

**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, 2004**

## 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, 2004, 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 2003 financial statements and in our report dated January 31, 2005, we expressed an unqualified opinion on those financial statements.

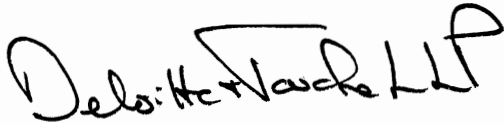
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 Company's 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, 2004, 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 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 September 16, 2005, 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. The word "Deloitte" is written in a standard cursive, "Touche" is more fluid and connected, and "LLP" is written in a bold, blocky cursive style.

September 16, 2005

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Balance Sheet  
September 30, 2004

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Totals (Memorandum Only)	
				2004	2003
<b>ASSETS</b>					
Cash and cash equivalents	\$ 16,248	\$ -	\$ -	\$ 16,248	\$ 4,758,932
Restricted assets:					
Cash and cash equivalents	-	24,172,703	10,695,998	34,868,701	29,859,979
Investments	-	-	732,000	732,000	6,230,000
Taxes receivable	1,141,833	-	-	1,141,833	1,112,274
Due from other funds	8,878,701	577,584	4,711,444	14,167,729	7,284,216
Total assets	\$ 10,036,782	\$ 24,750,287	\$ 16,139,442	\$ 50,926,511	\$ 49,245,401
<b>LIABILITIES</b>					
Accounts payable	\$ 16,566	\$ 156,936	\$ -	\$ 173,502	\$ 174,019
Due to other funds	-	-	4,693,297	4,693,297	1,924,699
Due to Guam Power Authority	10,124,204	-	-	10,124,204	9,767,178
Accrued expenditures/expenses	2,788,881	-	-	2,788,881	2,135,852
Tax drawbacks	8,626,245	-	-	8,626,245	14,703,041
Total liabilities	21,555,896	156,936	4,693,297	26,406,129	28,704,789
Contingencies					
<b>FUND BALANCES (DEFICIT)</b>					
Fund balances:					
Reserved for:					
Related assets	-	-	4,711,444	4,711,444	-
Continuing appropriations	637,330	542,639	-	1,179,969	2,048,132
Debt service	-	-	6,734,701	6,734,701	9,601,500
Encumbrances	586,071	-	-	586,071	83,945
Unreserved (deficit)	(12,742,515)	24,050,712	-	11,308,197	8,807,035
Total fund balances (deficit)	(11,519,114)	24,593,351	11,446,145	24,520,382	20,540,612
Total liabilities and fund balances	\$ 10,036,782	\$ 24,750,287	\$ 16,139,442	\$ 50,926,511	\$ 49,245,401

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, 2004

	Territorial Highway Fund	Capital Projects Fund	Debt Service Fund	Totals (Memorandum Only)	
				2004	2003
Revenues:					
Taxes	\$ 8,910,185	\$ -	\$ -	\$ 8,910,185	\$ 9,375,673
Licenses, fees and permits	4,375,475	-	-	4,375,475	4,411,762
Use of money and property	11,768	187,024	20,418	219,210	1,050,218
Federal contributions	582,939	-	-	582,939	-
<b>Total revenues</b>	<b>13,880,367</b>	<b>187,024</b>	<b>20,418</b>	<b>14,087,809</b>	<b>14,837,653</b>
Expenditures/expenses:					
General and administrative	6,326,144	-	-	6,326,144	6,517,925
Other	-	-	14,680	14,680	6,252
Capital outlay	-	-	-	-	36,741
Payments for Public Transit	2,615,048	-	-	2,615,048	3,538,730
Payments to UOG Capital Improvement Fund	500,000	-	-	500,000	400,000
Payments to Village Streets Fund	-	-	518,912	518,912	775,550
Interest	-	-	1,907,181	1,907,181	2,042,671
Principal	-	-	4,120,000	4,120,000	3,985,000
<b>Total expenditures</b>	<b>9,441,192</b>	<b>-</b>	<b>6,560,773</b>	<b>16,001,965</b>	<b>17,302,869</b>
Excess (deficiency) of revenues over expenditures	4,439,175	187,024	(6,540,355)	(1,914,156)	(2,465,216)
Transfers:					
Operating transfers in	4,120,828	-	12,505,828	16,626,656	21,858,333
Operating transfers out	(12,505,828)	-	(4,120,828)	(16,626,656)	(21,858,333)
<b>Net transfers</b>	<b>(8,385,000)</b>	<b>-</b>	<b>8,385,000</b>	<b>-</b>	<b>-</b>
Gain from tax drawback settlement	5,893,926	-	-	5,893,926	-
<b>Net change in fund balance</b>	<b>1,948,101</b>	<b>187,024</b>	<b>1,844,645</b>	<b>3,979,770</b>	<b>(2,465,216)</b>
Fund balances (deficit), beginning of year	(13,467,215)	24,406,327	9,601,500	20,540,612	23,005,828
<b>Fund balances (deficit), end 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>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2004

(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, 2004

(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

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 \$34,884,949 and are classified as cash and cash equivalents. Those with maturity in excess of ninety days total \$732,000 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, 2004

(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.

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

The interfund balances at September 30, 2004, are summarized below:

	Territorial Highway Fund		
	Special Revenue Fund	Highway Bond Capital Projects Fund	Debt Service Fund
Due From:			
Debt Service Fund	\$ 4,120,828	\$ 572,469	\$ -
General Fund	<u>4,757,873</u>	<u>5,115</u>	<u>4,711,444</u>
	<u>\$ 8,878,701</u>	<u>\$ 577,584</u>	<u>\$ 4,711,444</u>
Due To:			
Territorial Highway Fund	\$ -	\$ -	\$ 4,120,828
Capital Projects Fund	<u>-</u>	<u>-</u>	<u>572,469</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,693,297</u>
Net Due From Other Funds	<u>\$ 8,878,701</u>	<u>\$ 577,584</u>	<u>\$ 18,147</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  
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Notes to Financial Statements  
September 30, 2004

(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, 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, 2004 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, 2004, 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. New Accounting Standard

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). The Government of Guam has not evaluated the financial statement impact of GASB Statement No. 40.

N. 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 2003 data in order to conform with the 2004 presentation.

**GOVERNMENT OF GUAM  
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Notes to Financial Statements  
September 30, 2004

(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. Payments to the Guam Mass Transit Authority represents available funds from the mass transit fuel surcharge. Interfund transfer activity during the year ended September 30, 2004, is summarized below:

	<u>Special Revenue Fund</u>	<u>Highway Bond Capital Projects Fund</u>	<u>Debt Service Fund</u>
Transfers Out To:			
Territorial Highway Fund	\$ -	\$ -	\$ 4,120,828
Debt Service Fund	<u>12,505,828</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,505,828</u>	<u>\$ -</u>	<u>\$ 4,120,828</u>
Transfers In From:			
Territorial Highway Fund	\$ -	\$ -	\$ 12,505,828
Debt Service Fund	<u>4,120,828</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,120,828</u>	<u>\$ -</u>	<u>\$ 12,505,828</u>

(3) 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. Additionally, 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 offset of future liquid fuel taxes over thirty-six months. One month of liquid fuel taxes was applied during the year ended September 30, 2004.

The tax drawback liability as of September 30, 2004 totaled \$8,626,245, of which \$2,225,735 represent claims in litigation, for which the outcome is currently undeterminable, and \$6,400,510 represent the above mentioned settlement, to be offset monthly in the amount of \$182,872 against future liquid fuel taxes over three years as follows: \$2,194,464 in 2005 and 2006, and \$2,011,582 in 2007.

(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.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2004

(4) Bonds Payable, Continued

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

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>
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	4,850,000	1,180,463	6,030,463
2009	5,050,000	980,400	6,030,400
2010-2012	<u>16,510,000</u>	<u>1,567,425</u>	<u>18,077,425</u>
	<u>\$ 39,770,000</u>	<u>\$ 8,452,426</u>	<u>\$ 48,222,426</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 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:

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2004

(4) Bonds Payable, Continued

- 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.
- 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, 2004, payments were made to the trustee totaling \$6,027,181 of which \$4,120,000 represents payment on principal and \$1,907,181 on interest:

Bonds payable at September 30, 2003	\$ 43,890,000
Principal repayment	<u>4,120,000</u>
Bonds payable at September 30, 2004	\$ <u>39,770,000</u>

At September 30, 2004, \$6,734,701 of the fund balance in the Debt Service Fund is reserved for debt service purposes.

At September 30, 2004, management of the Funds is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(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, 2004, total cash transferred to the Village Streets Fund was \$518,912.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Notes to Financial Statements  
September 30, 2004

(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 for 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.

(7) Federal Contributions

During the year ended September 30, 2004, the Territorial Highway Fund received \$582,939 from the U.S. Department of Transportation under CFDA #20.509 (grant # GU-18-X020-00) for reimbursement of Public Transit expenditures expended during the year ended September 30, 2003.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Construction Project Status  
September 30, 2004

Project Title	Budget	Expenditures Year Ended September 30, 2004	Cumulative Expenditures	Outstanding Encumbrances	Budget Available
1992 Series A Construction Fund Projects:					
Reconstruction Harmon Loop	\$ 622,119	\$ -	\$ 615,319	\$ -	\$ 6,800
Design and construction of Harmon access road including land acquisition	104,904	-	102,454	-	2,450
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
Sub-total	<u>4,063,905</u>	<u>-</u>	<u>3,521,266</u>	<u>-</u>	<u>542,639</u>
Typhoon Chata'an Debris Clearance:					
Chata'an Debris clearance - match	107,349	-	107,349	-	-
Sub-total	<u>107,349</u>	<u>-</u>	<u>107,349</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,171,254</u>	<u>\$ -</u>	<u>\$ 3,628,615</u>	<u>\$ -</u>	<u>\$ 542,639</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Supplementary Information - Balance Sheets  
September 30, 2004 and 2003

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2004	2003	2004	2003	2004	2003
<b>ASSETS</b>						
Cash and cash equivalents	\$ 16,248	\$ 4,758,932	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	-	-	24,172,703	25,519,784	10,695,998	4,340,195
Investments	-	-	-	-	732,000	6,230,000
Taxes receivable	1,141,833	1,112,274	-	-	-	-
Due from other funds	8,878,701	7,284,216	577,584	-	4,711,444	-
Total assets	\$ 10,036,782	\$ 13,155,422	\$ 24,750,287	\$ 25,519,784	\$ 16,139,442	\$ 10,570,195
<b>LIABILITIES</b>						
Accounts payable	\$ 16,566	\$ 16,566	\$ 156,936	\$ 157,453	\$ -	\$ -
Due to other funds	-	-	-	956,004	4,693,297	968,695
Due to Guam Power Authority	10,124,204	9,767,178	-	-	-	-
Accrued expenditures	2,788,881	2,135,852	-	-	-	-
Tax drawbacks	8,626,245	14,703,041	-	-	-	-
Total liabilities	21,555,896	26,622,637	156,936	1,113,457	4,693,297	968,695
<b>FUND BALANCES</b>						
Fund balances (deficit):						
Reserved for:						
Related assets	-	-	-	-	4,711,444	-
Continuing appropriations	637,330	100,000	542,639	1,948,132	-	-
Debt service	-	-	-	-	6,734,701	9,601,500
Encumbrances	586,071	41,306	-	42,639	-	-
Unreserved fund balances (deficit)	(12,742,515)	(13,608,521)	24,050,712	22,415,556	-	-
Total fund balances (deficit)	(11,519,114)	(13,467,215)	24,593,351	24,406,327	11,446,145	9,601,500
Total liabilities and fund balances (deficit)	\$ 10,036,782	\$ 13,155,422	\$ 24,750,287	\$ 25,519,784	\$ 16,139,442	\$ 10,570,195

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, 2004 and 2003

	Territorial Highway Fund		Capital Projects Fund		Debt Service Fund	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
Taxes	\$ 8,910,185	\$ 9,375,673	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	4,375,475	4,411,762	-	-	-	-
Use of money and property	11,768	56,316	187,024	230,974	20,418	762,928
Federal contributions	582,939	-	-	-	-	-
<b>Total revenues</b>	<b>13,880,367</b>	<b>13,843,751</b>	<b>187,024</b>	<b>230,974</b>	<b>20,418</b>	<b>762,928</b>
<b>Expenditures/expenses:</b>						
General and administrative	6,326,144	6,517,925	-	-	-	-
Other	-	-	-	-	14,680	6,252
Capital outlay	-	-	-	36,741	-	-
Payments to Public Transit	2,615,048	3,538,730	-	-	-	-
Payments to UOG Capital Improvement Fund	500,000	400,000	-	-	-	-
Payments to Village Streets Fund	-	-	-	-	518,912	775,550
Interest	-	-	-	-	1,907,181	2,042,671
Principal	-	-	-	-	4,120,000	3,985,000
<b>Total expenditures</b>	<b>9,441,192</b>	<b>10,456,655</b>	<b>-</b>	<b>36,741</b>	<b>6,560,773</b>	<b>6,809,473</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>4,439,175</b>	<b>3,387,096</b>	<b>187,024</b>	<b>194,233</b>	<b>(6,540,355)</b>	<b>(6,046,545)</b>
<b>Transfers:</b>						
Operating transfers in	4,120,828	8,065,635	-	-	12,505,828	13,792,698
Operating transfers out	(12,505,828)	(13,792,698)	-	-	(4,120,828)	(8,065,635)
<b>Net transfers</b>	<b>(8,385,000)</b>	<b>(5,727,063)</b>	<b>-</b>	<b>-</b>	<b>8,385,000</b>	<b>5,727,063</b>
<b>Gain from taxes drawback settlement</b>	<b>5,893,926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>1,948,101</b>	<b>(2,339,967)</b>	<b>187,024</b>	<b>194,233</b>	<b>1,844,645</b>	<b>(319,482)</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>(13,467,215)</b>	<b>(11,127,248)</b>	<b>24,406,327</b>	<b>24,212,094</b>	<b>9,601,500</b>	<b>9,920,982</b>
<b>Fund balances (deficit) at end 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>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Supplementary Schedule  
Years Ended September 30, 2004 and 2003

	2004	2003
Debt Service Fund Restricted Cash:		
Highway Bond Fund	\$ 3,066,769	\$ 3,059,654
Highway Reserve Fund	5,174,200	5,172,386
Operations and Maintenance Fund	1,613,269	1,330,707
Surplus Fund	583,966	73,260
Revenue Fund	983,307	925,720
Cost of insurance fund	6,487	8,468
	\$ 11,427,998	\$ 10,570,195
Department of Public Works Maintenance Division:		
Salaries	\$ 2,346,902	\$ 1,987,345
Overtime	14,829	72,193
Benefits	666,749	595,593
	\$ 3,028,480	\$ 2,655,131
Employees at end of year	65	63
Operations and Maintenance Expenditures:		
Power	\$ 2,113,373	\$ 2,208,178
Liquid fuel tax drawback	-	322
Salaries, wages, and benefits	3,028,480	2,655,131
Contractual services	245,039	623,757
Supplies and materials	544,000	680,184
Others	395,252	350,353
	\$ 6,326,144	\$ 6,517,925
Bond Interest Rates at Maturity Dates:	2001 Bonds	1992 Bonds
May 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%

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