

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

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

YEAR ENDED SEPTEMBER 30, 2013

GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND

Year Ended September 30, 2013
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. BASIC FINANCIAL STATEMENTS:	
Balance Sheet	8
Statements of Revenues, Expenditures and Changes in Fund Balances	9
Notes to Financial Statements	10
IV. OTHER SUPPLEMENTARY INFORMATION:	
Comparative Balance Sheets	16
Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balances	17
Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balances	18
Schedule of Expenditures by Department by Object	19
Other Supplementary Information	21
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	22
Schedule of Findings and Responses	24

INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), 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 Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 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

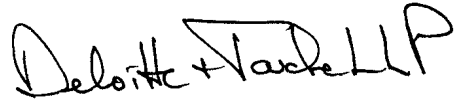
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The comparative financial statement information on pages 16 through 18, and the schedule of expenditures by department by object on pages 19 and 20 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.

The other supplementary information on page 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2014, on our consideration of Fund's 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 Fund's 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, flowing style.

March 26, 2014

GOVERNMENT OF GUAM TERRITORIAL HIGHWAY FUND

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

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

1. Financial Highlights

- For the fiscal year ended September 30, 2013, total fund balance increased by \$2,040,048 (or 35.5%) from an ending fund balance of \$5,750,961 in 2012 to \$7,791,009 in 2013.
- During the years ended September 30, 2013 and 2012, total combined expenditures for governmental fund operations were \$16,864,176 and \$22,387,050, respectively, including expenditures relating to payments for the Guam Regional Transit Authority of \$2,973,492 and \$2,552,078, respectively, and capital-related expenditures of \$165,356 and \$944,075, respectively. These expenditures were funded, in part, by Liquid Fuel Tax and Vehicle Registration revenue collections during the years ended September 30, 2013 and 2012 of \$18,896,996 and \$18,884,714, respectively, with the remainder funded by bond proceeds.
- Total combined expenditures decreased by \$5,522,874 (or 24.7%) from 2012 to 2013 due primarily to redemption of debt service in fiscal year 2012. Total combined revenues increased by \$17,490 from 2012 to 2013 due primarily to increases in driver license fee collections.
- During the years ended September 30, 2013 and 2012, THF generated operating surplus and deficit of \$2,040,048 and \$3,500,316, respectively.

2. Overview of the Financial Statements

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

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

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

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on THF's assets, liabilities and fund balance at year-end. A condensed summary of THF's balance sheet is shown below as of September 30, 2013 and 2012. The balance sheet should be read in conjunction with the notes to the financial statements.

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ 5,144,246	\$ 7,513,732
Taxes receivable	787,700	781,514
Due from General Fund	2,195,708	50,517
Restricted assets:		
Cash and cash equivalents	<u> -</u>	<u>1,454,627</u>
Total Assets	<u>\$ 8,127,654</u>	<u>\$ 9,800,390</u>
Liabilities:		
Accounts payable	\$ 203,845	\$ 136,496
Accrued payroll and others	132,800	119,176
Due to General Fund	<u> -</u>	<u>3,793,757</u>
Total Liabilities	<u>336,645</u>	<u>4,049,429</u>
Fund Balances:		
Restricted	1,268,142	1,427,917
Committed	<u>6,522,867</u>	<u>4,323,044</u>
Total Fund Balances	<u>7,791,009</u>	<u>5,750,961</u>
Total Liabilities and Fund Balances	<u>\$ 8,127,654</u>	<u>\$ 9,800,390</u>

Total assets decreased by \$1,672,736 (or 17.1%) during 2013 from \$9,800,390 to \$8,127,654. This decrease was primarily the result of a decrease in restricted assets due to closure of bank account and transfer of cash to the General Fund.

Total liabilities decreased by \$3,712,784 (or 91.7%) during 2013 from \$4,049,429 to \$336,645. This change was primarily the result of a decrease in interfund payables to the General Fund.

Total fund balances increased by \$2,040,048 (or 35.5%) during 2013 from \$5,750,961 to \$7,791,009. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use.

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY 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 THF's fund balance for the year. THF's statements of revenues, expenditures 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:		
Taxes:	\$ 9,825,967	\$ 9,831,039
License, fees and permits	9,071,029	9,053,675
Use of money and property	<u>7,228</u>	<u>2,020</u>
Total Revenues	<u>18,904,224</u>	<u>18,886,734</u>
Expenditures:		
Current:		
General government	4,498,878	5,278,648
Public Education	901,586	899,644
Transportation	6,574,547	5,057,405
Guam Regional Transit Authority	2,973,492	2,552,079
Payments to UOG CIP Fund	500,000	500,000
Payments to Public Transit Fund	349,210	357,280
Payments to Better Public Service Fund	901,107	905,368
Capital projects	165,356	944,075
Debt service	<u>-</u>	<u>5,892,551</u>
Total Expenditures	<u>16,864,176</u>	<u>22,387,050</u>
Net Change in Fund Balances	\$ <u>2,040,048</u>	\$ <u>(3,500,316)</u>

Total revenues collected increased by \$17,490 from \$18,886,734 for 2012 to \$18,904,224 for 2013. This increase was primarily the result of incremental increases in License, Fees and Permits collections of \$17,354. Liquid Fuel Taxes decreased by \$5,072 (or 5.2%) from \$9,831,039 for 2012 to \$9,825,967 for 2013. This decrease was primarily the result of an decrease in aviation fuel tax collections. License, Fees and Permits collections increased by \$17,354 from \$9,053,675 for 2012 to \$9,071,029 for 2013. This increase was primarily the result of an increase in driver license fee collections.

Total expenditures decreased by \$5,522,874 (or 24.7%) from \$22,387,050 for 2012 to \$16,864,176 for 2013. The decrease in 2013 was the result of the redemption of debt service in Fiscal Year 2012.

4. Capital Assets

During the year ended September 30, 2013, capital-related expenditures amounted to \$165,356 compared with \$944,075 in 2012. These expenditures pertained primarily to construction of the Barrigada Village Street Repair (\$120,312), and preventive school bus maintenance (\$42,725).

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

5. Long-Term Debt

In April 2001, GovGuam issued \$51,705,000 in Limited Obligation Highway Refunding Bonds for the purpose of refunding 1992 bonds and generating additional funds for certain capital improvement highway projects. This bond was redeemed in October 2011.

6. Outlook, Challenges and Opportunities

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

7. Contacting Government of Guam Financial Management

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Balance Sheet
September 30, 2013

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 5,144,246	\$ -	\$ -	\$ 5,144,246
Taxes receivable	787,700	-	-	787,700
Due from General Fund	925,668	1,270,040	-	2,195,708
Total assets	\$ 6,857,614	\$ 1,270,040	\$ -	\$ 8,127,654
<u>LIABILITIES</u>				
Accounts payable	\$ 201,947	\$ 1,898	\$ -	\$ 203,845
Accrued payroll and other	132,800	-	-	132,800
Total liabilities	334,747	1,898	-	336,645
Commitments				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	-	1,268,142	-	1,268,142
Committed for:				
Highway operations	6,522,867	-	-	6,522,867
Total fund balances	6,522,867	1,268,142	-	7,791,009
Total liabilities and fund balances	\$ 6,857,614	\$ 1,270,040	\$ -	\$ 8,127,654

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 9,825,967	\$ -	-	\$ 9,825,967
Licenses, fees and permits	9,071,029	-	-	9,071,029
Use of money and property	1,647	5,581	-	7,228
Total revenues	18,898,643	5,581	-	18,904,224
Expenditures:				
Current:				
General government	4,498,878	-	-	4,498,878
Public education	901,586	-	-	901,586
Transportation	6,574,547	-	-	6,574,547
Guam Regional Transit Authority	2,973,492	-	-	2,973,492
Payments to UOG Capital Improvement Fund	500,000	-	-	500,000
Payments to Public Transit Fund	349,210	-	-	349,210
Payments to Better Public Service Fund	901,107	-	-	901,107
Capital projects	-	165,356	-	165,356
Total expenditures	16,698,820	165,356	-	16,864,176
Excess (deficiency) of revenues over (under) expenditures	2,199,823	(159,775)	-	2,040,048
Other financing sources (uses):				
Operating transfers in	1,925	-	-	1,925
Operating transfers out	-	-	(1,925)	(1,925)
Total other financing sources (uses), net	1,925	-	(1,925)	-
Net change in fund balances	2,201,748	(159,775)	(1,925)	2,040,048
Fund balances at the beginning of the year	4,321,119	1,427,917	1,925	5,750,961
Fund balances at the end of the year	\$ 6,522,867	\$ 1,268,142	-	\$ 7,791,009

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY 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 Territorial Highway Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Territorial Highway Fund, created by 5 GCA 54102, was established for the purpose of performing maintenance of Guam's highways and roadways, and implementing highway safety plans, programs and projects. Revenues are derived from liquid fuel taxes, vehicle registration fees and certain licenses.

B. Fund Accounting

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

C. Measurement Focus and Basis of Accounting

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

Liquid Fuel Taxes:

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Automotive Surcharges:

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

Motor Vehicle Registration Fees/Driver's Licenses:

Taxi Drivers - Identification Card	\$ 25.00
Endorsement	<u>3.50</u>

Total for Taxi Drivers \$ 28.50

Driver's License (and all others) \$ 25.00

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

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

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

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

D. Appropriations

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

E. Budgetary Process

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

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. As of September 30, 2013, there were no outstanding interdepartmental work requests pertaining to land acquisitions. Encumbrances outstanding at year end are reported within the fund balance classifications since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations. At September 30, 2013, significant encumbrances are summarized as follows:

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Encumbrances	\$ <u>763,622</u>	\$ <u>115,000</u>	\$ <u> -</u>

F. Cash and Cash Equivalents

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

G. Receivables

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

H. Interfund Receivables/Payables

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

I. Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

J. Management Estimates

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

K. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, for the year ended September 30, 2012 from which summarized information was derived.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2013

(2) Deposits

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

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

As of September 30, 2013, the carrying amount of cash and cash equivalents was \$5,144,246 and the corresponding bank balances were \$5,144,246. Of the bank balances, \$5,142,321 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$1,925 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, 2013. As of September 30, 2013, bank deposits in the amount of \$250,000 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(3) Payments to Other Funds

Public Law 26-48 authorizes reimbursement to the University of Guam (UOG) for debt service on a U.S. Department of Agriculture (USDA) loan obtained for construction of the College of Business and Public Administration building. During the year ended September 30, 2013, \$500,000 was transferred to the UOG Capital Improvements Fund for payment to UOG. Under Public Law 26-48, \$500,000 is appropriated annually to UOG until such time that the USDA loan is repaid in full.

During the year ended September 30, 2013, \$349,210 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2013, \$901,107 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2013

(4) Commitments

The Guam Legislature appropriated \$2,254,413 from the Capital Projects Fund in accordance with Public Law 30-216 for the purpose of refurbishing Department of Public Works school buses and other related matters. Furthermore, the Guam Legislature reprogrammed and appropriated \$1,050,000 from the Capital Projects Fund in accordance with Public Law 30-217 to the Department of Public Works for repair of damage to village streets associated with road reconstruction projects. As of September 30, 2013, remaining commitments associated with these appropriations is as follows:

	Total	Expenditures Year Ended	Cumulative	Outstanding	Continuing
	<u>Budget</u>	September 30, <u>2013</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Appropriations</u>
Public Law 30-216:					
Repair, restoration and preventive maintenance of DPW school buses	\$ 1,500,000	\$ 42,725	\$ 1,338,070	\$ 115,000	\$ 46,930
Tools and equipment to support maintenance of DPW school buses	100,000	-	125,551	-	(25,551)
Procurement of temporary rental buses	100,000	-	99,887	-	113
Maintenance and repair of DPW bus substations	54,413	-	31,544	-	22,869
Construction of wooden school bus shelters	100,000	-	94,099	-	5,901
GFD Advance Life Support vehicles, ambulances and fire trucks	200,000	-	115,691	-	84,309
GPD marked patrol cars and motorcycles	<u>200,000</u>	<u>-</u>	<u>183,737</u>	<u>-</u>	<u>16,263</u>
Sub-Total	<u>2,254,413</u>	<u>42,725</u>	<u>1,988,579</u>	<u>115,000</u>	<u>150,834</u>
Public Law 30-217:					
Barrigada village street repairs	250,000	120,311	227,634	-	22,366
Gill Baza access road	<u>800,000</u>	<u>2,320</u>	<u>419,634</u>	<u>-</u>	<u>380,366</u>
Sub-Total	<u>1,050,000</u>	<u>122,631</u>	<u>647,268</u>	<u>-</u>	<u>402,732</u>
	<u>\$ 3,304,413</u>	<u>\$ 165,356</u>	<u>\$ 2,635,847</u>	<u>\$ 115,000</u>	<u>\$ 553,566</u>

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Balance Sheets
September 30, 2013 and 2012

	<u>Territorial Highway Fund</u>		<u>Capital Projects Fund</u>		<u>Debt Service Fund</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 5,144,246	\$ 7,511,807	\$ -	\$ -	\$ -	\$ 1,925
Restricted assets:						
Cash and cash equivalents	-	-	-	1,454,627	-	-
Taxes receivable	787,700	781,514	-	-	-	-
Due from General Fund	925,668	-	1,270,040	50,517	-	-
Total assets	<u>\$ 6,857,614</u>	<u>\$ 8,293,321</u>	<u>\$ 1,270,040</u>	<u>\$ 1,505,144</u>	<u>\$ -</u>	<u>\$ 1,925</u>
<u>LIABILITIES</u>						
Accounts payable	\$ 201,947	\$ 59,269	\$ 1,898	\$ 77,227	\$ -	\$ -
Accrued payroll and other	132,800	119,176	-	-	-	-
Due to General Fund	-	3,793,757	-	-	-	-
Total liabilities	<u>334,747</u>	<u>3,972,202</u>	<u>1,898</u>	<u>77,227</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES</u>						
Fund balances:						
Restricted for:						
Capital projects	-	-	1,268,142	1,427,917	-	-
Committed for:						
Highway operations	6,522,867	4,321,119	-	-	-	1,925
Total fund balances	<u>6,522,867</u>	<u>4,321,119</u>	<u>1,268,142</u>	<u>1,427,917</u>	<u>-</u>	<u>1,925</u>
Total liabilities and fund balances	<u>\$ 6,857,614</u>	<u>\$ 8,293,321</u>	<u>\$ 1,270,040</u>	<u>\$ 1,505,144</u>	<u>\$ -</u>	<u>\$ 1,925</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2013	2012	2013	2012	2013	2012
Revenues:						
Taxes	\$ 9,825,967	\$ 9,831,039	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	9,071,029	9,053,675	-	-	-	-
Use of money and property	1,647	1,831	5,581	189	-	-
Total revenues	<u>18,898,643</u>	<u>18,886,545</u>	<u>5,581</u>	<u>189</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:						
General government	4,498,878	5,273,648	-	-	-	5,000
Public Education	901,586	899,644	-	-	-	-
Transportation	6,574,547	5,057,405	-	-	-	-
Guam Regional Transit Authority	2,973,492	2,552,079	-	-	-	-
Payments to UOG Capital Improvement Fund	500,000	500,000	-	-	-	-
Payments to Public Transit Fund	349,210	357,280	-	-	-	-
Payments to Better Public Service Fund	901,107	905,368	-	-	-	-
Capital projects	-	-	165,356	944,075	-	-
Debt service:						
Principal	-	-	-	-	-	5,765,000
Interest	-	-	-	-	-	127,551
Total expenditures	<u>16,698,820</u>	<u>15,545,424</u>	<u>165,356</u>	<u>944,075</u>	<u>-</u>	<u>5,897,551</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,199,823</u>	<u>3,341,121</u>	<u>(159,775)</u>	<u>(943,886)</u>	<u>-</u>	<u>(5,897,551)</u>
Other financing sources (uses):						
Operating transfers in	1,925	-	-	-	-	-
Operating transfers out	-	-	-	-	(1,925)	-
Total other financing sources (uses), net	<u>1,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,925)</u>	<u>-</u>
Net change in fund balances	2,201,748	3,341,121	(159,775)	(943,886)	(1,925)	(5,897,551)
Fund balances at the beginning of the year	<u>4,321,119</u>	<u>979,998</u>	<u>1,427,917</u>	<u>2,371,803</u>	<u>1,925</u>	<u>5,899,476</u>
Fund balances at the end of the year	<u>\$ 6,522,867</u>	<u>\$ 4,321,119</u>	<u>\$ 1,268,142</u>	<u>\$ 1,427,917</u>	<u>\$ -</u>	<u>\$ 1,925</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2013	2012	2013	2012	2013	2012
Revenues:						
Taxes	\$ 9,825,967	\$ 9,831,039	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	9,071,029	9,053,675	-	-	-	-
Use of money and property	1,647	1,831	5,581	189	-	-
Total revenues	18,898,643	18,886,545	5,581	189	-	-
Expenditures:						
Salaries and wages - regular	2,784,344	2,896,452	2,008	187	-	-
Salaries and wages - overtime	115,228	102,758	35,941	69,579	-	-
Salaries and wages - fringe benefits	1,104,262	1,085,549	12,203	21,361	-	-
Travel	-	21,086	-	-	-	-
Contractual services	3,167,650	2,712,253	113,804	662,251	-	-
Supplies	1,994,081	1,698,159	1,400	129,425	-	-
Equipment	31,138	13,109	-	-	-	-
Utilities - power and water	5,332,775	4,977,297	-	-	-	-
Communications	11,472	16,662	-	-	-	-
Capital outlays	395,917	111,035	-	40,929	-	-
Grants and subsidies	1,750,317	1,762,648	-	-	-	-
Principal retirement	-	-	-	-	-	5,765,000
Interest and fiscal charges	-	139,700	-	-	-	127,551
Miscellaneous	11,636	8,716	-	20,343	-	5,000
Total expenditures	16,698,820	15,545,424	165,356	944,075	-	5,897,551
Excess (deficiency) of revenues over (under) expenditures	2,199,823	3,341,121	(159,775)	(943,886)	-	(5,897,551)
Other financing sources (uses):						
Operating transfers in	1,925	-	-	-	-	-
Operating transfers out	-	-	-	-	(1,925)	-
Total other financing sources (uses), net	1,925	-	-	-	(1,925)	-
Net change in fund balances	2,201,748	3,341,121	(159,775)	(943,886)	(1,925)	(5,897,551)
Fund balances at the beginning of the year	4,321,119	979,998	1,427,917	2,371,803	1,925	5,899,476
Fund balances at the end of the year	\$ 6,522,867	\$ 4,321,119	\$ 1,268,142	\$ 1,427,917	\$ -	\$ 1,925

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	<u>2013</u>	<u>2012</u>
Department of Administration:		
Division of Accounts:		
Salaries and wages - fringe benefits	\$ -	\$ 216,327
Travel	-	21,086
Contractual services	18,000	18,000
Utilities - power and water	3,709,739	4,874,998
Grants and subsidies	1,401,107	1,405,368
Principal retirement	-	5,765,000
Interest and fiscal charges	-	267,251
Miscellaneous	5,126	7,639
	<u>5,133,972</u>	<u>12,575,669</u>
Mayors' Council of Guam:		
Utilities - power and water	766,013	-
Public Transit:		
Grants and subsidies	349,210	357,280
Total Department of Administration	<u>6,249,195</u>	<u>12,932,949</u>
Guam Regional Transit Authority:		
Salaries and wages - regular	307,638	263,212
Salaries and wages - fringe benefits	107,526	79,711
Contractual services	2,547,404	2,197,864
Supplies	2,181	2,623
Communications	2,393	2,901
Miscellaneous	6,350	5,767
	<u>2,973,492</u>	<u>2,552,078</u>
Department of Education:		
Public Education:		
Supplies	901,586	899,644
Department of Public Works:		
Building Maintenance:		
Equipment	-	900
Highway Maintenance Division:		
Salaries and wages - regular	1,773,207	1,946,719
Salaries and wages - overtime	88,576	66,992
Salaries and wages - fringe benefits	717,675	585,879
Contractual services	489,648	407,758
Supplies	436,626	529,731
Equipment	19,142	9,743
Utilities - power and water	857,023	102,299
Communications	5,045	3,625
Capital outlays	181,783	10,418
Miscellaneous	80	310
	<u>4,568,805</u>	<u>3,663,474</u>

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

	2013	2012
Transportation Division:		
Salaries and wages - regular	703,499	686,521
Salaries and wages - overtime	26,652	35,766
Salaries and wages - fringe benefits	279,061	203,632
Contractual services	112,598	88,631
Supplies	653,688	266,161
Equipment	11,996	2,466
Communications	4,034	10,136
Capital outlays	214,134	100,617
Miscellaneous	80	-
	2,005,742	1,393,930
Capital Projects:		
Salaries and wages - regular	2,008	187
Salaries and wages - overtime	35,941	69,579
Salaries and wages - fringe benefits	12,203	21,361
Contractual services	113,804	662,251
Supplies	1,400	129,425
Capital outlays	-	40,929
Miscellaneous	-	20,343
	165,356	944,075
Total Department of Public Works	6,739,903	6,002,379
	\$ 16,864,176	\$ 22,387,050

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Employees at end of year:		
Guam Regional Transit Authority	6	6
Department of Public Works	<u>67</u>	<u>66</u>
	<u>73</u>	<u>72</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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds) as of and for the year ended September 30, 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 26, 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 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

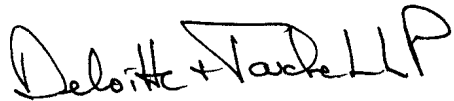
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2013-1.

Territorial Highway Fund's Response to Finding

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

Purpose of this Report

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

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

March 26, 2014

GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND
Schedule of Findings and Responses
Year Ended September 30, 2013

Finding No. 2013-1

Procurement

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

Local procurement regulations state that any procurement not exceeding the amount established by regulation, between \$500 and \$15,000 may be made in accordance with small purchase procedures. If these methods are not used, the other methods of source selection provided in 5 GCA §5210 (Methods of Source Selection) of the Guam Procurement Act and these Regulations shall apply.

Condition: Local funds totaling \$2,513,030 was utilized for Guam Regional Transit Authority (GRTA) bus transportation expenditures, which demonstrated no competitive procurement or were procured through an inappropriate procurement method.

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

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

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

Auditee Response and Corrective Action Plan: The Guam Regional Transit Authority and the Guam [General] Services Agency are aware of the above condition and a formal bid will be issued for the procurement of Guam Regional Transit Authority bus transportation services.