

**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, 2016

GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND

Year Ended September 30, 2016
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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, 2016, 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 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, 2016, 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

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, the Government of Guam adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Tourist Attraction Fund and of those funds related to the Government of Guam Hotel Occupancy Tax Revenue Bonds, 2011 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 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.

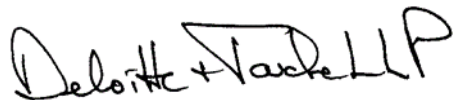
Other Information

Our audit was 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 20 through 22, the schedule of expenditures by department by object on pages 23 through 27, and the schedule of construction project status on page 28 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, and the schedule of construction project status 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, and the schedule of construction project status 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 27, 2017, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over 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, stylized font.

March 27, 2017

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis
Year Ended September 30, 2016

Our discussion and analysis of the Government of Guam's ("GovGuam") Tourist Attraction Fund financial performance and those funds related to the GovGuam Hotel Occupancy Tax Revenue Bonds, 2011 Series A, provides an overview of financial activities for the fiscal years ended September 30, 2016 and 2015. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2016, total fund balance decreased by \$11,614,902 (or 28.5%) from an ending fund balance of \$40,730,683 in 2015 to \$29,115,781 in 2016.
- During the years ended September 30, 2016 and 2015, total combined expenditures for governmental fund operations were \$52,558,406 and \$52,174,619, respectively, including expenditures relating to payments to the Guam Visitor's Bureau of \$26,500,346 and \$24,272,754, respectively; debt service requirements of \$6,998,625 and \$6,997,819, respectively; and capital-related expenditures of \$8,020,718 and \$12,565,807, respectively. These expenditures were funded, in part, by Hotel Occupancy Tax revenue collections during the years ended September 30, 2016 and 2015 of \$40,864,063 and \$36,988,454, respectively, with the remainder funded by residual bond proceeds.
- Total combined expenditures marginally increased by \$383,787 (or 0.7%) from 2015 to 2016 due primarily to an increase of \$2,227,592 for payments to the Guam Visitors Bureau; an increase of \$1,081,987 for operational start-up costs for the new Guam Museum; and an increase of \$2,896,159 for operational expenditures of the Department of Parks and Recreation offset by a decrease of \$4,545,089 for capital-related expenditures associated with the construction of the Guam Museum and other tourism-related projects; and a decrease of \$1,584,510 in transfers of excess revenues to the Hotel Occupancy Tax Surplus Fund. Total combined revenues increased by \$3,987,036 (or 10.8%) from \$36,956,468 in 2015 to \$40,943,504 in 2016 due primarily to increases in hotel occupancy tax collections.
- During the years ended September 30, 2016 and 2015, the Tourist Attraction Fund generated operating surpluses before transfers out to the Debt Service Fund of \$3,341,333 and \$4,394,163, respectively.

2. Overview of the Financial Statements

The financial statements include all of the activities of the Tourist Attraction Fund and of those funds related to the GovGuam 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.

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, 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, 2016

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, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets:		
Investments	\$ 5,900,271	\$ 5,527,042
Tax receivables	3,587,920	3,361,774
Restricted assets	<u>28,929,829</u>	<u>38,336,497</u>
Total Assets	<u>\$ 38,418,020</u>	<u>\$ 47,225,313</u>
Liabilities:		
Accounts payable and other Due to General Fund	\$ 1,663,385	\$ 3,327,596
	<u>7,638,854</u>	<u>3,167,034</u>
Total Liabilities	<u>9,302,239</u>	<u>6,494,630</u>
Fund Balances:		
Restricted	27,294,514	35,289,672
Committed	<u>1,821,267</u>	<u>5,441,011</u>
Total Fund Balances	<u>29,115,781</u>	<u>40,730,683</u>
Total Liabilities and Fund Balances	<u>\$ 38,418,020</u>	<u>\$ 47,225,313</u>

Total assets decreased by \$8,807,293 (or 18.6%) from \$47,225,313 in 2015 to \$38,418,020 in 2016. This decrease was primarily the result of a decrease in restricted assets of \$9,359,362 for capital-related expenditures. Total liabilities increased by \$2,807,609 (or 43.2%) from \$6,494,630 in 2015 to \$9,302,239 in 2016. This increase was primarily the result of an increase in amounts payable to the General Fund of \$4,465,081 for expenditures paid by the General Fund on behalf of the Tourist Attraction Fund offset by a decrease in accounts payable of \$1,418,249 for capital-related expenditures associated with the construction of the Guam Museum and other tourism-related projects. Total fund balances decreased by \$11,614,902 (or 28.5%) during 2016 from \$40,730,683 to \$29,115,781. 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, 2016

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, expenses and changes in fund balances for the years ended September 30, 2016 and 2015 are summarized as follows.

	<u>2016</u>	<u>2015</u>
Revenues:		
Hotel occupancy tax	\$ 40,864,063	\$ 36,988,454
Use of money and property	<u>79,441</u>	<u>(31,986)</u>
Total Revenues	<u>40,943,504</u>	<u>36,956,468</u>
Expenditures:		
Current:		
General government	23,360	34,702
Community service	-	44,000
Environmental protection	47,541	50,904
Individual collective rights	3,144,092	2,242,074
Protection of life and property	1,140,175	2,113,904
Recreation	3,596,206	700,047
Economic development	341,248	-
Payments to autonomous agencies	26,724,500	24,936,908
Transfers to Guam Museum Fund	1,081,987	-
Transfers to HOT Surplus Fund	903,944	2,488,454
Capital projects	8,020,718	12,565,807
Debt service	<u>6,998,625</u>	<u>6,997,819</u>
Total Expenditures	<u>52,558,406</u>	<u>52,174,619</u>
Net Change in Fund Balances	\$ <u>(11,614,902)</u>	\$ <u>(15,218,151)</u>

Total revenues collected from hotel occupancy taxes increased by \$3,875,609 (or 10.5%) from \$36,988,454 in 2015 to \$40,864,063 in 2016. The increase was primarily due to an incremental increase in tourist arrivals coupled with an increase in hotel room rates.

Total expenditures increased marginally by \$383,787 (or 0.7%) from \$52,174,619 in 2015 to \$52,558,406 in 2016. The increase was primarily due to an increase of \$2,227,592 for payments to the Guam Visitors Bureau; an increase of \$1,081,987 for operational start-up costs for the new Guam Museum; and an increase of \$2,896,159 for operational expenditures of the Department of Parks and Recreation offset by a decrease of \$4,545,089 for capital-related expenditures associated with the construction of the Guam Museum and other tourism-related projects; and a decrease of \$1,584,510 in transfers of excess revenues to the Hotel Occupancy Tax Surplus Fund.

4. Capital Assets

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. Capital-related expenditures amounted to \$8,020,718 in 2016 compared with \$12,565,807 in 2015. Outstanding commitments under executed contracts aggregate \$2,091,227.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2016

5. Long-Term Debt

In April 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. 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 ground breaking for the Guam Museum occurred in February 2013 and was officially opened on November 4, 2016. Efforts by the Guam Visitors Bureau (GVB) to diversify continue to be clearly apparent in 2015 and 2016, with the Korean market now a strong number two market representing 34% and 28% of total arrivals to Guam in 2016 and 2015, respectively. The total visitor arrivals for FY 2016 were 1,510,899 with FY 2017 forecasted to increase to 1,570,000 (or 4%), translating to 60,000 additional visitors. Japan arrivals will continue to decline with the decrease of air service from Osaka and Nagoya. This decrease will be offset by the continued growth in the Korean market as well as the Philippines and Hong Kong markets. Driven by this demand, hotels are performing well in 2016 with overall hotel occupancy at 80% and average daily room rate of \$199. In order for arrivals to continue to grow, additional room inventory is needed.

GVB's hotel occupancy tax projection for FY 2017 is \$41,502,455, which is a conservative 1.6% increase over the previous year. This will be achieved by the projected increase in arrivals coupled with the steady increase of Guam's average daily hotel room rate.

In addition to all the efforts to market Guam internationally, the GVB Board is committed to improving the destination through the completion of the Tumon Bay Improvement Plan, the completion of the Pale San Vitores Streetlight Repair and Restoration project, and the installation of the new bus shelters.

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 the finances of the Tourist Attraction 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: 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, 2016

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Investments	\$ 5,900,271	\$ -	\$ -	\$ 5,900,271
Restricted assets:				
Cash and cash equivalents	-	113,234	1,616,000	1,729,234
Investments	-	16,579,465	10,621,130	27,200,595
Taxes receivable	3,587,920	-	-	3,587,920
Total assets	\$ 9,488,191	\$ 16,692,699	\$ 12,237,130	\$ 38,418,020
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 610,002	\$ -	\$ 610,002
Retention payable	-	941,580	-	941,580
Accrued payroll and other	111,803	-	-	111,803
Due to General Fund	7,555,121	83,733	-	7,638,854
	7,666,924	1,635,315	-	9,302,239
Commitments				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	-	15,057,384	-	15,057,384
Debt service	-	-	12,237,130	12,237,130
Committed for:				
Tourism	1,821,267	-	-	1,821,267
Total fund balances	1,821,267	15,057,384	12,237,130	29,115,781
Total liabilities and fund balances	\$ 9,488,191	\$ 16,692,699	\$ 12,237,130	\$ 38,418,020

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, 2016

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 40,864,063	\$ -	\$ -	\$ 40,864,063
Use of money and property	3,381	72,866	3,194	79,441
Total revenues	<u>40,867,444</u>	<u>72,866</u>	<u>3,194</u>	<u>40,943,504</u>
Expenditures:				
Current:				
General government	10,408	-	12,952	23,360
Individual collective rights	3,144,092	-	-	3,144,092
Protection of life and property	1,140,175	-	-	1,140,175
Public education	536,010	-	-	536,010
Environmental protection	47,541	-	-	47,541
Recreation	3,596,206	-	-	3,596,206
Economic development	341,248	-	-	341,248
Payments to Guam Museum Fund	1,081,987	-	-	1,081,987
Payments to Guam Visitors Bureau	26,500,346	-	-	26,500,346
Payments to University of Guam	200,000	-	-	200,000
Payments to Guam Community College	24,154	-	-	24,154
Payments to HOT Surplus Fund	903,944	-	-	903,944
Capital projects	-	8,020,718	-	8,020,718
Debt service:				
Principal	-	-	1,920,000	1,920,000
Interest	-	-	5,078,625	5,078,625
Total expenditures	<u>37,526,111</u>	<u>8,020,718</u>	<u>7,011,577</u>	<u>52,558,406</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,341,333</u>	<u>(7,947,852)</u>	<u>(7,008,383)</u>	<u>(11,614,902)</u>
Other financing sources (uses):				
Operating transfers in	-	-	6,961,077	6,961,077
Operating transfers out	(6,961,077)	-	-	(6,961,077)
Total other financing sources (uses)	<u>(6,961,077)</u>	<u>-</u>	<u>6,961,077</u>	<u>-</u>
Net change in fund balances	(3,619,744)	(7,947,852)	(47,306)	(11,614,902)
Fund balances at the beginning of the year	<u>5,441,011</u>	<u>23,005,236</u>	<u>12,284,436</u>	<u>40,730,683</u>
Fund balances at the end of the year	<u>\$ 1,821,267</u>	<u>\$ 15,057,384</u>	<u>\$ 12,237,130</u>	<u>\$ 29,115,781</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2016

(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.

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 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.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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.

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, 2016, significant encumbrances are summarized as follows:

Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
\$ <u>718,333</u>	\$ <u>2,091,227</u>	\$ <u> -</u>	\$ <u>2,809,560</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 of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

H. Receivables

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

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. At September 30, 2016, interfund balances are as follows:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Due to General Fund	\$ <u>7,555,121</u>	\$ <u>83,733</u>	\$ <u>-</u>	\$ <u>7,638,854</u>

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:

- 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.

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.

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, 2016

(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, 2015 from which summarized information was derived.

O. New Accounting Standards

During the year ended September 30, 2016, GovGuam implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

(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.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2016, the carrying amount of cash and cash equivalents was \$1,729,234, which represents short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2016.

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, 2016.

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, 2016, investments are classified as follows:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Investments:				
Mutual funds	\$ 5,900,271	\$ 16,579,465	\$ 8,419,130	\$ 30,898,866
Fixed income securities	-	-	<u>2,202,000</u>	<u>2,202,000</u>
	<u>\$ 5,900,271</u>	<u>\$ 16,579,465</u>	<u>\$ 10,621,130</u>	<u>\$ 33,100,866</u>

As of September 30, 2016, investments in debt securities were as follows:

	Credit Rating	Less Than 1	<u>Investment Maturities (In Years)</u>			Total
			<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
Fixed income:						
Federal Home Loan Bank	AA	<u>\$ 2,202,000</u>	-	-	-	<u>\$ 2,202,000</u>

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

GovGuam categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following table sets forth by fair value hierarchy level assets carried at fair value:

	Total	<u>Fair Value Measurements Using</u>		
		Quoted Prices		
		In Active	Significant	
		Markets for	Other	Significant
		Identical	Observable	Unobservable
	Assets	Inputs	Inputs	
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
Investments by fair value level:				
Federal National Mortgage Association	\$ 515,000	\$ -	\$ 515,000	\$ -
Federal Home Loan Bank	2,936,000	-	2,936,000	-
Federal Farm Credit Banks Funding Corporation	<u>367,000</u>	<u>-</u>	<u>367,000</u>	<u>-</u>
U.S. Government agencies	3,818,000	<u>\$ -</u>	<u>\$ 3,818,000</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV):				
Mutual funds	30,898,866			
Investments measured at amortized cost:				
Money market investments	<u>113,234</u>			
	<u>\$ 34,830,100</u>			

Included in the preceding schedule is \$1,729,234 of money market and fixed income investments which are classified as cash equivalents in the accompanying financial statements.

(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, 2016

(3) Bonds Payable, Continued

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,010,000	\$ 4,988,775	\$ 6,998,775
2018	2,110,000	4,885,775	6,995,775
2019	2,220,000	4,774,750	6,994,750
2020	2,345,000	4,651,988	6,996,988
2021	2,480,000	4,516,200	6,996,200
2022 - 2026	13,740,000	20,164,588	33,904,588
2027 - 2031	13,335,000	16,206,816	29,541,816
2032 - 2036	18,235,000	11,310,022	29,545,022
2036 - 2040	<u>25,230,000</u>	<u>4,316,075</u>	<u>29,546,075</u>
	<u>\$ 81,705,000</u>	<u>\$ 75,811,989</u>	<u>\$ 157,519,989</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, 2016, \$15,057,384 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, 2016

(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, 2016, payments for debt service totaled \$6,998,625, of which \$1,920,000 represents payment on principal. A summary of the change in bonds payable is as follows:

Bonds payable at October 1, 2015	\$ 83,625,000
Principal repayment	<u>(1,920,000)</u>
Bonds payable at September 30, 2016	\$ <u>81,705,000</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, 2016 amounted to \$6,998,625, which represents 17% of 2016 tax revenues collected. During the year ended September 30, 2016, total transfers from the Tourist Attraction Fund to the Debt Service Fund amounted to \$6,961,077.

At September 30, 2016, \$12,237,130 of fund balance in the Debt Service Fund is restricted for debt service purposes.

At September 30, 2016, GovGuam is of the opinion that it is in compliance with bond covenants outlined in the bond indenture.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2016

(4) Payments to Autonomous Agencies

Public Laws 33-066, 33-089, 33-112 and 33-150 authorize the general appropriation for operations of the Guam Visitors Bureau (GVB) as well as other miscellaneous appropriations to be administered by GVB. During the year ended September 30, 2016, total appropriations made to GVB from the Tourist Attraction Fund were as follows:

Operations:	
Marketing	\$ 15,122,966
General Administration	3,305,000
Destination development	1,316,376
Visitor safety and satisfaction	1,021,250
Sports and events	913,750
Cultural heritage and community outreach	856,250
Research	<u>633,600</u>
	<u>23,169,192</u>
Capital Improvements:	
Humatak Bridge	<u>95,654</u>
Restricted:	
Festival of Pacific Arts	2,030,000
Cultural Sports and Ambassador Fund	230,000
Rainy Day Fund	<u>200,000</u>
	<u>2,460,000</u>
Pass-through to various non-profit organizations:	
Amot Taotao Tano Farm	25,000
Ayuda Foundation	15,000
Breaking the Cycle	3,750
Duk Duk Goose	50,000
Guafi Inc	25,000
Guam Humanities Council	20,000
Guam International Film Festival	57,500
Guam Symphony Society	28,750
Guam Unique Merchandise and Arts	25,000
Guam Veterans Affairs	37,500
Haya Cultural Preservation Foundation	47,250
Historic Inalahan Foundation	25,000
Humatak Foundation	82,500
Hurao Academy	50,000
Inetnon Gefpa'go Cultural Arts Program	25,000
Micronesia Chefs Association	3,750
Micronesia Cruise Association	57,500
Mister Guam	5,000
Pa'a Taotao Tano	50,000
Pacific War Museum Foundation	57,500
Tourism Education Council	34,500
Traditions Affirming our Seafaring Ancestry	25,000
Traditions Affirming Seafaring Islands	<u>25,000</u>
	<u>775,500</u>
	\$ <u>26,500,346</u>

GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND

Notes to Financial Statements
September 30, 2016

(4) Payments to Autonomous Agencies, Continued

Public Law 32-068 created the Hotel Occupancy Tax (HOT) Surplus Fund authorizing the transfer of revenue collections in excess of the revenue budget. During the year ended September 30, 2016, total transfers made to the HOT Surplus Fund amounted to \$903,944.

Public Laws 32-181 and 33-066 authorize appropriations to the Guam Museum Fund for the purpose of funding operational start-up costs of the Guam Museum. During the year ended September 30, 2016, total transfers made to the Guam Museum Fund amounted to \$1,081,987.

Public Law 33-066 authorizes an appropriation to the Guam Community College (GCC) for the Lodging Management Program/Prostart Program in the amount of \$24,154. During the year ended September 30, 2016, total appropriations made to GCC for the Lodging Management Program/Prostart Program amounted to \$24,154.

Public Law 33-066 authorizes an appropriation to the University of Guam (UOG) for the operations and programs of the Guampedia Foundation in the amount of \$200,000.

(5) Commitments

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. GovGuam has entered into certain contracts associated with these projects with capital-related expenditures of \$8,020,718 being incurred under these contracts during the year ended September 30, 2016. The remaining unliquidated contract amount of \$2,091,227 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, 2016 and 2015

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2016	2015	2016	2015	2016	2015
<u>ASSETS</u>						
Investments	\$ 5,900,271	\$ 5,527,042	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	-	-	113,234	11,474,619	1,616,000	4,928,359
Investments	-	-	16,579,465	14,577,442	10,621,130	7,356,077
Taxes receivable	3,587,920	3,361,774	-	-	-	-
Total assets	\$ 9,488,191	\$ 8,888,816	\$ 16,692,699	\$ 26,052,061	\$ 12,237,130	\$ 12,284,436
<u>LIABILITIES</u>						
Accounts payable	\$ -	\$ -	\$ 610,002	\$ 1,685,796	\$ -	\$ -
Retention payable	-	-	941,580	1,284,035	-	-
Accrued payroll and other	111,803	357,765	-	-	-	-
Due to General Fund	7,555,121	3,090,040	83,733	76,994	-	-
Total liabilities	7,666,924	3,447,805	1,635,315	3,046,825	-	-
<u>FUND BALANCES</u>						
Fund balances:						
Restricted for:						
Capital projects	-	-	15,057,384	23,005,236	-	-
Debt service	-	-	-	-	12,237,130	12,284,436
Committed for:						
Tourism	1,821,267	5,441,011	-	-	-	-
Total fund balances	1,821,267	5,441,011	15,057,384	23,005,236	12,237,130	12,284,436
Total liabilities and fund balances	\$ 9,488,191	\$ 8,888,816	\$ 16,692,699	\$ 26,052,061	\$ 12,237,130	\$ 12,284,436

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, 2016 and 2015

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2016	2015	2016	2015	2016	2015
Revenues:						
Taxes	\$ 40,864,063	\$ 36,988,454	\$ -	\$ -	\$ -	\$ -
Use of money and property	3,381	-	72,866	(33,029)	3,194	1,043
Total revenues	<u>40,867,444</u>	<u>36,988,454</u>	<u>72,866</u>	<u>(33,029)</u>	<u>3,194</u>	<u>1,043</u>
Expenditures:						
Current:						
General government	10,408	18,000	-	-	12,952	16,702
Community services	-	44,000	-	-	-	-
Individual and collective rights	3,144,092	2,242,074	-	-	-	-
Protection of life and property	1,140,175	2,113,904	-	-	-	-
Public education	536,010	-	-	-	-	-
Environmental protection	47,541	50,904	-	-	-	-
Recreation	3,596,206	700,047	-	-	-	-
Economic development	341,248	-	-	-	-	-
Payments to Guam Museum Fund	1,081,987	-	-	-	-	-
Payments to Guam Visitors Bureau	26,500,346	24,272,754	-	-	-	-
Payments to University of Guam	200,000	640,000	-	-	-	-
Payments to Guam Community College	24,154	24,154	-	-	-	-
Payments to HOT Surplus Fund	903,944	2,488,454	-	-	-	-
Capital projects	-	-	8,020,718	12,565,807	-	-
Debt service:						
Principal	-	-	-	-	1,920,000	1,845,000
Interest	-	-	-	-	5,078,625	5,152,819
Total expenditures	<u>37,526,111</u>	<u>32,594,291</u>	<u>8,020,718</u>	<u>12,565,807</u>	<u>7,011,577</u>	<u>7,014,521</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,341,333</u>	<u>4,394,163</u>	<u>(7,947,852)</u>	<u>(12,598,836)</u>	<u>(7,008,383)</u>	<u>(7,013,478)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	6,961,077	7,023,939
Operating transfers out	(6,961,077)	(7,023,939)	-	-	-	-
Total other financing sources (uses), net	<u>(6,961,077)</u>	<u>(7,023,939)</u>	<u>-</u>	<u>-</u>	<u>6,961,077</u>	<u>7,023,939</u>
Net change in fund balances	<u>(3,619,744)</u>	<u>(2,629,776)</u>	<u>(7,947,852)</u>	<u>(12,598,836)</u>	<u>(47,306)</u>	<u>10,461</u>
Fund balances at the beginning of the year	<u>5,441,011</u>	<u>8,070,787</u>	<u>23,005,236</u>	<u>35,604,072</u>	<u>12,284,436</u>	<u>12,273,975</u>
Fund balances at the end of the year	<u>\$ 1,821,267</u>	<u>\$ 5,441,011</u>	<u>\$ 15,057,384</u>	<u>\$ 23,005,236</u>	<u>\$ 12,237,130</u>	<u>\$ 12,284,436</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, 2016 and 2015

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2016	2015	2016	2015	2016	2015
Revenues:						
Taxes	\$ 40,864,063	\$ 36,988,454	\$ -	\$ -	\$ -	\$ -
Use of money and property	3,381	-	72,866	(33,029)	3,194	1,043
Total revenues	<u>40,867,444</u>	<u>36,988,454</u>	<u>72,866</u>	<u>(33,029)</u>	<u>3,194</u>	<u>1,043</u>
Expenditures:						
Salaries and wages - regular	2,888,299	477,395	-	-	-	-
Salaries and wages - overtime	808,229	1,506,972	-	-	-	-
Salaries and wages - fringe benefits	1,159,244	346,544	-	-	-	-
Travel	68,525	45,328	-	-	-	-
Contractual services	793,155	735,064	1,711,931	2,211,384	-	-
Building rent	113,034	-	-	-	-	-
Supplies	755,224	666,412	-	-	-	-
Equipment	191,248	38,497	-	-	-	-
Grants and subsidies	28,710,431	27,425,362	-	-	-	-
Utilities - power and water	1,609,942	1,139,792	-	-	-	-
Communications	108,123	1,237	-	-	-	-
Capital outlays	159,584	66,949	6,308,787	10,354,423	-	-
Principal retirement	-	-	-	-	1,920,000	1,845,000
Interest and fiscal charges	-	-	-	-	5,078,625	5,152,819
Miscellaneous	161,073	144,739	-	-	12,952	16,702
Total expenditures	<u>37,526,111</u>	<u>32,594,291</u>	<u>8,020,718</u>	<u>12,565,807</u>	<u>7,011,577</u>	<u>7,014,521</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,341,333</u>	<u>4,394,163</u>	<u>(7,947,852)</u>	<u>(12,598,836)</u>	<u>(7,008,383)</u>	<u>(7,013,478)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	6,961,077	7,023,939
Operating transfers out	(6,961,077)	(7,023,939)	-	-	-	-
Total other financing sources (uses), net	<u>(6,961,077)</u>	<u>(7,023,939)</u>	<u>-</u>	<u>-</u>	<u>6,961,077</u>	<u>7,023,939</u>
Net change in fund balances	<u>(3,619,744)</u>	<u>(2,629,776)</u>	<u>(7,947,852)</u>	<u>(12,598,836)</u>	<u>(47,306)</u>	<u>10,461</u>
Fund balances at the beginning of the year	<u>5,441,011</u>	<u>8,070,787</u>	<u>23,005,236</u>	<u>35,604,072</u>	<u>12,284,436</u>	<u>12,273,975</u>
Fund balances at the end of the year	<u>\$ 1,821,267</u>	<u>\$ 5,441,011</u>	<u>\$ 15,057,384</u>	<u>\$ 23,005,236</u>	<u>\$ 12,237,130</u>	<u>\$ 12,284,436</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2016 and 2015

	2016	2015
Office of I Maga'lahaen Guahan:		
Office of Veteran's Affairs:		
Contractual services	\$ 10,157	\$ -
Supplies	251	-
Total Office of I Maga'lahaen Guahan	10,408	-
Department of Administration:		
Division of Accounts:		
Contractual services	-	18,000
Principal retirement	1,920,000	1,845,000
Interest and fiscal charges	5,078,625	5,152,819
Miscellaneous	12,952	16,702
Total Department of Administration	7,011,577	7,032,521
Department of Public Works:		
Festpac:		
Salaries and wages - regular	15,382	-
Salaries and wages - overtime	382,072	-
Salaries and wages - fringe benefits	75,915	-
Supplies	22,806	-
Utilities - power and water	39,835	-
Total Department of Public Works	536,010	-
Customs and Quarantine Agency:		
Office of the Director:		
Contractual services	65,429	-
Equipment	34,385	-
Total Customs and Quarantine Agency	99,814	-
Guam Fire Department:		
Festpac:		
Salaries and wages - regular	9,979	-
Salaries and wages - overtime	107,172	-
Salaries and wages - fringe benefits	10,896	-
Total Guam Fire Department	128,047	-
Guam Police Department:		
Tumon-Tamuning Precinct:		
Salaries and wages - regular	168,206	114,893
Salaries and wages - overtime	-	2,001
Salaries and wages - fringe benefits	54,097	35,631
Contractual services	1,566	19,211
Supplies	34,564	905
Equipment	42,697	5,104
Capital outlays	73,394	-
Miscellaneous	-	1,400
	374,524	179,145
Overtime Compensation:		
Salaries and wages - regular	617	110,225
Salaries and wages - overtime	154	932,809
Salaries and wages - fringe benefits	253	108,091
	1,024	1,151,125
Festpac:		
Salaries and wages - regular	157,605	-
Salaries and wages - overtime	296,577	-
Salaries and wages - fringe benefits	82,584	-
	536,766	-
Total Guam Police Department	912,314	1,330,270
Department of Agriculture:		
Invasive Species:		
Salaries and wages - regular	47,464	-
Salaries and wages - overtime	19,259	-
Salaries and wages - fringe benefits	19,776	-
Contractual services	7,611	-
Supplies	7,914	-
Utilities - power and water	131,344	-
Communications	4,864	-
	238,232	-

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Department of Agriculture, Continued:		
Animal Control:		
Salaries and wages - regular	41,767	-
Salaries and wages - overtime	2,995	-
Salaries and wages - fringe benefits	14,667	-
Contractual services	2,699	-
Supplies	11,907	-
Equipment	9,381	-
Capital outlays	19,600	-
	<u>103,016</u>	<u>-</u>
Total Department of Agriculture	<u>341,248</u>	<u>-</u>
Department of Corrections:		
Overtime Compensation:		
Salaries and wages - regular	-	76,005
Salaries and wages - overtime	-	572,162
Salaries and wages - fringe benefits	-	135,469
Total Department of Corrections	<u>-</u>	<u>783,636</u>
Guam Environmental Protection Agency:		
Beach Monitoring:		
Salaries and wages - regular	28,550	26,172
Salaries and wages - fringe benefits	10,174	9,667
Supplies	8,817	15,065
Total Guam Environmental Protection Agency	<u>47,541</u>	<u>50,904</u>
Department of Parks and Recreation:		
Office of the Director:		
Salaries and wages - regular	394,408	-
Salaries and wages - fringe benefits	155,516	-
Contractual services	17,289	-
Utilities - power and water	188,295	-
Communications	23,120	-
	<u>778,628</u>	<u>-</u>
Maintenance and Repair of Public Restrooms:		
Contractual services	310,888	359,014
Supplies	10,167	122,600
Utilities - power and water	379,177	218,433
	<u>700,232</u>	<u>700,047</u>
Memorial Services:		
Salaries and wages - regular	28,205	-
Salaries and wages - fringe benefits	15,536	-
	<u>43,741</u>	<u>-</u>
Community Programs:		
Salaries and wages - regular	238,049	-
Salaries and wages - fringe benefits	70,003	-
	<u>308,052</u>	<u>-</u>
Pool and Beach:		
Salaries and wages - regular	243,995	-
Salaries and wages - fringe benefits	96,266	-
	<u>340,261</u>	<u>-</u>
Paseo Stadium		
Salaries and wages - regular	36,043	-
Salaries and wages - fringe benefits	14,523	-
	<u>50,566</u>	<u>-</u>
Parks Administration and Planning:		
Salaries and wages - regular	59,996	-
Salaries and wages - fringe benefits	22,418	-
	<u>82,414</u>	<u>-</u>
Historic Preservation Division:		
Salaries and wages - regular	216,788	-
Salaries and wages - fringe benefits	76,522	-
	<u>293,310</u>	<u>-</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Department of Parks and Recreation, Continued:		
Parks Maintenance:		
Salaries and wages - regular	567,721	-
Salaries and wages - fringe benefits	214,931	-
	782,652	-
Territorial Park Protection:		
Salaries and wages - regular	162,491	-
Salaries and wages - fringe benefits	53,859	-
	216,350	-
Total Department of Parks and Recreation	3,596,206	700,047
Mayors' Council of Guam:		
Operations:		
Salaries and wages - regular	471,033	150,101
Salaries and wages - fringe benefits	171,307	57,687
Travel	31,907	23,506
Contractual services	26,266	71,575
Building rent	113,034	-
Supplies	34,006	26,174
Equipment	29,678	1,460
Utilities - power and water	871,291	921,358
Communications	77,801	-
Capital outlays	49,736	2,000
Miscellaneous	13,572	10,008
	1,889,631	1,263,869
Island-wide Village Beautification:		
Contractual services	130,533	88,312
Supplies	222,802	149,254
Equipment	22,712	15,056
Capital outlays	-	11,900
	376,047	264,522
Village Street Maintenance and Beautification:		
Travel	36,618	17,886
Contractual services	218,468	178,952
Supplies	401,990	352,412
Equipment	52,395	16,877
Communications	2,338	1,237
Capital outlays	16,854	53,049
Miscellaneous	101,461	86,940
	830,124	707,353
Total Mayors' Council of Guam	3,095,802	2,235,744
Council on the Arts and Humanities:		
Guam Territorial Band:		
Miscellaneous	48,290	50,328
Guam Museum:		
Contractual services	1,329,152	1,421,194
Capital outlays	5,507,806	6,116,366
Total Guam Museum	6,836,958	7,537,560
San Vitores Flooding:		
Contractual services	299,039	567,868
Hagatna Pool Improvements:		
Contractual services	-	1,804
Capital outlays	58,906	143,944
Total Hagatna Pool Improvements	58,906	145,748
Hagatna Tennis Court Improvements:		
Contractual services	-	1,804
Capital outlays	-	155,450
Total Hagatna Tennis Court Improvements	-	157,254
Historic Hagatna Projects:		
Contractual services	-	16,838
Hagatna Master Plan:		
Capital outlays	-	200,000
See accompanying independent auditors' report.		

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Crosswalk from Skinner Plaza to Chamorro Village:		
Contractual services	55,663	3,608
Capital outlays	100,264	-
Total Crosswalk from Skinner Plaza to Chamorro Village	<u>155,927</u>	<u>3,608</u>
Inarajan Community Center Restoration:		
Contractual services	115	10,825
Malesso Bell Tower Restoration and Rehabilitation:		
Contractual services	14,583	18,215
Capital outlays	276,652	-
Total Malesso Bell Tower Restoration and Rehabilitation	<u>291,235</u>	<u>18,215</u>
Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation:		
Contractual services	-	58,938
Capital outlays	215,149	2,499,960
Total Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation	<u>215,149</u>	<u>2,558,898</u>
Historic Monument and Plaza Commemorating Ferdinand Magellan's Visit to Umatac Bay:		
Contractual services	4,290	22,549
Capital outlays	150,010	-
Total Historic Monument and Plaza Commemorating Ferdinand Magellan's Visit to Umatac Bay:	<u>154,300</u>	<u>22,549</u>
Design/Construction of Village Entrance Signs:		
Contractual services	-	4,812
Capital outlays	-	289,561
Total Design/Construction of Village Entrance Signs	<u>-</u>	<u>294,373</u>
Scenic and Informational Highway Signs:		
Contractual services	-	4,209
Nimitz Beach Improvements:		
Contractual services	-	3,008
Capital outlays	-	265,308
Total Nimitz Beach Improvements	<u>-</u>	<u>268,316</u>
Improve Public Facilities Near Fish Eye Pier:		
Contractual services	-	1,203
Capital outlays	-	67,835
Total Improve Public Facilities Near Fish Eye Pier	<u>-</u>	<u>69,038</u>
Mangilao Public Market Improvements:		
Contractual services	-	26,043
Tumon Bay Improvements:		
Contractual services	9,089	8,419
Public Park at Faifai and Gognga:		
Contractual services	-	14,374
Renovation of Agana Bay Streetlights:		
Contractual services	-	421
Renovation of Pale San Vitores Streetlights:		
Contractual services	-	601
Restoration and Repair of Scenic Byways, Overlooks, and Historic Sites:		
Contractual services	-	24,051
Capital outlays	-	415,000
Total Repair of Scenic Byways, Overlooks, and Historic Sites	<u>-</u>	<u>439,051</u>
Senator Angel LG Santos Park:		
Contractual services	-	601
Capital outlays	-	200,998
Total Senator Angel LG Santos Park	<u>-</u>	<u>201,599</u>
Guam Museum Fund:		
Grants and subsidies	1,081,987	-
Guam Visitors Bureau:		
Grants and subsidies	26,500,346	24,272,754
University of Guam:		
Grants and subsidies	200,000	640,000
See accompanying independent auditors' report.		

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Guam Community College:		
Grants and subsidies	<u>24,154</u>	<u>24,154</u>
HOT Surplus Fund:		
Grants and subsidies	<u>903,944</u>	<u>2,488,454</u>
	<u>\$ 52,558,406</u>	<u>\$ 52,174,619</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Construction Project Status
Year Ended September 30, 2016

	Expenditures				
	Total Budget	Year Ended September 30, 2016	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Tumon Bay Capital Projects:					
Reconstruction of Pale San Vitores Road	\$ 3,476,119	\$ -	\$ 3,343,249	\$ 91,949	\$ 40,921
Sub-Total	<u>3,476,119</u>	<u>-</u>	<u>3,343,249</u>	<u>91,949</u>	<u>40,921</u>
Development of the Guam and Chamorro Educational Facility:					
GEDA - RW Armstrong Consulting Fee	2,866,286	-	2,866,286	-	-
Sub-Total	<u>2,866,286</u>	<u>-</u>	<u>2,866,286</u>	<u>-</u>	<u>-</u>
GEDA Projects:					
Guam and Chamorro Educational Facility	25,303,102	6,836,958	23,574,128	1,638,559	90,415
Historic Hagatna Projects	1,390,137	-	1,367,837	282	22,018
Crosswalk from Skinner Plaza to Chamorro Village	256,509	155,927	198,410	-	58,099
Inarajan Community Center Restoration	839,987	116	836,618	3,369	-
Malesso Bell Tower Restoration and Rehabilitation	362,013	291,235	362,013	366	(366)
Design/Construction of Guam Farmer's Cooperative Association Facility and Dededo Flea Market Relocation	3,781,097	215,149	3,775,383	-	5,714
Design/Construction of Village Entrance Signs for 19 Municipalities	428,998	-	427,998	-	1,000
Tumon Bay Improvements	608,523	9,089	53,782	182,659	372,082
Pale San Vitores Road Streetlight Renovation	601	-	601	-	-
Primary or Supplemental Funding for Hagatna Master Plan Projects	200,000	-	200,000	-	-
Other HOT Bond projects	11,678,803	-	-	-	11,678,803
San Vitores Flooding	10,922,071	299,038	1,457,356	174,043	9,290,672
Historic Monument and Plaza					
Commemorating Ferdinand Magellan's Visit to Umatac Bay	188,254	154,300	188,254	-	-
Improve Public Facilities Near Fish Eye Pier	128,821	-	128,821	-	-
Mangilao Public Market Improvements	52,466	-	52,466	-	-
Agana Bay Vicinity Streetlight Renovation	421	-	421	-	-
Restoration and Repair of Scenic Byways, Overlooks, and Historic Sites	1,206,757	-	608,386	-	598,371
Design and Construction of Permanent Monument for Senator Angel Santos Park	201,599	-	201,599	-	-
Scenic and Informational Highway Signs	4,209	-	4,209	-	-
Hagatna Tennis Court Improvements	157,254	-	157,254	-	-
Hagatna Pool Improvements	204,654	58,906	204,654	-	-
Public Park at Faifai and Gognga	14,374	-	14,374	-	-
Nimitz Beach Improvements	268,929	-	268,929	-	-
Guam Fishermen's Cooperative	2,000,000	-	-	-	2,000,000
Guam Preservation Trust Reimbursement	4,288,811	-	4,288,811	-	-
Sub-Total	<u>64,488,390</u>	<u>8,020,718</u>	<u>38,372,304</u>	<u>1,999,278</u>	<u>24,116,808</u>
	<u>\$ 70,830,795</u>	<u>\$ 8,020,718</u>	<u>\$ 44,581,839</u>	<u>\$ 2,091,227</u>	<u>\$ 24,157,729</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, 2016, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated March 27, 2017.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

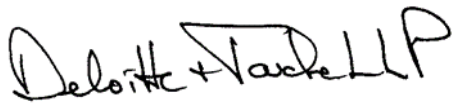
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, slightly stylized font.

March 27, 2017