

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

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

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**YEAR ENDED SEPTEMBER 30, 2005**

## INDEPENDENT AUDITORS' REPORT

Honorable Felix P. Camacho  
Governor of Guam:

We have audited the accompanying balance sheet of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (THF), as of September 30, 2005, and the related statement of revenues, expenditures and changes in fund balances for the year then ended. These financial statements are the responsibility of the Government of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audit. The summarized comparative information has been derived from the THF's 2004 financial statements and in our report dated September 16, 2005; we expressed an unqualified opinion on those financial statements.

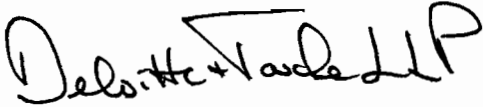
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements present only the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2005, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information (construction project status and additional supplementary information) on pages 13 to 15 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Government of Guam's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2006, on our consideration of THF's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

June 22, 2006

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Balance Sheet  
September 30, 2005

|                                     | Territorial<br>Highway<br>Fund | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund | Totals<br>(Memorandum Only) |               |
|-------------------------------------|--------------------------------|-----------------------------|-------------------------|-----------------------------|---------------|
|                                     |                                |                             |                         | 2005                        | 2004          |
| <b>ASSETS</b>                       |                                |                             |                         |                             |               |
| Cash and cash equivalents           | \$ 3,345                       | \$ -                        | \$ -                    | \$ 3,345                    | \$ 16,248     |
| Restricted assets:                  |                                |                             |                         |                             |               |
| Cash and cash equivalents           | -                              | 24,728,044                  | 3,613,261               | 28,341,305                  | 34,868,701    |
| Investments                         | -                              | -                           | 5,902,000               | 5,902,000                   | 732,000       |
| Taxes receivable                    | 1,172,261                      | -                           | -                       | 1,172,261                   | 1,141,833     |
| Due from General Fund               | 9,901,389                      | 578,100                     | -                       | 10,479,489                  | 9,474,432     |
| Total assets                        | \$ 11,076,995                  | \$ 25,306,144               | \$ 9,515,261            | \$ 45,898,400               | \$ 46,233,214 |
| <b>LIABILITIES</b>                  |                                |                             |                         |                             |               |
| Accounts payable                    | \$ -                           | \$ -                        | \$ -                    | \$ -                        | \$ 173,502    |
| Due to Guam Power Authority         | 10,447,168                     | -                           | -                       | 10,447,168                  | 10,124,204    |
| Accrued expenditures                | 227,844                        | -                           | 770                     | 228,614                     | 2,788,881     |
| Tax drawbacks                       | 4,915,390                      | -                           | -                       | 4,915,390                   | 8,626,245     |
| Total liabilities                   | 15,590,402                     | -                           | 770                     | 15,591,172                  | 21,712,832    |
| Contingencies                       |                                |                             |                         |                             |               |
| <b>FUND BALANCES (DEFICIT)</b>      |                                |                             |                         |                             |               |
| Fund balances:                      |                                |                             |                         |                             |               |
| Reserved for:                       |                                |                             |                         |                             |               |
| Related assets                      | 9,901,389                      | 578,100                     | -                       | 10,479,489                  | 9,474,432     |
| Continuing appropriations           | 554,203                        | -                           | -                       | 554,203                     | 1,179,969     |
| Debt service                        | -                              | -                           | 9,514,491               | 9,514,491                   | 6,734,701     |
| Encumbrances                        | 782,391                        | -                           | -                       | 782,391                     | 586,071       |
| Unreserved (deficit)                | (15,751,390)                   | 24,728,044                  | -                       | 8,976,654                   | 6,545,209     |
| Total fund balances (deficit)       | (4,513,407)                    | 25,306,144                  | 9,514,491               | 30,307,228                  | 24,520,382    |
| Total liabilities and fund balances | \$ 11,076,995                  | \$ 25,306,144               | \$ 9,515,261            | \$ 45,898,400               | \$ 46,233,214 |

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2005

|  | Territorial<br>Highway<br>Fund | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund | Totals<br>(Memorandum Only) |                      |
|--|--------------------------------|-----------------------------|-------------------------|-----------------------------|----------------------|
|  |                                |                             |                         | 2005                        | 2004                 |
| <b>Revenues:</b>   |                                |                             |                         |                             |                      |
| Taxes  | \$ 12,610,196                  | \$ -                        | \$ -                    | \$ 12,610,196               | \$ 8,910,185         |
| Licenses, fees and permits                               | 4,734,342                      | -                           | -                       | 4,734,342                   | 4,375,475            |
| Use of money and property                                | 1,325                          | 712,793                     | 95,211                  | 809,329                     | 219,210              |
| Federal contributions                                    | -                              | -                           | -                       | -                           | 582,939              |
| <b>Total revenues</b>                                    | <b>17,345,863</b>              | <b>712,793</b>              | <b>95,211</b>           | <b>18,153,867</b>           | <b>14,087,809</b>    |
| <b>Expenditures/expenses:</b>                            |                                |                             |                         |                             |                      |
| General and administrative                               | 4,658,432                      | -                           | -                       | 4,658,432                   | 6,326,144            |
| Other  | -                              | -                           | 10,243                  | 10,243                      | 14,680               |
| Payments for Public Transit                              | 2,367,195                      | -                           | -                       | 2,367,195                   | 2,615,048            |
| Payments to UOG Capital Improvement Fund                 | 500,000                        | -                           | -                       | 500,000                     | 500,000              |
| Payments to Village Streets Fund                         | -                              | -                           | 491,500                 | 491,500                     | 518,912              |
| Interest   | -                              | -                           | 1,762,981               | 1,762,981                   | 1,907,181            |
| Principal  | -                              | -                           | 4,265,000               | 4,265,000                   | 4,120,000            |
| <b>Total expenditures</b>                                | <b>7,525,627</b>               | <b>-</b>                    | <b>6,529,724</b>        | <b>14,055,351</b>           | <b>16,001,965</b>    |
| <b>Excess (deficiency) of revenues over expenditures</b> | <b>9,820,236</b>               | <b>712,793</b>              | <b>(6,434,513)</b>      | <b>4,098,516</b>            | <b>(1,914,156)</b>   |
| <b>Transfers:</b>  |                                |                             |                         |                             |                      |
| Operating transfers in                                   | -                              | -                           | 4,502,859               | 4,502,859                   | 16,626,656           |
| Operating transfers out                                  | (4,502,859)                    | -                           | -                       | (4,502,859)                 | (16,626,656)         |
| <b>Net transfers</b>                                     | <b>(4,502,859)</b>             | <b>-</b>                    | <b>4,502,859</b>        | <b>-</b>                    | <b>-</b>             |
| Gain from disallowed tax drawback claims                 | 1,688,330                      | -                           | -                       | 1,688,330                   | -                    |
| Gain from tax drawback settlement                        | -                              | -                           | -                       | -                           | 5,893,926            |
| <b>Net change in fund balance</b>                        | <b>7,005,707</b>               | <b>712,793</b>              | <b>(1,931,654)</b>      | <b>5,786,846</b>            | <b>3,979,770</b>     |
| <b>Fund balances (deficit), beginning of year</b>        | <b>(11,519,114)</b>            | <b>24,593,351</b>           | <b>11,446,145</b>       | <b>24,520,382</b>           | <b>20,540,612</b>    |
| <b>Fund balances (deficit), end of year</b>              | <b>\$ (4,513,407)</b>          | <b>\$ 25,306,144</b>        | <b>\$ 9,514,491</b>     | <b>\$ 30,307,228</b>        | <b>\$ 24,520,382</b> |

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies

A. Territorial Highway Fund

This fund, created by 05 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 Federal grants, liquid fuel taxes, vehicle registration fees and certain licenses.

B. Fund Accounting

The assets, liabilities and fund balance of the Government of Guam Territorial Highway Fund and funds related to the Limited Obligation Highway Refunding Bonds, 2001 Series A, are reported in three self-balancing funds as follows:

- Special Revenue Fund - used to account for liquid fuel taxes and various vehicle fees pledged in support of the bond issue, various highway operation and maintenance expenditures, and certain capital improvement projects appropriated prior to the bond issue or funded with surplus revenues.
- Capital Projects Fund - used to account for the construction of highway projects from bond proceeds.
- Debt Service Fund - used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

C. Basis of Accounting

The Funds' accounts are presented on the modified accrual basis of accounting. Expenditures and transfers are recorded when the corresponding liability has been incurred, and upon final determination of liquid fuel tax drawback claims.

Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Cash basis accounting is utilized for revenue recognition as tax assessments are not considered both measurable and available until related payments are actually received and upon the final determination of liquid fuel tax drawback claims. Tax rates and fees are noted below:

*Liquid Fuel Taxes:*

|                    |                   |
|--------------------|-------------------|
| Aviation Fuel Tax  | \$ .04 per gallon |
| Diesel Fuel Tax    | \$ .10 per gallon |
| All Other Fuel Tax | \$ .11 per gallon |

*Automotive Surcharges:*

|   |                   |
|---|-------------------|
| Mass Transit Automotive Surcharge (Diesel Fuel)                     | \$ .04 per gallon |
| Automotive Surcharge (all other fuel except fuel used for aviation) | \$ .04 per gallon |

*Motor Vehicle Fees and Registration:*

|                                   |                                |
|-----------------------------------|--------------------------------|
| Taxi Drivers                      | \$25.00 Identification Card    |
|                                   | <u>3.50</u> Endorsement        |
|                                   | \$28.50 Total for Taxi Drivers |
| Driver's License (and all others) | \$ 5.00                        |

**GOVERNMENT OF GUAM  
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Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Accounting, Continued

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 to 8,000 pounds and over plus two dollars and fifty cents (\$2.50) 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.

E. Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and short-term investments with a maturity date within three months of the date acquired by the entity. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets.

F. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

G. New Accounting Standard

During fiscal year 2005, the Government of Guam implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

H. Due From/To Other Funds

During the course of its operations, the Territorial Highway Fund records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the balance sheet.

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.

Interfund receivables and payables have been eliminated except for the residual amounts due between funds.

The interfund balances at September 30, 2005, are summarized below:

|              | <u>Special<br/>Revenue Fund</u> | <u>Highway Bond<br/>Capital Projects Fund</u> | <u>Debt Service<br/>Fund</u> |
|--------------|---------------------------------|---|------------------------------|
| Due From:    |                                 |   |                              |
| General Fund | \$ <u>9,901,389</u>             | \$ <u>578,100</u>                             | \$ <u>      -</u>            |

I. Restricted Assets

Certain assets are classified as restricted assets because their use is completely restricted through bond indentures. Specifically, the Territorial Highway Fund has cash and cash equivalents and investments in the Capital Projects Fund and the Debt Service Fund restricted as defined by the bond indenture and further described in Note 5.

J. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.



**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance

In the financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose, which includes continuing appropriations amounts reserved for debt service, and amounts committed to liquidate contracts and purchase orders of the prior period. Designations of fund balance represent tentative management plans that are subject to change.

The unreserved fund balances for the funds represent the amount available for future operations. The reserve for related assets as of September 30, 2005 is represented by interfund receivables not expected to be repaid within the next twelve months.

L. Encumbrances

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, 2005, there were no outstanding interdepartmental work requests pertaining to land acquisitions. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

M. Memorandum Only-Total Columns

Total columns on the financial statements are captioned as “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with GAAP. Interfund eliminations have been made in the aggregation of this data. Furthermore, certain reclassifications have been made to the 2004 data in order to conform with the 2005 presentation.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. An element of interest rate risk, disclosure is required investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies are governed by its enabling legislation and bond indentures. Management is required to engage one or more fund custodians to assume responsibility for the physical possession of the Government of Guam’s investments.

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

**GOVERNMENT OF GUAM  
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Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

A. Deposits, Continued

- Category 1 Deposits that are federally insured or collateralized with securities held by the governmental entity or its agent in the entity's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the entity's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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. The Government of Guam does not have a deposit policy for custodial credit risk.

As of September 30, 2005, the carrying amount of the entity's total cash and cash equivalents maintained in banks is \$28,344,650, and is insured to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) and to \$500,000 by the Securities Investor Protection Corporation (SIPC). Accordingly, these deposits are exposed to custodial credit risk. The Government of Guam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC and SIPC insurance coverage are uncollateralized.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the governmental entity or its agent in the entity's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the entity's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

**GOVERNMENT OF GUAM  
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Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

At September 30, 2005, the Government of Guam had fixed income securities with maturities of less than one year in U.S. Treasury obligations totaling \$366,000 and in commercial paper totaling \$5,536,000.

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

The Government of Guam's exposure to credit risk at September 30, 2005, was as follows:

| <u>Moody's Rating</u>             | <u>Total</u>        | <u>Domestic</u>     | <u>International</u> |
|-----------------------------------|---------------------|---------------------|----------------------|
| AAA                               | \$ 366,000          | \$ 366,000          | \$ -                 |
| P1                                | <u>5,536,000</u>    | <u>5,536,000</u>    | <u>-</u>             |
| Total credit risk debt securities | \$ <u>5,902,000</u> | \$ <u>5,902,000</u> | \$ <u>-</u>          |

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Government of Guam will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Government of Guam's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Government of Guam's name by the Government of Guam's custodial financial institutions at September 30, 2005.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Government of Guam. There was no concentration of credit risk for investments as of September 30, 2005.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. There was no interest rate risk for investments as of September 30, 2005.

(3) Interfund Transfer Activity

Interfund transfers from the Special Revenue Fund to the Debt Service Fund represent the transfer of pledged revenues as required by the bond indenture. Interfund transfer activity during the year ended September 30, 2005, is summarized below:

|                      | <u>Special<br/>Revenue Fund</u> | <u>Highway Bond<br/>Capital Projects Fund</u> | <u>Debt Service<br/>Fund</u> |
|----------------------|---------------------------------|---|------------------------------|
| Transfers Out To:    |                                 |   |                              |
| Debt Service Fund    | \$ <u>4,502,859</u>             | <u>-</u>                                      | <u>-</u>                     |
| Transfers In From:   |                                 |   |                              |
| Special Revenue Fund | <u>-</u>                        | <u>-</u>                                      | \$ <u>4,502,859</u>          |

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2005

(4) Tax Drawback

On September 20, 2004, a settlement was entered into in favor of a plaintiff for \$6,583,382, which resulted in a gain of \$5,893,926. The Territorial Highway Fund faced potential interest charges on the tax drawbacks of approximately \$1.7 million, which was not required to be paid. The settlement calls for the settlement balance to be offset against future liquid fuel taxes to be paid over thirty-six months.

The tax drawback liability as of September 30, 2005 totaled \$4,915,390, of which \$594,057 represents claims in litigation for which the outcome is currently undeterminable, \$115,283 represents actual refunds for overpayment, and \$4,206,050 represents the remaining portion of the above mentioned settlement, which will be offset in monthly amounts of \$182,872 against future liquid fuel taxes over three years starting September 2004.

(5) Bonds Payable

Defeased Debt of the Government of Guam Limited Obligation Highway Bonds, 1992 Series A

On April 1, 2001, the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (2001 Bonds) were issued to refund the Government of Guam Limited Obligation Highway Bonds, 1992 Series A (1992 Bonds), which were issued on June 1, 1992. The 1992 Bonds mature annually on May 1, 1994 through May 1, 2003, with a term bond maturity on May 1, 2012. Interest on the 1992 Bonds was payable semiannually on May 1 and November 1 of each year. The advance refunding met the requirements of an in-substance defeasance and the 1992 Bonds were removed from the Territorial Highway Fund's General Long-Term Debt Account Group. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments of the old and new debt) of \$1,878,801 and a total reduction in the debt service by \$4,359,985.

The Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (2001 Bonds) are serial bonds, dated April 1, 2001 and were issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. Interest is variable between 3.125% to 5.5%. The 2001 Bonds maturing on May 1, 2012, are subject to redemption prior to their stated maturity, at the option of the Government, from any source of available funds, on any date on or after May 1, 2011.

Minimum debt service payments are as follows:

| <u>Fiscal Year</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|--------------------|----------------------|---------------------|----------------------|
| 2006               | \$ 4,435,000         | \$ 1,594,294        | \$ 6,029,294         |
| 2007               | 4,660,000            | 1,366,863           | 6,026,863            |
| 2008               | 4,850,000            | 1,180,463           | 6,030,463            |
| 2009               | 5,050,000            | 980,400             | 6,030,400            |
| 2010               | 5,260,000            | 765,775             | 6,025,775            |
| 2011-2012          | <u>11,250,000</u>    | <u>801,650</u>      | <u>12,051,650</u>    |
|                    | <u>\$ 35,505,000</u> | <u>\$ 6,689,445</u> | <u>\$ 42,194,445</u> |

**GOVERNMENT OF GUAM  
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Notes to Financial Statements  
September 30, 2005

(5) Bonds Payable, Continued

Defeased Debt of the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, Continued

The 2001 Bonds are limited obligations of the Government of Guam payable entirely from a first lien pledge of revenues. Revenues are defined in the bond indentures as all amounts received by the Government, the Trustee, the Paying Agent, the Co-Trustee or the Depository as proceeds of liquid fuel taxes or as vehicle registration and license fees, all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the indenture. Proceeds from the 2001 Bonds totaled \$60,102,919 used in the following manner: \$53,147,332 was deposited into the Escrow account; \$5,170,500 was deposited in the Bond Reserve Fund account which is accounted for in the Debt Service Fund; accrued interest of \$144,157 was deposited in the Bond Fund account. Bond issuance costs and other related expenditures totaling \$1,640,930 were paid to the respective recipients.

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

- Construction Fund – amounts deposited therein are used for (1) the purpose of implementing capital improvement highway projects pursuant to Public Law 21-110 signed by the Governor on June 1, 1992, (2) the payment of principal of and interest on the bonds. The Construction Fund account is accounted for within the Capital Projects Fund.
- Costs of Issuance Fund – amounts deposited therein are used for the payment of costs of issuance of the series of bonds. The Cost of Issuance Fund account is accounted for within the Debt Service Fund.

All pledged revenues are to be deposited into a special fund designated as the Revenue Fund, except that all interest and other profit from the investment of moneys in the Construction Fund and the Rebate Fund shall be retained therein. The Revenue Fund account is accounted for within the Debt Service Fund. On or before the fifth day of each month following the month in which the 2001 Bonds are delivered, the depository shall transfer from the Revenue Fund for deposit into the following funds the specified amounts in the following order of priority:

Bond Fund – an amount equal to the sum of (1) the aggregate amount of interest to accrue during each interest accrual period and principal payment period upon all then outstanding bonds in equal monthly amounts, plus (2) an amount, which, if paid in equal monthly installments in each month prior to the next May 1, would aggregate to the amount of principal then becoming due and payable on the outstanding bonds, plus (3) an amount which, if paid in equal monthly installments in each month prior to the next May 1, would aggregate to the amount required for the mandatory sinking fund payments due.

- Bond Reserve Fund – an amount needed to increase the amount in the Bond Reserve Fund to meet the bond reserve fund requirement. The bond reserve fund requirement is defined as an amount to make up for any deficiency in the Bond Fund. The deficiency in the Bond Fund represents insufficiency of funds to pay the principal of the mandatory sinking account payments and interest on the bonds. The Bond Reserve Fund account is accounted for within the Debt Service Fund.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2005

(5) Bonds Payable, Continued

- Maintenance and Operation Fund – the amount of maintenance and operations expenses budgeted by the Government of Guam to be paid during the next succeeding calendar month. Amounts in the Maintenance and Operation Fund are to be used for the purpose of paying the Government of Guam highway maintenance and operation costs. The Maintenance and Operation Fund account is accounted for within the Debt Service Fund.
- Surplus Fund – the balance remaining in the Revenue Fund after the foregoing deposits. Amounts in the Surplus Fund are to be used for the purpose of paying other costs and expenses budgeted by the Government of Guam. The Surplus Fund account is accounted for within the Debt Service Fund.

During the year ended September 30, 2005, payments were made to the trustee totaling \$6,027,181 of which \$4,265,000 represents payment on principal and \$1,762,981 as interest:

|                                     |                      |
|-------------------------------------|----------------------|
| Bonds payable at September 30, 2004 | \$ 39,770,000        |
| Principal repayment                 | <u>4,265,000</u>     |
| Bonds payable at September 30, 2005 | \$ <u>35,505,000</u> |

At September 30, 2005, \$9,514,491 of the fund balance in the Debt Service Fund is reserved for debt service purposes.

At September 30, 2005, management of the Funds is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(6) Contingencies

On December 16, 1996, Public Law 23-128 was signed into law by the Governor of Guam. The Law authorizes fifty percent (50%) of all monies in the Surplus Fund of the Limited Obligation Highway Bonds, Series 1992 A Debt Service Fund to be paid to the Village Streets Fund. During the year ended September 30, 2005, total cash transferred to the Village Streets Fund was \$491,500.

(7) Due to GPA

At September 30, 2001, power charges totaling \$9,489,774 were accrued, representing an obligation of the Government of Guam for electrical services for certain streetlights. There is a formal repayment agreement bearing interest at 4.35%; however, it has not yet been initiated and there is no appropriation to allow payment to be processed. Management is of the opinion that this balance may change and may be charged to another fund or may be reversed. However, at this time, it is not possible to determine the ultimate outcome of this matter or the potential impact on the accompanying basic financial statements. Due to the aforementioned uncertainties, it is not possible to calculate future interest expense, if any, associated with this debt.

(8) Federal Contributions

The U.S. Department of Transportation has awarded a grant under CFDA #20.509 for reimbursement of Public Transit expenditures. No monies were received during the year ended September 30, 2005 under this grant.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2005

(9) Power

Historically, electrical services for certain streetlights have been paid for by the Territorial Highway Fund. During the year ended September 30, 2005, management has represented that no such obligation was incurred by the Territorial Highway Fund and therefore related expenditures are not reflected in the accompanying financial statements.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Supplementary Information - Balance Sheets  
September 30, 2005 and 2004

|   | Territorial Highway Fund |               | Capital Projects Fund |               | Debt Service Fund |               |
|---|--------------------------|---------------|-----------------------|---------------|-------------------|---------------|
|   | 2005                     | 2004          | 2005                  | 2004          | 2005              | 2004          |
| <b>ASSETS</b>                                 |                          |               |                       |               |                   |               |
| Cash and cash equivalents                     | \$ 3,345                 | \$ 16,248     | \$ -                  | \$ -          | \$ -              | \$ -          |
| Restricted assets:                            |                          |               |                       |               |                   |               |
| Cash and cash equivalents                     | -                        | -             | 24,728,044            | 24,172,703    | 3,613,261         | 10,695,998    |
| Investments                                   | -                        | -             | -                     | -             | 5,902,000         | 732,000       |
| Taxes receivable                              | 1,172,261                | 1,141,833     | -                     | -             | -                 | -             |
| Due from General Fund                         | 9,901,389                | 8,878,701     | 578,100               | 577,584       | -                 | 18,147        |
| Total assets                                  | \$ 11,076,995            | \$ 10,036,782 | \$ 25,306,144         | \$ 24,750,287 | \$ 9,515,261      | \$ 16,139,442 |
| <b>LIABILITIES</b>                            |                          |               |                       |               |                   |               |
| Accounts payable                              | \$ -                     | \$ 16,566     | \$ -                  | \$ 156,936    | \$ -              | \$ -          |
| Due to Guam Power Authority                   | 10,447,168               | 10,124,204    | -                     | -             | -                 | -             |
| Accrued expenditures                          | 227,844                  | 2,788,881     | -                     | -             | 770               | -             |
| Tax drawbacks                                 | 4,915,390                | 8,626,245     | -                     | -             | -                 | -             |
| Total liabilities                             | 15,590,402               | 21,555,896    | -                     | 156,936       | 770               | 4,693,297     |
| <b>FUND BALANCES</b>                          |                          |               |                       |               |                   |               |
| Fund balances (deficit):                      |                          |               |                       |               |                   |               |
| Reserved for:                                 |                          |               |                       |               |                   |               |
| Related assets                                | 9,901,389                | 8,878,701     | 578,100               | 577,584       | -                 | 18,147        |
| Continuing appropriations                     | 554,203                  | 637,330       | -                     | 542,639       | -                 | -             |
| Debt service                                  | -                        | -             | -                     | -             | 9,514,491         | 6,734,701     |
| Encumbrances                                  | 782,391                  | 586,071       | -                     | -             | -                 | -             |
| Unreserved fund balances (deficit)            | (15,751,390)             | (21,621,216)  | 24,728,044            | 23,473,128    | -                 | 4,693,297     |
| Total fund balances (deficit)                 | (4,513,407)              | (11,519,114)  | 25,306,144            | 24,593,351    | 9,514,491         | 11,446,145    |
| Total liabilities and fund balances (deficit) | \$ 11,076,995            | \$ 10,036,782 | \$ 25,306,144         | \$ 24,750,287 | \$ 9,515,261      | \$ 16,139,442 |

See accompanying independent auditors' report.



**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Supplementary Information - Comparative Statements of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Years Ended September 30, 2005 and 2004

|  | Territorial Highway Fund |                        | Capital Projects Fund |                      | Debt Service Fund   |                      |
|--|--------------------------|------------------------|-----------------------|----------------------|---------------------|----------------------|
|  | 2005                     | 2004                   | 2005                  | 2004                 | 2005                | 2004                 |
| <b>Revenues:</b>   |                          |                        |                       |                      |                     |                      |
| Taxes  | \$ 12,610,196            | \$ 8,910,185           | \$ -                  | \$ -                 | \$ -                | \$ -                 |
| Licenses, fees and permits                               | 4,734,342                | 4,375,475              | -                     | -                    | -                   | -                    |
| Use of money and property                                | 1,325                    | 11,768                 | 712,793               | 187,024              | 95,211              | 20,418               |
| Federal contributions                                    | -                        | 582,939                | -                     | -                    | -                   | -                    |
| <b>Total revenues</b>                                    | <b>17,345,863</b>        | <b>13,880,367</b>      | <b>712,793</b>        | <b>187,024</b>       | <b>95,211</b>       | <b>20,418</b>        |
| <b>Expenditures/expenses:</b>                            |                          |                        |                       |                      |                     |                      |
| General and administrative                               | 4,658,432                | 6,326,144              | -                     | -                    | -                   | -                    |
| Other  | -                        | -                      | -                     | -                    | 10,243              | 14,680               |
| Payments to Public Transit                               | 2,367,195                | 2,615,048              | -                     | -                    | -                   | -                    |
| Payments to UOG Capital Improvement Fund                 | 500,000                  | 500,000                | -                     | -                    | -                   | -                    |
| Payments to Village Streets Fund                         | -                        | -                      | -                     | -                    | 491,500             | 518,912              |
| Interest   | -                        | -                      | -                     | -                    | 1,762,981           | 1,907,181            |
| Principal  | -                        | -                      | -                     | -                    | 4,265,000           | 4,120,000            |
| <b>Total expenditures</b>                                | <b>7,525,627</b>         | <b>9,441,192</b>       | <b>-</b>              | <b>-</b>             | <b>6,529,724</b>    | <b>6,560,773</b>     |
| <b>Excess (deficiency) of revenues over expenditures</b> | <b>9,820,236</b>         | <b>4,439,175</b>       | <b>712,793</b>        | <b>187,024</b>       | <b>(6,434,513)</b>  | <b>(6,540,355)</b>   |
| <b>Transfers:</b>  |                          |                        |                       |                      |                     |                      |
| Operating transfers in                                   | -                        | 4,120,828              | -                     | -                    | 4,502,859           | 12,505,828           |
| Operating transfers out                                  | (4,502,859)              | (12,505,828)           | -                     | -                    | -                   | (4,120,828)          |
| <b>Net transfers</b>                                     | <b>(4,502,859)</b>       | <b>(8,385,000)</b>     | <b>-</b>              | <b>-</b>             | <b>4,502,859</b>    | <b>8,385,000</b>     |
| Gain from disallowed tax drawback claims                 | 1,688,330                | -                      | -                     | -                    | -                   | -                    |
| Gain from tax drawback settlement                        | -                        | 5,893,926              | -                     | -                    | -                   | -                    |
| <b>Net change in fund balance</b>                        | <b>7,005,707</b>         | <b>1,948,101</b>       | <b>712,793</b>        | <b>187,024</b>       | <b>(1,931,654)</b>  | <b>1,844,645</b>     |
| <b>Fund balances (deficit) at beginning of year</b>      | <b>(11,519,114)</b>      | <b>(13,467,215)</b>    | <b>24,593,351</b>     | <b>24,406,327</b>    | <b>11,446,145</b>   | <b>9,601,500</b>     |
| <b>Fund balances (deficit) at end of year</b>            | <b>\$ (4,513,407)</b>    | <b>\$ (11,519,114)</b> | <b>\$ 25,306,144</b>  | <b>\$ 24,593,351</b> | <b>\$ 9,514,491</b> | <b>\$ 11,446,145</b> |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Supplementary Schedule  
Years Ended September 30, 2005 and 2004

|  | <u>2005</u>         | <u>2004</u>          |
|--|---------------------|----------------------|
| Debt Service Fund Restricted Cash:               |                     |                      |
| Highway Bond Fund                                | \$ 3,059,016        | \$ 3,066,769         |
| Highway Reserve Fund                             | 5,170,500           | 5,174,200            |
| Operations and Maintenance Fund                  | 1,201,012           | 1,613,269            |
| Surplus Fund                                     | 77,483              | 583,966              |
| Revenue Fund                                     | 4,658               | 983,307              |
| Cost of insurance fund                           | 2,592               | 6,487                |
|  | <u>\$ 9,515,261</u> | <u>\$ 11,427,998</u> |
| Department of Public Works Maintenance Division: |                     |                      |
| Salaries   | \$ 2,699,292        | \$ 2,346,902         |
| Overtime   | 58,254              | 14,829               |
| Benefits   | 761,360             | 666,749              |
|  | <u>\$ 3,518,906</u> | <u>\$ 3,028,480</u>  |
| Employees at end of year                         | 93                  | 65                   |
| Operations and Maintenance Expenditures:         |                     |                      |
| Power  | \$ 181,712          | \$ 2,113,373         |
| Salaries, wages, and benefits                    | 3,518,906           | 3,028,480            |
| Contractual services                             | 536,922             | 245,039              |
| Supplies and materials                           | 185,800             | 544,000              |
| Others   | 235,092             | 395,252              |
|  | <u>\$ 4,658,432</u> | <u>\$ 6,326,144</u>  |
| Bond Interest Rates at Maturity Dates:           | <u>2001 Bonds</u>   | <u>1992 Bonds</u>    |
| May 2005   | 3.500%              | 6.250%               |
| 2006   | 3.500%              | 6.250%               |
| 2007   | 4.000%              | 6.250%               |
| 2008   | 4.125%              | 6.250%               |
| 2009   | 4.250%              | 6.300%               |
| 2010   | 4.250%              | 6.300%               |
| 2011   | 4.250%              | 6.300%               |
| 2012   | 4.500%              | 6.300%               |

See accompanying independent auditors' report.