

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

2013 APR 18 AM 9:46

Office of the Speaker
Judith T. Won Pat, Ed. D.

Date: 4/18/13
Time: 8:17 AM
Received by: *Jain*
32-13-296

April 15, 2013

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

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Territorial Highway Fund (THF)'s Fiscal Year (FY) 2012 audited Financial Statements, Report on Compliance and Internal Controls, 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

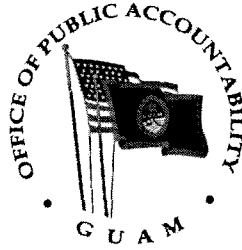
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GUAM LEGISLATURE
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Territorial Highway Fund (THF) FY 2012 Financial Highlights

April 15, 2013

The Territorial Highway Fund (THF) ended fiscal year (FY) 2012 with a \$3.3 million (M) increase in fund balance. Independent auditors Deloitte and Touche, LLP issued an unqualified (clean) opinion for THF's FY 2012 financial audit. The Department of Administration (DOA) is to be commended as there were no findings regarding internal control over financial reporting and compliance.

Revenues and Expenditures Increased

The THF operations fund saw a slight revenue increase of \$500 thousand (K) or 2.7% from \$18.4M in FY 2011 to \$18.9M in FY 2012. The THF's two major sources of revenue are derived from liquid fuel taxes and taxes and fees on vehicle registration and certain licenses. Revenues from liquid fuel taxes, which account for 52% of total revenues, increased by \$353K from \$9.5M in the prior year to \$9.8M. This was primarily due to the increase in taxes collected for aviation fuel. The remaining 48% of total revenues came from licenses, fees, and permits, which increased by \$151K from \$8.9M to \$9.1M due to the increase in fees collected for driver licenses. For every gallon purchased, THF collected 11 cents from gasoline and 10 cents from diesel fuel.

In FY 2012, total expenditures increased by \$921K from \$21.5M in the prior year to \$22.4M. The largest expenditures were paid under DOA's Division of Accounts, which represented 56% of total expenditures or \$12.6M. This was mainly attributed to debt service payments of \$6M and power and water payments amounting to \$4.9M. Power and water expenses more than doubled from \$2.1M to \$4.9M.

The second largest expenditures were paid to the Department of Public Works (DPW) which represented 27% of the total expenditures or \$6M and a \$2.4M decrease from the previous year's \$8.4M. This was mainly attributed to the non-funding of expenditures for the Capital Improvement Projects (CIP) Administration and Operations Division and significant decrease of funding in Building Maintenance Division. DPW expenditures for 2012 included funding for mainly three divisions: (1) Highway Maintenance, (2) Transportation, and (3) Capital Projects.

Other transportation-related expenditures represented 13% of total expenditures, which were for the Guam Regional Transit Authority (\$2.6M) and Public Transit (\$357K).

Non-highway/ Non-transportation Expenditures

The THF is used primarily to maintain Guam's highways and roadways, implement highway safety plans, programs, and projects, and provide public transit. However, over the years, the THF has been funding a variety of non-highway projects. For FY 2012, non-highway/non-

April 9, 2013

Honorable Eddie Baza Calvo
Governor of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 April 9, 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 with the oversight of management and 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.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix A to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

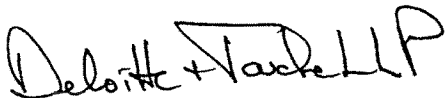
We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing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

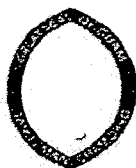
CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated April 9, 2013, containing information regarding our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, 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,

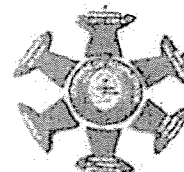
A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)

Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

April 9, 2013

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

We are providing this letter in connection with your audit of the balance sheet of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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.

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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with GAAP.
 - b. The financial statements properly classify all funds and activities.
 - c. Deposits are properly classified in the category of custodial credit risk.
 - d. Applicable laws and regulations are followed in adopting, approving and amending budgets.
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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A and for all funds administered by the Government of Guam relating to the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A.
4. The Government of Guam has not performed a risk assessment, including the assessment of the risk that the financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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*.

We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

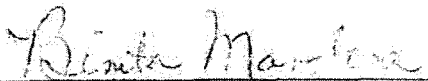
8. Significant assumptions used by us in making accounting estimates are reasonable.
9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
10. We are responsible for the fair presentation of the additional information accompanying the basic financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A that is presented for the purpose of additional analysis of the basic financial statements.


Except where otherwise stated below, matters less than \$60,000 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A.

11. Except as disclosed in Appendix A, 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.
18. The Government of Guam has complied with all aspects of contractual agreements that may have an effect on the financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 April 9, 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*.
23. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
24. 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.
25. 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 April 9, 2013, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
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
 Finance Manager

APPENDIX A

	Correcting Entry				
	Assets	Liabilities	Fund Equity	Revenues	Expenditures
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
To correct overstatement of accrued utilities expenditures		20,298	(20,298)		
To correct overstatement of accrued payroll expenditures		15,836			(15,836)
Total Known Misstatements	0	36,134	(20,298)	0	(15,836)

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY 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
TERRITORIAL HIGHWAY 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

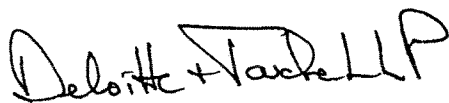
In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2012, and the results 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 April 9, 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 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 16 through 18, the schedule of expenditures by department by object on pages 19 and 20 and the schedule of construction project status on page 21 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 and the schedule of construction project status are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information on page 22 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



April 9, 2013

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

1. Financial Highlights

- For the fiscal year ended September 30, 2012, total fund balance decreased by \$3,500,316 (or 37.8%) from an ending fund balance of \$9,251,277 in 2011 to \$5,750,961 in 2012.
- During the years ended September 30, 2012 and 2011, total combined expenditures for governmental fund operations were \$22,387,050 and \$21,466,487, respectively, including expenditures relating to payments for the Guam Regional Transit Authority of \$2,552,079 and \$2,516,842, respectively; debt service requirements of \$5,892,551 and \$6,027,225, respectively; and capital-related expenditures of \$944,075 and \$1,526,416, respectively. These expenditures were funded, in part, by Liquid Fuel Tax and Vehicle Registration revenue collections during the years ended September 30, 2012 and 2011 of \$18,884,714 and \$18,381,382, respectively, with the remainder funded by bond proceeds.
- Total combined expenditures increased by \$920,563 (or 4.3%) from 2011 to 2012 due primarily to increases in payments for operations of the Department of Public Works transportation division and bus operations offset by decreases in capital projects and general governmental expenditures. Total combined revenues increased by \$572,793 (or 3.1%) from 2011 to 2012 due primarily to increases in liquid fuel tax and vehicle registration collections.
- During the years ended September 30, 2012 and 2011, THF generated operating deficits of \$3,500,316 and \$3,152,546, respectively.

2. Overview of the Financial Statements

THF's financial statements include all of the activities of GovGuam's Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 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 the Funds are reported in self-balancing funds.

THF'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. THF 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
TERRITORIAL HIGHWAY 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 THF's financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on THF's assets, liabilities and fund balance at year-end. A condensed summary of THF's balance sheet is shown below as of September 30, 2012 and 2011. The balance sheet should be read in conjunction with the notes to the financial statements.

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and cash equivalents	\$ 7,513,732	\$ 3,476,497
Taxes receivable	781,514	791,017
Due from General Fund	50,517	-
Restricted assets:		
Cash and cash equivalents	<u>1,454,627</u>	<u>8,596,664</u>
Total Assets	\$ <u>9,800,390</u>	\$ <u>12,864,178</u>
Liabilities:		
Accounts payable	\$ 136,496	\$ 10,955
Accrued payroll and others	119,176	255,909
Due to General Fund	<u>3,793,757</u>	<u>3,346,037</u>
Total Liabilities	<u>4,049,429</u>	<u>3,612,901</u>
Fund Balances:		
Restricted	1,427,917	8,271,279
Committed	<u>4,323,044</u>	<u>979,998</u>
Total Fund Balances	<u>5,750,961</u>	<u>9,251,277</u>
Total Liabilities and Fund Balances	\$ <u>9,800,390</u>	\$ <u>12,864,178</u>

Total assets decreased by \$3,063,788 (or 23.8%) during 2012 from \$12,864,178 to \$9,800,390. This decrease was primarily the result of a decrease in restricted assets for debt service payments.

Total liabilities increased by \$436,528 (or 12.1%) during 2012 from \$3,612,901 to \$4,049,429. This increase was primarily the result of an increase in interfund payables to the General Fund.

Total fund balances decreased by \$3,500,316 (or 37.8%) during 2012 from \$9,251,277 to \$5,750,961. 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 Limited Obligation Highway Refunding Bond, 2001 Series A, wherein these funds are restricted for highway related projects.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

The Limited Obligation Highway Refunding Bond, 2001 Series A, was originally set to mature on May 1, 2012. On October 28, 2011, GovGuam redeemed the \$5,765,000 of bonds outstanding. The funds were transferred to the trustee for the final payment of the bonds in May. There is a residual balance in the construction fund. These funds will be used to complete the projects originally specified in the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, and the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A.

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 THF's fund balance for the year. THF's statements of revenues, expenditures 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:		
Taxes:	\$ 9,831,039	\$ 9,478,586
License, fees and permits	9,053,675	8,902,796
Use of money and property	<u>2,020</u>	<u>(67,441)</u>
 Total Revenues	 <u>18,886,734</u>	 <u>18,313,941</u>
Expenditures:		
Current:		
General government	5,278,648	5,550,192
Public Education	899,644	234,506
Transportation	5,057,405	3,892,913
Guam Regional Transit Authority	2,552,079	2,516,842
Payments to UOG CIP Fund	500,000	500,000
Payments to Public Transit Fund	357,280	328,113
Payments to Better Public Service Fund	905,368	890,280
Capital projects	944,075	1,526,416
Debt service	<u>5,892,551</u>	<u>6,027,225</u>
 Total Expenditures	 <u>22,387,050</u>	 <u>21,466,487</u>
 Net Change in Fund Balances	 \$ <u>(3,500,316)</u>	 \$ <u>(3,152,546)</u>

Total revenues collected increased by \$572,793 (or 3.1%) from \$18,313,941 for 2011 to \$18,886,734 for 2012. This increase was primarily the result of incremental increases in Liquid Fuel Tax collections of 3.72% and License, Fees and Permits collections of 1.69%. Liquid Fuel Taxes increased by \$352,453 (or 3.7%) from \$9,478,586 for 2011 to \$9,831,039 for 2012. This increase was primarily the result of an increase in aviation fuel tax collections. License, Fees and Permits collections increased by \$150,879 (or 1.7%) from \$8,902,796 for 2011 to \$9,053,675 for 2012. This increase was primarily the result of an increase in driver license fee collections.

Total expenditures increased by \$920,563 (or 4.3%) from \$21,466,487 for 2011 to \$22,387,050 for 2012. The increase in 2012 was the result of an increase in allotments for the Department of Public Works transportation division of \$1,393,930.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY 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 \$944,075 compared with \$1,526,416 in 2011. These expenditures pertained primarily to construction of the Gill Baza access road (\$417,314), preventive school bus maintenance (\$371,555), and village street repair (\$107,324).

5. Long-Term Debt

In April 2001, GovGuam issued \$51,705,000 in Limited Obligation Highway Refunding Bonds for the purpose of refunding 1992 bonds and generating additional funds for certain capital improvement highway projects. This bond was redeemed in October 2011. See note 3 to the accompanying financial statements for additional information relating to this long-term debt.

6. Outlook, Challenges and Opportunities

The revenue stream for the Territorial Highway Fund, namely liquid fuel taxes and vehicle registration fees, has been consistent from year to year. It is expected that this trend will continue for the foreseeable future. There may be some external forces beyond GovGuam's control that may affect the revenue streams such as a significant increase in fuel prices to the point that customers reduce their consumption. We do not expect this to occur soon. The debt service component will be completely defeased in the next fiscal year. This will provide additional funding for highway projects.

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 THF's finances and to show THF'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: Katherine 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/doa/.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Balance Sheet
September 30, 2012

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 7,511,807	\$ -	\$ 1,925	\$ 7,513,732
Restricted assets:				
Cash and cash equivalents	-	1,454,627	-	1,454,627
Taxes receivable	781,514	-	-	781,514
Due from General Fund	-	50,517	-	50,517
Total assets	<u>\$ 8,293,321</u>	<u>\$ 1,505,144</u>	<u>\$ 1,925</u>	<u>\$ 9,800,390</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 59,269	\$ 77,227	\$ -	\$ 136,496
Accrued payroll and other	119,176	-	-	119,176
Due to General Fund	3,793,757	-	-	3,793,757
Total liabilities	<u>3,972,202</u>	<u>77,227</u>	<u>-</u>	<u>4,049,429</u>
Commitments				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	-	1,427,917	-	1,427,917
Committed for:				
Highway operations	4,321,119	-	1,925	4,323,044
Total fund balances	<u>4,321,119</u>	<u>1,427,917</u>	<u>1,925</u>	<u>5,750,961</u>
Total liabilities and fund balances	<u>\$ 8,293,321</u>	<u>\$ 1,505,144</u>	<u>\$ 1,925</u>	<u>\$ 9,800,390</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 9,831,039	\$ -	\$ -	\$ 9,831,039
Licenses, fees and permits	9,053,675	-	-	9,053,675
Use of money and property	1,831	189	-	2,020
Total revenues	18,886,545	189	-	18,886,734
Expenditures:				
Current:				
General government	5,273,648	-	5,000	5,278,648
Public education	899,644	-	-	899,644
Transportation	5,057,405	-	-	5,057,405
Guam Regional Transit Authority	2,552,079	-	-	2,552,079
Payments to UOG Capital Improvement Fund	500,000	-	-	500,000
Payments to Public Transit Fund	357,280	-	-	357,280
Payments to Better Public Service Fund	905,368	-	-	905,368
Capital projects	-	944,075	-	944,075
Debt service:				
Principal	-	-	5,765,000	5,765,000
Interest	-	-	127,551	127,551
Total expenditures	15,545,424	944,075	5,897,551	22,387,050
Net change in fund balances	3,341,121	(943,886)	(5,897,551)	(3,500,316)
Fund balances at the beginning of the year	979,998	2,371,803	5,899,476	9,251,277
Fund balances at the end of the year	<u>\$ 4,321,119</u>	<u>\$ 1,427,917</u>	<u>\$ 1,925</u>	<u>\$ 5,750,961</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY 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 Territorial Highway Fund.

A. Reporting Entity

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

B. Fund Accounting

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

C. Measurement Focus and Basis of Accounting

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

Liquid Fuel Taxes:

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Automotive Surcharges:

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

Motor Vehicle Registration Fees/Driver's Licenses:

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

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

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

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

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

D. Appropriations

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

E. Budgetary Process

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

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. As of September 30, 2012, there were no outstanding interdepartmental work requests pertaining to land acquisitions. 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>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Encumbrances	\$ <u>302,696</u>	\$ <u>128,884</u>	\$ <u>-</u>

F. Cash and Cash Equivalents

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

G. Receivables

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

H. 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.

I. Restricted Assets

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

J. Fund Balance

Governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is 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 does 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.

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.

K. 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.

L. 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 Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, for the year ended September 30, 2011 from which summarized information was derived.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(2) Deposits

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

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 \$8,968,359 and the corresponding bank balances were \$8,968,359. Of the bank balances, \$6,061,171 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$2,907,188 represents 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. As of September 30, 2012, bank deposits in the amount of \$250,000 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(3) Bonds Payable

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

On October 28, 2011, the Limited Obligation Highway Refunding Bonds, 2001 Series A were redeemed and the outstanding debt associated with these bonds was retired.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(3) Bonds Payable, Continued

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

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

During the year ended September 30, 2012, payments for debt service totaled \$5,892,551, of which \$5,765,000 represents payment on principal. A summary of the change in bonds payable is as follows:

Bonds payable at October 1, 2011	\$ 5,765,000
Principal repayment	<u>(5,765,000)</u>
Bonds payable at September 30, 2012	\$ <u> -</u>

On July 1, 1999, GovGuam entered into a Bond Fund Forward Delivery Agreement with the U.S. Bank National Association and Lehman Brothers Special Financing, Inc. Under the terms of this agreement, GovGuam gave Lehman the right to control and retain the proceeds maintained in the Bond Fund that GovGuam was required to maintain under the bond indenture associated with the 2001 Bonds. On March 30, 2012, GovGuam entered into a Termination Agreement with the U.S. Bank National Association and Lehman Brothers Special Financing, Inc. whereby the Territorial Highway Fund paid \$139,700 to Lehman in order to regain control of the Bond Fund.

(4) Payments to Other Funds

Public Law 26-48 authorizes reimbursement to the University of Guam (UOG) for debt service on a U.S. Department of Agriculture (USDA) loan obtained for construction of the College of Business and Public Administration building. During the year ended September 30, 2012, \$500,000 was transferred to the UOG Capital Improvements Fund for payment to UOG. Under Public Law 26-48, \$500,000 is appropriated annually to UOG until such time that the USDA loan is repaid in full.

During the year ended September 30, 2012, \$357,280 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2012, \$905,368 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(5) Commitments

The Guam Legislature appropriated \$2,254,413 from the Capital Projects Fund in accordance with Public Law 30-216 for the purpose of refurbishing Department of Public Works school buses and other related matters. As of September 30, 2012, restricted fund balance of \$308,559 associated with this appropriation includes commitments associated with outstanding encumbrances of \$1,333.

Furthermore, the Guam Legislature reprogrammed and appropriated \$1,050,000 from the Capital Projects Fund in accordance with Public Law 30-217 to the Department of Public Works for repair of damage to village streets associated with road reconstruction projects. As of September 30, 2012, restricted fund balance of \$525,363 associated with this appropriation includes commitments associated with outstanding encumbrances of \$127,551.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Balance Sheets
September 30, 2012 and 2011

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2012	2011	2012	2011	2012	2011
ASSETS						
Cash and cash equivalents	\$ 7,511,807	\$ 3,474,572	\$ -	\$ -	\$ 1,925	\$ 1,925
Restricted assets:						
Cash and cash equivalents	-	-	1,454,627	2,699,113	-	5,897,551
Taxes receivable	781,514	791,017	-	-	-	-
Due from General Fund	-	-	50,517	-	-	-
Total assets	<u>\$ 8,293,321</u>	<u>\$ 4,265,589</u>	<u>\$ 1,505,144</u>	<u>\$ 2,699,113</u>	<u>\$ 1,925</u>	<u>\$ 5,899,476</u>
LIABILITIES						
Accounts payable	\$ 59,269	\$ -	\$ 77,227	\$ 10,955	\$ -	\$ -
Accrued payroll and other	119,176	255,909	-	-	-	-
Due to General Fund	<u>3,793,757</u>	<u>3,029,682</u>	<u>-</u>	<u>316,355</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,972,202</u>	<u>3,285,591</u>	<u>77,227</u>	<u>327,310</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Fund balances:						
Restricted for:						
Capital projects	-	-	1,427,917	2,371,803	-	-
Debt service	-	-	-	-	-	5,899,476
Committed for:						
Highway operations	<u>4,321,119</u>	<u>979,998</u>	<u>-</u>	<u>-</u>	<u>1,925</u>	<u>-</u>
Total fund balances	<u>4,321,119</u>	<u>979,998</u>	<u>1,427,917</u>	<u>2,371,803</u>	<u>1,925</u>	<u>5,899,476</u>
Total liabilities and fund balances	<u>\$ 8,293,321</u>	<u>\$ 4,265,589</u>	<u>\$ 1,505,144</u>	<u>\$ 2,699,113</u>	<u>\$ 1,925</u>	<u>\$ 5,899,476</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2012	2011	2012	2011	2012	2011
Revenues:						
Taxes	\$ 9,831,039	\$ 9,478,586	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	9,053,675	8,902,796	-	-	-	-
Use of money and property	1,831	5,227	189	402	-	(73,070)
Total revenues	<u>18,886,545</u>	<u>18,386,609</u>	<u>189</u>	<u>402</u>	<u>-</u>	<u>(73,070)</u>
Expenditures:						
Current:						
General government	5,273,648	5,550,192	-	-	5,000	-
Public Education	899,644	234,506	-	-	-	-
Transportation	5,057,405	3,892,913	-	-	-	-
Guam Regional Transit Authority	2,552,079	2,516,842	-	-	-	-
Payments to UOG Capital Improvement Fund	500,000	500,000	-	-	-	-
Payments to Public Transit Fund	357,280	328,113	-	-	-	-
Payments to Better Public Service Fund	905,368	890,280	-	-	-	-
Capital projects	-	-	944,075	1,526,416	-	-
Debt service:						
Principal	-	-	-	-	5,765,000	5,485,000
Interest	-	-	-	-	127,551	542,225
Total expenditures	<u>15,545,424</u>	<u>13,912,846</u>	<u>944,075</u>	<u>1,526,416</u>	<u>5,897,551</u>	<u>6,027,225</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,341,121</u>	<u>4,473,763</u>	<u>(943,886)</u>	<u>(1,526,014)</u>	<u>(5,897,551)</u>	<u>(6,100,295)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	4,316,894
Operating transfers out	-	(4,316,894)	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>(4,316,894)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,316,894</u>
Net change in fund balances	3,341,121	156,869	(943,886)	(1,526,014)	(5,897,551)	(1,783,401)
Fund balances at the beginning of the year	<u>979,998</u>	<u>823,129</u>	<u>2,371,803</u>	<u>3,897,817</u>	<u>5,899,476</u>	<u>7,682,877</u>
Fund balances at the end of the year	<u>\$ 4,321,119</u>	<u>\$ 979,998</u>	<u>\$ 1,427,917</u>	<u>\$ 2,371,803</u>	<u>\$ 1,925</u>	<u>\$ 5,899,476</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2012	2011	2012	2011	2012	2011
Revenues:						
Taxes	\$ 9,831,039	\$ 9,478,586	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	9,053,675	8,902,796	-	-	-	-
Use of money and property	1,831	5,227	189	402	-	(73,070)
Total revenues	<u>18,886,545</u>	<u>18,386,609</u>	<u>189</u>	<u>402</u>	<u>-</u>	<u>(73,070)</u>
Expenditures:						
Salaries and wages - regular	2,896,452	4,514,685	187	6,187	-	-
Salaries and wages - overtime	102,758	-	69,579	86,710	-	-
Salaries and wages - fringe benefits	1,085,549	1,578,025	21,361	15,005	-	-
Travel	21,086	-	-	-	-	-
Contractual services	2,712,253	2,934,098	662,251	433,452	-	-
Supplies	1,698,159	731,360	129,425	580,427	-	-
Equipment	13,109	57,127	-	52,736	-	-
Utilities - power and water	4,977,297	2,316,799	-	-	-	-
Communications	16,662	39,058	-	-	-	-
Capital outlays	111,035	19,270	40,929	72,815	-	-
Grants and subsidies	1,762,648	1,718,393	-	-	-	-
Principal retirement	-	-	-	-	5,765,000	5,485,000
Interest and fiscal charges	139,700	-	-	-	127,551	542,225
Miscellaneous	8,716	4,031	20,343	279,084	5,000	-
Total expenditures	<u>15,545,424</u>	<u>13,912,846</u>	<u>944,075</u>	<u>1,526,416</u>	<u>5,897,551</u>	<u>6,027,225</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,341,121</u>	<u>4,473,763</u>	<u>(943,886)</u>	<u>(1,526,014)</u>	<u>(5,897,551)</u>	<u>(6,100,295)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	4,316,894
Operating transfers out	-	(4,316,894)	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>(4,316,894)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,316,894</u>
Net change in fund balances	3,341,121	156,869	(943,886)	(1,526,014)	(5,897,551)	(1,783,401)
Fund balances at the beginning of the year	979,998	823,129	2,371,803	3,897,817	5,899,476	7,682,877
Fund balances at the end of the year	<u>\$ 4,321,119</u>	<u>\$ 979,998</u>	<u>\$ 1,427,917</u>	<u>\$ 2,371,803</u>	<u>\$ 1,925</u>	<u>\$ 5,899,476</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	<u>2012</u>	<u>2011</u>
Office of the Governor:		
Veteran Affairs:		
Contractual services	\$ -	\$ 97,600
Supplies	-	17,118
Equipment	-	21,643
Total Office of the Governor	<u>-</u>	<u>136,361</u>
Department of Administration:		
Division of Accounts:		
Salaries and wages - fringe benefits	216,327	313,358
Travel	21,086	-
Contractual services	18,000	18,000
Utilities - power and water	4,874,998	2,100,144
Grants and subsidies	1,405,368	1,390,280
Principal retirement	5,765,000	5,485,000
Interest and fiscal charges	267,251	542,225
Miscellaneous	7,639	2,950
	<u>12,575,669</u>	<u>9,851,957</u>
Public Transit:		
Grants and subsidies	357,280	328,113
	<u>357,280</u>	<u>328,113</u>
Guam Regional Transit Authority:		
Salaries and wages - regular	263,212	221,800
Salaries and wages - fringe benefits	79,711	58,232
Contractual services	2,197,864	2,229,878
Supplies	2,623	2,017
Communications	2,901	3,615
Miscellaneous	5,767	1,300
	<u>2,552,078</u>	<u>2,516,842</u>
Total Department of Administration	<u>15,485,027</u>	<u>12,696,912</u>
Department of Education:		
Public Education:		
Salaries and wages - regular	-	61,568
Supplies	899,644	172,938
Total Department of Education	<u>899,644</u>	<u>234,506</u>
Department of Public Works:		
CIP Administration/Operations:		
Salaries and wages - regular	-	1,160,062
Salaries and wages - fringe benefits	-	375,064
Contractual services	-	162,876
Supplies	-	24,051
Communications	-	18,339
	<u>-</u>	<u>1,740,392</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	<u>2012</u>	<u>2011</u>
Building Maintenance:		
Salaries and wages - regular	-	839,085
Salaries and wages - fringe benefits	-	226,211
Contractual services	-	25,181
Supplies	-	127,394
Communications	-	4,457
Equipment	900	16,660
	<u>900</u>	<u>1,238,988</u>
Highway Maintenance Division:		
Salaries and wages - regular	1,946,719	2,232,171
Salaries and wages - overtime	66,992	-
Salaries and wages - fringe benefits	585,879	604,940
Contractual services	407,758	400,562
Supplies	529,731	387,843
Equipment	9,743	18,824
Utilities - power and water	102,299	216,655
Communications	3,625	12,647
Capital outlays	10,418	19,270
Miscellaneous	310	-
	<u>3,663,474</u>	<u>3,892,912</u>
Transportation Division:		
Salaries and wages - regular	686,521	-
Salaries and wages - overtime	35,766	-
Salaries and wages - fringe benefits	203,632	-
Contractual services	88,631	-
Supplies	266,161	-
Equipment	2,466	-
Communications	10,136	-
Capital outlays	100,617	-
	<u>1,393,930</u>	<u>-</u>
Capital Projects:		
Salaries and wages - regular	187	6,187
Salaries and wages - overtime	69,579	86,710
Salaries and wages - fringe benefits	21,361	15,005
Contractual services	662,251	433,452
Supplies	129,425	580,427
Equipment	-	52,736
Capital outlays	40,929	72,815
Miscellaneous	20,343	279,084
	<u>944,075</u>	<u>1,526,416</u>
Total Department of Public Works	<u>6,002,379</u>	<u>8,398,708</u>
	<u>\$ 22,387,050</u>	<u>\$ 21,466,487</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Construction Project Status
Year Ended September 30, 2012

	<u>Total Budget</u>	<u>Expenditures Year Ended September 30, 2012</u>	<u>Cumulative Expenditures</u>	<u>Outstanding Encumbrances</u>	<u>Continuing Appropriations</u>
Public Law 30-216:					
Repair, restoration and preventive maintenance of DPW school buses	\$ 1,500,000	\$ 399,095	\$ 1,295,345	\$ 1,333	\$ 203,322
Tools and equipment to support maintenance of DPW school buses	100,000	-	125,551	-	(25,551)
Procurement of temporary rental buses	100,000	-	99,887	-	113
Maintenance and repair of DPW bus substations	54,413	-	31,544	-	22,869
Construction of wooden school bus shelters	100,000	-	94,099	-	5,901
GFD Advance Life Support vehicles, ambulances and fire trucks	200,000	8,500	115,691	-	84,309
GPD marked patrol cars and motorcycles	200,000	11,843	183,737	-	16,263
Sub-Total	<u>2,254,413</u>	<u>419,438</u>	<u>1,945,854</u>	<u>1,333</u>	<u>307,226</u>
Public Law 30-217:					
Barrigada village street repairs	250,000	107,323	107,323	125,151	17,526
Gill Baza access road	800,000	417,314	417,314	2,400	380,286
Sub-Total	<u>1,050,000</u>	<u>524,637</u>	<u>524,637</u>	<u>127,551</u>	<u>397,812</u>
	<u>\$ 3,304,413</u>	<u>\$ 944,075</u>	<u>\$ 2,470,491</u>	<u>\$ 128,884</u>	<u>\$ 705,038</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2012 and 2011

	2012	2011
Employees at end of year:		
Department of Administration	6	5
Department of Public Works	66	100
	72	105
Highway Bond Cash and Investments:		
Bond Fund	\$ -	\$ 5,000
Bond Reserve Fund	-	5,892,551
Construction Fund	-	2,699,113
Operations and Maintenance Fund	-	3,016,286
Surplus Fund	-	457,726
Revenue Fund	-	122
Remainder Account	-	438
Cost of Issuance Fund	-	1,925
	\$ -	\$ 12,073,161

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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds) as of and for the year ended September 30, 2012, and have issued our report thereon dated April 9, 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.

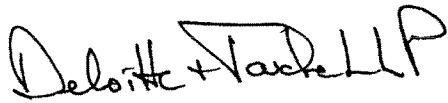
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 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*.

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 + Touche LLP". The signature is written in a cursive, stylized font.

April 9, 2013