-
Sub-Total	<u>392,122</u>	<u>35,722</u>	<u>356,400</u>	<u>-</u>	<u>-</u>
Sinajana Road Repair Projects					
Sinajana road rapair - Spring Lane	162,916	93,829	69,087	-	-
Sub-Total	<u>162,916</u>	<u>93,829</u>	<u>69,087</u>	<u>-</u>	<u>-</u>
Tamuning-Tumon Road Repair Projects					
Tamuning-Tumon road rapair - Tun Concita Lane	32,760	32,760	-	-	-
Tamuning-Tumon road rapair - Tan Rosa Road	21,348	21,348	-	-	-
Tamuning-Tumon road rapair - Happy Landing Road	125,510	125,510	-	-	-
Tamuning-Tumon road rapair - Carlos Heights	55,498	55,498	-	-	-
Tamuning-Tumon road rapair - Jalaguac Road	88,816	26,714	62,102	-	-
Sub-Total	<u>323,932</u>	<u>261,830</u>	<u>62,102</u>	<u>-</u>	<u>-</u>
Umatac Road Repair Projects					
Umatac road rapair - Jagan Drive	32,941	-	32,768	-	173
Umatac road rapair - Jesus A Quidachay Street	22,202	-	22,071	-	131
Sub-Total	<u>55,143</u>	<u>-</u>	<u>54,839</u>	<u>-</u>	<u>304</u>
Yona Road Repair Projects					
Yona road rapair - Balajadia & Pangelinan Road	48	-	-	-	48
Yona road rapair - Fair Way Drive	1,988	1,988	-	-	-
Sub-Total	<u>2,036</u>	<u>1,988</u>	<u>-</u>	<u>-</u>	<u>48</u>
Total Construction Projects	\$ 7,269,220	\$ 1,230,926	\$ 4,394,934	\$ 58,852	\$ 1,584,508

See accompanying independent auditors' report.