

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

YEAR ENDED SEPTEMBER 30, 2002

INDEPENDENT AUDITORS' REPORT

Honorable Felix P. Camacho
Governor of Guam:

We have audited the accompanying balance sheets 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, 2002, and the related statements 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 2001 financial statements and in our report dated December 3, 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

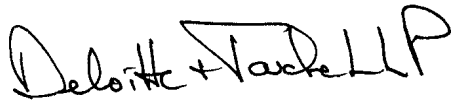
As discussed in Note 1 to the financial statements, the financial statements present only the Territorial Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations 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, 2002, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the year ended September 30, 2002, the Government of Guam adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The implementation of this standard changed the timing of recognition of nonexchange transactions. Beginning fund balances have been restated to account for the implementation of this accounting standard.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information (construction project status and additional supplementary information) on pages 11 to 14 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 January 31, 2005 on our consideration of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds 2001 Series A's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

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

January 31, 2005

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Balance Sheets
September 30, 2002

| | Territorial Highway Fund | Capital Projects Fund | Debt Service Fund | Totals (Memorandum Only) | |
|--|--------------------------------|-----------------------------|-------------------------|-----------------------------|----------------------|
| | | | | 2002 | 2001 |
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 6,781,668 | \$ - | \$ - | \$ 6,781,668 | \$ 4,504,513 |
| Restricted assets: | | | | | |
| Cash and cash equivalents | - | 25,361,964 | 10,381,803 | 35,743,767 | 40,321,117 |
| Investments | - | - | 1,098,000 | 1,098,000 | - |
| Taxes receivable, net of allowance of \$32,269,311 | 1,192,330 | - | - | 1,192,330 | - |
| Due from other funds | 6,236,881 | - | - | 6,236,881 | 5,576,335 |
| Total assets | <u>\$ 14,210,879</u> | <u>\$ 25,361,964</u> | <u>\$ 11,479,803</u> | <u>\$ 51,052,646</u> | <u>\$ 50,401,965</u> |
| <u>LIABILITIES</u> | | | | | |
| Accounts payable | \$ 19,050 | \$ 230,607 | \$ - | \$ 249,657 | \$ 249,657 |
| Due to other funds | - | 919,263 | 1,558,821 | 2,478,084 | 4,022,240 |
| Due to Guam Power Authority | 9,489,774 | - | - | 9,489,774 | 9,489,774 |
| Accrued expenditures/expenses | 1,126,262 | - | - | 1,126,262 | - |
| Tax drawbacks | 14,703,041 | - | - | 14,703,041 | 14,293,356 |
| Total liabilities | <u>25,338,127</u> | <u>1,149,870</u> | <u>1,558,821</u> | <u>28,046,818</u> | <u>28,055,027</u> |
| <u>FUND BALANCES</u> | | | | | |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Continuing appropriations | 38,340,214 | 5,523,423 | - | 43,863,637 | 16,347,406 |
| Debt service | - | - | 9,920,982 | 9,920,982 | 12,202,711 |
| Encumbrances | 1,484,691 | 57,847 | - | 1,542,538 | 1,292,592 |
| Unreserved (deficit) | <u>(50,952,153)</u> | <u>18,630,824</u> | <u>-</u> | <u>(32,321,329)</u> | <u>(7,495,771)</u> |
| Total fund balances | <u>(11,127,248)</u> | <u>24,212,094</u> | <u>9,920,982</u> | <u>23,005,828</u> | <u>22,346,938</u> |
| Total liabilities and fund balances | <u>\$ 14,210,879</u> | <u>\$ 25,361,964</u> | <u>\$ 11,479,803</u> | <u>\$ 51,052,646</u> | <u>\$ 50,401,965</u> |

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, 2002

| | Territorial Highway Fund | Capital Projects Fund | Debt Service Fund | Totals (Memorandum Only) | |
|--|--------------------------------|-----------------------------|-------------------------|-----------------------------|----------------------|
| | | | | 2002 | 2001 |
| Revenues: | | | | | |
| Taxes | \$ 9,494,223 | \$ - | \$ - | \$ 9,494,223 | \$ 11,802,904 |
| Licenses, fees and permits | 4,289,008 | - | - | 4,289,008 | 4,402,917 |
| Use of money and property | 56,161 | 417,142 | 1,225,909 | 1,699,212 | 2,314,462 |
| Total revenues | <u>13,839,392</u> | <u>417,142</u> | <u>1,225,909</u> | <u>15,482,443</u> | <u>18,520,283</u> |
| Expenditures/expenses: | | | | | |
| General and administrative | 6,012,008 | - | - | 6,012,008 | 17,678,787 |
| Other | - | - | 48,744 | 48,744 | - |
| Capital outlay | - | 70,607 | - | 70,607 | 1,931 |
| Payments to Guam Mass Transit Authority | 3,149,817 | - | - | 3,149,817 | 3,312,239 |
| Payments to Typhoon Chata'an/Halong Fund | 600,000 | - | - | 600,000 | - |
| Interest | - | - | 2,342,555 | 2,342,555 | 3,093,205 |
| Principal | - | - | 3,830,000 | 3,830,000 | 2,935,000 |
| Total expenditures | <u>9,761,825</u> | <u>70,607</u> | <u>6,221,299</u> | <u>16,053,731</u> | <u>27,021,162</u> |
| Excess (deficiency) of revenues over expenditures | 4,077,567 | 346,535 | (4,995,390) | (571,288) | (8,500,879) |
| Other financing sources(uses): | | | | | |
| Operating transfers in | 11,071,899 | - | 13,785,560 | 24,857,459 | 23,376,599 |
| Operating transfers out | (13,785,560) | - | (11,071,899) | (24,857,459) | (25,376,599) |
| Net gain from retirement of debt | - | - | - | - | 744,501 |
| Excess (deficiency) of revenues and transfers over expenditures and other financing uses | 1,363,906 | 346,535 | (2,281,729) | (571,288) | (9,756,378) |
| Fund balances (deficit), beginning of year | <u>(12,491,154)</u> | <u>23,865,559</u> | <u>12,202,711</u> | <u>23,577,116</u> | <u>32,103,316</u> |
| Fund balances (deficit), end of year | <u>\$ (11,127,248)</u> | <u>\$ 24,212,094</u> | <u>\$ 9,920,982</u> | <u>\$ 23,005,828</u> | <u>\$ 22,346,938</u> |

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(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
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Accounting, Continued

The amount of the annual license and registration fees shall be determined based on vehicle gross weight with fees ranging from \$10 to \$38 for vehicles weighing at 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

Money market funds, purchased U.S. Government debt securities and commercial paper held by the Bond Trustee, which mature within ninety days or less total \$42,525,435 and are classified as cash and cash equivalents. Those with maturity in excess of ninety days total \$1,098,000 and are classified as investments. All cash and cash equivalents and investments are classified as Category 1 investments of the three credit risk categories promulgated in Governmental Accounting Standards Board (GASB), Statement No. 3 as follows:

1. Securities insured or registered in the name of the governmental entity or held by the entity or by its agent in the entity's name.
2. Securities uninsured and unregistered and held by the counterparty's trust department, or its agent in the entity's name.
3. Securities uninsured and unregistered and held by the counterparty, its trust department, or its agent, but not held in the entity's name.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

G. 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.

The interfund balances at September 30, 2002, are summarized below:

| | <u>Territorial Highway Fund</u> | | |
|-----------------------------------|---------------------------------|---|------------------------------|
| | <u>Special Revenue Fund</u> | <u>Highway Bond Capital Projects Fund</u> | <u>Debt Service Fund</u> |
| Due From: | | | |
| General Fund | \$ 1,953,708 | \$ 27,447,103 | \$ - |
| Capital Projects Fund | - | - | 28,366,366 |
| Debt Service Fund | <u>19,505,748</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 21,459,456</u> | <u>\$ 27,447,103</u> | <u>\$ 28,366,366</u> |
| Due To: | | | |
| Special Revenue Fund | \$ - | \$ - | \$ 19,505,708 |
| Debt Service Fund | - | 28,366,366 | - |
| General Fund | <u>15,222,575</u> | <u>-</u> | <u>10,419,479</u> |
| | <u>\$ 15,222,575</u> | <u>\$ 28,366,366</u> | <u>\$ 29,925,187</u> |
| Net Due From (Due To) Other Funds | <u>\$ 6,236,881</u> | <u>\$ (919,263)</u> | <u>\$ (1,558,821)</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 4.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

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.

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. 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 budgeting future operations.

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, 2002, 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. Reclassifications and Restatements

Certain reclassifications have been made to the 2001 balances to conform to the 2002 financial statement presentation.

During fiscal year 2002, the Government of Guam implemented the following new accounting standards issued by the GASB:

Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*. GASB 33 establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (i.e., most taxes, grants and private donations). The principal issue addressed in this Statement is the timing of recognition of nonexchange transactions.

Due to the implementation of GASB Statement No. 33, the beginning fund balance has been restated. Fund balances at September 30, 2001 were increased by \$1,230,178 for the cumulative effect of these changes on years prior to fiscal year 2002.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

N. New Accounting Standards

For fiscal year 2005, the Government of Guam will be implementing GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). As of the date of the opinion, the Government of Guam has not evaluated the financial statement impact of GASB Statement No. 40.

(2) 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 transfers from the Debt Service Fund to the Special Revenue Fund represent the amount necessary to reimburse the Special Revenue Fund for highway operation and maintenance costs incurred. The transfer to the Guam Mass Transit Authority represents available funds from the mass transit fuel surcharge. Interfund transfer activity during the year ended September 30, 2002, is summarized below:

| | <u>Special Revenue Fund</u> | <u>Highway Bond Capital Projects Fund</u> | <u>Debt Service Fund</u> |
|----------------------|---------------------------------|---|------------------------------|
| Transfers Out To: | | | |
| Special Revenue Fund | \$ - | \$ - | \$ 11,071,899 |
| Debt Service Fund | <u>13,785,560</u> | <u>-</u> | <u>-</u> |
| | \$ <u>13,785,560</u> | \$ <u>-</u> | \$ <u>11,071,899</u> |
| Transfers In From: | | | |
| Special Revenue Fund | \$ - | \$ - | \$ 13,785,560 |
| Debt Service Fund | <u>11,071,899</u> | <u>-</u> | <u>-</u> |
| | \$ <u>11,071,899</u> | \$ <u>-</u> | \$ <u>13,785,560</u> |

(3) Tax Drawback

Tax drawbacks exist as of the year ended September 30, 2002 for tax years as early as 1995. These drawbacks are currently in litigation and the final outcome is not determinable as of September 30, 2002. The following information relates to the drawback liability as of September 30, 2002:

| <u>Tax Year</u> | <u>Amount</u> |
|-----------------|----------------------|
| 1995 | \$ 715,144 |
| 1996 | 5,037,712 |
| 1997 | 7,213,170 |
| 1998 | 1,731,909 |
| 1999 | <u>5,106</u> |
| Total | \$ <u>14,703,041</u> |

On September 20, 2004, a settlement was entered into in favor of a plaintiff for \$6.5 million and in favor of the Government of Guam for \$2.2 million plus a potential \$1.7 million in interest. No adjustment that may result from this matter has been reflected in the accompanying financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(4) 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> |
|--------------------|----------------------|----------------------|----------------------|
| 2003 | \$ 3,985,000 | \$ 2,042,671 | \$ 6,027,671 |
| 2004 | 4,120,000 | 1,907,181 | 6,027,181 |
| 2005 | 4,265,000 | 1,762,981 | 6,027,981 |
| 2006 | 4,435,000 | 1,594,294 | 6,029,294 |
| 2007 | 4,660,000 | 1,366,863 | 6,026,863 |
| 2008-2012 | <u>26,410,000</u> | <u>3,728,287</u> | <u>30,138,287</u> |
| | \$ <u>47,875,000</u> | \$ <u>12,402,277</u> | \$ <u>60,277,277</u> |

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 Depositary 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 to 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 depositary 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.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(4) Bonds Payable, Continued

- 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, is 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.
- 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, 2002, payments to the trustee totaled \$6,172,555, of which \$3,830,000 represents payment on principal and \$2,342,555 of interest.

| | |
|-------------------------------------|----------------------|
| Bonds payable at September 30, 2001 | \$ 51,705,000 |
| Principal repayment | <u>3,830,000</u> |
| Bonds payable at September 30, 2002 | \$ <u>47,875,000</u> |

At September 30, 2002, \$9,920,982 of the bonds payable is reserved for in the Debt Service Fund for debt service purposes.

At September 30, 2002, management of the Funds is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 2002

(5) 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, 2002, total cash transferred to the Village Streets Fund was \$4,765,850.

(6) 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 to certain streetlights. There is a form of repayment agreement bearing interest at 4.35%, however, it has not yet been initiated and there is no appropriation to process payment. 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.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Construction Project Status
September 30, 2002

| <u>Project Title</u> | <u>Budget</u> | <u>Expenditures Year Ended September 30, 2002</u> | <u>Cumulative Expenditures</u> | <u>Outstanding Encumbrances</u> | <u>Budget Available</u> |
|---|---------------|---|------------------------------------|-------------------------------------|-----------------------------|
| 1992 Series A Construction Fund Projects: | | | | | |
| Reconstruction Harmon Loop | \$ 2,000,290 | \$ - | \$ 615,319 | \$ 6,800 | \$ 1,378,171 |
| Design and reconstruction of three (3) lane highway from intersection of Rte 30 and Rte 1 to GMH | 11,278,893 | - | 9,906,810 | - | 1,372,083 |
| Design and construction of Harmon access road including land acquisition | 104,904 | - | 102,454 | 2,450 | - |
| Land acquisition for Agat-Umatac Project and unacquired land on Rte 1, Rte 6, Macheche Rd., Bello Rd, and Alegeta St. | 4,000,000 | - | 1,897,222 | - | 2,102,778 |
| Resurfacing of approximately 5 miles of Rte 4 through Merizo | 2,836,882 | - | 2,803,493 | 33,389 | - |
| Sidewalk 6 feet in width on the South side of San Vitores Rd from JFK High School | 500,000 | - | - | - | 500,000 |
| Secondary road improvements in the village of Yigo | 499,870 | - | 476,662 | 15,208 | 8,000 |
| Sub-total | 21,220,839 | - | 15,801,960 | 57,847 | 5,361,032 |
| Typhoon Chata'an Debris Clearance: | | | | | |
| Chata'an Debris clearance - match | 233,000 | 70,608 | 70,608 | - | 162,392 |
| Sub-total | 233,000 | 70,608 | 70,608 | - | 162,392 |
| Total | \$ 21,453,839 | \$ 70,608 | \$ 15,872,568 | \$ 57,847 | \$ 5,523,424 |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Supplementary Information - Balance Sheets
September 30, 2002 and 2001

| | Territorial Highway Fund | | Capital Projects Fund | | Debt Service Fund | |
|---|--------------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| <u>ASSETS</u> | | | | | | |
| Cash and cash equivalents | \$ 6,781,668 | \$ 4,504,513 | \$ - | \$ - | \$ - | \$ - |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | - | - | 25,361,964 | 24,944,821 | 10,381,803 | 15,376,296 |
| Investments | - | - | - | - | 1,098,000 | - |
| Taxes receivable, net | 1,192,330 | - | - | - | - | - |
| Due from other funds | 6,236,881 | 5,576,335 | - | - | - | - |
| | <u>6,236,881</u> | <u>5,576,335</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 14,210,879</u> | <u>\$ 10,080,848</u> | <u>\$ 25,361,964</u> | <u>\$ 24,944,821</u> | <u>\$ 11,479,803</u> | <u>\$ 15,376,296</u> |
| <u>LIABILITIES</u> | | | | | | |
| Accounts payable | \$ 19,050 | \$ 19,050 | \$ 230,607 | \$ 230,607 | \$ - | \$ - |
| Due to other funds | - | - | 919,263 | 848,655 | 1,558,821 | 3,173,585 |
| Due to Guam Power Authority | 9,489,774 | 9,489,774 | - | - | - | - |
| Accrued expenditures | 1,126,262 | - | - | - | - | - |
| Tax drawbacks | 14,703,041 | 14,293,356 | - | - | - | - |
| | <u>14,703,041</u> | <u>14,293,356</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>25,338,127</u> | <u>23,802,180</u> | <u>1,149,870</u> | <u>1,079,262</u> | <u>1,558,821</u> | <u>3,173,585</u> |
| <u>FUND BALANCES</u> | | | | | | |
| Fund balances (deficit): | | | | | | |
| Reserved for: | | | | | | |
| Continuing appropriations | 38,340,214 | 640,174 | 5,523,423 | 15,707,232 | - | - |
| Debt service | - | - | - | - | 9,920,982 | 12,202,711 |
| Encumbrances | 1,484,691 | 1,222,745 | 57,847 | 69,847 | - | - |
| Unreserved fund balances (deficit) | (50,952,153) | (15,584,251) | 18,630,824 | 8,088,480 | - | - |
| | <u>(50,952,153)</u> | <u>(15,584,251)</u> | <u>18,630,824</u> | <u>8,088,480</u> | <u>-</u> | <u>-</u> |
| Total fund balances (deficit) | <u>(11,127,248)</u> | <u>(13,721,332)</u> | <u>24,212,094</u> | <u>23,865,559</u> | <u>9,920,982</u> | <u>12,202,711</u> |
| Total liabilities and fund balances (deficit) | <u>\$ 14,210,879</u> | <u>\$ 10,080,848</u> | <u>\$ 25,361,964</u> | <u>\$ 24,944,821</u> | <u>\$ 11,479,803</u> | <u>\$ 15,376,296</u> |

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, 2002 and 2001

| | Territorial Highway Fund | | Capital Projects Fund | | Debt Service Fund | |
|--|--------------------------|-----------------|-----------------------|---------------|-------------------|---------------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | | | |
| Taxes | \$ 9,494,223 | \$ 11,802,904 | \$ - | \$ - | \$ - | \$ - |
| Licenses, fees and permits | 4,289,008 | 4,402,917 | - | - | - | - |
| Use of money and property | 56,161 | 172,228 | 417,142 | 1,054,127 | 1,225,909 | 1,088,107 |
| Total revenues | 13,839,392 | 16,378,049 | 417,142 | 1,054,127 | 1,225,909 | 1,088,107 |
| Expenditures/expenses: | | | | | | |
| General and administrative | 6,012,008 | 17,678,787 | - | - | - | - |
| Other | - | - | - | - | 48,744 | - |
| Capital outlay | - | - | 70,607 | 1,931 | - | - |
| Payments to Guam Mass Transit Authority | 3,149,817 | 3,312,239 | - | - | - | - |
| Payments to Typhoon Chata'an/Halong Fund | 600,000 | - | - | - | - | - |
| Interest | - | - | - | - | 2,342,555 | 3,093,205 |
| Principal | - | - | - | - | 3,830,000 | 2,935,000 |
| Total expenditures | 9,761,825 | 20,991,026 | 70,607 | 1,931 | 6,221,299 | 6,028,205 |
| Excess (deficiency) of revenues over expenditures | 4,077,567 | (4,612,977) | 346,535 | 1,052,196 | (4,995,390) | (4,940,098) |
| Other financing sources(uses): | | | | | | |
| Operating transfers in | 11,071,899 | 8,770,148 | - | - | 13,785,560 | 14,606,451 |
| Operating transfers out | (13,785,560) | (16,606,451) | - | - | (11,071,899) | (8,770,148) |
| Net gain from retirement of debt | - | - | - | - | - | 744,501 |
| Proceeds from bond defeasance | - | - | - | - | - | 60,102,919 |
| Uses for bond defeasance | - | - | - | - | - | (60,102,919) |
| Excess (deficiency) of revenues and transfers over expenditures and other financing uses | 1,363,906 | (12,449,280) | 346,535 | 1,052,196 | (2,281,729) | 1,640,706 |
| Fund balances (deficit) at beginning of year | (12,491,154) | (1,272,052) | 23,865,559 | 22,813,363 | 12,202,711 | 10,562,005 |
| Fund balances (deficit) at end of year | \$ (11,127,248) | \$ (13,721,332) | \$ 24,212,094 | \$ 23,865,559 | \$ 9,920,982 | \$ 12,202,711 |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Supplementary Schedule
Years Ended September 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|--|----------------------|----------------------|
| Debt Service Fund Cash: | | |
| Highway Bond Fund | \$ 3,060,836 | \$ - |
| Highway Reserve Fund | 5,170,500 | 5,171,347 |
| Operations and Maintenance Fund | 1,459,954 | 2,278,374 |
| Surplus Fund | 543,182 | 5,407,802 |
| Revenue Fund | 1,236,939 | 2,509,011 |
| Cost of Insurance Fund | 8,392 | 9,751 |
| Escrow Fund | - | 11 |
| | <u>\$ 11,479,803</u> | <u>\$ 15,376,296</u> |
| Department of Public Works Maintenance Division: | | |
| Salaries | \$ 2,175,182 | \$ 2,418,980 |
| Overtime | 62,691 | 77,360 |
| Benefits | 597,737 | 509,908 |
| | <u>\$ 2,835,610</u> | <u>\$ 3,006,248</u> |
| Employees at end of year | 63 | 54 |
| Operations and Maintenance Expenditures: | | |
| Power | \$ 1,785,884 | \$ 9,768,007 |
| Liquid fuel tax drawback | 331 | 3,656,891 |
| Salaries, wages, and benefits | 2,835,610 | 3,006,248 |
| Contractual services | 357,720 | 486,461 |
| Supplies and materials | 404,211 | 383,695 |
| Others | 628,252 | 377,485 |
| | <u>\$ 6,012,008</u> | <u>\$ 17,678,787</u> |
| Bond Interest Rates at Maturity Dates: | <u>2001 Bonds</u> | <u>1992 Bonds</u> |
| May 2003 | 3.400% | 6.000% |
| 2004 | 3.500% | 6.250% |
| 2005 | 3.500% | 6.250% |
| 2006 | 3.500% | 6.250% |
| 2007 | 4.000% | 6.250% |
| 2008 | 4.125% | 6.300% |
| 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.