

**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, 2011

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Year Ended September 30, 2011
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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, 2011, 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.

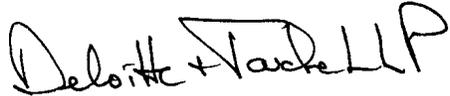
As discussed in Note 1, the financial statements present only the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of 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, 2011, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Government of Guam adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supplementary information on pages 14 to 19 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Government of Guam's management. Such additional information for 2011 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The additional supplementary information for 2010 has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

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

April 12, 2012

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Balance Sheet
September 30, 2011

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,474,572	\$ -	\$ 1,925	\$ 3,476,497
Restricted assets:				
Cash and cash equivalents	-	2,699,113	5,897,551	8,596,664
Taxes receivable	791,017	-	-	791,017
Total assets	\$ 4,265,589	\$ 2,699,113	\$ 5,899,476	\$ 12,864,178
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 10,955	\$ -	\$ 10,955
Accrued payroll and other	255,909	-	-	255,909
Due to General Fund	3,029,682	316,355	-	3,346,037
Total liabilities	3,285,591	327,310	-	3,612,901
Commitments				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	-	2,371,803	-	2,371,803
Debt service	-	-	5,899,476	5,899,476
Committed for:				
Highway operations	979,998	-	-	979,998
Total fund balances	979,998	2,371,803	5,899,476	9,251,277
Total liabilities and fund balances	\$ 4,265,589	\$ 2,699,113	\$ 5,899,476	\$ 12,864,178

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, 2011

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 9,478,586	\$ -	\$ -	\$ 9,478,586
Licenses, fees and permits	8,902,796	-	-	8,902,796
Use of money and property	5,227	402	(73,070)	(67,441)
Total revenues	18,386,609	402	(73,070)	18,313,941
Expenditures:				
Current:				
General government	5,550,192	-	-	5,550,192
Public education	234,506	-	-	234,506
Transportation	3,892,913	-	-	3,892,913
Guam Regional Transit Authority	2,516,842	-	-	2,516,842
Payments to UOG Capital Improvement Fund	500,000	-	-	500,000
Payments to Public Transit Fund	328,113	-	-	328,113
Payments to Better Public Service Fund	890,280	-	-	890,280
Capital projects	-	1,526,416	-	1,526,416
Debt service:				
Principal	-	-	5,485,000	5,485,000
Interest	-	-	542,225	542,225
Total expenditures	13,912,846	1,526,416	6,027,225	21,466,487
Excess (deficiency) of revenues over (under) expenditures	4,473,763	(1,526,014)	(6,100,295)	(3,152,546)
Other financing sources (uses):				
Operating transfers in	-	-	4,316,894	4,316,894
Operating transfers out	(4,316,894)	-	-	(4,316,894)
Total other financing sources (uses), net	(4,316,894)	-	4,316,894	-
Net change in fund balances	156,869	(1,526,014)	(1,783,401)	(3,152,546)
Fund balances at the beginning of the year	823,129	3,897,817	7,682,877	12,403,823
Fund balances at the end of the year	\$ 979,998	\$ 2,371,803	\$ 5,899,476	\$ 9,251,277

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2011

(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, 2011

(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, 2011

(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, 2011, there were no outstanding interdepartmental work requests pertaining to land acquisitions. Encumbrances outstanding at year end are reported within committed fund balance since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

F. Cash and Cash Equivalents

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

G. 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.

The interfund balances at September 30, 2011, are summarized below:

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Due to General Fund	\$ <u>3,029,682</u>	\$ <u>316,355</u>	\$ <u>-</u>

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

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 and set aside for debt service principal and interest. These amounts have been classified as restricted assets.

J. Fund Balance

During fiscal year 2011, GovGuam implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB Statement No. 54, 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.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2011

(2) Deposits

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

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.

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

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

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

As of September 30, 2011, the carrying amount of cash and cash equivalents was \$12,073,161 and the corresponding bank balances were \$12,073,161, 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, 2011.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2011

(3) Interfund Transfer Activity

Interfund transfers from the Territorial Highway Fund to the Debt Service Fund represent the transfer of pledged revenues as required by the bond indenture. Interfund transfer activity during the year ended September 30, 2011, is summarized below:

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Transfers Out To:			
Debt Service Fund	\$ <u>4,316,894</u>	\$ <u>-</u>	\$ <u>-</u>
Transfers In From:			
Territorial Highway Fund	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,316,894</u>

(4) Bonds Payable

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

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

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

Minimum future debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ <u>5,765,000</u>	\$ <u>259,425</u>	\$ <u>6,024,425</u>

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2011

(4) Bonds Payable, Continued

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

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

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2011

(4) Bonds Payable, Continued

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

During the year ended September 30, 2011, payments for debt service totaled \$6,027,225, of which \$5,485,000 represents payment on principal. A summary of the change in bonds payable is as follows:

Bonds payable at October 1, 2010	\$ 11,250,000
Principal repayment	<u>(5,485,000)</u>
Bonds payable at September 30, 2011	\$ <u>5,765,000</u>

Tax revenues and vehicle registration/license fees of the Territorial Highway Fund have been pledged to repay bond principal and interest. Total debt service for the year ended September 30, 2011 amounted to \$6,027,225, which represents 33% of 2011 tax revenues and vehicle registration/license fees collected.

At September 30, 2011, \$5,899,476 of the fund balance in the Debt Service Fund is restricted for debt service purposes.

At September 30, 2011, management of the Funds is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(5) Payments to Other Funds

Public Law 26-48 authorizes reimbursement to the University of Guam (UOG) for debt service on a U.S. Department of Agriculture (USDA) loan obtained for construction of the College of Business and Public Administration building. During the year ended September 30, 2011, \$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, 2011, \$328,113 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2011, \$890,280 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, 2011

(6) Commitments

On November 30, 2010, the Guam Legislature reprogrammed and appropriated \$1,050,000 from the Capital Projects Fund in accordance with Public Law 30-216 to the Department of Public Works for repair of damage to village streets associated with road reconstruction projects. As of September 30, 2011, restricted fund balance associated with this appropriation amounts to \$1,050,000. Furthermore, the Guam Legislature appropriated \$2,254,413 from the Capital Projects Fund in accordance with Public Law 30-217 for the purpose of refurbishing Department of Public Works school buses and other related matters. As of September 30, 2011, restricted fund balance associated with this appropriation amounts to \$727,997, which includes commitments associated with outstanding encumbrances of \$353,506.

(7) Subsequent Event

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**

Comparative Balance Sheets
September 30, 2011 and 2010

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2011	2010	2011	2010	2011	2010
<u>ASSETS</u>						
Cash and cash equivalents	\$ 3,474,572	\$ 3,064,857	\$ -	\$ -	\$ 1,925	\$ 1,925
Restricted assets:						
Cash and cash equivalents	-	-	2,699,113	3,903,346	5,897,551	549,457
Investments	-	-	-	-	-	7,131,495
Taxes receivable	791,017	799,325	-	-	-	-
Total assets	<u>\$ 4,265,589</u>	<u>\$ 3,864,182</u>	<u>\$ 2,699,113</u>	<u>\$ 3,903,346</u>	<u>\$ 5,899,476</u>	<u>\$ 7,682,877</u>
<u>LIABILITIES</u>						
Accounts payable	\$ -	\$ -	\$ 10,955	\$ 5,529	\$ -	\$ -
Accrued payroll and other	255,909	84,908	-	-	-	-
Due to General Fund	3,029,682	2,956,145	316,355	-	-	-
Total liabilities	<u>3,285,591</u>	<u>3,041,053</u>	<u>327,310</u>	<u>5,529</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES</u>						
Fund balances:						
Restricted for:						
Capital projects	-	-	2,371,803	3,897,817	-	-
Debt service	-	-	-	-	5,899,476	7,682,877
Committed for:						
Highway operations	979,998	823,129	-	-	-	-
Total fund balances	<u>979,998</u>	<u>823,129</u>	<u>2,371,803</u>	<u>3,897,817</u>	<u>5,899,476</u>	<u>7,682,877</u>
Total liabilities and fund balances	<u>\$ 4,265,589</u>	<u>\$ 3,864,182</u>	<u>\$ 2,699,113</u>	<u>\$ 3,903,346</u>	<u>\$ 5,899,476</u>	<u>\$ 7,682,877</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, 2011 and 2010

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2011	2010	2011	2010	2011	2010
Revenues:						
Taxes	\$ 9,478,586	\$ 9,777,592	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	8,902,796	8,779,133	-	-	-	-
Use of money and property	5,227	1,151	402	619	(73,070)	2,719
Total revenues	<u>18,386,609</u>	<u>18,557,876</u>	<u>402</u>	<u>619</u>	<u>(73,070)</u>	<u>2,719</u>
Expenditures:						
Current:						
General government	5,550,192	4,549,603	-	-	-	-
Protection of life and property	-	83,566	-	-	-	-
Public Education	234,506	85,486	-	-	-	-
Transportation	3,892,913	3,743,876	-	-	-	-
Guam Regional Transit Authority	2,516,842	3,158,181	-	-	-	-
Payments to UOG Capital Improvement Fund	500,000	500,000	-	-	-	-
Payments to Public Transit Fund	328,113	367,241	-	-	-	-
Payments to Better Public Service Fund	890,280	877,913	-	-	-	-
Capital projects	-	-	1,526,416	-	-	-
Debt service:						
Principal	-	-	-	-	5,485,000	5,260,000
Interest	-	-	-	-	542,225	765,775
Total expenditures	<u>13,912,846</u>	<u>13,365,866</u>	<u>1,526,416</u>	<u>-</u>	<u>6,027,225</u>	<u>6,025,775</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,473,763</u>	<u>5,192,010</u>	<u>(1,526,014)</u>	<u>619</u>	<u>(6,100,295)</u>	<u>(6,023,056)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	4,316,894	6,017,549
Operating transfers out	(4,316,894)	(6,017,549)	-	-	-	-
Total other financing sources (uses), net	<u>(4,316,894)</u>	<u>(6,017,549)</u>	<u>-</u>	<u>-</u>	<u>4,316,894</u>	<u>6,017,549</u>
Net change in fund balances	156,869	(825,539)	(1,526,014)	619	(1,783,401)	(5,507)
Fund balances at the beginning of the year	<u>823,129</u>	<u>1,648,668</u>	<u>3,897,817</u>	<u>3,897,198</u>	<u>7,682,877</u>	<u>7,688,384</u>
Fund balances at the end of the year	<u>\$ 979,998</u>	<u>\$ 823,129</u>	<u>\$ 2,371,803</u>	<u>\$ 3,897,817</u>	<u>\$ 5,899,476</u>	<u>\$ 7,682,877</u>

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, 2011 and 2010

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2011	2010	2011	2010	2011	2010
Revenues:						
Taxes	\$ 9,478,586	\$ 9,777,592	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	8,902,796	8,779,133	-	-	-	-
Use of money and property	5,227	1,151	402	619	(73,070)	2,719
Total revenues	<u>18,386,609</u>	<u>18,557,876</u>	<u>402</u>	<u>619</u>	<u>(73,070)</u>	<u>2,719</u>
Expenditures:						
Salaries and wages - regular	4,514,685	5,035,134	6,187	-	-	-
Salaries and wages - overtime	-	21,629	86,710	-	-	-
Salaries and wages - fringe benefits	1,578,025	1,574,713	15,005	-	-	-
Contractual services	2,934,098	3,277,969	433,452	-	-	-
Supplies	731,360	379,687	580,427	-	-	-
Equipment	57,127	5,965	52,736	-	-	-
Utilities - power and water	2,316,799	1,235,970	-	-	-	-
Communications	39,058	43,241	-	-	-	-
Capital outlays	19,270	28,890	72,815	-	-	-
Grants and subsidies	1,718,393	1,745,154	-	-	-	-
Principal retirement	-	-	-	-	5,485,000	5,260,000
Interest and fiscal charges	-	-	-	-	542,225	765,775
Miscellaneous	4,031	17,514	279,084	-	-	-
Total expenditures	<u>13,912,846</u>	<u>13,365,866</u>	<u>1,526,416</u>	<u>-</u>	<u>6,027,225</u>	<u>6,025,775</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,473,763</u>	<u>5,192,010</u>	<u>(1,526,014)</u>	<u>619</u>	<u>(6,100,295)</u>	<u>(6,023,056)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	4,316,894	6,017,549
Operating transfers out	(4,316,894)	(6,017,549)	-	-	-	-
Total other financing sources (uses), net	<u>(4,316,894)</u>	<u>(6,017,549)</u>	<u>-</u>	<u>-</u>	<u>4,316,894</u>	<u>6,017,549</u>
Net change in fund balances	156,869	(825,539)	(1,526,014)	619	(1,783,401)	(5,507)
Fund balances at the beginning of the year	<u>823,129</u>	<u>1,648,668</u>	<u>3,897,817</u>	<u>3,897,198</u>	<u>7,682,877</u>	<u>7,688,384</u>
Fund balances at the end of the year	<u>\$ 979,998</u>	<u>\$ 823,129</u>	<u>\$ 2,371,803</u>	<u>\$ 3,897,817</u>	<u>\$ 5,899,476</u>	<u>\$ 7,682,877</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Office of the Governor:		
Veteran Affairs:		
Contractual services	\$ 97,600	\$ -
Supplies	17,118	336
Equipment	21,643	-
Capital outlays	-	28,890
Total Office of the Governor	<u>136,361</u>	<u>29,226</u>
Department of Administration:		
Division of Accounts:		
Salaries and wages - fringe benefits	313,358	214,596
Contractual services	18,000	18,000
Utilities - power and water	2,100,144	1,084,090
Grants and subsidies	1,390,280	1,377,913
Principal retirement	5,485,000	5,260,000
Interest and fiscal charges	542,225	765,775
Miscellaneous	2,950	12,950
	<u>9,851,957</u>	<u>8,733,324</u>
Public Transit:		
Salaries and wages - regular	-	758
Salaries and wages - fringe benefits	-	235
Grants and subsidies	328,113	367,241
	<u>328,113</u>	<u>368,234</u>
Guam Regional Transit Authority:		
Salaries and wages - regular	221,800	211,411
Salaries and wages - fringe benefits	58,232	51,963
Contractual services	2,229,878	2,887,093
Supplies	2,017	1,606
Communications	3,615	3,780
Equipment	-	228
Miscellaneous	1,300	2,100
	<u>2,516,842</u>	<u>3,158,181</u>
Total Department of Administration	<u>12,696,912</u>	<u>12,259,739</u>
Department of Education:		
Public Education:		
Salaries and wages - regular	61,568	84,679
Salaries and wages - fringe benefits	-	807
Supplies	172,938	-
Total Department of Education	<u>234,506</u>	<u>85,486</u>
Department of Public Works:		
CIP Administration/Operations:		
Salaries and wages - regular	1,160,062	1,490,904
Salaries and wages - fringe benefits	375,064	408,607
Contractual services	162,876	92,629
Supplies	24,051	14,730
Communications	18,339	16,349
Miscellaneous	-	2,464
	<u>1,740,392</u>	<u>2,025,683</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2011 and 2010

	2011	2010
Building Maintenance:		
Salaries and wages - regular	839,085	874,620
Salaries and wages - fringe benefits	226,211	240,102
Contractual services	25,181	14,849
Supplies	127,394	30,854
Communications	4,457	4,633
Equipment	16,660	-
	1,238,988	1,165,058
Highway Maintenance Division:		
Salaries and wages - regular	2,232,171	2,309,121
Salaries and wages - overtime	-	17,526
Salaries and wages - fringe benefits	604,940	637,467
Contractual services	400,562	265,397
Supplies	387,843	332,161
Utilities - power and water	216,655	151,880
Communications	12,647	18,480
Equipment	18,824	5,737
Capital outlays	19,270	-
	3,892,912	3,737,769
Transportation Division:		
Salaries and wages - regular	-	18
Salaries and wages - overtime	-	4,103
Salaries and wages - fringe benefits	-	993
	-	5,114
Capital Projects:		
Salaries and wages - regular	6,187	-
Salaries and wages - overtime	86,710	-
Salaries and wages - fringe benefits	15,005	-
Contractual services	433,452	-
Supplies	580,427	-
Equipment	52,736	-
Capital outlays	72,815	-
Miscellaneous	279,084	-
	1,526,416	-
Total Department of Public Works	8,398,708	6,933,624
Department of Law:		
Salaries and wages - regular	-	63,623
Salaries and wages - fringe benefits	-	19,943
Total Department of Law	-	83,566
	\$ 21,466,487	\$ 19,391,641

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2011 and 2010

	2011	2010
Employees at end of year:		
Department of Administration	5	10
Department of Public Works	100	224
	105	234
Highway Bond Cash and Investments:		
Bond Fund	\$ 5,000	\$ 2,510,683
Bond Reserve Fund	5,892,551	5,170,269
Construction Fund	2,699,113	3,903,346
Operations and Maintenance Fund	3,016,286	878,865
Surplus Fund	457,726	484,288
Revenue Fund	122	1,700,516
Remainder Account	438	1,188
Cost of Issuance Fund	1,925	1,925
	\$ 12,073,161	\$ 14,651,080
Bond Interest Rates at Maturity Dates:	2011 Bonds	2010 Bonds
May 2012	4.500%	4.500%

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, 2011, and have issued our report thereon dated April 12, 2012. 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.

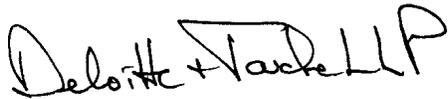
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, which is described in the accompanying Schedule of Findings and Responses as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2011-2.

The Funds' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Funds' response and, accordingly, we express no opinion on it.

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 12, 2012

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings and Responses
Year Ended September 30, 2011

Finding No. 2011-1

Revenues

Criteria: An adequate system of internal control requires that accounting records concerning vehicle registration and drivers' license revenues be maintained to substantiate the accuracy, completeness, occurrence, and cutoff assertions associated with recorded amounts.

Condition: Of \$8,902,796 in licenses, fees and permit revenues, we tested forty-five items, totaling \$2,606, and noted the following exceptions:

- a) Two items, totaling \$101 (R-02263884 and R-90008802 dated 1/7/11 and 2/28/11, respectively), for vehicle registration fees were not supported by the underlying copy of the Motor Vehicle Registration Form; and
- b) Three items, totaling \$65 (#s 1228098159, 1228148817 and 1228126750 dated 2/23/11, 3/17/11 and 5/27/11, respectively), for driver's license fees were not supported by the underlying copy of the driver's license application, which is required to be completed by the customer prior to the issuance of the drivers' license.

Cause: The cause of the above condition is the apparent lack of internal control over maintenance of underlying records by the Department of Revenue and Taxation requiring an adequate filing system and the safeguarding of supporting documentation concerning vehicle registration forms and driver's license applications.

Effect: The effect of the above condition is the inability to substantiate recorded revenue amounts.

Recommendation: We recommend that the Department of Revenue and Taxation establish an adequate filing system requiring the safeguarding of motor vehicle registration forms and driver's license application forms substantiating licenses, fees, and permit revenues recorded by the Territorial Highway Fund.

Auditee Response and Corrective Action Plan: The Department of Administration will proactively consult with the Department of Revenue and Taxation to ensure an adequate filing system for all documents relating to revenue collections is maintained.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Finding No. 2011-2

Local Noncompliance

Criteria: 5 GCA 54102 established the Territorial Highway Fund for the purpose of providing proper maintenance and construction of existing highways, including roads and city and village streets and for implementing all highway-safety related plans, programs and projects. Furthermore, Section 2(i)(3), Chapter V, of Public Law 30-196 (Appropriation Act of 2010) appropriated \$943,688 from the Territorial Highway Fund for utility costs for the Department of Public Works.

Condition: During the year ended September 30, 2011, the Territorial Highway Fund recorded utility costs of \$2,806,224, which are summarized as follows:

<u>GPA A/c #</u>	<u>GPA A/c Name</u>	<u>Amount</u>
124395	Village Street Lights	\$ 1,202,928
124396	Primary Street Lights	458,076
124397	Secondary Street Lights	91,591
124398	Signal Lights	107,795
124399	DPW Facilities Administration	<u>945,834</u>
		<u>\$ 2,806,224</u>

The utility costs charged against DPW Facilities Administration included the following costs that did not appear consistent with the intent of the Territorial Highway Fund's enabling legislation and did not appear to represent utility costs of the Department of Public Works:

<u>Service Address</u>	<u>Service Name</u>	<u>Amount</u>
150585	Manuel Guerrero Building - DOA/DOE	\$ 40,172
150641	Government House	163,873
151345	Manuel Guerrero Building - DOA/DOE	113,887
151353	Government Office - Adelup	<u>214,807</u>
		<u>\$ 532,739</u>

Cause: The cause of the above condition is certification by the Department of Public Works for utility costs that do not appear consistent with the intent of the Territorial Highway Fund's enabling legislation or Public Law 30-196.

Effect: The effect of the above condition is possible noncompliance with the Territorial Highway Fund's enabling legislation; however, the Department of Administration subsequently recorded these utility costs as an expenditure of the General Fund.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Finding No. 2011-2

Recommendation: We recommend that the Department of Public Works through the Department of Administration ensure that future utility costs charged to the Territorial Highway Fund be consistent with the intent of the Fund's enabling legislation.

Auditee Response and Corrective Action Plan: The Department of Administration has contacted the Department of Public Works to resolve the issue of charging utility bills to proper accounts to ensure compliance of the law.