

**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, 2014

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Year Ended September 30, 2014
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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 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, 2014, 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 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, 2014, 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

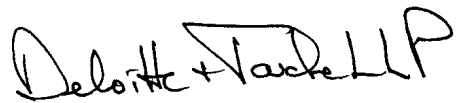
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The comparative financial statement information on pages 16 through 18, the schedule of expenditures by department by object on pages 19 and 20, and the schedule of construction project status on page 21 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 were derived from and relate 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 22 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 April 1, 2015, 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, stylized font.

April 1, 2015

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Management's Discussion and Analysis
Year Ended September 30, 2014

Our discussion and analysis of the Government of Guam's ("GovGuam") Territorial Highway Fund financial performance and those funds related to the GovGuam Limited Obligation Highway Refunding Bonds, 2001 Series A, provides an overview of financial activities for the fiscal years ended September 30, 2014 and 2013. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2014, total fund balance increased marginally by \$3,460 from an ending fund balance of \$7,791,009 in 2013 to \$7,794,469 in 2014.
- During the years ended September 30, 2014 and 2013, total combined expenditures for governmental fund operations were \$19,097,889 and \$16,864,176, respectively, including expenditures for GovGuam's Department of Public Works of \$8,002,233 and \$6,739,903, respectively; payments for utility costs associated with the operation of public streetlights of \$4,385,346 and \$4,475,752, respectively; expenditures associated with the operations of the Guam Regional Transit Authority of \$2,908,305 and \$2,973,492, respectively; and other legislatively mandated transfers out to other various GovGuam funds of \$2,889,376 and \$1,750,317, respectively. These expenditures were funded, in part, by Liquid Fuel Tax revenue collections and Vehicle Registration/Drivers' License fees collected during the years ended September 30, 2014 and 2013 of \$19,094,653 and \$18,896,996, respectively, with the remainder funded by bond proceeds.
- Total combined expenditures increased by \$2,233,713 (or 13.2%) from 2013 to 2014 due primarily to the acquisition of land associated with the Tiyan Parkway Project of \$1,760,000; and a one-time transfer of \$775,881 to GovGuam's General Fund representing a reduction in the interfund receivable that is not expected to be repaid. Total combined revenues increased marginally by \$197,125 (or 1%) from \$18,904,224 in 2013 to \$19,101,349 in 2014 due primarily to increases in motor vehicle registration fee collections.
- During the years ended September 30, 2014 and 2013, the Territorial Highway Fund generated operating surpluses of \$793,620 and \$2,199,823, respectively.

2. Overview of the Financial Statements

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

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both 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.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2014

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

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

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on assets, liabilities and fund balance at year-end. A condensed summary of the balance sheets is shown below as of September 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents	\$ 8,696,388	\$ 5,144,246
Tax receivables	817,828	787,700
Due from General Fund	<u>477,982</u>	<u>2,195,708</u>
Total Assets	\$ <u>9,992,198</u>	\$ <u>8,127,654</u>
Liabilities:		
Accounts payable and other	\$ 534,319	\$ 336,645
Due to General Fund	<u>1,663,410</u>	<u>-</u>
Total Liabilities	<u>2,197,729</u>	<u>336,645</u>
Fund Balances:		
Restricted	477,982	1,268,142
Committed	<u>7,316,487</u>	<u>6,522,867</u>
Total Fund Balances	<u>7,794,469</u>	<u>7,791,009</u>
Total Liabilities and Fund Balances	\$ <u>9,992,198</u>	\$ <u>8,127,654</u>

Total assets increased by \$1,864,544 (or 22.9%) from \$8,127,654 in 2013 to \$9,992,198 in 2014. This increase was primarily the result of an increase in cash balances of \$3,552,142 offset by a decrease in amounts receivable from the General Fund of \$1,717,726 for revenue collections received by the General Fund on behalf of the Territorial Highway Fund.

Total liabilities increased by \$1,861,084 (or 553%) from \$336,645 in 2013 to \$2,197,729 in 2014. This increase was primarily the result of an increase in amounts payable to the General Fund of \$1,663,410 for expenditures paid by the General Fund on behalf of the Territorial Highway Fund.

Total fund balances marginally increased by \$3,460 during 2014 from \$7,791,009 to \$7,794,469. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation Highway Refunding Bond, 2001 Series A, wherein these funds are restricted for highway related projects.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2014

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

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balance show the effect of revenues and expenditures on fund balance for the year. The statements of revenues, expenditures and changes in fund balances for the years ended September 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Revenues:		
Liquid fuel taxes	\$ 9,791,970	\$ 9,825,967
License, fees and permits	9,302,683	9,071,029
Use of money and property	<u>6,696</u>	<u>7,228</u>
Total Revenues	<u>19,101,349</u>	<u>18,904,224</u>
Expenditures:		
Current:		
General government	4,411,921	4,498,878
Public Education	886,054	901,586
Transportation	7,987,954	6,574,547
Guam Regional Transit Authority	2,908,305	2,973,492
Payments to UOG Capital Improvement Fund	750,000	500,000
Payments to Public Transit Fund	333,227	349,210
Payments to Better Public Service Fund	930,268	901,107
Payments to GCC Capital Improvement Fund	100,000	-
Transfers out to General Fund	775,881	-
Capital projects	<u>14,279</u>	<u>165,356</u>
Total Expenditures	<u>19,097,889</u>	<u>16,864,176</u>
Net Change in Fund Balances	\$ <u><u>3,460</u></u>	\$ <u><u>2,040,048</u></u>

Total revenues collected increased by \$197,125 (or 1%) from \$18,904,224 in 2013 to \$19,101,349 in 2014. The increase was primarily due to an incremental increase in motor vehicle registrations.

Total expenditures increased by \$2,233,713 (or 13.2%) from \$16,864,176 in 2013 to \$19,097,889 in 2014. The increase was primarily due to the acquisition of land associated with the Tiyan Parkway Project of \$1,760,000 and a one-time transfer of \$775,881 to GovGuam's General Fund representing a reduction in the interfund receivable that is not expected to be repaid.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Management's Discussion and Analysis, Continued
Year Ended September 30, 2014

4. Capital Assets

Public Law 32-41 authorizes the acquisition of property from the Territorial Highway Fund for the Tiyan Parkway Project. During the year ended September 30, 2014, land acquisitions from the Territorial Highway Fund amounted to \$1,760,000. In addition, other expenditures associated with the Tiyan Parkway Project were funded in 2014 by federal grants awarded by the U.S. Department of Transportation Federal Highway Administration.

5. 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.

6. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the finances of the Territorial Highway Fund and related funds and to demonstrate accountability for money received and expended. Questions concerning any of the information provided in this report or request for additional information should be addressed to: 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
TERRITORIAL HIGHWAY FUND**

Balance Sheet
September 30, 2014

	<u>Territorial Highway Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 8,696,388	\$ -	\$ 8,696,388
Taxes receivable	817,828	-	817,828
Due from General Fund	-	477,982	477,982
Total assets	<u>\$ 9,514,216</u>	<u>\$ 477,982</u>	<u>\$ 9,992,198</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 392,070	\$ -	\$ 392,070
Accrued payroll and other	142,249	-	142,249
Due to General Fund	<u>1,663,410</u>	<u>-</u>	<u>1,663,410</u>
Total liabilities	<u>2,197,729</u>	<u>-</u>	<u>2,197,729</u>
Commitments			
<u>FUND BALANCES</u>			
Fund balances:			
Restricted for:			
Capital projects	-	477,982	477,982
Committed for:			
Highway operations	<u>7,316,487</u>	<u>-</u>	<u>7,316,487</u>
Total fund balances	<u>7,316,487</u>	<u>477,982</u>	<u>7,794,469</u>
Total liabilities and fund balances	<u>\$ 9,514,216</u>	<u>\$ 477,982</u>	<u>\$ 9,992,198</u>

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, 2014

	Territorial Highway Fund	Capital Projects Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 9,791,970	\$ -	\$ 9,791,970
Licenses, fees and permits	9,302,683	-	9,302,683
Use of money and property	6,696	-	6,696
	<u>19,101,349</u>	<u>-</u>	<u>19,101,349</u>
Total revenues			
Expenditures:			
Current:			
General government	4,411,921	-	4,411,921
Public education	886,054	-	886,054
Transportation	7,987,954	-	7,987,954
Guam Regional Transit Authority	2,908,305	-	2,908,305
Payments to UOG Capital Improvement Fund	750,000	-	750,000
Payments to Public Transit Fund	333,227	-	333,227
Payments to Better Public Service Fund	930,268	-	930,268
Payments to GCC Capital Improvement Fund	100,000	-	100,000
Transfers out to the General Fund	-	775,881	775,881
Capital projects	-	14,279	14,279
	<u>18,307,729</u>	<u>790,160</u>	<u>19,097,889</u>
Total expenditures			
Net change in fund balances	793,620	(790,160)	3,460
Fund balances at the beginning of the year	<u>6,522,867</u>	<u>1,268,142</u>	<u>7,791,009</u>
Fund balances at the end of the year	<u>\$ 7,316,487</u>	<u>\$ 477,982</u>	<u>\$ 7,794,469</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2014

(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, 2014

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Automotive Surcharges:

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

Motor Vehicle Registration Fees/Driver's Licenses:

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

Total for Taxi Drivers	\$ <u>28.50</u>
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Driver's License (and all others)	\$ <u>25.00</u>
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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, 2014

(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. 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, 2014, significant encumbrances are summarized as follows:

Territorial Highway Fund	Capital Projects Fund	Total
<u>\$ 2,281,537</u>	<u>\$ 115,000</u>	<u>\$ 2,396,537</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, 2014

(1) Summary of Significant Accounting Policies, Continued

I. Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

J. 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. Specifically, GovGuam transferred \$775,881 from the Capital Projects Fund to the General Fund representing a reduction in the interfund receivable from the General Fund that is not expected to be repaid.

K. Management Estimates

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

L. 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, 2013 from which summarized information was derived.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2014

(2) Deposits

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

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

As of September 30, 2014, the carrying amount of cash and cash equivalents was \$8,696,388 and the corresponding bank balances were \$8,696,388, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, 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, 2014, \$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.

Public Law 32-068 authorizes the reimbursement to UOG for rental payments on a lease-back agreement pursuant to Section 18 of Public Law 31-229, as amended by Public Law 31-277. During the year ended September 30, 2014, \$250,000 was transferred to the UOG Capital Improvements Fund for payment to UOG.

In addition, Public Law 32-068 authorizes the reimbursement to the Guam Community College (GCC) for rental payments on a lease-back agreement pursuant to Section 18 of Public Law 31-229, as amended by Public Law 31-277. During the year ended September 30, 2014, \$100,000 was transferred to the GCC Capital Improvements Fund for payment to GCC.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2014

(3) Payments to Other Funds, Continued

During the year ended September 30, 2014, \$333,227 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2014, \$930,268 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

(4) Commitments

The Guam Legislature appropriated \$2,254,413 from the Capital Projects Fund in accordance with Public Law 30-216 for the purpose of refurbishing Department of Public Works school buses and other related matters. Furthermore, the Guam Legislature reprogrammed and appropriated \$1,050,000 from the Capital Projects Fund in accordance with Public Law 30-217 to the Department of Public Works for repair of damage to village streets associated with road reconstruction projects. As of September 30, 2014, remaining commitments associated with these appropriations amount to \$477,982.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Comparative Balance Sheets
September 30, 2014 and 2013

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2014	2013	2014	2013	2014	2013
ASSETS						
Cash and cash equivalents	\$ 8,696,388	\$ 5,144,246	\$ -	\$ -	\$ -	\$ -
Taxes receivable	817,828	787,700	-	-	-	-
Due from General Fund	-	925,668	477,982	1,270,040	-	-
Total assets	<u>\$ 9,514,216</u>	<u>\$ 6,857,614</u>	<u>\$ 477,982</u>	<u>\$ 1,270,040</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES						
Accounts payable	\$ 392,070	\$ 201,947	\$ -	\$ 1,898	\$ -	\$ -
Accrued payroll and other	142,249	132,800	-	-	-	-
Due to General Fund	1,663,410	-	-	-	-	-
Total liabilities	<u>2,197,729</u>	<u>334,747</u>	<u>-</u>	<u>1,898</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Fund balances:						
Restricted for:						
Capital projects	-	-	477,982	1,268,142	-	-
Committed for:						
Highway operations	7,316,487	6,522,867	-	-	-	-
Total fund balances	<u>7,316,487</u>	<u>6,522,867</u>	<u>477,982</u>	<u>1,268,142</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 9,514,216</u>	<u>\$ 6,857,614</u>	<u>\$ 477,982</u>	<u>\$ 1,270,040</u>	<u>\$ -</u>	<u>\$ -</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, 2014 and 2013

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2014	2013	2014	2013	2014	2013
Revenues:						
Taxes	\$ 9,791,970	\$ 9,825,967	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	9,302,683	9,071,029	-	-	-	-
Use of money and property	6,696	1,647	-	5,581	-	-
Total revenues	<u>19,101,349</u>	<u>18,898,643</u>	<u>-</u>	<u>5,581</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:						
General government	4,411,921	4,498,878	-	-	-	-
Public education	886,054	901,586	-	-	-	-
Transportation	7,987,954	6,574,547	-	-	-	-
Guam Regional Transit Authority	2,908,305	2,973,492	-	-	-	-
Payments to UOG Capital Improvement Fund	750,000	500,000	-	-	-	-
Payments to Public Transit Fund	333,227	349,210	-	-	-	-
Payments to Better Public Service Fund	930,268	901,107	-	-	-	-
Payments to GCC Capital Improvement Fund	100,000	-	-	-	-	-
Transfers out to General Fund	-	-	775,881	-	-	-
Capital projects	-	-	14,279	165,356	-	-
Total expenditures	<u>18,307,729</u>	<u>16,698,820</u>	<u>790,160</u>	<u>165,356</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>793,620</u>	<u>2,199,823</u>	<u>(790,160)</u>	<u>(159,775)</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):						
Operating transfers in	-	1,925	-	-	-	-
Operating transfers out	-	-	-	-	-	(1,925)
Total other financing sources (uses), net	<u>-</u>	<u>1,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,925)</u>
Net change in fund balances	793,620	2,201,748	(790,160)	(159,775)	-	(1,925)
Fund balances at the beginning 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>
Fund balances at the end of the year	<u>\$ 7,316,487</u>	<u>\$ 6,522,867</u>	<u>\$ 477,982</u>	<u>\$ 1,268,142</u>	<u>\$ -</u>	<u>\$ -</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, 2014 and 2013

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2014	2013	2014	2013	2014	2013
Revenues:						
Taxes	\$ 9,791,970	\$ 9,825,967	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	9,302,683	9,071,029	-	-	-	-
Use of money and property	6,696	1,647	-	5,581	-	-
Total revenues	<u>19,101,349</u>	<u>18,898,643</u>	<u>-</u>	<u>5,581</u>	<u>-</u>	<u>-</u>
Expenditures:						
Salaries and wages - regular	2,644,921	2,784,344	-	2,008	-	-
Salaries and wages - overtime	143,607	115,228	11,233	35,941	-	-
Salaries and wages - fringe benefits	1,055,610	1,104,262	3,046	12,203	-	-
Travel	4,833	-	-	-	-	-
Contractual services	3,363,927	3,167,650	-	113,804	-	-
Supplies	2,003,873	1,994,081	-	1,400	-	-
Equipment	101,772	31,138	-	-	-	-
Utilities - power and water	4,668,782	5,332,775	-	-	-	-
Communications	14,591	11,472	-	-	-	-
Capital outlays	2,176,163	395,917	-	-	-	-
Grants and subsidies	2,113,495	1,750,317	775,881	-	-	-
Miscellaneous	16,155	11,636	-	-	-	-
Total expenditures	<u>18,307,729</u>	<u>16,698,820</u>	<u>790,160</u>	<u>165,356</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>793,620</u>	<u>2,199,823</u>	<u>(790,160)</u>	<u>(159,775)</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):						
Operating transfers in	-	1,925	-	-	-	-
Operating transfers out	-	-	-	-	-	(1,925)
Total other financing sources (uses), net	<u>-</u>	<u>1,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,925)</u>
Net change in fund balances	793,620	2,201,748	(790,160)	(159,775)	-	(1,925)
Fund balances at the beginning 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>
Fund balances at the end of the year	<u>\$ 7,316,487</u>	<u>\$ 6,522,867</u>	<u>\$ 477,982</u>	<u>\$ 1,268,142</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Department of Administration:		
Division of Accounts:		
Contractual services	\$ 18,500	\$ 18,000
Utilities - power and water	3,619,333	3,709,739
Miscellaneous	8,075	5,126
	<u>3,645,908</u>	<u>3,732,865</u>
Mayors' Council of Guam:		
Utilities - power and water	766,013	766,013
General Fund:		
Grants and subsidies	775,881	-
UOG Capital Improvement Fund:		
Grants and subsidies	750,000	500,000
Public Transit Fund:		
Grants and subsidies	333,227	349,210
Better Public Service Fund:		
Grants and subsidies	930,268	901,107
GCC Capital Improvement Fund:		
Grants and subsidies	100,000	-
Total Department of Administration	<u>7,301,297</u>	<u>6,249,195</u>
Guam Regional Transit Authority:		
Salaries and wages - regular	208,616	307,638
Salaries and wages - fringe benefits	80,774	107,526
Contractual services	2,604,359	2,547,404
Supplies	4,603	2,181
Communications	2,393	2,393
Miscellaneous	7,560	6,350
	<u>2,908,305</u>	<u>2,973,492</u>
Department of Education:		
Public Education:		
Supplies	886,054	901,586
Department of Public Works:		
Highway Maintenance Division:		
Salaries and wages - regular	1,776,665	1,773,207
Salaries and wages - overtime	84,440	88,576
Salaries and wages - fringe benefits	696,198	717,675
Travel	4,833	-
Contractual services	519,962	489,648
Supplies	453,872	436,626
Equipment	27,802	19,142
Utilities - power and water	283,436	857,023
Communications	8,450	5,045
Capital outlays	1,856,755	181,783
Miscellaneous	400	80
	<u>5,712,813</u>	<u>4,568,805</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2014 and 2013

	2014	2013
Department of Public Works, Continued:		
Transportation Division:		
Salaries and wages - regular	659,641	703,499
Salaries and wages - overtime	59,167	26,652
Salaries and wages - fringe benefits	278,637	279,061
Contractual services	110,024	112,598
Supplies	659,344	653,688
Equipment	73,970	11,996
Communications	3,748	4,034
Capital outlays	319,408	214,134
Miscellaneous	120	80
	2,164,059	2,005,742
Flood Mitigation Projects:		
Contractual services	111,082	-
Capital Projects:		
Salaries and wages - regular	-	2,008
Salaries and wages - overtime	11,233	35,941
Salaries and wages - fringe benefits	3,046	12,203
Contractual services	-	113,804
Supplies	-	1,400
	14,279	165,356
Total Department of Public Works	8,002,233	6,739,903
	\$ 19,097,889	\$ 16,864,176

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Construction Project Status
Year Ended September 30, 2014

	Total Budget	Expenditures Year Ended September 30, 2014	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Public Law 30-216:					
Repair, restoration and preventive maintenance of DPW school buses	\$ 1,483,033	\$ 14,279	\$ 1,352,349	\$ 115,000	\$ 15,684
Public Law 30-217:					
Barrigada village street repairs	250,000	-	227,634	-	22,366
R.T. Damian Street repairs	345,000	-	-	-	345,000
Mamis Street pavement	30,000	-	-	-	30,000
Algeta Street repairs	58,851	-	-	-	58,851
Kinney's Road repairs	129,580	-	129,217	-	363
Jagan Drive repairs	32,941	-	32,768	-	173
Jesus A. Quidachay Street repairs	22,202	-	22,071	-	131
Balajadia and Pangelinan Road repairs	48	-	-	-	48
Gill Baza access road	425,000	-	419,634	-	5,366
Sub-Total	<u>1,293,622</u>	<u>-</u>	<u>831,324</u>	<u>-</u>	<u>462,298</u>
	<u>\$ 2,776,655</u>	<u>\$ 14,279</u>	<u>\$ 2,183,673</u>	<u>\$ 115,000</u>	<u>\$ 477,982</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Other Supplementary Information
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Employees at end of year:		
Guam Regional Transit Authority	4	6
Department of Public Works	<u>59</u>	<u>67</u>
	<u><u>63</u></u>	<u><u>73</u></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, 2014, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated April 1, 2015.

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

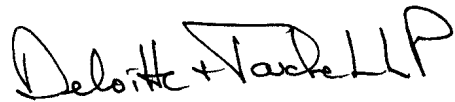
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2014-001.

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 + Touche LLP". The signature is written in a cursive, stylized font.

April 1, 2015

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-001

Procurement

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

Local procurement regulations state that any procurement not exceeding the amount established by regulation, between \$500 and \$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: During the year ended September 30, 2014, local funds totaling \$2,500,147 were utilized for Guam Regional Transit Authority (GRTA) bus transportation expenditures, which demonstrated no competitive procurement or which were procured through an inappropriate procurement method. Specifically, bus transportation services were procured through sole source method.

Cause: The lack of 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 maintain records sufficient to detail the significant history of procurement. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

Prior Year Status: Lack of compliance with Guam procurement requirements was reported as a finding in prior audits as item 2013-1.

Auditee Response and Corrective Action Plan: The Department of Administration (DOA) agrees with the auditor's finding. Guam Regional Transit Authority (GRTA) is currently working with DOA and the General Services Agency to establish a Multi-step sealed Bid to address the procurement of transit services. A Draft of the Bid is currently under the final review of the Chief Procurement Officer. Currently, the GRTA hopes to publish the announcement of the bid by the second week of April 2015 and be able to award a contract to the best possible bidder in May 2015.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2014

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