

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

YEAR ENDED SEPTEMBER 30, 1998



INDEPENDENT AUDITORS' REPORT

Honorable Carl T.C. Gutierrez
Governor of Guam:

We have audited the accompanying balance sheets of the Territorial Highway Fund and of those funds and account groups related to the Government of Guam Limited Obligation Highway Bonds, 1992 Series A as of September 30, 1998, 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.

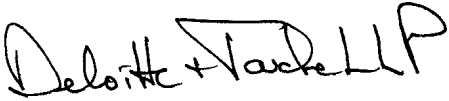
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable 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 described in note 1, the financial statements present only the Territorial Highway Fund and those funds and account groups related to the Government of Guam Limited Obligation Highway Bonds, 1992 Series A. They are not intended to present the financial position and the results of operations of the Government of Guam in conformity with generally accepted accounting principles.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Territorial Highway Fund and funds and the account group related to the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, as of September 30, 1998, and the results of their operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 1999 on our consideration of the Territorial Highway Fund and of those funds and account groups related to the Government of Guam Limited Obligation Highway Bonds 1992 Series A's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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) on pages 8 - 10 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 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.

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

September 15, 1999

GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND

Balance Sheets
September 30, 1998

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	General Long-Term Debt Account Group	Total (Memorandum Only)
<u>ASSETS</u>					
Cash and equivalents	\$ 2,300,151	3,044,573	21,865,149	-	\$ 27,209,873
Investments (note 1)	-	25,921,970	-	-	25,921,970
Taxes receivable	10,929,324	-	1,403,631	-	12,332,955
Due from other funds (note 2)	10,341,662	344,735	1,403,631	-	12,090,028
Accrued interest receivable	-	354,525	-	-	354,525
Amount available in debt service fund	-	-	-	9,949,072	9,949,072
Amount to be provided for retirement of debt	-	-	-	45,295,928	45,295,928
Total assets	<u>\$ 23,571,137</u>	<u>29,665,803</u>	<u>24,672,411</u>	<u>55,245,000</u>	<u>\$ 133,154,351</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Accounts payable	\$ 19,050	243,304	-	-	\$ 262,354
Accrued payroll and other	1,201,467	599,864	-	-	1,801,331
Due to other funds (note 2)	1,403,631	469,681	14,723,338	-	16,596,650
Deferred revenue	10,929,324	-	-	-	10,929,324
Estimated tax refunds	11,781,036	-	-	-	11,781,036
Bonds payable (note 5)	-	-	-	55,245,000	55,245,000
Total liabilities	<u>25,334,508</u>	<u>1,312,849</u>	<u>14,723,338</u>	<u>55,245,000</u>	<u>96,615,695</u>
Fund balances (deficit):					
Reserved for:					
Continuing appropriations	292,201	16,160,423	-	-	16,452,624
Debt service	-	-	9,949,073	-	9,949,073
Encumbrances (note 4)	364,477	7,533,356	-	-	7,897,833
Unreserved	(2,420,049)	4,659,175	-	-	2,239,126
Total fund balances (deficit)	<u>(1,763,371)</u>	<u>28,352,954</u>	<u>9,949,073</u>	<u>-</u>	<u>36,538,656</u>
Total liabilities and fund balances (deficit)	<u>\$ 23,571,137</u>	<u>29,665,803</u>	<u>24,672,411</u>	<u>55,245,000</u>	<u>\$ 133,154,351</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, 1998

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Total (Memorandum Only)
Revenues:				
Taxes	\$ 12,715,799	-	-	\$ 12,715,799
Licenses, fees and permits	4,863,337	-	-	4,863,337
Use of money and property	107,187	1,639,195	876,535	2,622,917
	<u>17,686,323</u>	<u>1,639,195</u>	<u>876,535</u>	<u>20,202,053</u>
Expenditures:				
Capital projects	-	3,438,438	-	3,438,438
Interest	-	-	3,526,576	3,526,576
Principal	-	-	2,505,000	2,505,000
Operations and maintenance	9,189,415	-	-	9,189,415
General government	25,500	-	-	25,500
	<u>9,214,915</u>	<u>3,438,438</u>	<u>6,031,576</u>	<u>18,684,929</u>
Excess (deficiency) of revenues over expenditures	<u>8,471,408</u>	<u>(1,799,243)</u>	<u>(5,155,041)</u>	<u>1,517,124</u>
Other financing sources (uses):				
Operating transfers in (note 3)	13,291,950	-	19,399,972	32,691,922
Operating transfers out (note 3)	(22,404,972)	-	(14,942,150)	(37,347,122)
Other financing uses (note 7)	(11,158)	(5,669)	(19,657)	(36,484)
Total other financing sources (uses)	<u>(9,124,180)</u>	<u>(5,669)</u>	<u>4,438,165</u>	<u>(4,691,684)</u>
Expenditures and other financing uses (over) under revenues and other financing sources	(652,772)	(1,804,912)	(716,876)	(3,174,560)
Fund balances (deficit) at beginning of year	<u>(1,110,599)</u>	<u>30,157,866</u>	<u>10,665,949</u>	<u>39,713,216</u>
Fund balances (deficit) at end of year	<u>\$ (1,763,371)</u>	<u>\$ 28,352,954</u>	<u>\$ 9,949,073</u>	<u>\$ 36,538,656</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies

A. Fund Accounting - The assets, liabilities and fund balance of the Government of Guam Territorial Highway Fund and funds related to the Limited Obligation Highway Bonds, 1992 Series A, are reported in three self-balancing funds and an account group 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.
- General Long-Term Debt Account Group - used to account for outstanding bonds payable and the amount available for payment of long-term debt. The Account Group is not a "fund" as it is only concerned with the measurement of financial position and is not involved with measurement of results of operations. Since the balances within the Account Group do not affect net current assets, these long-term amounts are not recognized as "fund" expenditures or liabilities until the corresponding amounts become due.

The Government of Guam has elected not to capitalize public domain or infrastructure fixed assets, which include highway and road improvements. This election is consistent with generally accepted accounting principles.

B. Basis of Accounting - The Fund's 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.

C. 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.

D. Cash and Equivalents - Cash and equivalents represent purchased U.S. Government debt securities held by the Bond Depository or Bond Trustee with a maturity of ninety days or less. In accordance with GASB Statement No. 3, these holdings are classified in the first and third of three credit risk categories described below:

- 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.
- Securities uninsured and unregistered and held by the counterparty's trust department, or its agent in the entity's name.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

D. Cash and Equivalents, Continued

- Securities uninsured and unregistered and held by the counterparty, its trust department, or its agent, but not held in the entity's name.

E. 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 disclosures 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.

F. Total-Memorandum Only - The "Total-Memorandum Only" columns represent an aggregate of the individual combined financial statements. The total column is presented for overview informational purposes and does not represent consolidated financial information.

G. Investments – Investments are reported at fair value.

(2) Due From/To Government of Guam General Fund and Other Funds

Amounts due from/to the Government of Guam General Fund and other funds represent advances which are to be reimbursed at a later date. The amount due to the Special Revenue Fund from the Debt Service Fund represents operations and maintenance reimbursement. The interfund balances at September 30, 1998, 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:			
Debt Service Fund	\$ -	\$ 344,735	\$ -
General Fund	10,341,662	-	-
Special Revenue Fund	<u>-</u>	<u>-</u>	<u>1,403,631</u>
	\$ <u>10,341,662</u>	\$ <u>344,735</u>	\$ <u>1,403,631</u>
Due To:			
Special Revenue Fund	\$ -	\$ -	\$ -
Capital Projects Fund	-	-	344,735
General Fund	-	469,681	14,378,603
Debt Service Fund	<u>1,403,631</u>	<u>-</u>	<u>-</u>
	\$ <u>1,403,631</u>	\$ <u>469,681</u>	\$ <u>14,723,338</u>

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 1998

(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 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, 1998, is summarized below:

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
Transfers Out To:		
Special Revenue Fund	\$ -	\$ 13,291,950
Debt Service Fund	19,399,972	-
Guam Mass Transit Authority	3,005,000	-
Village Streets Fund	<u>-</u>	<u>1,650,200</u>
	\$ <u>22,404,972</u>	\$ <u>14,942,150</u>
	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
Transfers In From:		
Special Revenue Fund	\$ -	\$ 19,399,972
Debt Service Fund	<u>13,291,950</u>	<u>-</u>
	\$ <u>13,291,950</u>	\$ <u>19,399,972</u>

(4) 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, 1998, 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.

(5) Bonds Payable

The Government of Guam Limited Obligation Highway Bonds, 1992 Series A, were dated June 1, 1992, and were issued in fully registered form, in denominations of \$5,000 or multiples thereof in the aggregate principal amount of \$68,500,000. The bonds mature annually on May 1, 1994 through May 1, 2003, with a term bond maturity on May 1, 2012. Interest on the bonds is payable semiannually on May 1 and November 1 of each year. The term bond maturity is subject to mandatory sinking fund requirements and to redemption prices (as percentages of the face value of the bonds) as follows:

May 1, 2002 and November 1, 2002	102%
May 1, 2003 and November 1, 2003	101%
May 1, 2004 and thereafter	100%

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 1998

(5) Bonds Payable, Continued

Minimum debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 2,635,000	\$ 3,393,810	\$ 6,028,810
2000	2,780,000	3,248,885	6,028,885
2001	2,935,000	3,093,205	6,028,205
2002	3,105,000	2,924,442	6,029,442
2003	3,290,000	2,741,248	6,031,248
Thereafter	<u>40,500,000</u>	<u>13,767,525</u>	<u>54,267,525</u>
	\$ <u>55,245,000</u>	\$ <u>29,169,115</u>	\$ <u>84,414,115</u>

The 1992 Series A 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 from the imposition of vehicle registration fees, license fees and certain penalties, and from taxes on the sale of gasoline, aviation and diesel fuels. The Government of Guam has pledged to maintain these revenues at a level sufficient to equal annual budgeted highway maintenance and operation expenses plus 1.2 times the aggregate debt service becoming due within the next fiscal year.

In accordance with the bond indenture, the depository/ trustee has established a trust account to be known as the "Construction Fund". Amounts deposited therein are used to (1) implement highway capital improvement projects based on Public Law 21-110 signed by the Governor on June 1, 1992, (2) pay the costs of bond issuance, and (3) pay the principal and interest on the bonds should other sources be insufficient. The "Construction Fund" account is accounted for within the Capital Projects Fund.

All pledged revenues are to be deposited into a special account entitled the "Revenue Fund". In addition, all interest and other profit derived from investments, except those in the "Construction Fund", are to be transferred monthly to the "Revenue Fund". Transactions of the "Revenue Fund" account are accounted for in the Debt Service Fund. On the fifth day of each month following the month the revenues are deposited, the depository/trustee is to deposit into the following funds the specified amounts in the following order or priority:

- Bond Fund - an amount equal to the sum of (1) the aggregate amount of interest to accrue on the bonds during the next succeeding calendar month upon all then outstanding bonds, 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 serial bonds on such May 1, 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 of mandatory sinking fund payments required to be paid for outstanding term bonds on such May 1. Amounts in the Bond Fund are to be used to pay bond interest and the principal of the serial and term bonds. Funds in this account are accounted for in the Debt Service Fund.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements
September 30, 1998

(5) Bonds Payable, Continued

- Bond Reserve Fund - an amount, if any, needed to equal the maximum annual debt service. The maximum annual debt service is defined as the sum of (1) the interest falling due on the then outstanding bonds, (2) the principal amount of the outstanding serial bonds falling due by their terms, and (3) the aggregate amount of all mandatory sinking payments required; all as computed for the bond year in which such sum shall be the largest. Amounts in the Bond Reserve Fund are to be used for the purpose of making up any deficiency in the Bond Fund. Funds in this account are accounted for within the Debt Service Fund.
- Maintenance and Operation Fund - the amount of maintenance and operation 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. Accounting for this fund is performed within the Debt Service Fund.
- Maintenance and Operation Reserve Fund - an amount to increase the balance therein equal to 1.5% of the original aggregate principal amount of bonds of each series having bonds outstanding. Amounts in the Maintenance and Operation Reserve Fund are to be used to pay Government of Guam highway maintenance and operation expenses should amounts in the Maintenance and Operation Fund be insufficient. Accounting for this fund is performed within the Debt Service Fund.
- Surplus Fund - the balance remaining in the revenue fund after all of 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. Transactions to and from the Surplus Fund are accounted for in the Debt Service Fund.

At September 30, 1998, 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 Funds. During the year ended September 30, 1998, total cash disbursed to the Village Streets Fund was \$1,650,200.

(7) Subsequent Events

On March 25, 1999, Public Law 25-03 was signed into law by the Governor of Guam. The law authorizes one or more of the 1992 series A Limited Obligation Highway Bonds to be refunded.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Construction Project Status
September 30, 1998

<u>Project Title</u>	<u>Budget</u>	<u>Expenditures Year Ended September 30, 1998</u>	<u>Cumulative Expenditures</u>	<u>Outstanding Encumbrances</u>	<u>Budget Available</u>
1985 Series A Construction Fund Projects:					
Rte 1 Y-Sengsong to Gayinero Road	\$ 5,935,357	\$ -	5,935,357	\$ -	\$ -
Rte 2A Agat to Umatac Road	12,824,312	(1,000,241)	12,824,312	-	-
Rte 8 Phase I road widening	3,802,963	-	3,802,963	-	-
Aspinall Ave. and Rte 1 to Rte 8 and Rte 7A	7,423,020	-	7,423,020	-	-
Reconstruction Rte 1 to Rte 4	706,129	-	706,129	-	-
Reconstruction Rte 1 to Rte 11	<u>451,016</u>	<u>-</u>	<u>451,016</u>	<u>-</u>	<u>-</u>
Sub-Total	<u>31,142,797</u>	<u>(1,000,241)</u>	<u>31,142,797</u>	<u>-</u>	<u>-</u>
1992 Series A Construction Fund Projects:					
Umatac Guardrail	2,500,000	-	1,975,264	-	524,736
Reconstruction Harmon Loop	2,000,000	-	615,029	6,800	1,378,171
Reconstruction Rte 1 from Polaris Intersection to Rte 2A	6,006,713	-	3,275,818	-	2,730,895
Reconstruction Rte 2 from Commissary Junction to Nana River	4,000,000	-	3,830,828	-	169,172
Design and reconstruction of three (3) lane highway from intersection of Rte 30 and Rte 1 to GMH	10,000,000	2,734,528	3,363,977	6,149,486	486,537

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Construction Project Status, Continued
September 30, 1998

<u>Project Title</u>	<u>Budget</u>	<u>Expenditures Year Ended September 30, 1998</u>	<u>Cumulative Expenditures</u>	<u>Outstanding Encumbrances</u>	<u>Budget Available</u>
1992 Series A Construction Fund Projects: Continued					
Design and construction of Harmon access road including land acquisition	3,000,000	-	102,455	2,450	2,895,095
Land acquisition for Agat- Umatac Project and unacquired land on Rte 1, Rte 6, Macheche Rd., Bello Rd, and Alegeta St.	4,000,000	1,000,241	1,890,150	-	2,109,850
Resurfacing of approximately 5 miles of Rte 4 through Merizo	3,000,000	164,068	2,100,950	735,932	163,118
Design and construction of San Ramon Hill roadway network covering Rte 7	2,000,000	-	1,969,590	-	30,410
Sidewalk 6 feet in width on the South side of San Vitores Rd from JFK High School	500,000	-	-	-	500,000
Planning, design, and initial construction of bike/jogging paths island wide	1,000,000	-	-	-	1,000,000
Secondary road improvements in the village of Yigo	500,000	476,662	476,662	2,208	21,130
Secondary road improvements in the village of Dededo	500,000	-	499,032	-	968
Route 4 road improvements between Yona and Talofoto	800,000	63,180	63,180	636,480	100,340
Road construction into the new landfill	1,500,000	-	-	-	1,500,000
Expansion of Rte 26	1,000,000	-	-	-	1,000,000

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Construction Project Status, Continued
September 30, 1998

<u>Project Title</u>	<u>Budget</u>	<u>Expenditures Year Ended September 30, 1998</u>	<u>Cumulative Expenditures</u>	<u>Outstanding Encumbrances</u>	<u>Budget Available</u>
1992 Series A Construction Fund Projects: Continued					
Road improvements within the Umatac Sub-division	1,500,000	-	-	-	1,500,000
Construction of speed bumps on streets of municipalities	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Sub-total	<u>43,856,713</u>	<u>4,438,679</u>	<u>20,162,935</u>	<u>7,533,356</u>	<u>16,160,422</u>
Typhoon Omar Homeless FEMA Project:					
Roadway improvement, Dededo subdivision	2,997,456	-	2,997,456	-	-
Roadway improvement, Inarajan subdivision	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sub-total	<u>2,997,456</u>	<u>-</u>	<u>2,997,456</u>	<u>-</u>	<u>-</u>
Total	\$ <u>77,996,966</u>	<u>3,438,438</u>	<u>54,303,188</u>	<u>7,533,356</u>	<u>16,160,422</u>

See accompanying independent auditors' report.