

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

April 3, 2013

Honorable Judith T. Won Pat
Speaker
I Mina'trentai Dos Na Liheslaturan Guahan
155 Hesler Place
Hagåtña, Guam 96910

Office of the Speaker
Judith T. Won Pat, Ed. D.
Date 4/5/13
Time 8:10AM
Received by Jalen
32-13-245

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Tourist Attraction Fund (TAF)'s 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 report in its entirety at www.guamopa.org.

Senseramente,

Doris Flores Brooks, CPA, CGFM
Public Auditor

2013 APR - 5 AM 9:03
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RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

GUAM LEGISLATURE
REPRODUCTION MAIL ROOM
DATE: 4/4/2013
TIME: 9:40 AM [IPM]
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Tourist Attraction Fund FY 2012 Financial Highlights

April 2, 2013

The Tourist Attraction Fund (TAF) ended fiscal year (FY) 2012 with a \$1.3 million (M) increase in fund balance. Although operating expenditures increased by \$943 thousand (K) from \$18M to \$19M, revenues increased by \$3.1M from \$23M to \$26.1M. This is the highest level of tax revenues received in over a decade.

Independent Auditors Deloitte & Touche, LLP rendered an unqualified (clean) opinion for TAF's financial audit. The Department of Administration is to be congratulated for there are no findings on TAF's internal control over financial reporting and compliance. However, the auditors issued a management letter which identified one control deficiency pertaining to the recording of encumbrances.

TAF Operations Fund

Compared to FY 2011, the TAF saw a 13% revenue increase in FY 2012. This was mainly due to the increase in hotel occupancy tax revenues. Guam's tourism industry saw an 11% increase in visitor arrivals for a total of 1.3M visitors, rebounding from a 2% decrease in FY 2011. The increase was primarily due to Japan's full recovery from the March 2011 triple disasters and the continued upward arrival trends for Guam's other market sources: Korea, Taiwan, China and Russia. Japan remains Guam's largest visitor market with a total of 908 thousand (K) travelers. Japan combined with Korea, which has a total of 165K travelers, represent 85% of all tourist arrivals.

TAF's revenues are derived from 11% hotel occupancy taxes levied and imposed on occupants of hotels and similar facilities on Guam. TAF was established to fund various recreational projects and visitor industry activities and is the major source of funding for the Guam Visitors Bureau (GVB). In FY 2012, TAF paid GVB \$2M more or \$16.3M compared to the previous year's payment of \$14.3M. Of the \$16.3M, 84% or \$13.7M were payments to GVB operations; 7% or \$1.1M were payments for Beach maintenance; and 3% or \$530K were payments that passed through to different non-profit organizations

Festival of Pacific Arts (FESTPAC) Funding

The FY 2012 Budget Act appropriated \$1.3M to GVB for deposit into the Guam FESTPAC and Folklife Festival Trust Account. In addition, \$400K was appropriated to send participants to the 11th FESTPAC held in the Solomon Islands during 2012, of which \$340K was expended by the Guam Council on the Arts and Humanities Agency. Of the \$1.3M appropriation, \$1.2M was to

be used for future FESTPAC and Folklife activities, and \$100K went to the Guam Tourism Foundation for the development of the Guam Convention/Special Events Center. Of the \$1.2M, \$750K was deposited into the Trust Account for the 12th FESTPAC to be held in Guam in 2016 and Guam's participation in the 2015 Smithsonian Folklife Festival.

The total FY 2012 appropriation of \$1.7M (\$1.3M plus \$400K) shall continue to be available until expended and is not subject to transfer or use for any other purpose.

Rainy Day Fund

GVB was appropriated an additional \$195K from TAF for its Rainy Day Fund in FY 2012. In April 2010, Public Law 30-116 established the GVB Rainy Day Fund. The fund was to receive 1½ percent of the adopted revenue projection of the TAF, or a minimum of \$200K each year. The first funding occurred in FY 2011 for \$191K and the second was on FY 2012 for \$195K for a total funding of \$386K. The funds were to be used to meet unforeseen or unanticipated challenges resulting from a natural or man-made disaster that has occurred on Guam, or from external economic conditions that have severely affected Guam's ability to attract visitors.

Hotel Occupancy Tax (HOT) Bond Funding

In April 2011, the government issued Series 2011A HOT Revenue Bonds in the amount of \$90.7M. The bonds were used to refinance the remaining balance of \$28M from the 1997 Series A Limited Obligations Infrastructure Improvement Bonds. Of the \$56.7M available for construction, \$4.3M was paid to the Guam Preservation Trust and the rest will be used for over 20 projects. Among the key projects with their approximate costs were the: Guam Museum (\$27M), Tumon Flooding (\$11.5M), Farmers Co-op and Dededo Flea Market Building (\$3.9M), and Historic Hagatna Renovations (\$1.4M).

As a result of the issuance of the Series 2011A HOT bonds, annual debt service increased to \$7M compared to the average debt service of \$4.7M that was paid for the previous bond. Interest rates for the 1997 Series Bonds varied between 4.8% and 5.25% while the Series 2011A HOT bonds varied between 1% and 6.63%. FY 2012 debt service payments represented 26% of the TAF's tax revenues.

Management Letter Comment-Outstanding Encumbrances

The independent auditors issued a management letter pertaining to encumbrances (commitments incurred but not yet expended) in some contracts that were understated by \$1.7M.

For a more detailed commentary of the TAF's operations, refer to the Management Discussion and Analysis in the audit report or visit our website at www.guamopa.org.



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USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

March 29, 2013

Honorable Eddie Baza Calvo
Governor of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon date March 29, 2013.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Funds is responsible.

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

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated November 28, 2012. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Funds’ basic financial statements and the accompanying supplementary information for the year ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Funds’ internal control over financial reporting and on their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

We considered the Funds' 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 do not express an opinion on the effectiveness of the Funds' internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. No significant accounting estimates are reflected in the Funds' 2012 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

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

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2012.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2012.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Funds' 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

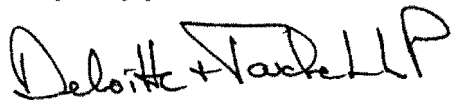
We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing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

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated March 29, 2013, containing information regarding our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of law, regulations, contracts and grant agreements.

This report is intended solely for the information and use of management, the Office of the Governor and the Office of Public Accountability of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

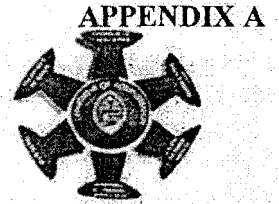
A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIVISION OF ACCOUNTS
(DIBISION KUENTA)

Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1260/1169 Fax: (671) 472-8483



Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

March 29, 2013

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

Hafa Adai! We are providing this letter in connection with your audit of the balance sheet of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), as of September 30, 2012, and the related statement of revenues, expenditures, and changes in fund balances for the year ended September 30, 2012, which collectively comprise the Funds' basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Funds' in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the balance sheet and the related statement of revenues, expenditures, and changes in fund balances, in conformity with GAAP.
- b. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

APPENDIX A, CONTINUED

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements present only the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with GAAP.
 - b. The financial statements properly classify all funds and activities.
 - c. Deposits are properly classified in the category of custodial credit risk.
 - d. Interfund, internal, and intra-government activity and balances have been appropriately classified and reported.
 - e. Required supplementary information is measured and presented within prescribed guidelines.
 - f. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - g. Costs to federal awards have been charged in accordance with applicable cost principles.
2. Management has provided to you all relevant information and access as agreed in the terms of the audit engagement letter, including:
 - a. Public Laws as enacted by the Guam Legislature.
 - b. Financial records and related data for all financial transactions of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A and for all funds administered by the Government of Guam relating to the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
 - a. Action taken by the Government of Guam or management of the Funds' that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011

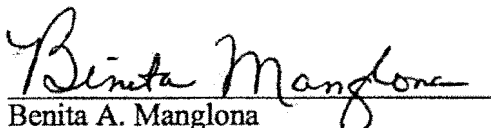
4. The Government of Guam has not performed a risk assessment, including the assessment of the risk that the financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government of Guam and do not believe that the financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A are materially misstated as a result of fraud.
5. We have no knowledge of any fraud or suspected fraud affecting the Government of Guam involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Funds' received in communications from employees, former employees, analysts, regulators, or others.
7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.
8. Significant assumptions used by us in making accounting estimates are reasonable.
9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
10. We are responsible for the fair presentation of the additional information accompanying the basic financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A that is presented for the purpose of additional analysis of the basic financial statements.

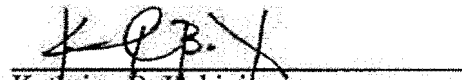
Except where otherwise stated below, matters less than \$80,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A.

11. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
12. Management of the Funds' has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

- b. Guarantees, whether written or oral, under which management of the Funds is contingently liable.
14. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
 15. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
 16. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
 17. The Government of Guam has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in Notes 3 to the financial statements.
 18. The Government of Guam has complied with all aspects of contractual agreements that may have an effect on the financial statements of the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A in the event of noncompliance.
 19. No department or agency of the Government of Guam has reported a material instance of noncompliance to us.
 20. No events have occurred after September 30, 2012 but before March 29, 2013, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
 21. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.

- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
22. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
23. Management has disclosed whether, subsequent to September 30, 2012, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
24. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
- b. The completeness and adequacy of the disclosures related to the fair values are in conformity with accounting principles generally accepted in the United States of America.
- c. No events have occurred subsequent to September 30, 2012 and before March 29, 2013, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
25. Management of the Funds' believes that it is in compliance with all significant limitations and restrictions of Hotel Occupancy Tax Revenue Bonds, 2011 Series A, bond covenants as of September 30, 2012.
26. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
27. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.


Benita A. Manglona
Director of Administration


Kathrine B. Kakigi
Financial Manager

March 29, 2013

Ms. Benita Manglona
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Manglona:

In planning and performing our audit of the financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), as of and for the year ended September 30, 2012, on which we have issued our report dated March 29, 2013, 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, we considered the Funds' 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 do not express an opinion on the effectiveness of the Funds' 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. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, Honorable Eddie Baza Calvo, also dated March 29, 2013, on our consideration of the Funds' 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 definition of a deficiency is also set forth in the attached Appendix I.

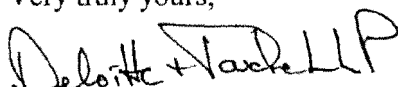
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of the Funds, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Department of Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – DEFICIENCIES

We noted a deficiency involving the Funds' internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention as follows:

1) Encumbrances

During the year ended September 30, 2012, the Capital Projects Fund recorded encumbrances of \$4,251,513, which included encumbrances of \$554,731 under the following contracts:

<u>Contract #</u>	<u>Contract Date</u>	<u>Contract Amount</u>	<u>Cumulative Expenditures</u>	<u>Expected Encumbrance</u>	<u>Actual Encumbrance</u>	<u>Variance</u>
C120600560	9/25/2011	\$ 1,696,900	\$ 621,378	\$ 1,075,522	\$ 509,888	\$ 565,634
C120600570	9/25/2011	1,080,600	675,557	405,043	44,843	360,200
C130600340	9/19/2012	<u>798,000</u>	<u>-</u>	<u>798,000</u>	<u>-</u>	<u>798,000</u>
		\$ <u>3,575,500</u>	\$ <u>1,296,935</u>	\$ <u>2,278,565</u>	\$ <u>554,731</u>	\$ <u>1,723,834</u>

Based on scrutiny of the respective contracts and expenditures incurred, it appeared that encumbrances associated with these contracts were understated by \$1,723,834. A correction to the reserve for encumbrances was proposed. We recommend that the Bureau of Budget and Management Research release allotments based on contracts awarded.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Funds' management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND
(A GOVERNMENTAL FUND OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2012

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Year Ended September 30, 2012
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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited the accompanying balance sheet of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), as of September 30, 2012, 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.

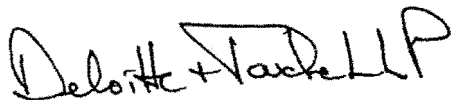
As discussed in Note 1, the financial statements present only the Tourist Attraction Fund and those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in 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 Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A, as of September 30, 2012, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of the Funds' internal control over financial reporting and on our tests of their 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 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 of America require that the Management's Discussion and Analysis on pages 3 through 6 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 of America, 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 an opinion on the financial statements taken as a whole. The comparative financial statement information on pages 18 through 20, the schedule of expenditures by department by object on pages 21 and 22, the schedule of construction project status on page 23 and the other supplementary information on page 24 are presented for purposes of additional analysis and are 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial statement information, the schedule of expenditures by department by object, the schedule of construction project status and the other supplementary information are fairly stated in all material respects in relation to the financial statements as a whole.

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

March 29, 2013

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis
Year Ended September 30, 2012

Our discussion and analysis of the Government of Guam's ("GovGuam") Tourist Attraction Fund ("TAF") financial performance provides an overview of TAF's financial activities for the fiscal years ended September 30, 2012 and 2011. Please read it in conjunction with TAF's financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2012, total fund balance decreased by \$5,926,510 (or 8.2%) from an ending fund balance of \$71,993,612 in 2011 to \$66,067,102 in 2012.
- During the years ended September 30, 2012 and 2011, total combined expenditures for governmental fund operations were \$32,019,745 and \$25,066,766, respectively, including expenditures relating to payments to the Guam Visitor's Bureau of \$16,260,310 and \$14,308,625, respectively; debt service requirements of \$6,998,216 and \$4,073,488, respectively; a payment to Guam Preservation Trust in 2012 for \$4,288,811; and capital-related expenditures of \$1,742,371 and \$1,197,781, respectively. These expenditures were funded, in part, by Hotel Occupancy Tax revenue collections during the years ended September 30, 2012 and 2011 of \$26,054,476 and \$22,972,113, respectively, with the remainder funded by bond proceeds.
- Total combined expenditures increased by \$6,952,979 (or 27.7%) from 2011 to 2012 due primarily to increases in the payments to the Guam Visitor's Bureau, debt service payments, and the reimbursement payment to Guam Preservation Trust. Total combined revenues increased by \$3,128,050 (or 13.6%) from 2011 to 2012 due primarily to increases in hotel occupancy rates and tourist arrivals.
- During the years ended September 30, 2012 and 2011, TAF generated operating deficits of \$5,926,510 and \$2,101,581, respectively.

2. Overview of the Financial Statements

TAF's financial statements include all of the activities of GovGuam's Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A. The financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balance. The assets, liabilities and fund balances of these funds are reported in self-balancing funds.

TAF's 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. TAF 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 measureable 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.

The notes to the financial statements include additional information needed to provide a further understanding of the basic financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2012

In addition to the basic financial statements and accompanying notes, this report also presents certain other financial information to further assist the reader in understanding TAF's financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on TAF's assets, liabilities and fund balance at year-end. A condensed summary of TAF's balance sheets is shown below as of September 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and cash equivalents	\$ 2,333,856	\$ 1,987,246
Tax receivables	2,235,408	1,892,389
Due from General Fund	41,714	-
Restricted assets:		
Cash and cash equivalents	47,862,643	69,324,921
Investments	<u>14,527,112</u>	<u>-</u>
Total Assets	\$ <u>67,000,733</u>	\$ <u>73,204,556</u>
Liabilities:		
Accounts payable	\$ 369,647	\$ 133,278
Due to General Fund	31,947	3,188
Due to Guam Visitors Bureau	<u>532,037</u>	<u>1,074,478</u>
Total Liabilities	<u>933,631</u>	<u>1,210,944</u>
Fund Balances:		
Restricted	62,002,087	69,201,955
Committed	<u>4,065,015</u>	<u>2,791,657</u>
Total Fund Balances	<u>66,067,102</u>	<u>71,993,612</u>
Total Liabilities and Fund Balances	\$ <u>67,000,733</u>	\$ <u>73,204,556</u>

Total assets decreased by \$6,203,823 (or 8.5%) during 2012 from \$73,204,556 to \$67,000,733. This decrease was primarily the result of a decrease in restricted assets for a payment to Guam Preservation Trust and other capital-related expenditures.

Total liabilities decreased by \$277,313 (or 22.9%) during 2012 from \$1,210,944 to \$933,631. This decrease was primarily the result of a decrease in appropriations payable to GVB.

Total fund balances decreased by \$5,926,510 (or 8.2%) during 2012 from \$71,993,612 to \$66,067,102. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Hotel Occupancy Tax Revenue Bond, 2011 Series A, wherein these funds are restricted for (i) capital projects associated with a new Guam Museum and certain other related projects that benefit Guam's tourism industry, and (ii) future debt service.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2012

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balance show the effect of revenues and expenditures on TAF's fund balance for the year. TAF's statements of revenues, expenses and changes in fund balances for the years ended September 30, 2012, and 2011 are summarized as follows.

	<u>2012</u>	<u>2011</u>
Revenues:		
Hotel occupancy tax	\$ 26,054,476	\$ 22,972,113
Use of money and property	<u>38,759</u>	<u>(6,928)</u>
Total Revenues	<u>26,093,235</u>	<u>22,965,185</u>
Expenditures:		
Current:		
General government	252,859	23,546
Community service	40,000	48,496
Environmental protection	68,751	61,070
Individual collective rights	1,392,017	1,095,330
Recreation	613,947	871,237
Payments to autonomous agencies	20,911,584	14,835,729
Transfers to other funds	-	2,094,742
Capital projects	1,742,371	1,197,781
Cost of issuance	-	765,347
Debt service	<u>6,998,216</u>	<u>4,073,488</u>
Total Expenditures	<u>32,019,745</u>	<u>25,066,766</u>
Other Financing Sources (Uses):		
Proceeds from refunded bonds issued	-	90,665,000
Discount on refunded bonds issued	-	(2,117,169)
Payment to refunded bond escrow agent	<u>-</u>	<u>(28,787,786)</u>
Net Other Financing Sources (Uses)	<u>-</u>	<u>59,760,045</u>
Net Change in Fund Balances	\$ <u>(5,926,510)</u>	\$ <u>57,658,464</u>

In 2011, GovGuam issued \$90,665,000 in Hotel Occupancy Tax Revenue Bonds for the purpose of constructing the Guam Museum and other related tourism projects, refunding a previous bond and funding capitalized interest. As a result, net bond proceeds amounted to \$59,760,045.

Total revenues collected from Hotel Occupancy Taxes increased by \$3,082,363 (or 13.4%) from \$22,972,113 for 2011 to \$26,054,476 for 2012. These increases were primarily the result of incremental increases in tourist arrivals.

Total expenditures increased by \$6,952,979 (or 27.7%) from \$25,066,766 for 2011 to \$32,019,745 for 2012. The increase in 2012 was the result of an increase in allotments to GVB of \$1,951,685 (or 13.6%) and a one-time payment to Guam Preservation Trust.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2012

4. Capital Assets

During the year ended September 30, 2012, capital-related expenditures amounted to \$1,742,371 compared with \$1,197,781 in 2011. These expenditures pertained to a number of contracts associated with certain tourism projects. Commitments for contractual obligations were entered into in 2012 for a total amount of \$7,113,500, of which expenditures associated with these contracts of \$1,603,163 were incurred during the year.

5. Long-Term Debt

In August 2011, GovGuam issued \$90,665,000 in Hotel Occupancy Tax Revenue Bonds for the purpose of constructing the Guam Museum and other related tourism projects, refunding a previous bond and funding capitalized interest. A payment of \$28,787,786 was made to a bond escrow agent for the purpose of refunding 1997 Series A bonds with net bond proceeds amounting to \$59,760,045. Proceeds are primarily to be used for the purpose of constructing the Guam Museum and certain other tourism related projects. The resultant long-term debt is included as a liability in GovGuam's government-wide financial statements. See note 3 to the accompanying financial statements for additional information relating to this long-term debt.

6. Outlook, Challenges and Opportunities

The ground breaking for the Guam Museum occurred in February 2013. We expect that there will be a significant increase in capital expenditures in 2013 and beyond. The tourism market on Guam has been steadily increasing. In 2013, a report was issued by the Guam Visitor's Bureau that hotels are now experiencing double occupancy; the major source of revenues for TAF. Government of Guam will need to provide incentives to facilitate an increase in total rooms available to accommodate this increase. Another challenge that is facing the tourism market is a volatile dependency on influences outside GovGuam's control such as fluctuations in the Asian economy or the purchasing power of the dollar.

7. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of TAF's finances and to show the TAF's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Kathrine B. Kakigi, Financial Manager, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1211, Facsimile: (671) 472-8483; Website address: www.admin.gov.gu/da/.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Balance Sheet
September 30, 2012

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,333,856	\$ -	\$ -	\$ 2,333,856
Restricted assets:				
Cash and cash equivalents	-	36,550,612	11,312,031	47,862,643
Investments	-	14,527,112	-	14,527,112
Taxes receivable	2,235,408	-	-	2,235,408
Due from General Fund	41,714	-	-	41,714
Total assets	\$ 4,610,978	\$ 51,077,724	\$ 11,312,031	\$ 67,000,733
<u>LIABILITIES</u>				
Accounts payable	\$ 13,926	\$ 355,721	\$ -	\$ 369,647
Due to General Fund	-	31,947	-	31,947
Due to Guam Visitors Bureau	532,037	-	-	532,037
	545,963	387,668	-	933,631
Commitments				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	-	50,690,056	-	50,690,056
Debt service	-	-	11,312,031	11,312,031
Committed for:				
Tourism	4,065,015	-	-	4,065,015
Total fund balances	4,065,015	50,690,056	11,312,031	66,067,102
Total liabilities and fund balances	\$ 4,610,978	\$ 51,077,724	\$ 11,312,031	\$ 67,000,733

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2012

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 26,054,476	\$ -	\$ -	\$ 26,054,476
Use of money and property	72	32,117	6,570	38,759
Total revenues	26,054,548	32,117	6,570	26,093,235
Expenditures:				
Current:				
General government	230,482	16,152	6,225	252,859
Community services	40,000	-	-	40,000
Individual collective rights	1,392,017	-	-	1,392,017
Environmental protection	68,751	-	-	68,751
Recreation	613,947	-	-	613,947
Payments to Guam Visitors Bureau	16,260,310	-	-	16,260,310
Payments to Guam Preservation Trust	-	4,288,811	-	4,288,811
Payments to University of Guam	340,000	-	-	340,000
Payments to Guam Community College	22,463	-	-	22,463
Capital projects	-	1,742,371	-	1,742,371
Debt service:				
Principal	-	-	1,670,000	1,670,000
Interest	-	-	5,328,216	5,328,216
Total expenditures	18,967,970	6,047,334	7,004,441	32,019,745
Excess (deficiency) of revenues over (under) expenditures	7,086,578	(6,015,217)	(6,997,871)	(5,926,510)
Other financing sources (uses):				
Operating transfers in	-	-	5,813,220	5,813,220
Operating transfers out	(5,813,220)	-	-	(5,813,220)
Total other financing sources (uses)	(5,813,220)	-	5,813,220	-
Net change in fund balances	1,273,358	(6,015,217)	(1,184,651)	(5,926,510)
Fund balances at the beginning of the year	2,791,657	56,705,273	12,496,682	71,993,612
Fund balances at the end of the year	\$ 4,065,015	\$ 50,690,056	\$ 11,312,031	\$ 66,067,102

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(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 Tourist Attraction Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Tourist Attraction Fund, created by 11 GCA 30107, was established to fund various recreational projects and visitor industry activities. Additionally, 11 GCA 30108 provides for 25 percent of all revenues collected by the Tourist Attraction Fund be appropriated to the Infrastructure Improvement Fund. Revenues are derived from an excise tax that is levied and imposed on transient occupants of a room or rooms in a hotel, lodging house, or similar facility in Guam. On April 13, 2011, Hotel Occupancy Tax Revenue Bonds, 2011 Series A, were issued for the purpose of refunding the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, and funding the construction of a new Guam Museum and certain other projects that benefit Guam's tourism industry. The Capital Projects Fund is used to account for the construction of capital improvement 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. The assets, liabilities and fund balances of the Tourist Attraction Fund and funds related to the Hotel Occupancy Tax Revenue Bonds, 2011 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 excise taxes. Miscellaneous revenues from other financing sources 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.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The excise tax rate is set at eleven percent of the rental price charged or paid per occupancy per day. If the room or rooms are rented more than once within a twenty-four hour period, each time of occupancy shall be subject to the tax for such accommodations. This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility.

D. Appropriations

Section 26 of Public Law 25-98 authorized the reprogramming and re-appropriation of appropriations from completed capital improvement projects. Specifically, all unexpended, un-obligated and unencumbered balances of the appropriations in Subsection (i) of Section 1505, Article 5, Chapter 1 of Title 5 of the Guam Code Annotated, were reprogrammed and re-appropriated.

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. Encumbrances outstanding at year end are reported within the fund balance classifications 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. At September 30, 2012, significant encumbrances are summarized as follows:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Encumbrances	\$ <u>176,332</u>	\$ <u>5,973,348</u>	\$ <u>-</u>

F. Cash and Cash Equivalents

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

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

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 and are primarily determined based on quoted market values.

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.

J. Restricted Assets

The bond indenture relating to the Hotel Occupancy Tax Revenue Bonds, 2011 Series A, requires amounts to be restricted for capital projects and set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

K. Fund Balance

Governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and do not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance, Continued

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

L. Interfund Transactions

Operating transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

M. 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.

N. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Tourist Attraction Fund and funds related to the Hotel Occupancy Tax Revenue Bonds, 2011 Series A, for the year ended September 30, 2011 from which summarized information was derived.

(2) Deposits and Investments

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 certificates 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.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

A. Deposits

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, 2012, the carrying amount of cash and cash equivalents was \$50,196,499 and the corresponding bank balances were \$50,196,499, 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, 2012.

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments.

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. Investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding capital projects that benefit Guam's tourism industry. 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, 2012.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. 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.

As of September 30, 2012, investments recorded at fair value in the amount of \$14,527,112 are classified as mutual funds.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(3) Bonds Payable

On April 13, 2011, Hotel Occupancy Tax Revenue Bonds, 2011 Series A, with varying interest rates of 1% - 6.625% per annum were issued in the amount of \$90,665,000 to advance refund \$28,095,000 of outstanding 1997 Series A bonds. Of the net proceeds of \$88,547,831 (after payment of \$2,117,169 in underwriting fees, insurance, and other issuance costs), \$28,787,786 were placed in escrow, of which \$28,095,000 were used to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the 1997 Series A limited obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements of GovGuam. This advance refunding was undertaken to extend the maturity date of outstanding debt and to provide additional proceeds to fund the construction of a new Guam Museum and other projects for the benefit of Guam's tourism industry and resulted in an economic gain of \$97,720.

Minimum debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,740,000	\$ 5,258,362	\$ 6,998,362
2014	1,785,000	5,214,188	6,999,188
2015	1,845,000	5,152,819	6,997,819
2016	1,920,000	5,078,625	6,998,625
2017	2,010,000	4,988,775	6,998,775
2018 - 2022	11,785,000	23,198,001	34,983,001
2023 - 2027	13,460,000	19,351,875	32,811,875
2028 - 2032	14,180,000	15,365,638	29,545,638
2033 - 2037	19,450,000	10,091,250	29,541,250
2038 - 2041	<u>20,820,000</u>	<u>2,816,450</u>	<u>23,636,450</u>
	<u>\$ 88,995,000</u>	<u>\$ 96,515,983</u>	<u>\$ 185,510,983</u>

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

- Construction Account - amounts held in this account and the interest earnings thereon do not constitute Revenues and are not pledged to the payment of the Bonds. Amounts in the Construction Account shall be used and withdrawn solely for the payment of Infrastructure Improvement Project Costs of such Infrastructure Improvement Projects, including by (1) direct payment, or (2) payment of any debt obligations issued by GovGuam to finance Infrastructure Improvement Project Costs, or (3) repayment of any advances made from any source for such Infrastructure Improvement Project Costs. The depository shall disburse moneys in the Construction Account for the purposes of the preceding sentence only upon Requisition of GovGuam stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper and lawful charge against said fund. Upon receipt of a Certificate of GovGuam that amounts in said fund are no longer required for the purpose of said fund, said amounts shall be transferred to the Revenue Fund. The Construction Account is accounted for within the Capital Projects Fund.

At September 30, 2012, \$50,690,056 of fund balance in the Capital Projects Fund is restricted for capital projects.

GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND

Notes to Financial Statements
September 30, 2012

(3) Bonds Payable, Continued

All pledged revenues are to be deposited into a special account entitled the "Revenue Fund." In addition, all interest and other profit derived from investments, except those in the "Construction Account," are to be transferred monthly to the "Revenue Fund." Transactions of the "Revenue Fund" are accounted for in the Tourist Attraction Fund. On the fifth day of each month following the month the revenues are deposited, the depository is to deposit into the following funds (all accounted for within the Debt Service Fund) the specified amounts in the following order of priority:

- Bond Fund - an amount equal to the sum of (1) the aggregate amount of interest to accrue on the bonds during the then current calendar month upon all bonds then outstanding, plus (2) an amount which, if paid in equal monthly installments in each month over the semiannual or annual period prior to the next principal payment date, would aggregate to the amount of the principal becoming due and payable on the outstanding serial bonds on such principal payment date, plus (3) an amount which, if paid in equal monthly installments in each month over the semiannual or annual period prior to the next principal payment date, would aggregate to the amount of mandatory sinking fund account payments required to be paid for the outstanding term bonds on such principal payment date.
- Bond Reserve Fund - an amount, if any, needed to equal the least of (1) the maximum annual debt service, (2) 10% of the proceeds received from the sale of the bonds or (3) 125% of average annual debt service on the bonds or an amount as may be specified by supplemental indentures providing for the issuance of a series of bonds. The maximum annual debt service is defined as the sum of (1) the interest falling due on the then outstanding bonds, (2) the principal amount of the outstanding serial bonds falling due by their terms, and (3) the aggregate amount of all mandatory sinking fund payments required; all as computed for the bond year in which such sum shall be the largest. Amounts in the Bond Reserve Fund are to be used for the purpose of making up any deficiency in the Bond Fund.

During the year ended September 30, 2012, payments for debt service totaled \$6,998,216, of which \$1,670,000 represents payment on principal. A summary of the change in bonds payable is as follows:

Bonds payable at October 1, 2011	\$ 90,665,000
Principal repayment	<u>(1,670,000)</u>
Bonds payable at September 30, 2012	\$ <u>88,995,000</u>

These bonds are recorded as a liability in the government-wide financial statements of GovGuam.

Tax revenues of the Tourist Attraction Fund have been pledged to repay bond principal and interest. Total debt service for the year ended September 30, 2012 amounted to \$6,998,216, which represents 26% of 2012 tax revenues collected.

At September 30, 2012, \$11,312,031 of fund balance in the Debt Service Fund is restricted for debt service purposes.

At September 30, 2012, GovGuam is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(4) Payments to Autonomous Agencies

Public Law 30-228 authorizes the issuance of Hotel Occupancy Tax Revenue Bonds and the funding of payments from bond proceeds to the Guam Preservation Trust (GPT) for reimbursement of interfund payables. During the year ended September 30, 2012, total appropriations made to GPT from the Capital Projects Fund amounted to \$4,288,811.

Public Law 31-77 authorizes the general appropriation to autonomous agencies of GovGuam for operations to be paid from the Tourist Attraction Fund. Specifically, Public Law 31-77 authorizes the funding of payments to the Guam Visitors Bureau (GVB) for operations as well as other miscellaneous appropriations to be administered by GVB. During the year ended September 30, 2012, total appropriations made to GVB from the Tourist Attraction Fund were as follows:

Operations:	
General Administration	\$ 2,618,323
Marketing	8,951,117
Printing, promotional	262,715
Research	406,014
Destination development	<u>1,456,875</u>
	<u>13,695,044</u>
Restricted:	
Folklife Festival Trust Account	749,184
Establishment of a Rainy Day Fund	<u>195,000</u>
	<u>944,184</u>
Special projects:	
Beach maintenance	<u>1,090,706</u>
Pass-through to various non-profit organizations:	
Pa'a Taotao Tano	74,400
Historic Inalahan Foundation	27,626
Traditions Affirming our Seafaring Ancestry	46,500
Tourism Education Council	27,900
Haya Cultural Preservation Foundation	13,950
Festival of Pacific Arts:	
Guam Council on the Arts and Humanities	<u>340,000</u>
	<u>530,376</u>
	<u>\$ 16,260,310</u>

In addition, Public Law 31-77 authorizes an appropriation to the University of Guam (UOG) for the operations of the Rhinoceros Beetle Program in the amount of \$200,000 and the Guampedia Foundation in the amount of \$140,000. During the year ended September 30, 2012, total appropriations made to UOG for operations of the Rhinoceros Beetle Program and the Guampedia Foundation amounted to \$340,000.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2012

(4) Payments to Autonomous Agencies, Continued

Finally, Public Law 31-77 authorizes an appropriation to the Guam Community College (GCC) for the Lodging Management Program/Prostart Program in the amount of \$24,154. During the year ended September 30, 2012, total appropriations made to GCC for the Lodging Management Program/Prostart Program amounted to \$22,463.

(5) Commitments

GovGuam entered into an amendment to a design-build construction contract for the reconstruction of Pale San Vitores Road in an additional amount of \$1,800,000. As of September 30, 2012, a cumulative total of \$1,336,989 in capital-related expenditures have been incurred under this contract with the remaining unliquidated contract amount of \$463,011 recorded within restricted fund balance of the Capital Projects Fund in the accompanying financial statements. During the year ended September 30, 2012, capital-related expenditures of \$139,208 were associated with this project.

Public Law 30-228 authorizes the construction of the Guam Museum and certain other projects that benefit Guam's tourism industry in the amount of \$55,569,000. During the year ended September 30, 2012, GovGuam entered into certain contracts associated with these projects in the aggregate amount of \$7,113,500, with capital-related expenditures of \$1,603,163 being incurred under these contracts. The remaining unliquidated contract amount of \$5,510,337 is recorded within restricted fund balance of the Capital Projects Fund in the accompanying financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Balance Sheets
September 30, 2012 and 2011

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2012	2011	2012	2011	2012	2011
<u>ASSETS</u>						
Cash and cash equivalents	\$ 2,333,856	\$ 1,987,246	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	-	-	36,550,612	56,828,239	11,312,031	12,496,682
Investments	-	-	14,527,112	-	-	-
Taxes receivable	2,235,408	1,892,389	-	-	-	-
Due from General Fund	41,714	-	-	-	-	-
Total assets	<u>\$ 4,610,978</u>	<u>\$ 3,879,635</u>	<u>\$ 51,077,724</u>	<u>\$ 56,828,239</u>	<u>\$ 11,312,031</u>	<u>\$ 12,496,682</u>
<u>LIABILITIES</u>						
Accounts payable	\$ 13,926	\$ 13,500	\$ 355,721	\$ 119,778	\$ -	\$ -
Due to General Fund	-	-	31,947	3,188	-	-
Due to Guam Visitors Bureau	532,037	1,074,478	-	-	-	-
Total liabilities	<u>545,963</u>	<u>1,087,978</u>	<u>387,668</u>	<u>122,966</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES</u>						
Fund balances:						
Restricted for:						
Capital projects	-	-	50,690,056	56,705,273	-	-
Debt service	-	-	-	-	11,312,031	12,496,682
Committed for:						
Tourism	4,065,015	2,791,657	-	-	-	-
Total fund balances	<u>4,065,015</u>	<u>2,791,657</u>	<u>50,690,056</u>	<u>56,705,273</u>	<u>11,312,031</u>	<u>12,496,682</u>
Total liabilities and fund balances	<u>\$ 4,610,978</u>	<u>\$ 3,879,635</u>	<u>\$ 51,077,724</u>	<u>\$ 56,828,239</u>	<u>\$ 11,312,031</u>	<u>\$ 12,496,682</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Schedules of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2012 and 2011

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2012	2011	2012	2011	2012	2011
Revenues:						
Taxes	\$ 26,054,476	\$ 22,972,113	\$ -	\$ -	\$ -	\$ -
Use of money and property	72	56	32,117	2,526	6,570	(9,510)
Total revenues	<u>26,054,548</u>	<u>22,972,169</u>	<u>32,117</u>	<u>2,526</u>	<u>6,570</u>	<u>(9,510)</u>
Expenditures:						
Current:						
General government	230,482	18,000	16,152	5,546	6,225	-
Community services	40,000	48,496	-	-	-	-
Individual and collective rights	1,392,017	1,095,330	-	-	-	-
Environmental protection	68,751	61,070	-	-	-	-
Recreation	613,947	871,237	-	-	-	-
Payments to Guam Visitors Bureau	16,260,310	14,308,625	-	-	-	-
Payments to Guam Preservation Trust	-	-	4,288,811	-	-	-
Payments to University of Guam	340,000	505,365	-	-	-	-
Payments to Guam Community College	22,463	21,739	-	-	-	-
Transfers to FGIA Fund	-	18,800	-	-	-	-
Transfers to Supplemental Appropriation Revenue Fund	-	-	-	-	-	1,000,000
Transfers to General Fund	-	1,075,942	-	-	-	-
Capital projects	-	-	1,742,371	1,197,781	-	-
Cost of issuance	-	-	-	-	-	765,347
Debt service:						
Principal	-	-	-	-	1,670,000	3,290,000
Interest	-	-	-	-	5,328,216	783,488
Total expenditures	<u>18,967,970</u>	<u>18,024,604</u>	<u>6,047,334</u>	<u>1,203,327</u>	<u>7,004,441</u>	<u>5,838,835</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,086,578</u>	<u>4,947,565</u>	<u>(6,015,217)</u>	<u>(1,200,801)</u>	<u>(6,997,871)</u>	<u>(5,848,345)</u>
Other financing sources (uses):						
Proceeds from refunded bonds issued	-	-	-	90,665,000	-	-
Discount on refunded bonds issued	-	-	-	(2,117,169)	-	-
Payment to refunded bond escrow agent	-	-	-	(21,908,273)	-	(6,879,513)
Operating transfers in	-	-	-	-	5,813,220	16,054,012
Operating transfers out	(5,813,220)	(4,983,453)	-	(11,070,559)	-	-
Total other financing sources (uses), net	<u>(5,813,220)</u>	<u>(4,983,453)</u>	<u>-</u>	<u>55,568,999</u>	<u>5,813,220</u>	<u>9,174,499</u>
Net change in fund balances	1,273,358	(35,888)	(6,015,217)	54,368,198	(1,184,651)	3,326,154
Fund balances at the beginning of the year	2,791,657	2,827,545	56,705,273	2,337,075	12,496,682	9,170,528
Fund balances at the end of the year	<u>\$ 4,065,015</u>	<u>\$ 2,791,657</u>	<u>\$ 50,690,056</u>	<u>\$ 56,705,273</u>	<u>\$ 11,312,031</u>	<u>\$ 12,496,682</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Schedules of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2012 and 2011

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2012	2011	2012	2011	2012	2011
Revenues:						
Taxes	\$ 26,054,476	\$ 22,972,113	\$ -	\$ -	\$ -	\$ -
Use of money and property	72	56	32,117	2,526	6,570	(9,510)
Total revenues	<u>26,054,548</u>	<u>22,972,169</u>	<u>32,117</u>	<u>2,526</u>	<u>6,570</u>	<u>(9,510)</u>
Expenditures:						
Salaries and wages - regular	9,835	-	-	-	-	-
Salaries and wages - fringe benefits	3,567	-	-	-	-	-
Travel	58,222	591	-	-	-	-
Contractual services	1,189,082	1,339,453	1,436,143	1,197,781	-	-
Supplies	693,312	607,153	-	-	-	-
Equipment	33,703	42,213	-	-	-	-
Grants and subsidies	16,622,773	15,930,471	4,288,811	-	-	1,000,000
Utilities - power and water	212,482	-	-	-	-	-
Communications	2,000	-	-	-	-	-
Capital outlays	58,002	28,100	306,228	-	-	-
Principal retirement	-	-	-	-	1,670,000	3,290,000
Interest and fiscal charges	-	-	-	-	5,328,216	783,488
Miscellaneous	84,992	76,623	16,152	5,546	6,225	765,347
Total expenditures	<u>18,967,970</u>	<u>18,024,604</u>	<u>6,047,334</u>	<u>1,203,327</u>	<u>7,004,441</u>	<u>5,838,835</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,086,578</u>	<u>4,947,565</u>	<u>(6,015,217)</u>	<u>(1,200,801)</u>	<u>(6,997,871)</u>	<u>(5,848,345)</u>
Other financing sources (uses):						
Proceeds from refunded bonds issued	-	-	-	90,665,000	-	-
Discount on refunded bonds issued	-	-	-	(2,117,169)	-	-
Payment to refunded bond escrow agent	-	-	-	(21,908,273)	5,813,220	(6,879,513)
Operating transfers in	-	-	-	-	-	16,054,012
Operating transfers out	(5,813,220)	(4,983,453)	-	(11,070,559)	-	-
Total other financing sources (uses), net	<u>(5,813,220)</u>	<u>(4,983,453)</u>	<u>-</u>	<u>55,568,999</u>	<u>5,813,220</u>	<u>9,174,499</u>
Net change in fund balances	1,273,358	(35,888)	(6,015,217)	54,368,198	(1,184,651)	3,326,154
Fund balances at the beginning of the year	<u>2,791,657</u>	<u>2,827,545</u>	<u>56,705,273</u>	<u>2,337,075</u>	<u>12,496,682</u>	<u>9,170,528</u>
Fund balances at the end of the year	<u>\$ 4,065,015</u>	<u>\$ 2,791,657</u>	<u>\$ 50,690,056</u>	<u>\$ 56,705,273</u>	<u>\$ 11,312,031</u>	<u>\$ 12,496,682</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2012 and 2011

	2012	2011
Department of Administration:		
Division of Accounts:		
Contractual services	\$ 18,000	\$ 18,000
Utilities - power and water	212,482	-
Principal retirement	1,670,000	3,290,000
Interest and fiscal charges	5,328,216	783,488
Miscellaneous	22,377	770,893
Total Department of Administration	7,251,075	4,862,381
Department of Public Works:		
Capital Improvements Division:		
Contractual services	139,208	1,197,781
Total Department of Public Works	139,208	1,197,781
Guam Environmental Protection Agency:		
Beach Monitoring:		
Salaries and wages - regular	9,835	-
Salaries and wages - fringe benefits	3,567	-
Travel	4,664	-
Contractual services	15,052	3,165
Supplies	29,508	39,938
Equipment	4,125	17,967
Communications	2,000	-
Total Guam Environmental Protection Agency	68,751	61,070
Department of Parks and Recreation:		
Maintenance and Repair of Public Restrooms:		
Contractual services	601,890	844,413
Supplies	5,961	17,183
Equipment	6,096	9,641
Total Department of Parks and Recreation	613,947	871,237
Mayors' Council of Guam:		
Island-wide Village Beautification:		
Contractual services	247,042	13,252
Supplies	206,089	166,516
Equipment	5,105	3,368
Capital outlays	14,975	14,900
	473,211	198,036
Village Street Maintenance and Beautification:		
Travel	53,558	591
Contractual services	307,098	460,623
Supplies	451,754	383,516
Equipment	18,377	11,237
Capital outlays	43,027	13,200
Miscellaneous	44,992	28,127
	918,806	897,294
Total Mayors' Council of Guam	1,392,017	1,095,330
Council on the Arts and Humanities:		
Guam Territorial Band:		
Miscellaneous	40,000	48,496
Total Council on the Arts and Humanities	40,000	48,496

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Federal Grants Fund:		
Grants and subsidies	-	18,800
Total Federal Grants Fund	-	18,800
General Fund:		
Grants and subsidies	-	1,075,942
Total General Fund	-	1,075,942
Supplemental Appropriation Revenue Fund:		
Grants and subsidies	-	1,000,000
Total Supplemental Appropriation Revenue Fund	-	1,000,000
Guam Museum:		
Contractual services	1,296,935	-
Equipment	306,228	-
Total Guam Museum	1,603,163	-
Guam Preservation Trust:		
Grants and subsidies	4,288,811	-
Total Guam Preservation Trust	4,288,811	-
Guam Visitors Bureau:		
Grants and subsidies	16,260,310	14,308,625
Total Guam Visitors Bureau	16,260,310	14,308,625
University of Guam:		
Grants and subsidies	340,000	505,365
Total University of Guam	340,000	505,365
Guam Community College:		
Grants and subsidies	22,463	21,739
Total Guam Community College	22,463	21,739
	\$ 32,019,745	\$ 25,066,766

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Construction Project Status
Year Ended September 30, 2012

	Total Budget	Expenditures Year Ended September 30, 2012	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Tumon Bay Capital Projects:					
Reconstruction of Pale San Vitores Road	\$ 1,800,000	\$ 139,208	\$ 1,336,989	\$ 463,011	\$ -
Sub-Total	<u>1,800,000</u>	<u>139,208</u>	<u>1,336,989</u>	<u>463,011</u>	<u>-</u>
Task Order # 1:					
Guam and Chamorro Educational Facility	22,961,100	-	-	-	22,961,100
Architects Laguana & Cristobal - Design	2,197,000	306,228	306,228	1,890,772	-
RWA Consulting Fee	1,696,900	621,378	621,378	1,075,522	-
GEDA Management Fee	145,000	-	-	-	145,000
Sub-Total	<u>27,000,000</u>	<u>927,606</u>	<u>927,606</u>	<u>2,966,294</u>	<u>23,106,100</u>
Task Order # 2:					
San Vitores Flooding	11,500,000	-	-	-	11,500,000
Historic Hagatna Projects	1,341,000	-	-	1,341,000	-
Crosswalk from Skinner Plaza to Chamorro Village	300,000	-	-	-	300,000
Guam Preservation Trust Reimbursement	4,288,811	4,288,811	4,288,811	-	-
Inarajan Community Center Restoration	798,000	-	-	798,000	-
Malessa Bell Tower Restoration and Rehabilitation	400,000	-	-	-	400,000
Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation	3,900,000	-	-	-	3,900,000
Historic Monument and Plaza Commemorating Ferdinand Magellan's Visit to Umatac Bay	150,000	-	-	-	150,000
Design/Construction of Village Entrance Signs for 19 Municipalities	400,000	-	-	-	400,000
Nimitz Beach Improvements	250,000	-	-	-	250,000
Improve Public Facilities Near Fish Eye Pier	100,000	-	-	-	100,000
Mangilao Public Market Improvements	50,000	-	-	-	50,000
Tumon Bay Improvements	700,000	-	-	-	700,000
Pale San Vitores Road Streetlight Renovation	50,000	-	-	-	50,000
Agana Bay Vicinity Streetlight Renovation	35,000	-	-	-	35,000
Restoration and Repair of Scenic Byways, Overlooks, and Historic Sites	2,000,000	-	-	-	2,000,000
Design and Construction of Permanent Monument for Senator Angel Santos Park	50,000	-	-	-	50,000
Scenic and Informational Highway Signs	350,000	-	-	-	350,000
Hagatna Tennis Court Improvements	150,000	-	-	-	150,000
Hagatna Pool Improvements	150,000	-	-	-	150,000
Deposit Into Community Sports Recreational Improvement Fund	50,000	-	-	-	50,000
Primary or Supplemental Funding for Hagatna Master Plan Projects	200,000	-	-	-	200,000
RWA Consulting Fee	1,080,600	675,557	675,557	405,043	-
GEDA Management Fee	289,000	-	-	-	289,000
Sub-Total	<u>28,582,411</u>	<u>4,964,368</u>	<u>4,964,368</u>	<u>2,544,043</u>	<u>21,074,000</u>
	<u>\$ 57,382,411</u>	<u>\$ 6,031,182</u>	<u>\$ 7,228,963</u>	<u>\$ 5,973,348</u>	<u>\$ 44,180,100</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Other Supplementary Information
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Bond Cash and Investment Accounts:		
Bond Fund	\$ 6,454,531	\$ 4,427,504
Bond Reserve Fund	4,857,500	4,857,505
Construction Account	51,077,724	56,828,239
Capitalized Interest Account	-	3,197,066
Cost of Issuance Account	-	14,607
Revenue Fund	2,322,774	1,980,412
Surplus Fund	<u>11,082</u>	<u>6,834</u>
	<u>\$ 64,723,611</u>	<u>\$ 71,312,167</u>

See accompanying independent auditors' report.

INDEPENDENT AUDITORS' 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

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited the financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 29, 2013. Our report includes an explanatory paragraph that the financial statements of the Funds are not intended to present the financial position and results of operations of the Government of Guam. 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.

Internal Control Over Financial Reporting

Management of the Funds is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Funds' 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 Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control over financial reporting.

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.

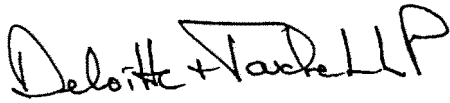
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Funds in a separate letter dated March 29, 2013.

This report is intended solely for the information and use of the management of the Funds, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is also a matter of public record.

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

March 29, 2013