

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

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

YEAR ENDED SEPTEMBER 30, 2013

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Year Ended September 30, 2013
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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds), which comprise the balance sheet as of September 30, 2013, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A, as of September 30, 2013, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

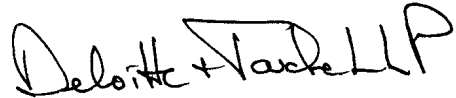
Other Information

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

The comparative financial statement information, the schedule of expenditures by department by object, the schedule of construction project status, and the other supplementary information are the responsibility of the Funds' management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the comparative financial statement information, the schedule of expenditures by department by object, the schedule of construction project status, and the other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014, on our consideration of Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Funds' internal control over financial reporting and compliance.

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

March 31, 2014

GOVERNMENT OF GUAM TOURIST ATTRACTION FUND

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

Our discussion and analysis of the Government of Guam's ("GovGuam") Tourist Attraction Fund ("TAF") financial performance provides an overview of TAF's financial activities for the fiscal years ended September 30, 2013 and 2012. Please read it in conjunction with TAF's financial statements, which follow this section.

1. Financial Highlights

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

2. Overview of the Financial Statements

TAF's financial statements include all of the activities of GovGuam's Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A. The financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balance. The assets, liabilities and fund balances of these funds are reported in self-balancing funds.

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

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

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

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

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on TAF's assets, liabilities and fund balance at year-end. A condensed summary of TAF's balance sheets is shown below as of September 30, 2013 and 2012.

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

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

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

Total fund balances decreased by \$4,392,033 (or 6.6%) during 2012 from \$66,067,102 to \$61,675,069. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Hotel Occupancy Tax Revenue Bond, 2011 Series A, wherein these funds are restricted for (i) capital projects associated with a new Guam Museum and certain other related projects that benefit Guam's tourism industry, and (ii) future debt service.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balance show the effect of revenues and expenditures on TAF's fund balance for the year. TAF's statements of revenues, expenses and changes in fund balances for the years ended September 30, 2013, and 2012 are summarized as follows.

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

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

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

4. Capital Assets

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

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

5. Long-Term Debt

In August 2011, GovGuam issued \$90,665,000 in Hotel Occupancy Tax Revenue Bonds for the purpose of constructing the Guam Museum and other related tourism projects, refunding a previous bond and funding capitalized interest. A payment of \$28,787,786 was made to a bond escrow agent for the purpose of refunding 1997 Series A bonds with net bond proceeds amounting to \$59,760,045. Proceeds are primarily to be used for the purpose of constructing the Guam Museum and certain other tourism related projects. The resultant long-term debt is included as a liability in GovGuam's government-wide financial statements. See note 3 to the accompanying financial statements for additional information relating to this long-term debt.

6. Outlook, Challenges and Opportunities

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

7. Contacting Government of Guam Financial Management

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

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Balance Sheet
September 30, 2013

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

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2013

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

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

The Government of Guam (GovGuam) Tourist Attraction Fund, created by 11 GCA 30107, was established to fund various recreational projects and visitor industry activities. Additionally, 11 GCA 30108 provides for 25 percent of all revenues collected by the Tourist Attraction Fund be appropriated to the Infrastructure Improvement Fund. Revenues are derived from an excise tax that is levied and imposed on transient occupants of a room or rooms in a hotel, lodging house, or similar facility in Guam. On April 13, 2011, Hotel Occupancy Tax Revenue Bonds, 2011 Series A, were issued for the purpose of refunding the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, and funding the construction of a new Guam Museum and certain other projects that benefit Guam's tourism industry. The Capital Projects Fund is used to account for the construction of capital improvement projects from bond proceeds. The Debt Service Fund is used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

B. Fund Accounting

The accompanying financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The assets, liabilities and fund balances of the Tourist Attraction Fund and funds related to the Hotel Occupancy Tax Revenue Bonds, 2011 Series A, are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 90 days of the end of the current fiscal period. Revenues susceptible to accrual include excise taxes. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

The excise tax rate is set at eleven percent of the rental price charged or paid per occupancy per day. If the room or rooms are rented more than once within a twenty-four hour period, each time of occupancy shall be subject to the tax for such accommodations. This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Appropriations

Section 26 of Public Law 25-98 authorized the reprogramming and re-appropriation of appropriations from completed capital improvement projects. Specifically, all unexpended, un-obligated and unencumbered balances of the appropriations in Subsection (i) of Section 1505, Article 5, Chapter 1 of Title 5 of the Guam Code Annotated, were reprogrammed and re-appropriated.

E. Budgetary Process

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

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. Encumbrances outstanding at year end are reported within the fund balance classifications since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations. At September 30, 2013, significant encumbrances are summarized as follows:

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

F. Cash and Cash Equivalents

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

G. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are primarily determined based on quoted market values.

H. Receivables

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

GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Receivables/Payables

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

J. Restricted Assets

The bond indenture relating to the Hotel Occupancy Tax Revenue Bonds, 2011 Series A, requires amounts to be restricted for capital projects and set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

K. Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

L. Interfund Transactions

Operating transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

M. Management Estimates

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

N. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Tourist Attraction Fund and funds related to the Hotel Occupancy Tax Revenue Bonds, 2011 Series A, for the year ended September 30, 2012 from which summarized information was derived.

(2) Deposits and Investments

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

A. Deposits

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

As of September 30, 2013, the carrying amount of cash and cash equivalents was \$46,560,856 and the corresponding bank balances were \$46,560,856, which represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2013.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding capital projects that benefit Guam's tourism industry. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2013.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GovGuam does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of September 30, 2013, investments recorded at fair value in the amount of \$14,514,038 are classified as mutual funds.

(3) Bonds Payable

On April 13, 2011, Hotel Occupancy Tax Revenue Bonds, 2011 Series A, with varying interest rates of 1% - 6.625% per annum were issued in the amount of \$90,665,000 to advance refund \$28,095,000 of outstanding 1997 Series A bonds. Of the net proceeds of \$88,547,831 (after payment of \$2,117,169 in underwriting fees, insurance, and other issuance costs), \$28,787,786 were placed in escrow, of which \$28,095,000 were used to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the 1997 Series A limited obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements of GovGuam. This advance refunding was undertaken to extend the maturity date of outstanding debt and to provide additional proceeds to fund the construction of a new Guam Museum and other projects for the benefit of Guam's tourism industry and resulted in an economic gain of \$97,720.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(3) Bonds Payable, Continued

Minimum debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,785,000	\$ 5,214,188	\$ 6,999,188
2015	1,845,000	5,152,819	6,997,819
2016	1,920,000	5,078,625	6,998,625
2017	2,010,000	4,988,775	6,998,775
2018	2,110,000	4,885,775	6,995,775
2019 - 2023	12,465,000	22,522,201	34,987,201
2024 - 2028	13,170,000	18,551,412	31,721,412
2029 - 2033	15,080,000	14,463,176	29,543,176
2034 - 2038	20,760,000	8,784,425	29,544,425
2039 - 2041	<u>16,110,000</u>	<u>1,616,225</u>	<u>17,726,225</u>
	<u>\$ 87,255,000</u>	<u>\$ 91,257,621</u>	<u>\$ 178,512,621</u>

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

- Construction Account - amounts held in this account and the interest earnings thereon do not constitute Revenues and are not pledged to the payment of the Bonds. Amounts in the Construction Account shall be used and withdrawn solely for the payment of Infrastructure Improvement Project Costs of such Infrastructure Improvement Projects, including by (1) direct payment, or (2) payment of any debt obligations issued by GovGuam to finance Infrastructure Improvement Project Costs, or (3) repayment of any advances made from any source for such Infrastructure Improvement Project Costs. The depository shall disburse moneys in the Construction Account for the purposes of the preceding sentence only upon Requisition of GovGuam stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper and lawful charge against said fund. Upon receipt of a Certificate of GovGuam that amounts in said fund are no longer required for the purpose of said fund, said amounts shall be transferred to the Revenue Fund. The Construction Account is accounted for within the Capital Projects Fund.

At September 30, 2013, \$43,884,672 of fund balance in the Capital Projects Fund is restricted for capital projects.

All pledged revenues are to be deposited into a special account entitled the "Revenue Fund." In addition, all interest and other profit derived from investments, except those in the "Construction Account," are to be transferred monthly to the "Revenue Fund." Transactions of the "Revenue Fund" are accounted for in the Tourist Attraction Fund. On the fifth day of each month following the month the revenues are deposited, the depository is to deposit into the following funds (all accounted for within the Debt Service Fund) the specified amounts in the following order of priority:

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(3) Bonds Payable, Continued

- Bond Fund - an amount equal to the sum of (1) the aggregate amount of interest to accrue on the bonds during the then current calendar month upon all bonds then outstanding, plus (2) an amount which, if paid in equal monthly installments in each month over the semiannual or annual period prior to the next principal payment date, would aggregate to the amount of the principal becoming due and payable on the outstanding serial bonds on such principal payment date, plus (3) an amount which, if paid in equal monthly installments in each month over the semiannual or annual period prior to the next principal payment date, would aggregate to the amount of mandatory sinking fund account payments required to be paid for the outstanding term bonds on such principal payment date.

- Bond Reserve Fund - an amount, if any, needed to equal the least of (1) the maximum annual debt service, (2) 10% of the proceeds received from the sale of the bonds or (3) 125% of average annual debt service on the bonds or an amount as may be specified by supplemental indentures providing for the issuance of a series of bonds. The maximum annual debt service is defined as the sum of (1) the interest falling due on the then outstanding bonds, (2) the principal amount of the outstanding serial bonds falling due by their terms, and (3) the aggregate amount of all mandatory sinking fund payments required; all as computed for the bond year in which such sum shall be the largest. Amounts in the Bond Reserve Fund are to be used for the purpose of making up any deficiency in the Bond Fund.

During the year ended September 30, 2013, payments for debt service totaled \$6,998,363, of which \$1,740,000 represents payment on principal. A summary of the change in bonds payable is as follows:

Bonds payable at October 1, 2012	\$ 88,995,000
Principal repayment	<u>(1,740,000)</u>
Bonds payable at September 30, 2013	\$ <u>87,255,000</u>

These bonds are recorded as a liability in the government-wide financial statements of GovGuam.

Tax revenues of the Tourist Attraction Fund have been pledged to repay bond principal and interest. Total debt service for the year ended September 30, 2013 amounted to \$6,998,363, which represents 24% of 2013 tax revenues collected.

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

At September 30, 2013, GovGuam is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(4) Payments to Autonomous Agencies

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

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

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2013

(4) Payments to Autonomous Agencies, Continued

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

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

(5) Commitments

GovGuam entered into an amendment to a design-build construction contract for the reconstruction of Pale San Vitores Road in an additional amount of \$2,092,000. As of September 30, 2013, a cumulative total of \$1,710,051 in capital-related expenditures have been incurred under this contract with the remaining unliquidated contract amount of \$381,949 recorded within restricted fund balance of the Capital Projects Fund in the accompanying financial statements. During the year ended September 30, 2013, capital-related expenditures of \$373,062 were associated with this project.

Public Law 30-228 authorizes the construction of the Guam Museum and certain other projects that benefit Guam's tourism industry in the amount of \$55,609,615. During the year ended September 30, 2013, GovGuam entered into certain contracts associated with these projects in the aggregate amount of \$24,733,494 with capital-related expenditures of \$6,422,418 being incurred under these contracts. The remaining unliquidated contract amount of \$18,311,076 is recorded within restricted fund balance of the Capital Projects Fund in the accompanying financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Balance Sheets
September 30, 2013 and 2012

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Schedules of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2013 and 2012

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Schedules of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2013 and 2012

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Construction Project Status
Year Ended September 30, 2013

	Total Budget	Expenditures Year Ended September 30, 2013	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Tumon Bay Capital Projects:					
Reconstruction of Pale San Vitores Road	\$ 2,092,000	\$ 373,062	\$ 1,710,051	\$ 381,949	\$ -
Sub-Total	<u>2,092,000</u>	<u>373,062</u>	<u>1,710,051</u>	<u>381,949</u>	<u>-</u>
Task Order # 1:					
Guam and Chamorro Educational Facility	22,961,100	1,052,781	1,052,781	16,532,512	5,375,807
Architects Laguana & Cristobal - Design	2,197,000	1,888,153	2,194,381	2,619	-
RWA Consulting Fee	1,696,900	896,752	1,518,130	178,770	-
GEDA Management Fee	145,000	-	-	-	145,000
Sub-Total	<u>27,000,000</u>	<u>3,837,686</u>	<u>4,765,292</u>	<u>16,713,901</u>	<u>5,520,807</u>
Task Order # 2:					
San Vitores Flooding	11,500,000	187,666	187,666	556,144	10,756,190
Historic Hagatna Projects	1,341,000	777,495	777,495	563,505	-
Crosswalk from Skinner Plaza to Chamorro Village	300,000	-	-	-	300,000
Guam Preservation Trust Reimbursement	4,288,811	-	4,288,811	-	-
Inarajan Community Center Restoration	825,204	811,098	811,098	14,106	-
Malesso Bell Tower Restoration and Rehabilitation	400,000	-	-	-	400,000
Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation	3,900,000	348,997	348,997	131,853	3,419,150
Historic Monument and Plaza Commemorating Ferdinand Magellan's Visit to Umatac Bay	150,000	-	-	-	150,000
Design/Construction of Village Entrance Signs for 19 Municipalities	400,000	75,535	75,535	310,465	14,000
Nimitz Beach Improvements	250,000	-	-	-	250,000
Improve Public Facilities Near Fish Eye Pier	100,000	-	-	-	100,000
Mangilao Public Market Improvements	50,000	-	-	-	50,000
Tumon Bay Improvements	700,000	-	-	-	700,000
Pale San Vitores Road Streetlight Renovation	50,000	-	-	-	50,000
Agana Bay Vicinity Streetlight Renovation	35,000	-	-	-	35,000
Restoration and Repair of Scenic Byways, Overlooks, and Historic Sites	2,000,000	-	-	-	2,000,000
Design and Construction of Permanent Monument for Senator Angel Santos Park	50,000	-	-	-	50,000
Scenic and Informational Highway Signs	350,000	-	-	-	350,000
Hagatna Tennis Court Improvements	150,000	-	-	-	150,000
Hagatna Pool Improvements	150,000	-	-	-	150,000
Deposit Into Community Sports Recreational Improvement Fund	50,000	-	-	-	50,000
Primary or Supplemental Funding for Hagatna Master Plan Projects	200,000	-	-	-	200,000
RWA Consulting Fee	1,080,600	383,941	1,059,498	21,102	-
GEDA Management Fee	289,000	-	-	-	289,000
Sub-Total	<u>28,609,615</u>	<u>2,584,732</u>	<u>7,549,100</u>	<u>1,597,175</u>	<u>19,463,340</u>
	<u>\$ 57,701,615</u>	<u>\$ 6,795,480</u>	<u>\$ 14,024,443</u>	<u>\$ 18,693,025</u>	<u>\$ 24,984,147</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Other Supplementary Information
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Bond Cash and Investment Accounts:		
Bond Fund	\$ 7,316,978	\$ 6,454,531
Bond Reserve Fund	4,857,500	4,857,500
Construction Account	46,117,080	51,077,724
Revenue Fund	2,534,759	2,322,774
Surplus Fund	<u>248,577</u>	<u>11,082</u>
	<u>\$ 61,074,894</u>	<u>\$ 64,723,611</u>

See accompanying independent auditors' report.

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

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 Series A (the Funds) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2013-1 to be material weaknesses.

Compliance and Other Matters

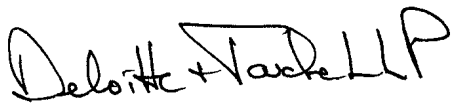
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

Tourist Attraction Fund's Response to Finding

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

Purpose of this Report

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

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

March 31, 2014

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

Finding No. 2013-1

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

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

Finding No. 2013-1, Continued

Recommendations:

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

Auditee Response and Corrective Action Plan:

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