

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

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

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

YEAR ENDED SEPTEMBER 30, 2018

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Year Ended September 30, 2018
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INDEPENDENT AUDITORS' REPORT

Honorable Lou Leon Guerrero
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), which comprise the balance sheet as of September 30, 2018, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2018, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A and are not intended to present fairly 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

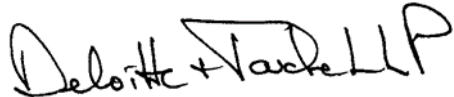
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of the Funds' management. The 2018 information on pages 15 through 19 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 standard generally accepted in the United States of America. In our opinion, the 2018 information on pages 15 through 19 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The 2017 information on pages 15 through 19 as well as the additional information on pages 20 and 21 have 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2019, 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 solely 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 effectiveness of the Funds' internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

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

March 19, 2019

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Management's Discussion and Analysis
Year Ended September 30, 2018

Our discussion and analysis of the Government of Guam's ("GovGuam") Guam Highway Fund financial performance and those funds related to the GovGuam Limited Obligation Highway Refunding Bonds, 2001 Series A, provides an overview of financial activities for the fiscal years ended September 30, 2018 and 2017. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the year ended September 30, 2018, the combined fund balance increased by \$321,375 (or 20.6%) from an ending fund balance of \$1,560,553 in 2017 to \$1,881,928 in 2018.
- During the years ended September 30, 2018 and 2017, total combined expenditures for governmental fund operations were \$22,799,303 and \$21,383,778, respectively, including expenditures for GovGuam's Department of Public Works of \$9,788,531 and \$6,382,268, respectively; expenditures for the Mayors' Council of Guam operations of \$5,801,201 and \$2,077,499, respectively; expenditures associated with Guam Regional Transit Authority operations of \$2,992,694 and \$2,987,936, respectively; expenditures for the Guam Police Department of \$1,488,283 and \$0, respectively; payments for utility costs associated with the operation of public streetlights of \$1,351,753 and \$1,302,401, respectively; and other legislatively mandated transfers out to other various GovGuam funds of \$1,228,914 and \$2,099,374, respectively. These expenditures were funded mainly by Liquid Fuel Tax (LFT) revenue collections and Vehicle Registration/Drivers' License fees collected during the years ended September 30, 2018 and 2017 of \$23,119,308 and \$20,283,341, respectively.
- Total combined expenditures increased by \$1,415,525 (or 6.6%) from 2017 to 2018, which included an increase of: \$3,723,702 for Mayors' Council of Guam operations, \$3,406,263 for Department of Public Works operations, and \$1,488,283 for Guam Police Department highway patrol division operations offset by a decrease of: \$4,495,131 for Department of Education bus operations, \$2,011,169 for transfers from the Guam Highway Fund to the General Fund to fund General Fund operations, and \$778,922 for transfers to the University of Guam and Guam Community College for funding capital improvements. Total combined revenues increased by \$2,836,797 (or 14%) from \$20,283,881 in 2017 to \$23,120,678 in 2018 due primarily to an increase in LFT collections of \$2,885,517 associated with a 4 cent per gallon increase in the LFT rate that became effective January 1, 2018.
- During the year ended September 30, 2018, the Guam Highway Fund generated an operating surplus of \$321,375 compared with an operating deficit of \$1,099,897 for the year ended September 30, 2017.

2. Overview of the Financial Statements

The financial statements include all of the activities of the Guam Highway Fund and of those funds related to the GovGuam 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 these funds are reported in self-balancing funds.

The 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 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. Expenditures generally are recorded in the period in which the related fund liability is incurred, in compliance with accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2018

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

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 the financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on assets, liabilities and fund balance at year-end. A condensed summary of the balance sheets is shown below as of September 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 885,648	\$ 315,704
Taxes receivable	1,163,115	869,683
Due from General Fund	<u>1,190,175</u>	<u>1,265,404</u>
Total assets	\$ <u>3,238,938</u>	\$ <u>2,450,791</u>
Liabilities:		
Accounts payable and other	\$ <u>1,357,010</u>	\$ <u>890,238</u>
Fund balances:		
Restricted	175,899	175,899
Committed	<u>1,706,029</u>	<u>1,384,654</u>
Total fund balances	<u>1,881,928</u>	<u>1,560,553</u>
Total liabilities and fund balances	\$ <u>3,238,938</u>	\$ <u>2,450,791</u>

Total assets increased by \$788,147 (or 32.2%) from \$2,450,791 in 2017 to \$3,238,938 in 2018.

Total fund balances increased by \$321,375 during 2018 from \$1,560,553 to \$1,881,928. 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.

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 Capital Projects Fund. These funds will be used to complete the projects originally specified in the GovGuam Limited Obligation Highway Bonds, 1992 Series A, and the GovGuam Limited Obligation Highway Refunding Bonds, 2001 Series A.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2018

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 fund balance for the year. The statements of revenues, expenditures and changes in fund balances for the years ended September 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Revenues:		
Liquid fuel taxes	\$ 13,297,415	\$ 10,411,898
License, fees and permits	9,821,893	9,871,443
Use of money and property	1,370	540
	<u>23,120,678</u>	<u>20,283,881</u>
Expenditures:		
Current:		
General government	1,499,680	1,330,401
Individual and collective rights	5,801,201	2,077,499
Protection of life and property	1,488,283	-
Public education	-	4,495,131
Transportation	9,752,031	6,165,198
Guam Regional Transit Authority	2,992,694	2,987,936
Payments to UOG Capital Improvement Fund	-	500,000
Payments to Public Transit Fund	253,891	334,882
Payments to Better Public Service Fund	975,023	985,570
Payments to GCC Capital Improvement Fund	-	278,922
Transfers out to General Fund	-	2,011,169
Capital projects	<u>36,500</u>	<u>217,070</u>
	<u>22,799,303</u>	<u>21,383,778</u>
Net change in fund balances	\$ <u>321,375</u>	\$ <u>(1,099,897)</u>

Total revenues collected increased by \$2,836,797 (or 14%) from \$20,283,881 in 2017 to \$23,120,678 in 2018. The increase was primarily due to an increase in LFT of \$2,885,517 (or 27.7%) due to the 4 cent per gallon increase in the LFT rate that became effective on January 1, 2018. Total expenditures increased by \$1,415,525 (or 6.6%) from \$21,383,778 in 2017 to \$22,799,303 in 2018. The change was due to increases in authorized Guam Legislature appropriations. Appropriations authorized by the Guam Legislature from the Guam Highway Fund for 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Department of Administration (includes utility costs) (1)	\$ 1,683,776	\$ 1,685,276
Department of Public Works (includes bus operations) (1)	11,169,101	11,978,176
Guam Police Department	1,510,063	-
Mayors' Council of Guam	5,800,648	2,077,499
Guam Regional Transit Authority	3,211,082	3,211,082
Typhoon Mangkhut (2)	500,000	-
University of Guam (3)	-	500,000
Guam Community College (3)	-	278,922
Better Public Service Fund	1,177,711	1,616,914
Public Transit Fund	<u>455,481</u>	<u>452,876</u>
	<u>\$ 25,507,862</u>	<u>\$ 21,800,745</u>

(1) In 2018, Public Law 34-42 appropriated \$1,665,276 and \$572,468, respectively, to the Department of Administration and the Department of Public Works from the unappropriated fund balance of the Guam Highway Fund.

(2) In 2018, Public Law 34-124 appropriated \$500,000 for the purpose of funding emergency expenditures associated with Typhoon Mangkhut.

(3) In 2018, Public Law 34-42 appropriated \$500,000 and \$278,922, respectively, to the University of Guam and Guam Community College from the Territorial Educational Facilities Fund.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2018

4. Capital Assets

In 2014, Public Law 32-41 authorized the acquisition of property from the Guam Highway Fund for the Tiyan Parkway Project. During the year ended September 30, 2014, land acquisitions from the Guam Highway Fund amounted to \$1,760,000. Other expenditures associated with the Tiyan Parkway Project were funded in 2015 by federal grants awarded by the U.S. Department of Transportation Federal Highway Administration. No further expenditures associated with this project were incurred in 2016 through 2018.

5. Outlook, Challenges and Opportunities

Public Law 34-44, passed on October 12, 2017, created additional revenue for village road repair and construction projects by increasing the LFT rate by four cents (\$0.04) per gallon, effective January 1, 2018.

In 2017, the Guam Legislature introduced Bill 36-34 to authorize the issuance of \$50 million in Limited Obligation Highway Bonds. The Bill has not progressed and has lapsed.

6. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the finances of the Guam Highway Fund and related funds and to demonstrate accountability for money received and expended. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Director's Office, Department of Administration, Attention: Edward Birn, Director, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1101/1250, Facsimile: (671) 477-6788; Website address: www.doa.guam.gov.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Balance Sheet
September 30, 2018

	<u>Guam Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 885,648	\$ -	\$ 885,648
Taxes receivable	1,163,115	-	1,163,115
Due from General Fund	<u>1,014,276</u>	<u>175,899</u>	<u>1,190,175</u>
Total assets	<u>\$ 3,063,039</u>	<u>\$ 175,899</u>	<u>\$ 3,238,938</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 115,511	\$ -	\$ 115,511
Accrued payroll and other	668,893	-	668,893
Deposits and other liabilities	<u>572,606</u>	<u>-</u>	<u>572,606</u>
Total liabilities	<u>1,357,010</u>	<u>-</u>	<u>1,357,010</u>
Commitments			
<u>FUND BALANCES</u>			
Fund balances:			
Restricted for:			
Capital projects	-	175,899	175,899
Committed for:			
Highway operations	<u>1,706,029</u>	<u>-</u>	<u>1,706,029</u>
Total fund balances	<u>1,706,029</u>	<u>175,899</u>	<u>1,881,928</u>
Total liabilities and fund balances	<u>\$ 3,063,039</u>	<u>\$ 175,899</u>	<u>\$ 3,238,938</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2018

	Guam Highway Fund	Capital Projects Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 13,297,415	\$ -	\$ 13,297,415
Licenses, fees and permits	9,821,893	-	9,821,893
Use of money and property	1,370	-	1,370
	<u>23,120,678</u>	<u>-</u>	<u>23,120,678</u>
Total revenues			
Expenditures:			
Current:			
General government	1,499,680	-	1,499,680
Individual and collective rights	5,801,201	-	5,801,201
Protection of Life and Property	1,488,283	-	1,488,283
Transportation	9,752,031	-	9,752,031
Guam Regional Transit Authority	2,992,694	-	2,992,694
Payments to Public Transit Fund	253,891	-	253,891
Payments to Better Public Service Fund	975,023	-	975,023
Capital projects	36,500	-	36,500
	<u>22,799,303</u>	<u>-</u>	<u>22,799,303</u>
Total expenditures			
Net change in fund balances	321,375	-	321,375
Fund balances at the beginning of the year	<u>1,384,654</u>	<u>175,899</u>	<u>1,560,553</u>
Fund balances at the end of the year	<u>\$ 1,706,029</u>	<u>\$ 175,899</u>	<u>\$ 1,881,928</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Notes to Financial Statements
September 30, 2018

(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 Guam Highway Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Guam 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 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 Limited Obligation Highway Refunding Bond, 2001 Series A, matured on May 1, 2012.

These funds are considered to be governmental funds and are presented as blended component units of GovGuam.

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 Guam 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 90 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	\$ 0.08 per gallon
Diesel Fuel Tax	\$ 0.14 per gallon
All Other Fuel Tax	\$ 0.15 per gallon

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

On October 12, 2017, the Guam Legislature enacted Public Law 34-44, which increased the liquid fuel tax rate by \$0.04 per gallon, effective January 1, 2018, for funding village road repair and construction projects.

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>
Driver's License Renewal:	
Three-Year license	\$ <u>25.00</u>
Five-Year license	\$ <u>45.00</u>

The amount of the annual vehicle 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
GUAM HIGHWAY FUND**

Notes to Financial Statements
September 30, 2018

(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 financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. Encumbrances outstanding at year end are reported within the fund balance classifications since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations. At September 30, 2018, significant encumbrances are summarized as follows:

<u>Guam Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
\$ <u>1,614,810</u>	\$ <u> -</u>	\$ <u>1,614,810</u>

F. Cash and Cash Equivalents

Cash and cash equivalents includes cash held in demand deposit accounts.

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. Fund Balance

Governmental fund balances are classified as follows:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and do not lapse at year-end.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

I. Fund Balance, Continued

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this.

A formal minimum fund balance policy has not been adopted.

J. 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.

K. 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 Guam 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, 2017 from which summarized information was derived.

(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 certificates of deposit of, or bankers' acceptances issued by, any eligible institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

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, 2018, the carrying amount of cash and cash equivalents was \$885,648 and the corresponding bank balance was \$885,648, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018, 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.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Notes to Financial Statements
September 30, 2018

(3) Payments to Other Funds

During the year ended September 30, 2018, \$253,891 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2018, \$975,023 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

(4) 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. 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, 2018, remaining commitments associated with these appropriations amount to \$108,302.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Comparative Balance Sheets
September 30, 2018 and 2017

	Guam Highway Fund		Capital Projects Fund	
	2018	2017	2018	2017
<u>ASSETS</u>				
Cash and cash equivalents	\$ 885,648	\$ 315,704	\$ -	\$ -
Taxes receivable	1,163,115	869,683	-	-
Due from General Fund	1,014,276	1,089,505	175,899	175,899
Total assets	\$ 3,063,039	\$ 2,274,892	\$ 175,899	\$ 175,899
<u>LIABILITIES</u>				
Accounts payable	\$ 115,511	\$ 7,749	\$ -	\$ -
Accrued payroll and other	668,893	359,074	-	-
Deposits and other liabilities	572,606	523,415	-	-
Total liabilities	1,357,010	890,238	-	-
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	-	-	175,899	175,899
Committed for:				
Highway operations	1,706,029	1,384,654	-	-
Total fund balances	1,706,029	1,384,654	175,899	175,899
Total liabilities and fund balances	\$ 3,063,039	\$ 2,274,892	\$ 175,899	\$ 175,899

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Comparative Schedules of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2018 and 2017

	Guam Highway Fund		Capital Projects Fund	
	2018	2017	2018	2017
Revenues:				
Taxes	\$ 13,297,415	\$ 10,411,898	\$ -	\$ -
Licenses, fees and permits	9,821,893	9,871,443	-	-
Use of money and property	1,370	540	-	-
Total revenues	<u>23,120,678</u>	<u>20,283,881</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
General government	1,499,680	1,330,401	-	-
Individual and collective rights	5,801,201	2,077,499	-	-
Protection of Life and Property	1,488,283	-	-	-
Transportation	9,752,031	6,165,198	-	-
Public education	-	4,495,131	-	-
Guam Regional Transit Authority	2,992,694	2,987,936	-	-
Payments to UOG Capital Improvement Fund	-	500,000	-	-
Payments to Public Transit Fund	253,891	334,882	-	-
Payments to Better Public Service Fund	975,023	985,570	-	-
Payments to GCC Capital Improvement Fund	-	278,922	-	-
Transfers out to General Fund	-	2,011,169	-	-
Capital projects	36,500	217,070	-	-
Total expenditures	<u>22,799,303</u>	<u>21,383,778</u>	<u>-</u>	<u>-</u>
Net change in fund balances	321,375	(1,099,897)	-	-
Fund balances at the beginning of the year	<u>1,384,654</u>	<u>2,484,551</u>	<u>175,899</u>	<u>175,899</u>
Fund balances at the end of the year	<u>\$ 1,706,029</u>	<u>\$ 1,384,654</u>	<u>\$ 175,899</u>	<u>\$ 175,899</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Comparative Schedules of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2018 and 2017

	Guam Highway Fund		Capital Projects Fund	
	2018	2017	2018	2017
Revenues:				
Taxes	\$ 13,297,415	\$ 10,411,898	\$ -	\$ -
Licenses, fees and permits	9,821,893	9,871,443	-	-
Use of money and property	1,370	540	-	-
Total revenues	<u>23,120,678</u>	<u>20,283,881</u>	<u>-</u>	<u>-</u>
Expenditures:				
Salaries and wages - regular	9,322,525	7,060,534	-	-
Salaries and wages - overtime	187,478	284,428	-	-
Salaries and wages - fringe benefits	4,364,069	2,708,547	-	-
Travel	8,253	17,511	-	-
Contractual services	4,784,590	3,602,735	-	-
Supplies	825,289	1,274,739	-	-
Equipment	36,972	39,281	-	-
Utilities - power and water	1,884,967	1,549,937	-	-
Communications	42,547	16,010	-	-
Grants and subsidies	1,228,914	4,110,543	-	-
Capital outlays	105,932	711,510	-	-
Miscellaneous	7,767	8,003	-	-
Total expenditures	<u>22,799,303</u>	<u>21,383,778</u>	<u>-</u>	<u>-</u>
Net change in fund balances	321,375	(1,099,897)	-	-
Fund balances at the beginning of the year	<u>1,384,654</u>	<u>2,484,551</u>	<u>175,899</u>	<u>175,899</u>
Fund balances at the end of the year	<u>\$ 1,706,029</u>	<u>\$ 1,384,654</u>	<u>\$ 175,899</u>	<u>\$ 175,899</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2018 and 2017

	2018	2017
Office of I Maga'lahaen Guahan:		
Office of Civil Defense:		
Contractual services	\$ 129,427	\$ -
Department of Administration:		
Division of Accounts:		
Contractual services	18,500	28,000
Utilities - power and water	1,351,753	1,302,401
	1,370,253	1,330,401
General Fund:		
Grants and subsidies	-	2,011,169
UOG Capital Improvement Fund:		
Grants and subsidies	-	500,000
Public Transit Fund:		
Grants and subsidies	253,891	334,882
Better Public Service Fund:		
Grants and subsidies	975,023	985,570
GCC Capital Improvement Fund:		
Grants and subsidies	-	278,922
Total Department of Administration	2,599,167	5,440,944
Guam Regional Transit Authority:		
Salaries and wages - regular	398,049	264,426
Salaries and wages - fringe benefits	146,759	97,181
Contractual services	2,267,969	2,428,543
Supplies	172,950	185,652
Communications	-	4,571
Miscellaneous	6,967	7,563
Total Guam Regional Transit Authority	2,992,694	2,987,936
Guam Police Department:		
Highway Patrol Division:		
Salaries and wages - regular	1,111,975	-
Salaries and wages - fringe benefits	376,308	-
Total Guam Police Department	1,488,283	-
Department of Education:		
Public Education:		
Salaries and wages - regular	-	2,587,571
Salaries and wages - fringe benefits	-	994,568
Supplies	-	564,072
Communications	-	103
Capital outlays	-	348,817
Total Department of Education	-	4,495,131
Department of Public Works:		
Office of the Director:		
Salaries and wages - regular	845,335	-
Salaries and wages - fringe benefits	287,280	-
Travel	280	-
Contractual services	91,245	-
Supplies	16,411	-
Equipment	418	-
Utilities - power and water	294,490	-
Communications	19,907	-
	1,555,366	-

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2018 and 2017

	2018	2017
Department of Public Works, Continued:		
Highway Maintenance Division:		
Salaries and wages - regular	1,809,647	1,987,702
Salaries and wages - overtime	172,902	241,041
Salaries and wages - fringe benefits	656,923	727,403
Travel	735	8,095
Contractual services	1,662,415	976,967
Supplies	508,925	456,213
Equipment	8,946	29,578
Utilities - power and water	273,155	247,536
Communications	11,856	7,646
Capital outlays	77,688	17,693
Miscellaneous	800	440
	<u>5,183,992</u>	<u>4,700,314</u>
Transportation Division:		
Salaries and wages - regular	414,838	741,507
Salaries and wages - overtime	14,308	43,387
Salaries and wages - fringe benefits	166,264	291,224
Travel	4,197	9,416
Contractual services	304,863	72,155
Supplies	101,817	68,802
Equipment	18,025	9,600
Communications	3,489	3,793
Capital outlays	28,244	225,000
	<u>1,056,045</u>	<u>1,464,884</u>
Building Construction and Facilities Maintenance:		
Salaries and wages - regular	520,408	-
Salaries and wages - fringe benefits	186,907	-
Contractual services	160,082	-
Supplies	18,894	-
Equipment	9,583	-
Communications	2,255	-
	<u>898,129</u>	<u>-</u>
Flood Mitigation Projects:		
Contractual services	36,500	97,070
Capital outlays	-	120,000
	<u>36,500</u>	<u>217,070</u>
Capital Improvement Projects Division:		
Salaries and wages - regular	716,669	-
Salaries and wages - fringe benefits	248,301	-
Travel	3,041	-
Contractual services	79,157	-
Supplies	6,292	-
Communications	5,039	-
	<u>1,058,499</u>	<u>-</u>
Total Department of Public Works	<u>9,788,531</u>	<u>6,382,268</u>
Mayors' Council of Guam:		
Operations:		
Salaries and wages - regular	3,505,606	1,479,328
Salaries and wages - overtime	267	-
Salaries and wages - fringe benefits	2,295,328	598,171
Total Mayors' Council of Guam	<u>5,801,201</u>	<u>2,077,499</u>
	<u>\$ 22,799,303</u>	<u>\$ 21,383,778</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Schedule of Construction Project Status
Year Ended September 30, 2018

	Total Budget	Expenditures Year Ended September 30, 2018	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Public Law 30-216:					
Repair, restoration and preventive maintenance of DPW school buses	\$ 1,483,033	\$ -	\$ 1,475,803	\$ -	\$ 7,230
Public Law 30-217:					
Barrigada village street repairs	227,634	-	227,634	-	-
R.T. Damian Street repairs	279,701	-	178,629	-	101,072
Kinney's Road repairs	129,217	-	129,217	-	-
Jagan Drive repairs	32,768	-	32,768	-	-
Jesus A. Quidachay Street repairs	22,071	-	22,071	-	-
Gill Baza access road	419,634	-	419,634	-	-
Sub-Total	<u>1,111,025</u>	<u>-</u>	<u>1,009,953</u>	<u>-</u>	<u>101,072</u>
	<u>\$ 2,594,058</u>	<u>\$ -</u>	<u>\$ 2,485,756</u>	<u>\$ -</u>	<u>\$ 108,302</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2018 and 2017

	2018	2017
Employees at end of year:		
Guam Regional Transit Authority	7	6
Guam Police Department:		
Highway Patrol Division:	22	-
Department of Public Works:		
Office of the Director:	18	-
Highway Maintenance Division	52	53
Transportation Division	20	19
Building Construction and Facilities Maintenance:	11	-
Capital Improvement Projects Division	12	-
Bus Operations	-	81
Mayors' Council of Guam	209	206
	351	365

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 Lou Leon Guerrero
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Guam 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, 2018, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated March 19, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

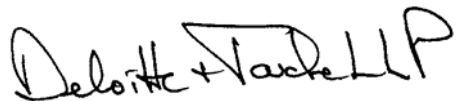
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2018-001.

Guam Highway Fund's Response to Finding

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

Purpose of this Report

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

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

March 19, 2019

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Schedule of Findings and Responses
Year Ended September 30, 2018

Finding No. 2018-001

Procurement

Criteria: In accordance with applicable procurement requirements, procurement transactions shall be conducted in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Local procurement regulations state that any procurement not exceeding the amount established by regulation, between \$500 and \$25,000 may be made in accordance with small purchase procedures. If these methods are not used, the other methods of source selection provided in 5 GCA §5210 (Methods of Source Selection) of the Guam Procurement Act and these Regulations shall apply.

Condition: Of twenty-three checks tested aggregating \$2,357,499 of \$8,864,956 in total expenditures, we noted the following:

1. For five checks (22%), multi-step bid was converted to sole source procurement, with justification that there is one responsive bidder and to negotiate price and terms of the service. However, no documentation of the price negotiation and terms of service was on file. Specifically, the bus transportation services was procured through purchase order.

<u>Description</u>	<u>Purchase Order</u>	<u>Vendor</u>	<u>Check no.</u>	<u>Amount Tested</u>
Contractual Services	P186A00519	K3537201	658322	\$43,925
			643656	39,580
			652328	38,755
			648212	27,095
			649120	20,932

2. For one check (# 659246), small purchases procurement was used however the vendor selected has the highest quotations on file.

Cause: The lack of enforcing internal control over compliance with Guam procurement requirements.

Effect: The Guam Highway Fund is in noncompliance with applicable procurement regulations.

Recommendation: We recommended that the department or agency responsible for procuring goods or services under the Guam Highway Fund enforce established procurement regulations consistently for all procurement, and maintain records sufficient to detail the significant history of procurement. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

Prior Year Status: Lack of compliance with Guam procurement requirements was reported as a finding in prior audits as items 2017-001, 2016-001, 2014-001 and 2013-001.

Auditee Response and Corrective Action Plan: The Department of Administration disagrees with the finding. Please refer to the more detailed response provided by GSA to a similar finding in the OPA Report No. 18-01 on GRTA Procurement and Billing of Public Transit Services, dated February 28, 2018.

**GOVERNMENT OF GUAM
GUAM HIGHWAY FUND**

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2018

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report.