

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

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

YEAR ENDED SEPTEMBER 30, 2012

GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND

Year Ended September 30, 2012
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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited the accompanying balance sheet of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds) as of September 30, 2012, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of the Government of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

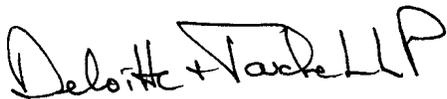
In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2012, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The comparative financial statement information on pages 16 through 18, the schedule of expenditures by department by object on pages 19 and 20 and the schedule of construction project status on page 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial statement information, the schedule of expenditures by department by object and the schedule of construction project status are fairly stated in all material respects in relation to the financial statements as a whole.

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

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

April 9, 2013

GOVERNMENT OF GUAM TERRITORIAL HIGHWAY FUND

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

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

1. Financial Highlights

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

2. Overview of the Financial Statements

THF's financial statements include all of the activities of GovGuam's Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. The financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balance. The assets, liabilities and fund balances of the Funds are reported in self-balancing funds.

THF's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. THF financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measureable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

3. Financial Statement Analysis

Balance Sheet

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

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

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

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

Total fund balances decreased by \$3,500,316 (or 37.8%) during 2012 from \$9,251,277 to \$5,750,961. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation Highway Refunding Bond, 2001 Series A, wherein these funds are restricted for highway related projects.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

Statement of Revenues, Expenses and Changes in Fund Balances

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

	<u>2012</u>	<u>2011</u>
Revenues:		
Taxes:	\$ 9,831,039	\$ 9,478,586
License, fees and permits	9,053,675	8,902,796
Use of money and property	<u>2,020</u>	<u>(67,441)</u>
Total Revenues	<u>18,886,734</u>	<u>18,313,941</u>
Expenditures:		
Current:		
General government	5,278,648	5,550,192
Public Education	899,644	234,506
Transportation	5,057,405	3,892,913
Guam Regional Transit Authority	2,552,079	2,516,842
Payments to UOG CIP Fund	500,000	500,000
Payments to Public Transit Fund	357,280	328,113
Payments to Better Public Service Fund	905,368	890,280
Capital projects	944,075	1,526,416
Debt service	<u>5,892,551</u>	<u>6,027,225</u>
Total Expenditures	<u>22,387,050</u>	<u>21,466,487</u>
Net Change in Fund Balances	\$ <u>(3,500,316)</u>	\$ <u>(3,152,546)</u>

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

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

4. Capital Assets

During the year ended September 30, 2012, capital-related expenditures amounted to \$944,075 compared with \$1,526,416 in 2011. These expenditures pertained primarily to construction of the Gill Baza access road (\$417,314), preventive school bus maintenance (\$371,555), and village street repair (\$107,324).

5. Long-Term Debt

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

6. Outlook, Challenges and Opportunities

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

7. Contacting Government of Guam Financial Management

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Balance Sheet
September 30, 2012

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

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Fund Accounting

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

C. Measurement Focus and Basis of Accounting

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

Liquid Fuel Taxes:

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Automotive Surcharges:

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

Motor Vehicle Registration Fees/Driver's Licenses:

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

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

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

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

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

D. Appropriations

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

E. Budgetary Process

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

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. As of September 30, 2012, there were no outstanding interdepartmental work requests pertaining to land acquisitions. Encumbrances outstanding at year end are reported within the fund balance classifications since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations. At September 30, 2012, significant encumbrances are summarized as follows:

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Encumbrances	\$ <u>302,696</u>	\$ <u>128,884</u>	\$ <u>-</u>

F. Cash and Cash Equivalents

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

G. Receivables

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

H. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered. These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

I. Restricted Assets

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

J. Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

K. Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, for the year ended September 30, 2011 from which summarized information was derived.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(2) Deposits

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

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name.

As of September 30, 2012, the carrying amount of cash and cash equivalents was \$8,968,359 and the corresponding bank balances were \$8,968,359. Of the bank balances, \$6,061,171 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$2,907,188 represents short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2012. As of September 30, 2012, bank deposits in the amount of \$250,000 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(3) Bonds Payable

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

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(3) Bonds Payable, Continued

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

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

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

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

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

(4) Payments to Other Funds

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

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

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2012

(5) Commitments

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

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Balance Sheets
September 30, 2012 and 2011

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

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

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND

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

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Construction Project Status
Year Ended September 30, 2012

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2012 and 2011

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

See accompanying independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited the financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds) as of and for the year ended September 30, 2012, and have issued our report thereon dated April 9, 2013. Our report includes an explanatory paragraph that the financial statements of the Funds are not intended to present the financial position and results of operations of the Government of Guam. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

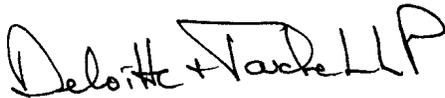
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

April 9, 2013