

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

April 2, 2014

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

32-14-1477  
Office of the Speaker  
Judith T. Won Pat, Ed. D.  
Date 4.3.14  
Time 8:20 AM  
Received by [Signature]

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Tourist Attraction Fund (TAF)'s Fiscal Year (FY) 2013 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](http://www.guamopa.org).

*Senseramente,*

Doris Flores Brooks, CPA, CGFM  
Public Auditor

2014 APR -3 AM 9:05  
[Signature]

GUAM LEGISLATURE  
CENTRAL FILES

RECEIPT ACKNOWLEDGED:

By: \_\_\_\_\_

Date: \_\_\_\_\_

ACKNOWLEDGEMENT RECEIPT

Received by [Signature]  
Date 4/2/14

1477



## **Tourist Attraction Fund FY 2013 Financial Highlights**

March 31, 2014

The Tourist Attraction Fund (TAF) ended fiscal year (FY) 2013 with a significant decrease of \$4.4M million (M) in the fund balance or 7% from \$66.1M in FY 2012 to \$61.7M in FY 2013. The decrease is primarily attributed to the \$6.8M in the capital projects fund. Total revenues of \$29.3M increased by \$3.2M or 12% from \$26.1M in FY 2012 and the total expenditures of \$33.7M also increased by \$1.7M or 5% from \$32M in FY 2012. FY 2013's revenue of \$29.3M was the highest level of Hotel Occupancy Tax (HOT) revenues in over a decade.

Independent Auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion for TAF's financial audit. The auditors identified a material weakness on TAF's internal control over financial reporting and compliance related to the Department of Revenue & Taxation (DRT) has an inadequate document retrieval system. There was an understatement of \$1.5M in hotel occupancy taxes which became an audit adjustment. Additionally, due to the poor document retrieval system, 28 tax returns have yet to be located.

In the management letter, two findings were identified, that affected the capital projects fund, the understatement of encumbrances of \$1.2M and unrecorded liabilities of \$644 thousand (K).

### **TAF Operation Revenues**

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).

The TAF's 12% or \$3.2M increase in FY 2013 was mainly due to the 10% increase in hotel room rates and visitors' arrivals by 5% for a total of 1.3M visitors. This was primarily due to the 49% spike in arrivals from Korea with a record setting 233K visitors resulting from the increase in the additional seat capacity provided by Jeju Air which started flights from Incheon in September 2012 and Korean Air flying regularly out of Busan in October 2012. Additionally, Russian travelers more than doubled from 2,933 in FY 2012 to 5,903 in FY 2013. Japan remains Guam's largest visitor market with a total of 908K travelers followed by Korea of 233K and third by Taiwan of 48K. China markets brought in 10K visitors. According to Guam Visitors Bureau the positive trend is expected to continue in 2014.

### ***Expenditures***

In FY 2013, total expenditures of \$33.7M increased by \$1.7M or 5% from \$32M in FY 2012. The largest expenditures were payments to GVB of \$16.2M, a decrease of \$51K from previous year's payment of \$16.3M. The \$16.2M included \$14M for GVB operations, \$1.1M for beach maintenance, and \$610K to non-profit organizations.

The second largest expenditure was payment for debt service totaling \$7M, then followed by capital projects totaling \$6.8M which is a 290% increase from prior year of \$1.7M. The TAF also made payments to the Guam Community College for \$1.5M which increased by 6,689% from \$22K in FY 2012. The increase was mainly due to the \$1.5M appropriation per PL 32-061 for GCC's Apprenticeship Program.

### **HOT Bond Funding**

In April 2011, the government issued Series 2011A HOT Revenue Bonds in the amount of \$90.7M to pay-off the 1997 Series A Bonds. Effective FY 2012, debt service amounted to \$7M which is 21% of the total expenditures and represented 24% of TAF's tax revenues.

There is \$57.7M in construction funds available for various projects to enhance tourism. The top 5 capital projects are: Guam and Chamorro Educational Facility (Guam Museum) of \$27M, San Vitores Flooding of \$11.5M, Guam Preservation Trust (GPT) of \$4.3M, Dededo Flea Market relocation of \$3.9M and Reconstruction of Pale San Vitores Road of \$2.1M. Of the \$27M appropriated for the Guam Museum, \$23M was for the construction while the \$4M was for the cost of design and various fees. GPT is expected to assist in the funding of the Guam Legislature Building. The projects for the San Vitores flooding and the Dededo Flea market relocation has just started.

### **Capital Projects**

For FY 2013, payments for capital projects totaled \$6.8M. Among these were for the Guam Museum of \$4.2M, Inarajan Community Center Restoration for \$811K, and Historic Agana Projects for \$777K, and Tumon Bay Improvements of \$561K.

### **Report on Internal Control over Financial Reporting and Management Letter**

The auditors identified a finding in TAF's Internal Control over Financial Reporting which they considered a material weakness. An adequate Point of Sales system was not in place at DRT during FY 2013. This condition created an inability to reconcile tax revenues resulting in an understatement of TAF revenue of \$1.5M. Further, DRT relies primarily on manual tax returns and has not implemented a scanning system to organize the large amount of data which it receives, resulting in an inadequate document retrieval system. DRT has yet to locate 28 tax returns due to its inadequate document retrieval system. There are certain taxpayers who filed but do not pay at the time of filing. On a rolling average, this approximates to \$600K.

In the management letter, two findings were identified that affected the capital projects fund, the understatement of encumbrances of \$1.2M and unrecorded liabilities of \$644K.

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](http://www.guamopa.org).



Deloitte & Touche LLP  
361 S. Marine Corps Drive  
Tamuning, GU 96913-3911  
USA

March 31, 2014

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

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, 2013, on which we have issued our report dated March 31, 2014, 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, 2013 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 31, 2014, 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, 2013 that we wish to bring to your attention as follows:

1) Encumbrances

During the year ended September 30, 2013, three contracts executed under the Capital Projects Fund were not encumbered within the accounting system.

<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>
C060601131	11/15/2010	\$ 2,090,000	\$ 1,709,000	\$ 381,000	\$ 91,000	\$ 290,000
C140600050	07/02/2013	743,780	187,666	556,144	-	556,144
C140600110	06/20/2013	<u>386,000</u>	<u>75,535</u>	<u>310,465</u>	<u>-</u>	<u>310,465</u>
		\$ <u>3,219,780</u>	\$ <u>1,972,201</u>	\$ <u>1,247,609</u>	\$ <u>91,000</u>	\$ <u>1,156,609</u>

Based on scrutiny of the respective contracts and expenditures incurred, it appeared that encumbrances associated with these contracts were understated by \$1,156,609. 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.

2) Unrecorded Liabilities

During the year ended September 30, 2013, \$643,750 of services rendered were not accrued as of year-end.

We recommend that the Tourist Attraction Fund properly accrue unpaid services incurred within the fiscal year.

**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.



Deloitte & Touche LLP  
361 S. Marine Corps Drive  
Tamuning, GU 96913-3911  
USA

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

March 31, 2014

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, 2013, 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 31, 2014.

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 September 12, 2013. 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, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 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, 2013 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' 2013 financial statements.

## **MATERIAL CORRECTED MISSTATEMENTS**

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Attachment II and are reflected in the Funds' 2013 financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2013 financial statements. During the year ended September 30, 2013, 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, 2013.

## **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, 2013.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Funds' 2013 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2013.



**SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, 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**

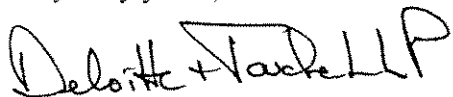
We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing 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 March 31, 2014, 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  
Lt. Governor

Government of Guam  
(Gubethnomention Guahan)  
Department of Administration  
(Dipattamenton Atmenestration)  
DIRECTOR'S OFFICE  
(Ufisinan Direktot)

Post Office Box 884 Hagatña, Guam 96932  
Tel: (671) 475-1101/1221 \* Fax: (671) 477-6788

ATTACHMENT I



Benita A. Manglona  
Director  
Anthony C. Blaz  
Deputy Director

March 31, 2014

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 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, 2013, and the related statement of revenues, expenditures, and changes in fund balances for the year ended September 30, 2013, 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 American Institute of Certified Public Accountants disclosure checklist for State and Local Governments.

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.

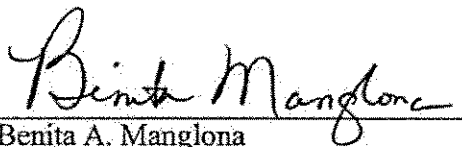
1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements present only the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A. They are not intended 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. 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 Tourist Attraction Fund and of 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 of 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 of 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 of 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 of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 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 Tourist Attraction Fund and of 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 of 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 of 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 Government Accounting Standards Board (GASB) Codification of Government Account and Financial Report Standards Section C50, *Claims and Judgments*.
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 of 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.

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 GASB Codification Section C50, *Claims and Judgments*.

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 Tourist Attraction Fund and of 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, 2013 but before March 31, 2014, 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, 2013, 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, 2013 and before March 31, 2014, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
25. Management of the Funds' believe that it is in compliance with all significant limitations and restrictions of the Hotel Occupancy Tax Revenue Bonds, 2011 Series A, bond covenants as of September 30, 2013.
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



Kathrine B. Kakigi  
Financial Manager

The Tourist Attraction Fund  
Proposed Audit Adjustments  
9/30/2013

	Debit	Credit
<b>1 AJE To reverse and record accrual for GVB.</b>		
5206-9970-290 Payments to GVB	532,037.45	-
5206-9970-290 Payments to GVB	-	512,517.45
120621590 ACCRUED EXPENDITURES	-	532,037.45
120621590 ACCRUED EXPENDITURES	512,517.45	-
	<u>1,044,554.90</u>	<u>1,044,554.90</u>

To reverse and record accrual for payments to GVB and reverse JPC1300005 as this has been reflected as an AJE.

	Debit	Credit
<b>2 AJE To record liability.</b>		
125121590 ACCOUNTS PAYABLE	-	643,750.07
5251-9962-450 GU & CHAM EDUC FAC-GU MUSEUM	3,094.00	-
5251-1015-230 UPGRADE TUMON AREA INFRASTRUCT	187,665.55	-
5251-9962-CT202-230 GU & CHAM EDUC FAC-GU MUSEUM	372,285.39	-
5251-9962-CT209-450 DESN/CNSTR FRMRS COOP/DED FLEA	5,170.13	-
Village sign monuments and scenic informational signs	75,535.00	-
	<u>643,750.07</u>	<u>643,750.07</u>

To accrue for services rendered within the fiscal year but paid subsequent to year-end.

	Debit	Credit
<b>3 AJE To record HOT revenues.</b>		
120614100 DUE TO/FROM GENERAL FUND	1,481,852.59	-
320651410 OCCUPANCY TAX-HOTEL/RENTAL	-	1,481,852.59
	<u>1,481,852.59</u>	<u>1,481,852.59</u>

To record Hotel Occupancy Tax (HOT) revenues.

	Debit	Credit
<b>4 AJE To properly record interfund.</b>		
120614100 DUE TO/FROM GENERAL FUND	-	878,703.84
5206-9206-290 TRANSFERS TO DEBT SERVICE FUND	878,703.84	-
335450206 TRANSFER FROM TAF	-	878,703.84
135414100 DUE TO/FR GEN FUND	878,703.84	-
	<u>1,757,407.68</u>	<u>1,757,407.68</u>

To properly record interfund receivables/payables.

Note: Based on our understanding, we believe that the audit adjustments are not due to fraud or illegal acts. Rather, such constitute misstatements.

**CONCURRENCE**

We have reviewed and approve them on the basis of information we have provided to you.

CONCURRED BY:

Signature of Representative  
  
 Brian B. Kakigi, Financial Manager



**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

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

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Year Ended September 30, 2013  
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## INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo  
Governor of Guam:

### **Report on the Financial Statements**

We have audited the accompanying 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), which comprise the balance sheet as of September 30, 2013, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the financial statements referred to above 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, 2013, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 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.

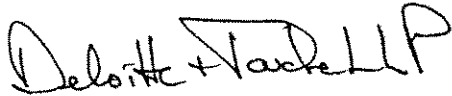
### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The comparative financial statement information on pages 19 through 21, the schedule of expenditures by department by object on pages 22 and 23, the schedule of construction project status on page 24, and the other supplementary information on page 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 the responsibility of the Funds' management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard 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 basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014, on our consideration of 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Funds' internal control over financial reporting and compliance.

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

March 31, 2014

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis  
Year Ended September 30, 2013

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, 2013 and 2012. Please read it in conjunction with TAF's financial statements, which follow this section.

**1. Financial Highlights**

- For the fiscal year ended September 30, 2013, total fund balance decreased by \$4,392,033 (or 6.6%) from an ending fund balance of \$66,067,102 in 2012 to \$61,675,069 in 2013.
- During the years ended September 30, 2013 and 2012, total combined expenditures for governmental fund operations were \$33,726,970 and \$32,019,745, respectively, including expenditures relating to payments to the Guam Visitor's Bureau of \$16,209,494 and \$16,260,310, respectively, debt service requirements of \$7,016,415 and 7,004,441, respectively; and capital-related expenditures of \$6,795,480 and \$6,047,334, respectively. These expenditures were funded, in part, by Hotel Occupancy Tax revenue collections during the years ended September 30, 2013 and 2012 of \$29,331,058 and \$26,054,476, respectively, with the remainder funded by bond proceeds.
- Total combined expenditures increased by \$1,707,225 (or 5.3%) from 2012 to 2013 due primarily to increases in payments to the Guam Community College of \$1,525,119 and \$22,463, respectively and capital-related expenditures of \$6,795,480 and \$6,047,334, respectively. Total combined revenues increased by \$3,041,637 (or 11.7%) from 2012 to 2013 due primarily to increases in hotel occupancy rates and tourist arrivals.
- During the years ended September 30, 2013 and 2012, TAF generated operating deficits of \$4,392,033 and \$5,926,510, 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, 2013

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, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ 2,783,336	\$ 2,333,856
Tax receivables	2,296,855	2,235,408
Due from General Fund	558,561	41,714
Restricted assets:		
Cash and cash equivalents	43,777,520	47,862,643
Investments	<u>14,514,038</u>	<u>14,527,112</u>
Total Assets	<u>\$ 63,930,310</u>	<u>\$ 67,000,733</u>
Liabilities:		
Accounts payable	\$ 2,202,722	\$ 369,647
Due to General Fund	32,999	31,947
Due to Guam Visitors Bureau	<u>19,520</u>	<u>532,037</u>
Total Liabilities	<u>2,255,241</u>	<u>933,631</u>
Fund Balances:		
Restricted	56,057,550	62,002,087
Committed	<u>5,617,519</u>	<u>4,065,015</u>
Total Fund Balances	<u>61,675,069</u>	<u>66,067,102</u>
Total Liabilities and Fund Balances	<u>\$ 63,930,310</u>	<u>\$ 67,000,733</u>

Total assets decreased by \$3,070,423 (or 4.6%) during 2013 from \$67,000,733 to \$63,930,310. This decrease was primarily the result of a decrease in restricted assets due to payments for capital-related expenditures.

Total liabilities increased by \$1,321,610 (or 142%) during 2013 from \$933,361 to \$2,255,241. This increase was primarily the result of an increase in accruals for capital-related expenditures.

Total fund balances decreased by \$4,392,033 (or 6.6%) during 2012 from \$66,067,102 to \$61,675,069. 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, 2013

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, 2013, and 2012 are summarized as follows.

	<u>2013</u>	<u>2012</u>
Revenues:		
Hotel occupancy tax	\$ 29,331,058	\$ 26,054,476
Use of money and property	(9,621)	38,759
Other revenue	<u>13,500</u>	<u>-</u>
Total Revenues	<u>29,334,937</u>	<u>26,093,235</u>
Expenditures:		
Current:		
General government	38,052	252,859
Community service	47,707	40,000
Environmental protection	90,691	68,751
Individual collective rights	1,123,895	1,392,017
Recreation	514,169	613,947
Payments to autonomous agencies	18,118,613	20,911,584
Capital projects	6,795,480	1,742,371
Debt service	<u>6,998,363</u>	<u>6,998,216</u>
Total Expenditures	<u>33,726,970</u>	<u>32,019,745</u>
Net Change in Fund Balances	\$ <u>(4,392,033)</u>	\$ <u>(5,926,510)</u>

Total revenues collected from Hotel Occupancy Taxes increased by \$3,276,582 (or 12.6%) from \$26,054,476 for 2012 to \$29,331,058 for 2013. These increases were primarily the result of incremental increases in tourist arrivals.

Total expenditures increased by \$1,707,225 (or 5.3%) from \$32,019,745 for 2012 to \$33,726,970 for 2013. The increase in 2013 was primarily the result of an increase in capital related expenditures of \$5,053,109 (or 290%).

**4. Capital Assets**

During the year ended September 30, 2013, capital-related expenditures amounted to \$6,795,480 compared with \$1,742,371 in 2012. These expenditures pertained to a number of contracts associated with certain tourism projects. Commitments for contractual obligations were entered into in 2013 for a total amount of \$24,733,494 of which expenditures associated with these contracts of \$6,422,418 were incurred during the year.



**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2013

**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 Guam Museum capital expenditures are expected to significantly increase. According to GVB's report, Guam's tourism industry expects to see an increase in FY2014 primarily due to the additional seat capacity to Korea provided by Jeju Air. The tourism market continues to diversify with expected increases from the Koreans, Russians and Chinese. Total hotel rooms available are expected to increase in July 2014 with the opening of the Dusit Thani Hotel with 417 rooms on 30 floors. Increased arrivals to Guam will continue to be facilitated by visa waiver programs implemented in previous years as well as faster processing of mainland Chinese visas facilitated by increases in U.S. staffing in China.

**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/](http://www.admin.gov.gu/da/).

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Balance Sheet  
September 30, 2013

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,783,336	\$ -	\$ -	\$ 2,783,336
Restricted assets:				
Cash and cash equivalents	-	31,603,042	12,174,478	43,777,520
Investments	-	14,514,038	-	14,514,038
Taxes receivable	2,296,855	-	-	2,296,855
Due from General Fund	558,561	-	-	558,561
Total assets	<u>\$ 5,638,752</u>	<u>\$ 46,117,080</u>	<u>\$ 12,174,478</u>	<u>\$ 63,930,310</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,713	\$ 2,199,409	\$ 1,600	\$ 2,202,722
Due to General Fund	-	32,999	-	32,999
Due to Guam Visitors Bureau	19,520	-	-	19,520
	<u>21,233</u>	<u>2,232,408</u>	<u>1,600</u>	<u>2,255,241</u>
Commitments				
<b>FUND BALANCES</b>				
Fund balances:				
Restricted for:				
Capital projects	-	43,884,672	-	43,884,672
Debt service	-	-	12,172,878	12,172,878
Committed for:				
Tourism	5,617,519	-	-	5,617,519
Total fund balances	<u>5,617,519</u>	<u>43,884,672</u>	<u>12,172,878</u>	<u>61,675,069</u>
Total liabilities and fund balances	<u>\$ 5,638,752</u>	<u>\$ 46,117,080</u>	<u>\$ 12,174,478</u>	<u>\$ 63,930,310</u>

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, 2013

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
<b>Revenues:</b>				
Taxes	\$ 29,331,058	\$ -	\$ -	\$ 29,331,058
Use of money and property	88	(9,904)	195	(9,621)
Other revenue	13,500	-	-	13,500
<b>Total revenues</b>	<b>29,344,646</b>	<b>(9,904)</b>	<b>195</b>	<b>29,334,937</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	20,000	-	18,052	38,052
Community services	47,707	-	-	47,707
Individual collective rights	1,123,895	-	-	1,123,895
Environmental protection	90,691	-	-	90,691
Recreation	514,169	-	-	514,169
Payments to Guam Visitors Bureau	16,209,494	-	-	16,209,494
Payments to University of Guam	384,000	-	-	384,000
Payments to Guam Community College	1,525,119	-	-	1,525,119
Capital projects	-	6,795,480	-	6,795,480
<b>Debt service:</b>				
Principal	-	-	1,740,000	1,740,000
Interest	-	-	5,258,363	5,258,363
<b>Total expenditures</b>	<b>19,915,075</b>	<b>6,795,480</b>	<b>7,016,415</b>	<b>33,726,970</b>
Excess (deficiency) of revenues over (under) expenditures	9,429,571	(6,805,384)	(7,016,220)	(4,392,033)
<b>Other financing sources (uses):</b>				
Operating transfers in	-	-	7,877,067	7,877,067
Operating transfers out	(7,877,067)	-	-	(7,877,067)
<b>Total other financing sources (uses)</b>	<b>(7,877,067)</b>	<b>-</b>	<b>7,877,067</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>1,552,504</b>	<b>(6,805,384)</b>	<b>860,847</b>	<b>(4,392,033)</b>
Fund balances at the beginning of the year	4,065,015	50,690,056	11,312,031	66,067,102
Fund balances at the end of the year	<u>\$ 5,617,519</u>	<u>\$ 43,884,672</u>	<u>\$ 12,172,878</u>	<u>\$ 61,675,069</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Notes to Financial Statements  
September 30, 2013

(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 90 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.

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.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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, 2013, significant encumbrances are summarized as follows:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Encumbrances	\$ <u>420,555</u>	\$ <u>18,693,025</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.

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.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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, 2012 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.

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, 2013, the carrying amount of cash and cash equivalents was \$46,560,856 and the corresponding bank balances were \$46,560,856, 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, 2013.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Notes to Financial Statements  
September 30, 2013

(3) Bonds Payable, Continued

- 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, 2013, payments for debt service totaled \$6,998,363, of which \$1,740,000 represents payment on principal. A summary of the change in bonds payable is as follows:

Bonds payable at October 1, 2012	\$ 88,995,000
Principal repayment	<u>(1,740,000)</u>
Bonds payable at September 30, 2013	\$ <u>87,255,000</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, 2013 amounted to \$6,998,363, which represents 24% of 2013 tax revenues collected.

At September 30, 2013, \$12,172,878 of fund balance in the Debt Service Fund is restricted for debt service purposes.

At September 30, 2013, 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, 2013

(4) Payments to Autonomous Agencies

Public Law 31-233 authorizes the general appropriation to autonomous agencies of GovGuam for operations to be paid from the Tourist Attraction Fund. Specifically, Public Law 31-233 authorizes the funding of payments to the Guam Visitors Bureau (GVB) for operations as well as other miscellaneous appropriations to be administered by GVB. Additional appropriations made to GVB paid from the Tourist Attraction Fund are Public Laws 31-270, 31-281, 32-057, 32-058, and 32-059. During the year ended September 30, 2013, total appropriations made to GVB from the Tourist Attraction Fund were as follows:

Operations:	
General Administration	\$ 2,399,997
Marketing	9,117,601
Printing, promotional	444,254
Research	382,161
Destination development	1,445,304
Recruitment – Computer Operator II	15,000
Recruitment – Management Analyst IV	17,000
Recruitment – Management Officer II	15,200
Recruitment for Computer Specialist	16,800
Pale' San Vitores Road Security Cameras	<u>150,000</u>
	<u>14,003,317</u>
Restricted:	
Folklife Festival Trust Account	296,531
Establishment of a Rainy Day Fund	<u>184,000</u>
	<u>480,531</u>
Special projects:	
Beach maintenance	<u>1,115,573</u>
Pass-through to various non-profit organizations:	
Pa'a Taotao Tano	73,600
Historic Inalahan Foundation	32,373
Traditions Affirming our Seafaring Ancestry	46,000
Tourism Education Council	27,600
Haya Cultural Preservation Foundation	13,800
Festival of Pacific Arts:	
Guam Council on the Arts and Humanities	60,000
The As and As of Chamorro Project	21,250
Micronesian Cruise Association	42,500
Guam International Film Festival	42,500
World War II Survival History - Commentary	42,500
Duk Duk Goose, Inc.	107,950
Hurao Academy, Inc.	50,000
Inetnon Gef Pa'go Cultural Arts	<u>50,000</u>
	<u>610,073</u>
	<u>\$ 16,209,494</u>

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Notes to Financial Statements  
September 30, 2013

(4) Payments to Autonomous Agencies, Continued

Public Law 31-233 and Public Law 31-281 authorizes an appropriation to the University of Guam (UOG) for the operations and programs of the Guampedia Foundation in the amount of \$140,000 and \$60,000, respectively. In addition, Public Law 31-233 authorizes an appropriation for the operations of the Rhinoceros Beetle Program in the amount of \$200,000. During the year ended September 30, 2013, total appropriations made to UOG for operations of the Rhinoceros Beetle Program and the Guampedia Foundation amounted to \$384,000.

Finally, Public Law 31-233 and Public Law 32-061 authorizes an appropriation to the Guam Community College (GCC) for the Lodging Management Program/Prostart Program and the GCC Apprenticeship Program in the amount of \$24,154 and \$1,500,000, respectively. During the year ended September 30, 2013, total appropriations made to GCC for the Lodging Management Program/Prostart Program and the GCC Apprenticeship Program amounted to \$1,525,119.

(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 \$2,092,000. As of September 30, 2013, a cumulative total of \$1,710,051 in capital-related expenditures have been incurred under this contract with the remaining unliquidated contract amount of \$381,949 recorded within restricted fund balance of the Capital Projects Fund in the accompanying financial statements. During the year ended September 30, 2013, capital-related expenditures of \$373,062 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 \$55,609,615. During the year ended September 30, 2013, GovGuam entered into certain contracts associated with these projects in the aggregate amount of \$24,733,494 with capital-related expenditures of \$6,422,418 being incurred under these contracts. The remaining unliquidated contract amount of \$18,311,076 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, 2013 and 2012

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2013	2012	2013	2012	2013	2012
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,783,336	\$ 2,333,856	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	-	-	31,603,042	36,550,612	12,174,478	11,312,031
Investments	-	-	14,514,038	14,527,112	-	-
Taxes receivable	2,296,855	2,235,408	-	-	-	-
Due from General Fund	558,561	41,714	-	-	-	-
Total assets	\$ 5,638,752	\$ 4,610,978	\$ 46,117,080	\$ 51,077,724	\$ 12,174,478	\$ 11,312,031
<b>LIABILITIES</b>						
Accounts payable	\$ 1,713	\$ 13,926	\$ 2,199,409	\$ 355,721	\$ 1,600	\$ -
Due to General Fund	-	-	32,999	31,947	-	-
Due to Guam Visitors Bureau	19,520	532,037	-	-	-	-
Total liabilities	21,233	545,963	2,232,408	387,668	1,600	-
<b>FUND BALANCES</b>						
Fund balances:						
Restricted for:						
Capital projects	-	-	43,884,672	50,690,056	-	-
Debt service	-	-	-	-	12,172,878	11,312,031
Committed for:						
Tourism	5,617,519	4,065,015	-	-	-	-
Total fund balances	5,617,519	4,065,015	43,884,672	50,690,056	12,172,878	11,312,031
Total liabilities and fund balances	\$ 5,638,752	\$ 4,610,978	\$ 46,117,080	\$ 51,077,724	\$ 12,174,478	\$ 11,312,031

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, 2013 and 2012

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2013	2012	2013	2012	2013	2012
Revenues:						
Taxes	\$ 29,331,058	\$ 26,054,476	\$ -	\$ -	\$ -	\$ -
Use of money and property	88	72	(9,904)	32,117	195	6,570
Other revenue	13,500	-	-	-	-	-
Total revenues	29,344,646	26,054,548	(9,904)	32,117	195	6,570
Expenditures:						
Current:						
General government	20,000	230,482	-	16,152	18,052	6,225
Community services	47,707	40,000	-	-	-	-
Individual and collective rights	1,123,895	1,392,017	-	-	-	-
Environmental protection	90,691	68,751	-	-	-	-
Recreation	514,169	613,947	-	-	-	-
Payments to Guam Visitors Bureau	16,209,494	16,260,310	-	-	-	-
Payments to Guam Preservation Trust	-	-	-	4,288,811	-	-
Payments to University of Guam	384,000	340,000	-	-	-	-
Payments to Guam Community College	1,525,119	22,463	-	-	-	-
Capital projects	-	-	6,795,480	1,742,371	-	-
Debt service:						
Principal	-	-	-	-	1,740,000	1,670,000
Interest	-	-	-	-	5,258,363	5,328,216
Total expenditures	19,915,075	18,967,970	6,795,480	6,047,334	7,016,415	7,004,441
Excess (deficiency) of revenues over (under) expenditures	9,429,571	7,086,578	(6,805,384)	(6,015,217)	(7,016,220)	(6,997,871)
Other financing sources (uses):						
Operating transfers in	(7,877,067)	(5,813,220)	-	-	7,877,067	5,813,220
Operating transfers out	(7,877,067)	(5,813,220)	-	-	-	-
Total other financing sources (uses), net	1,552,504	1,273,358	(6,805,384)	(6,015,217)	860,847	(1,184,651)
Net change in fund balances	4,065,015	2,791,657	50,690,056	56,705,273	11,312,031	12,496,682
Fund balances at the beginning of the year	\$ 5,617,519	\$ 4,065,015	\$ 43,884,672	\$ 50,690,056	\$ 12,172,878	\$ 11,312,031
Fund balances at the end of the year						

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, 2013 and 2012

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Taxes	\$ 29,331,058	\$ 26,054,476	\$ -	\$ -	\$ -	\$ -
Use of money and property	88	72	(9,904)	32,117	195	6,570
Other revenue	13,500	-	-	-	-	-
<b>Total revenues</b>	<b>29,344,646</b>	<b>26,054,548</b>	<b>(9,904)</b>	<b>32,117</b>	<b>195</b>	<b>6,570</b>
<b>Expenditures:</b>						
Salaries and wages - regular	21,491	9,835	-	-	-	-
Salaries and wages - fringe benefits	8,118	3,567	-	-	-	-
Travel	20,435	58,222	-	-	-	-
Contractual services	763,608	1,189,082	2,211,702	1,436,143	-	-
Supplies	610,968	693,312	-	-	-	-
Equipment	36,801	33,703	-	-	-	-
Grants and subsidies	18,118,613	16,622,773	-	4,288,811	-	-
Utilities - power and water	124,241	212,482	-	-	-	-
Communications	1,058	2,000	-	-	-	-
Capital outlays	69,300	58,002	4,583,778	306,228	-	-
Principal retirement	-	-	-	-	1,740,000	1,670,000
Interest and fiscal charges	-	-	-	-	5,258,363	5,328,216
Miscellaneous	140,442	84,992	-	16,152	18,052	6,225
<b>Total expenditures</b>	<b>19,915,075</b>	<b>18,967,970</b>	<b>6,795,480</b>	<b>6,047,334</b>	<b>7,016,415</b>	<b>7,004,441</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>9,429,571</b>	<b>7,086,578</b>	<b>(6,805,384)</b>	<b>(6,015,217)</b>	<b>(7,016,220)</b>	<b>(6,997,871)</b>
<b>Other financing sources (uses):</b>						
Operating transfers in	(7,877,067)	(5,813,220)	-	-	7,877,067	5,813,220
Operating transfers out	(7,877,067)	(5,813,220)	-	-	-	-
<b>Total other financing sources (uses), net</b>	<b>1,552,504</b>	<b>1,273,358</b>	<b>(6,805,384)</b>	<b>(6,015,217)</b>	<b>860,847</b>	<b>(1,184,651)</b>
<b>Net change in fund balances</b>	<b>4,065,015</b>	<b>2,791,657</b>	<b>50,690,056</b>	<b>56,705,273</b>	<b>11,312,031</b>	<b>12,496,682</b>
<b>Fund balances at the beginning of the year</b>	<b>\$ 5,617,519</b>	<b>\$ 4,065,015</b>	<b>\$ 43,884,672</b>	<b>\$ 50,690,056</b>	<b>\$ 12,172,878</b>	<b>\$ 11,312,031</b>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object  
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Department of Administration:		
Division of Accounts:		
Contractual services	\$ 20,000	\$ 18,000
Utilities - power and water	-	212,482
Principal retirement	1,740,000	1,670,000
Interest and fiscal charges	5,258,363	5,328,216
Miscellaneous	18,052	22,377
Total Department of Administration	<u>7,036,415</u>	<u>7,251,075</u>
Department of Public Works:		
Capital Improvements Division:		
Contractual services	-	139,208
Guam Environmental Protection Agency:		
Beach Monitoring:		
Salaries and wages - regular	21,491	9,835
Salaries and wages - fringe benefits	8,118	3,567
Travel	3,222	4,664
Contractual services	8,582	15,052
Supplies	47,404	29,508
Equipment	816	4,125
Communications	1,058	2,000
Total Guam Environmental Protection Agency	<u>90,691</u>	<u>68,751</u>
Department of Parks and Recreation:		
Maintenance and Repair of Public Restrooms:		
Contractual services	328,079	601,890
Supplies	60,513	5,961
Equipment	1,336	6,096
Utilities - power and water	124,241	-
Total Department of Parks and Recreation	<u>514,169</u>	<u>613,947</u>
Mayors' Council of Guam:		
Island-wide Village Beautification:		
Contractual services	132,083	247,042
Supplies	90,593	206,089
Equipment	14,601	5,105
Capital outlays	14,900	14,975
	<u>252,177</u>	<u>473,211</u>
Village Street Maintenance and Beautification:		
Travel	17,213	53,558
Contractual services	274,864	307,098
Supplies	412,458	451,754
Equipment	20,048	18,377
Capital outlays	54,400	43,027
Miscellaneous	92,735	44,992
	<u>871,718</u>	<u>918,806</u>
Total Mayors' Council of Guam	<u>1,123,895</u>	<u>1,392,017</u>
Council on the Arts and Humanities:		
Guam Territorial Band:		
Miscellaneous	47,707	40,000

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object, Continued  
Years Ended September 30, 2013 and 2012

	2013	2012
Tumon Bay Improvements :		
Contractual services	560,728	-
Guam Museum:		
Contractual services	1,634,021	1,296,935
Capital outlays	2,587,606	306,228
Total Guam Museum	4,221,627	1,603,163
Historic Hagatna Projects:		
Contractual services	8,341	-
Capital outlays	777,495	-
Total Historic Hagatna Projects	785,836	-
Inarajan Community Center Restoration:		
Contractual services	6,515	-
Capital outlays	804,583	-
Total Inarajan Community Center Restoration	811,098	-
Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation:		
Contractual services	2,097	-
Capital outlays	338,559	-
Total Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation	340,656	-
Design/Construction of Village Entrance Signs for 19 Municipalities:		
Capital outlays	75,535	-
Guam Preservation Trust:		
Grants and subsidies	-	4,288,811
Guam Visitors Bureau:		
Grants and subsidies	16,209,494	16,260,310
University of Guam:		
Grants and subsidies	384,000	340,000
Guam Community College:		
Grants and subsidies	1,525,119	22,463
	\$ 33,726,970	\$ 32,019,745

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Schedule of Construction Project Status  
Year Ended September 30, 2013

	Total Budget	Expenditures Year Ended September 30, 2013	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Tumon Bay Capital Projects:					
Reconstruction of Pale San Vitores Road	\$ 2,092,000	\$ 373,062	\$ 1,710,051	\$ 381,949	\$ -
Sub-Total	<u>2,092,000</u>	<u>373,062</u>	<u>1,710,051</u>	<u>381,949</u>	<u>-</u>
Task Order # 1:					
Guam and Chamorro Educational Facility	22,961,100	1,052,781	1,052,781	16,532,512	5,375,807
Architects Laguana & Cristobal - Design	2,197,000	1,888,153	2,194,381	2,619	-
RWA Consulting Fee	1,696,900	896,752	1,518,130	178,770	-
GEDA Management Fee	145,000	-	-	-	145,000
Sub-Total	<u>27,000,000</u>	<u>3,837,686</u>	<u>4,765,292</u>	<u>16,713,901</u>	<u>5,520,807</u>
Task Order # 2:					
San Vitores Flooding	11,500,000	187,666	187,666	556,144	10,756,190
Historic Hagatna Projects	1,341,000	777,495	777,495	563,505	-
Crosswalk from Skinner Plaza to Chamorro Village	300,000	-	-	-	300,000
Guam Preservation Trust Reimbursement	4,288,811	-	4,288,811	-	-
Inarajan Community Center Restoration	825,204	811,098	811,098	14,106	-
Malesso 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	348,997	348,997	131,853	3,419,150
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	75,535	75,535	310,465	14,000
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	383,941	1,059,498	21,102	-
GEDA Management Fee	289,000	-	-	-	289,000
Sub-Total	<u>28,609,615</u>	<u>2,584,732</u>	<u>7,549,100</u>	<u>1,597,175</u>	<u>19,463,340</u>
	<u>\$ 57,701,615</u>	<u>\$ 6,795,480</u>	<u>\$ 14,024,443</u>	<u>\$ 18,693,025</u>	<u>\$ 24,984,147</u>

See accompanying independent auditors' report.



**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Other Supplementary Information  
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Bond Cash and Investment Accounts:		
Bond Fund	\$ 7,316,978	\$ 6,454,531
Bond Reserve Fund	4,857,500	4,857,500
Construction Account	46,117,080	51,077,724
Revenue Fund	2,534,759	2,322,774
Surplus Fund	<u>248,577</u>	<u>11,082</u>
	<u>\$ 61,074,894</u>	<u>\$ 64,723,611</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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated March 31, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2013-1 to be material weaknesses.

## Compliance and Other Matters

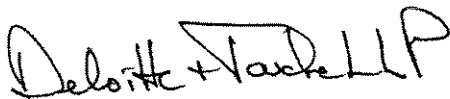
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

### Tourist Attraction Fund's Response to Finding

The Fund's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 31, 2014

**GOVERNMENT OF GUAM**  
**TOURIST ATTRACTION FUND**  
Schedule of Findings and Responses  
Year Ended September 30, 2013

Finding No. 2013-1

Criteria:

1. An adequate system should be in place to facilitate taxes filed and paid, segregated by tax type. Such a system should minimize reconciliation issues impacting revenue accounting distributions.
2. DRT should possess an adequate document retrieval system to allow safekeeping of information and efficiency in compliance monitoring.

Condition:

1. Monthly Gross Receipts, Use, and Occupancy Tax Return Forms (tax fee type – GRT 1) were not completely reconciled to allow for occupancy tax revenues to be extracted, resulting in an understatement of \$1,481,853 allocated to the Tourist Attraction Fund. As a result, an audit adjustment was proposed and recorded.
2. The average of filed 2013 returns that remain unpaid approximates \$600,000. Furthermore, twenty-eight fiscal year returns of 468 requested have not yet been located. For twenty of twenty-eight, we were able to obtain confirmation of the underlying revenue collected from the taxpayer. The remaining eight fiscal year 2013 returns have not yet been located of which three returns were incorrectly confirmed by the taxpayer and no confirmation was obtained for the other five. Furthermore, seven returns were indicated as not filed, which consist of non-major establishments.

Cause:

1. An adequate (Point of Sale) POS system was not in place during fiscal year 2013. This condition created an inability to timely reconcile tax revenues.
2. DRT relies primarily on filing manual returns and has not implemented a scanning system to organize the large amount of data which it receives.

Effect:

1. An understatement of Tourist Attraction Fund tax revenues could result from this matter. Additionally, misclassifications can occur among revenue sub-accounts based on the nature of the gross receipts taxes paid.
2. The ability to retrieve documentation requested is impacted due to the lack of an adequate scanning system.

**GOVERNMENT OF GUAM**  
**TOURIST ATTRACTION FUND**  
Schedule of Findings and Responses  
Year Ended September 30, 2013

Finding No. 2013-1, Continued

Recommendations:

1. DRT implemented a revised POS tax system in October 2013. It appears that corrective action has already been taken. However, it is recommended that the manner in which the tax data will interface with DOA be formalized.
2. DRT should obtain sufficient funding and an IT plan to allow for the scanning of all tax returns into its systems.

Auditee Response and Corrective Action Plan:

DRT is currently implementing a new document imaging system for all Divisions. Currently, the scanners are functional in the Income Tax and Processing Branch with the Business Privilege Tax Branch next in line. So as to eliminate the need to manually retrieve all documents department wide including GRT forms, DRT continues to expand the scanning of documents. The project is expected to be fully implemented by 9/30/2014. The scanned documents are to be numbered and indexed accordingly to the daily transactions reports. All transactions at DRT are interfaced in the Department's Transaction Processing System (TPS) which has replaced the old Point of Sale System. This would insure that internal controls are also in place and all monies received are balanced with the transaction reports at the end of the day.