GL# 34-18-1788
Speaker Benjamin J.F. Cruz

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Received By:

OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

April 18, 2018

GUAM LEGISLATURE
CENTRAL FILES
ACKNOWLEDGEMENT RECEIPT
Received by:
Time: 2:00
Date: 4-18-18

Honorable Benjamin J.F. Cruz
Speaker
I Mina'trentai Kuattro Na Liheslaturan Guahan
163 Chalan Santo Papa
Hagåtña, Guam 96910

Dear Speaker Cruz:

Hafa Adai! Transmitted herewith is the Guam Highway Fund (GHF) fiscal year (FY) 2017 audited Financial Statements, Report on Internal Control and Compliance, and Letter to Those Charged with Governance. Independent auditors, Deloitte & Touche, LLP, issued an unmodified (clean) opinion on GHF FY 2017 financial statements.

2018 APR 23 PM 9:25

To recap FY 2017:

- GHF ended FY 2017 with a $1.1 million (M) decrease in fund balance, an improvement from FY 2016's decrease of $2.0M.
- Revenues increased nominally by $690 thousand (K), going from $19.6M in FY 2016 to $20.3M in FY 2017. The increase in revenues was primarily due to the increases in collections for liquid fuel tax and vehicle registration/drivers' license fees.
- Overall expenditures of $21.4M went down slightly from $21.6M in FY 2016. GHF expenditures included a $2.0M transfer to Government of Guam's General Fund to fund General Fund operations.
- Of the total expenditures, $15.5M was spent for highway/transportation related expenditures including DPW's bus operations, transportation maintenance operations, and public streetlight operations.
- Prior OPA highlights noted that funds used for the Department of Education were non-transportation when in fact, they are used for bus operations.
- The remaining $5.9M was spent for non-highway/non-transportation related purposes including Mayor's Council of Guam operations of $2.1M, General Fund operations of $2.0M, and Better Public Service Fund of $986K. The University of Guam and Guam Community College received $500K and $279K, respectively.
- The Capital Projects Fund had a fund balance of $176K with minimal movement in the last two years.
- In the report on internal control and compliance, auditors identified one repeat finding regarding the Guam Regional Transit Authority's sole source procurement for bus transportation services.
- There was one audit adjustment with no effect on fund balance and no uncorrected misstatements. GHF had no Management Letter for FY 2017.

For your convenience and further detail, you may also view and download OPA's two-page highlights and the reports in their entirety at www.opaguam.org.

Senseramente,

Doris Flores Brooks, CPA, CGFM
Public Auditor

1788

RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

Suite 401, DNA Building
238 Archbishop Flores Street, Hagåtña, Guam 96910
Tel (671) **475-0390** • Fax (671) **472-7951**
www.guamopa.org • Hotline: 47AUDIT (**472-8348**)

Guam Highway Fund
FY 2017 Financial Highlights

April 13, 2018

The Guam Highway Fund (GHF) ended fiscal year (FY) 2017 with a $1.1 million (M) decrease in fund balance, an improvement from FY 2016's decrease of $2.0M. Total revenues of $20.3M increased $690 thousand (K), or 4%, from FY 2016 and expenditures of $21.4M decreased by $253K, or 1%. As reported in prior GHF highlights, a large portion of GHF expenditures are allocated to projects that were not transportation or highway related. Independent auditors Deloitte and Touche, LLP issued an unmodified (clean) opinion on GHF's FY 2017 financial audit.

Slight Movements in Revenues and Expenditures
Revenues increased nominally by $690K, or 4%, going from $19.6M in FY 2016 to $20.3M in FY 2017. The increase in revenues was primarily due to the increases in collections for liquid fuel tax and vehicle registration/drivers' license fees. Subsequent to FY 2017, Public Law 34-44 increased the liquid fuel tax rate by $0.04 per gallon, which took effect on January 1, 2018, to fund village road repair and construction projects.

Overall expenditures of $21.4M went down slightly from $21.6M in FY 2016. GHF expenditures included a $2.0M transfer to the Government of Guam's General Fund to fund General Fund operations. Other expenditures include $6.2M for Department of Public Works (DPW) transportation maintenance and $4.5M for bus operations, $3.3M for public transit, and $2.1M for the Mayors' Council of Guam.

Expenditures Not Related to Highways and Transportation
Of the total expenditures of $21.4M, $15.5M, or 73%, was spent for highway/transportation related expenditures including DPW's bus operations, transportation maintenance operations, and public streetlight operations. The remaining $5.9M, or 27%, was spent for non-highway/non-transportation related purposes. Prior OPA highlights noted that funds used for the Department of Education were non-transportation when in fact, they are used for bus operations.

The GHF is used primarily to maintain Guam's highway and roadways, and implement highway safety plans, programs, and projects. However, over the years, a number of non-highway projects have been funded. In FY 2017, these included the Mayor's Council of Guam operations of $2.1M (10%), General Fund operations of $2.0M (9%), and Better Public Service Fund of $986K (5%). The University of Guam and Guam Community College received $500K (2%) and $279K (1%), respectively.

Doc. No. 34GL-18-1788.

Deloitte.

Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: (671) 646-3884
Fax: (671) 649-4932
www.deloitte.com

April 6, 2018

Honorable Eddie Baza Calvo
Governor of Guam

Dear Governor Calvo:

We have performed an audit of the financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated April 6, 2018.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Funds is responsible.

This report is intended solely for the information and use of management, the Office of the Governor and the Office of Public Accountability of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte & Touche LLP

Cc: To Management of the Government of Guam Highway Fund

Deloitte.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 3, 2017. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Funds' financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;

- To express an opinion on whether the supplementary information that accompanies the financial statements is presented fairly, in all material respects, in relation to the financial statements taken as a whole; and

- To report on the Funds' internal control over financial reporting and on their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2017, based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in Government Auditing Standards.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Funds' preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

SIGNIFICANT ACCOUNTING POLICIES

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2017 financial statements. During the year ended September 30, 2017, there were no significant changes in previously adopted accounting policies or their application.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. No significant accounting estimates are reflected in the Funds' 2017 financial statements.

Deloitte.

AUDIT ADJUSTMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Funds' financial reporting process. Such adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2017 financial statements.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Funds' 2017 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2017.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Funds' management and staff and had unrestricted access to the Funds' senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

EMPHASIS-OF-MATTER PARAGRAPH

Reporting Entity

The financial statements of the Fund relate solely to those accounting records maintained by the Fund, and do not incorporate any accounts related to any other departments or agencies of the Government of Guam that may be accounted for by the Government of Guam's Treasury. The Fund is considered to be a blended component unit (governmental fund type-special revenue fund) of the Government of Guam. The proposed wording of the emphasis-of-matter paragraph follows:

"As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A and are not intended to present fairly 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. Our opinion is not modified with respect to this matter."

Deloitte.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated April 6, 2018, on the Funds' internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*. Although we have included management's written responses to our comments contained in that report, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

ATTACHMENT I

Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE To correct opening fund balances		
120841110	FUND BALANCE		3,912.00
320857390	ADJUST PRIOR YRS EXPN/REV	3,912.00	
		3,912.00	3,912.00
	To correct beginning fund balance of the GHF		

We have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2017. The adjustments are the result of errors and are not the result of fraud or illegal acts.

KATHRINE B. KAKIGI
Financial Manager

ATTACHMENT II

Government of Guam
(Gubetnomention Guahan)
Department of Administration
(Dipattamenton Atmenestration)
Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1101/1250 * Fax: (671) 477-6788

Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

Edward M. Birn
Acting Director
Vincent P. Arriola
Deputy Director

April 6, 2018

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING, GU 96913

We are providing this letter in connection with your audit of the balance sheet of the Guam Highway Fund and of those funds related to the Government of Guam (the Government) Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2017, and the related statement of revenues, expenditures, and changes in fund balances for the year ended September 30, 2017, which collectively comprise the financial statements of the Guam Highway Fund for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations or changes in fund balances in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the financial statements of financial position of the balance sheet and the related statement of revenues, expenditures, and changes in fund balances, in conformity with GAAP.

b. The fair presentation of the additional information accompanying the financial statements that is presented for the purpose of additional analysis of the financial statements.

c. The design, implementation, and maintenance of internal control:

- Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- To prevent and detect fraud.

d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with GAAP. In addition:

    a. The financial statements present only the Guam Highway Fund and of 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 GAAP.

    b. Deposits are properly classified in the category of custodial credit risk.

    c. Required supplementary information is measured and presented within prescribed guidelines.

    d. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

    e. The financial statements properly classify all funds and activities, including special and extraordinary items.

    f. The Government has followed Governmental Accounting Standards Board (GASB) Codification of Government Account and Financial Report Standards ("GASB Codification") Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.

    g. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.

    h. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Government has made available to you:

   a. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There has been no:

   a. Action taken by Government management that contravenes the provisions of federal laws, or Guam laws, and laws and regulations, or of contracts and grants applicable to the Government.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, which have been provided to you.

5. The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Government involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others, when the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government's financial statements communicated by employees, former employees, analysts, regulators, or others.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*.

9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

10. We are responsible for the fair presentation of the additional information accompanying the financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A that is presented for the purpose of additional analysis of the financial statements.

Except where otherwise stated below, matters less than $100,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

11. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

12. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

13. Regarding related parties:

    a. We have disclosed to you the identity of the Government's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

14. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

15. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    b. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

16. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments.*

17. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

19. No department or agency of the Government has reported a material instance of noncompliance to us.

20. The Government has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.

21. Other than those described in Note 5 to the financial statements, no events have occurred after September 30, 2017, but before April 6, 2018, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

22. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report.*

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

23. Regarding supplementary information:

    a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report.*

b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report.*

c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

24. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

25. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.

26. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Very truly yours,

Edward M. Birn
Acting Director

Kathrine B. Kakigi
Financial Manager

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

(A GOVERNMENTAL FUND OF THE GOVERNMENT OF GUAM)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2017

Doc. No. 34GL-18-1788.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Year Ended September 30, 2017
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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), which comprise the balance sheet as of September 30, 2017, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Doc. No. 34GL-18-1788.

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2017, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A and are not intended to present fairly 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of the Funds' management. The 2017 information on pages 15 through 19 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the 2017 information on pages 15 through 19 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The 2016 information on pages 15 through 19 as well as the additional information on pages 20 and 21 have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Doc. No. 34GL-18-1788.

Deloitte.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2018, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 6, 2018

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Management's Discussion and Analysis
Year Ended September 30, 2017

Our discussion and analysis of the Government of Guam's ("GovGuam") Guam Highway Fund (GHF) financial performance and those funds related to the GovGuam Limited Obligation Highway Refunding Bonds, 2001 Series A, provides an overview of financial activities for the fiscal years ended September 30, 2017 and 2016. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2017, total fund balance decreased by $1,099,897 (or 41.3%) from an ending fund balance of $2,660,450 in 2016 to $1,560,553 in 2017.

- During the years ended September 30, 2017 and 2016, total combined expenditures for governmental fund operations were $21,383,778 and $21,636,974 respectively, including expenditures for GovGuam's Department of Public Works of $6,382,268 and $6,446,353, respectively; expenditures for GovGuam's Department of Education bus operations $4,495,131 and $4,735,749, respectively; expenditures for the Mayors' Council of Guam operations of $2,077,499 and $2,077,743, respectively; expenditures associated with Guam Regional Transit Authority operations of $2,987,936 and $2,731,605, respectively; payments for utility costs associated with the operation of public streetlights of $1,302,401 and $1,177,419, respectively; and legislatively mandated transfers out to various GovGuam funds of $2,099,374 and $2,175,189, respectively. These expenditures were funded by Liquid Fuel Tax and Vehicle Registration/Drivers' License fee collections during the years ended September 30, 2017 and 2016 of $20,283,341 and $19,593,662, respectively.

- Total combined expenditures decreased by $253,196 (or 1.2%) from 2016 to 2017 due primarily to a decrease in transfers out of $281,747 from GHF to GovGuam's General Fund to fund General Fund operations; a decrease of $273,601 for Department of Public Works transportation maintenance operations; a decrease of $240,618 for Department of Public Works bus operations; offset by an increase of $124,982 primarily for streetlights; an increase of $256,331 for Guam Regional Transit Regional Transit Authority operations and an increase of $209,516 for capital projects. Total combined revenues increased by $689,979 (or 3.5%) from $19,593,902 in 2016 to $20,283,881 in 2017 due primarily to an increase in Liquid Fuel Tax and Vehicle Registration/Drivers' License fee collections of $360,689 and $328,990, respectively.

- During the year ended September 30, 2017, GHF generated an operating deficit of $1,099,897 compared with an operating deficit of $2,043,072 for the year ended September 30, 2016.

2. Overview of the Financial Statements

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

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measureable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

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

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

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on assets, liabilities and fund balance at year-end. A condensed summary of the balance sheets is shown below as of September 30, 2017 and 2016.

	2017	2016
Assets:		
Cash and cash equivalents	$ 315,704	$ 135,710
Tax receivables	869,683	874,118
Due from General Fund	1,265,404	2,572,193
Total assets	$ 2,450,791	$ 3,582,021
Liabilities:		
Accounts payable and other	$ 890,238	$ 921,571
Fund balances:		
Restricted	175,899	175,899
Committed	1,384,654	2,484,551
Total fund balances	1,560,553	2,660,450
Total liabilities and fund balances	$ 2,450,791	$ 3,582,021

Total assets decreased by $1,131,230 (or 31.6%) from $3,582,021 in 2016 to $2,450,791 in 2017.

Total fund balances decreased by $1,099,897 during 2017 from $2,660,450 to $1,560,553. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation Highway Refunding Bond, 2001 Series A, wherein these funds are restricted for highway related projects.

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

Statement of Revenues, Expenses and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balance show the effect of revenues and expenditures on fund balance for the year. The statements of revenues, expenditures and changes in fund balances for the years ended September 30, 2017 and 2016 are summarized as follows:

	2017	2016
Revenues:		
Liquid fuel taxes	$ 10,411,898	$ 10,051,209
License, fees and permits	9,871,443	9,542,453
Use of money and property	540	240
Total revenues	20,283,881	19,593,902
Expenditures:		
Current:		
General government	1,330,401	1,177,420
Individual and collective rights	2,077,499	2,077,744
Public education	4,495,131	4,735,749
Transportation	6,165,198	6,438,797
Guam Regional Transit Authority	2,987,936	2,731,605
Payments to UOG Capital Improvement Fund	500,000	500,000
Payments to Public Transit Fund	334,882	332,513
Payments to Better Public Service Fund	985,570	954,945
Payments to GCC Capital Improvement Fund	278,922	278,922
Transfers out to General Fund	2,011,169	2,292,916
Transfers out to Federal Grants Fund	-	108,809
Capital projects	217,070	7,554
Total expenditures	21,383,778	21,636,974
Net change in fund balances	$ (1,099,897)	$ (2,043,072)

Total revenues collected increased by $689,979 (or 3.5%) from $19,593,902 in 2016 to $20,283,881 in 2017. The increase was due to an increase in Liquid Fuel Tax and Vehicle Registration/Drivers' License fee collections of $360,689 (or 3.6%) and $328,990 (or 3.4%), respectively. Total expenditures decreased by $253,196 (or 1.2%) from $21,636,974 in 2016 to $21,383,778 in 2017.

Appropriations authorized by the Guam Legislature from GHF for 2017 and 2016 were as follows:

	2017	2016
Department of Administration (includes utility costs)	$ 1,685,276	$ 1,398,516
Department of Public Works (includes bus operations)	11,978,176	12,226,118
Mayors' Council of Guam	2,077,499	2,077,499
Guam Regional Transit Authority	3,211,082	3,213,290
University of Guam	500,000	500,000
Guam Community College	278,922	278,922
Better Public Service Fund	1,616,914	1,655,732
Public Transit Fund	452,876	450,668
	$ 21,800,745	$ 21,800,745

4. Capital Assets

In 2014, Public Law 32-41 authorized the acquisition of property from GHF for the Tiyan Parkway Project. During the year ended September 30, 2014, land acquisitions from GHF amounted to $1,760,000. Other expenditures associated with the Tiyan Parkway Project were funded in 2015 by federal grants awarded by the U.S. Department of Transportation Federal Highway Administration. No further expenditures associated with this project were incurred in 2017.

5. Outlook, Challenges and Opportunities

The revenue stream for GHF, namely Liquid Fuel Taxes and Vehicle Registration fees, has been consistent from year to year. It is expected that this trend will continue for the foreseeable future.

Introduced by the Guam Legislature, Bill 36-34 will authorize the issuance of $50 million in Limited Obligation Highway Bonds. The bond proceeds will be used for capital improvement of streets and roads. Public Law 34-44, passed on October 12, 2017, created an additional revenue for village road repair and construction projects by increasing Liquid Fuel Tax rates by four cents ($0.04) per gallon, effective January 1, 2018.

6. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the finances of GHF and related funds and to demonstrate accountability for money received and expended. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Kathrine B. Kakigi, Financial Manager, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1211, Facsimile: (671) 472-8483; Website address: www.admin.gov.gu/doa/.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Balance Sheet
September 30, 2017

	Guam Highway Fund	Capital Projects Fund	Total
ASSETS			
Cash and cash equivalents	$ 315,704	$ -	$ 315,704
Taxes receivable	869,683	-	869,683
Due from General Fund	1,089,505	175,899	1,265,404
Total assets	$ 2,274,892	$ 175,899	$ 2,450,791
LIABILITIES			
Accounts payable	$ 7,749	$ -	$ 7,749
Accrued payroll and other	882,489	-	882,489
Total liabilities	890,238	-	890,238
Commitments			
FUND BALANCES			
Fund balances:			
Restricted for:			
Capital projects	-	175,899	175,899
Committed for:			
Highway operations	1,384,654	-	1,384,654
Total fund balances	1,384,654	175,899	1,560,553
Total liabilities and fund balances	$ 2,274,892	$ 175,899	$ 2,450,791

See accompanying notes to financial statements.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2017

	Guam Highway Fund	Capital Projects Fund	Total
Revenues:			
Taxes	$ 10,411,898	$ -	$ 10,411,898
Licenses, fees and permits	9,871,443	-	9,871,443
Use of money and property	540	-	540
Total revenues	20,283,881	-	20,283,881
Expenditures:			
Current:			
General government	1,330,401	-	1,330,401
Individual and collective rights	2,077,499	-	2,077,499
Transportation	6,165,198	-	6,165,198
Public education	4,495,131	-	4,495,131
Guam Regional Transit Authority	2,987,936	-	2,987,936
Payments to UOG Capital Improvement Fund	500,000	-	500,000
Payments to Public Transit Fund	334,882	-	334,882
Payments to Better Public Service Fund	985,570	-	985,570
Payments to GCC Capital Improvement Fund	278,922	-	278,922
Transfers out to General Fund	2,011,169	-	2,011,169
Capital projects	217,070	-	217,070
Total expenditures	21,383,778	-	21,383,778
Net change in fund balances	(1,099,897)	-	(1,099,897)
Fund balances at the beginning of the year	2,484,551	175,899	2,660,450
Fund balances at the end of the year	$ 1,384,654	$ 175,899	$ 1,560,553

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Guam Highway Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Guam Highway Fund, created by 5 GCA 54102, was established for the purpose of performing maintenance of Guam's highways and roadways, and implementing highway safety plans, programs and projects. Revenues are derived from liquid fuel taxes, vehicle registration fees and certain licenses. On April 1, 2001, Limited Obligation Highway Refunding Bonds, 2001 Series A, were issued to refund Limited Obligation Highway Bonds, 1992 Series A, which were issued on June 1, 1992. The Capital Projects Fund is used to account for the construction of highway projects from bond proceeds. The Limited Obligation Highway Refunding Bond, 2001 Series A, matured on May 1, 2012.

These funds are considered to be governmental funds and are presented as blended component units of GovGuam.

B. Fund Accounting

The accompanying financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The assets, liabilities and fund balances of the Guam Highway Fund and funds related to the Limited Obligation Highway Refunding Bonds, 2001 Series A, are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 90 days of the end of the current fiscal period. Revenues susceptible to accrual include liquid fuel taxes and automotive surcharges. Miscellaneous revenues from other financing sources, including motor vehicle license and registration fees, are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due. Tax rates levied and fees imposed are as follows:

Liquid Fuel Taxes:	
Aviation Fuel Tax	$ 0.04 per gallon
Diesel Fuel Tax	$ 0.10 per gallon
All Other Fuel Tax	$ 0.11 per gallon

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Automotive Surcharges:

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

Motor Vehicle Registration Fees/Driver's Licenses:

Taxi Drivers - Identification Card	$ 25.00
Endorsement	3.50
Total for Taxi Drivers	$ 28.50
Driver's License (and all others)	$ 25.00
Driver's License Renewal:	
Three-Year license	$ 25.00
Five-Year license	$ 45.00

The amount of the annual vehicle registration fee shall be determined based on vehicle gross weight with fees ranging from $10 to $38 for vehicles weighing under 1,000 pounds to 8,000 pounds and over plus three dollars and fifty cents ($3.50) for each 500 pounds or fraction thereof in excess of 7,999 pounds. Additionally, fees are subject to percentage adjustments based on vehicle model year with respect to vehicles whose gross weight is not in excess of 7,999 pounds, as follows:

Model Year	Percent of Fees
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.

(1) Summary of Significant Accounting Policies, Continued

E. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. Encumbrances outstanding at year end are reported within the fund balance classifications since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations. At September 30, 2017, significant encumbrances are summarized as follows:

Guam Highway Fund	Capital Projects Fund	Total
$ 1,384,654	$ -	$ 1,384,654

F. Cash and Cash Equivalents

Cash and cash equivalents includes cash held in demand deposit accounts.

G. Receivables

Receivables are due from businesses residing on the island of Guam and are uncollateralized and non-interest bearing.

H. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered. These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

I. Fund Balance

Governmental fund balances are classified as follows:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and do not lapse at year-end.

(1) Summary of Significant Accounting Policies, Continued

I. Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

J. Management Estimates

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

K. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Guam Highway Fund and those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, for the year ended September 30, 2016 from which summarized information was derived.

(2) Deposits

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

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

As of September 30, 2017, the carrying amount of cash and cash equivalents was $315,704 and the corresponding bank balance was $315,704, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017, bank deposits in the amount of $250,000 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(3) Payments to Other Funds

Public Law 26-48 authorizes reimbursement to the University of Guam (UOG) for debt service on a U.S. Department of Agriculture (USDA) loan obtained for construction of the College of Business and Public Administration building. During the year ended September 30, 2017, $500,000 was transferred to the UOG Capital Improvements Fund for payment to UOG. Under Public Law 26-48, $500,000 is appropriated annually to UOG until such time that the USDA loan is repaid in full.

In addition, Public Law 32-068 authorizes the reimbursement to the Guam Community College (GCC) for rental payments on a lease-back agreement pursuant to Section 18 of Public Law 31-229, as amended by Public Law 31-277. During the year ended September 30, 2017, $278,922 was transferred to the GCC Capital Improvements Fund for payment to GCC.

During the year ended September 30, 2017, $334,882 was transferred to the Public Transit Fund in accordance with Public Law 26-76.

During the year ended September 30, 2017, $985,570 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

During the year ended September 30, 2017, $2,011,169 was transferred to the General Fund to fund General Fund operations. This transfer was based on a determination by management that the repayment of an interfund receivable due from the General Fund of $2,011,169 was not expected to be made within a reasonable time.

(4) Commitments

The Guam Legislature appropriated $2,254,413 from the Capital Projects Fund in accordance with Public Law 30-216 for the purpose of refurbishing Department of Public Works school buses and other related matters. Furthermore, the Guam Legislature reprogrammed and appropriated $1,050,000 from the Capital Projects Fund in accordance with Public Law 30-217 to the Department of Public Works for repair of damage to village streets associated with road reconstruction projects. As of September 30, 2017, remaining commitments associated with these appropriations amount to $108,302.

(5) Subsequent Event

On October 12, 2017, the Guam Legislature enacted Public Law 34-44 increasing the liquid fuel tax rate by $0.04 per gallon, effective January 1, 2018, for the purpose of funding village road repair and construction projects.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Comparative Balance Sheets
September 30, 2017 and 2016

	Guam Highway Fund		Capital Projects Fund	
	2017	2016	2017	2016
ASSETS				
Cash and cash equivalents	$ 315,704	$ 135,710	$ -	$ -
Taxes receivable	869,683	874,118	-	-
Due from General Fund	1,089,505	2,396,294	175,899	175,899
Total assets	$ 2,274,892	$ 3,406,122	$ 175,899	$ 175,899
LIABILITIES				
Accounts payable	$ 7,749	$ 30,290	$ -	$ -
Accrued payroll and other	882,489	891,281	-	-
Total liabilities	890,238	921,571	-	-
FUND BALANCES				
Fund balances:				
Restricted for:				
Capital projects	-	-	175,899	175,899
Committed for:				
Highway operations	1,384,654	2,484,551	-	-
Total fund balances	1,384,654	2,484,551	175,899	175,899
Total liabilities and fund balances	$ 2,274,892	$ 3,406,122	$ 175,899	$ 175,899

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Comparative Schedules of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2017 and 2016

	Guam Highway Fund		Capital Projects Fund	
	2017	2016	2017	2016
Revenues:				
Taxes	$ 10,411,898	$ 10,051,209	$ -	$ -
Licenses, fees and permits	9,871,443	9,542,453	-	-
Use of money and property	540	240	-	-
Total revenues	20,283,881	19,593,902	-	-
Expenditures:				
Current:				
General government	1,330,401	1,177,420	-	-
Individual and collective rights	2,077,499	2,077,744	-	-
Transportation	6,165,198	6,438,797	-	-
Public education	4,495,131	4,735,749	-	-
Guam Regional Transit Authority	2,987,936	2,731,605	-	-
Payments to UOG Capital Improvement Fund	500,000	500,000	-	-
Payments to Public Transit Fund	334,882	332,513	-	-
Payments to Better Public Service Fund	985,570	954,945	-	-
Payments to GCC Capital Improvement Fund	278,922	278,922	-	-
Transfers out to General Fund	2,011,169	2,292,916	-	-
Transfers out to Federal Grants Fund	-	108,809	-	-
Capital projects	217,070	5,875	-	1,679
Total expenditures	21,383,778	21,635,295	-	1,679
Net change in fund balances	(1,099,897)	(2,041,393)	-	(1,679)
Fund balances at the beginning of the year	2,484,551	4,525,944	175,899	177,578
Fund balances at the end of the year	$ 1,384,654	$ 2,484,551	$ 175,899	$ 175,899

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Comparative Schedules of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2017 and 2016

	Guam Highway Fund		Capital Projects Fund	
	2017	2016	2017	2016
Revenues:				
Taxes	$ 10,411,898	$ 10,051,209	$ -	$ -
Licenses, fees and permits	9,871,443	9,542,453	-	-
Use of money and property	540	240	-	-
Total revenues	20,283,881	19,593,902	-	-
Expenditures:				
Salaries and wages - regular	7,060,534	7,593,300	-	-
Salaries and wages - overtime	284,428	271,146	-	1,295
Salaries and wages - fringe benefits	2,708,547	2,947,052	-	384
Travel	17,511	21,599	-	-
Contractual services	3,602,735	3,048,415	-	-
Supplies	1,274,739	1,595,323	-	-
Equipment	39,281	34,056	-	-
Utilities - power and water	1,549,937	1,413,685	-	-
Communications	16,010	17,350	-	-
Capital outlays	711,510	218,827	-	-
Grants and subsidies	4,110,543	4,468,105	-	-
Miscellaneous	8,003	6,437	-	-
Total expenditures	21,383,778	21,635,295	-	1,679
Net change in fund balances	(1,099,897)	(2,041,393)	-	(1,679)
Fund balances at the beginning of the year	2,484,551	4,525,944	175,899	177,578
Fund balances at the end of the year	$ 1,384,654	$ 2,484,551	$ 175,899	$ 175,899

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Schedule of Expenditures by Department by Object
Years Ended September 30, 2017 and 2016

	2017	2016
Department of Administration:		
Division of Accounts:		
Contractual services	$ 28,000	$ -
Utilities - power and water	1,302,401	1,177,419
	1,330,401	1,177,419
General Fund:		
Grants and subsidies	2,011,169	2,292,916
Federal Grants Fund:		
Grants and subsidies	-	108,809
UOG Capital Improvement Fund:		
Grants and subsidies	500,000	500,000
Public Transit Fund:		
Grants and subsidies	334,882	332,513
Better Public Service Fund:		
Grants and subsidies	985,570	954,945
GCC Capital Improvement Fund:		
Grants and subsidies	278,922	278,922
Total Department of Administration	5,440,944	5,645,524
Guam Regional Transit Authority:		
Salaries and wages - regular	264,426	289,417
Salaries and wages - fringe benefits	97,181	109,986
Contractual services	2,428,543	2,312,128
Supplies	185,652	9,496
Communications	4,571	5,288
Miscellaneous	7,563	5,290
Total Guam Regional Transit Authority	2,987,936	2,731,605
Department of Education:		
Public Education:		
Salaries and wages - regular	2,587,571	3,081,346
Salaries and wages - fringe benefits	994,568	1,224,015
Supplies	564,072	430,388
Communications	103	-
Capital outlays	348,817	-
Total Department of Education	4,495,131	4,735,749
Mayors' Council of Guam:		
Operations:		
Salaries and wages - regular	1,479,328	1,517,303
Salaries and wages - fringe benefits	598,171	560,440
	2,077,499	2,077,743

See accompanying independent auditors' report.

Doc. No. 34GL-18-1788.

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Schedule of Expenditures by Department by Object, Continued
Years Ended September 30, 2017 and 2016

	2017	2016
Department of Public Works:		
Highway Maintenance Division:		
Salaries and wages - regular	1,987,702	1,923,176
Salaries and wages - overtime	241,041	220,060
Salaries and wages - fringe benefits	727,403	734,028
Travel	8,095	21,599
Contractual services	976,967	658,234
Supplies	456,213	550,961
Equipment	29,578	21,260
Utilities - power and water	247,536	236,265
Communications	7,646	8,251
Capital outlays	17,693	78,760
Miscellaneous	440	1,107
	4,700,314	4,453,701
Transportation Division:		
Salaries and wages - regular	741,507	782,058
Salaries and wages - overtime	43,387	47,560
Salaries and wages - fringe benefits	291,224	317,514
Travel	9,416	-
Contractual services	72,155	76,773
Supplies	68,802	604,478
Equipment	9,600	12,797
Communications	3,793	3,811
Capital outlays	225,000	140,067
Miscellaneous	-	40
	1,464,884	1,985,098
Flood Mitigation Projects:		
Salaries and wages - overtime	-	3,527
Salaries and wages - fringe benefits	-	1,068
Contractual services	97,070	1,280
Capital outlays	120,000	-
	217,070	5,875
Capital Projects:		
Salaries and wages - regular	-	1,295
Salaries and wages - overtime	-	384
	-	1,679
Total Department of Public Works	6,382,268	6,446,353
	$ 21,383,778	$ 21,636,974

See accompanying independent auditors' report.

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GOVERNMENT OF GUAM

GUAM HIGHWAY FUND

Schedule of Construction Project Status

Year Ended September 30, 2017

	Total Budget	Expenditures Year Ended September 30, 2017	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Public Law 30-216:					
Repair, restoration and preventive maintenance of DPW school buses	$ 1,483,033	$ -	$ 1,475,803	$ -	$ 7,230
Public Law 30-217:					
Barrigada village street repairs	227,634	-	227,634	-	-
R.T. Damian Street repairs	279,701	-	178,629	-	101,072
Kinney's Road repairs	129,217	-	129,217	-	-
Jagan Drive repairs	32,768	-	32,768	-	-
Jesus A. Quidachay Street repairs	22,071	-	22,071	-	-
Gill Baza access road	419,634	-	419,634	-	-
Sub-Total	1,111,025	-	1,009,953	-	101,072
	$ 2,594,058	$ -	$ 2,485,756	$ -	$ 108,302

See accompanying independent auditors' report.

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GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Other Supplementary Information
Years Ended September 30, 2017 and 2016

	2017	2016
Employees at end of year:		
Guam Regional Transit Authority	6	6
Department of Public Works:		
Transportation Division	19	20
Bus Operations	81	91
Highway Maintenance Division	53	61
Mayors' Council of Guam	206	199
	365	377

See accompanying independent auditors' report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated April 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2017-001.

Guam Highway Fund's Response to Finding

The Fund's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

April 6, 2018

GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No. 2017-001

Procurement

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

Local procurement regulations state that any procurement not exceeding the amount established by regulation, between $500 and $15,000 may be made in accordance with small purchase procedures. If these methods are not used, the other methods of source selection provided in 5 GCA §5210 (Methods of Source Selection) of the Guam Procurement Act and these Regulations shall apply.

Condition: During the year ended September 30, 2017, local funds totaling $2,364,118 were utilized for Guam Regional Transit Authority (GRTA) bus transportation expenditures, which demonstrated no competitive procurement or which were procured through an inappropriate procurement method. Specifically, bus transportation services were procured through sole source method.

Cause: The lack of enforcing internal control over compliance with Guam procurement requirements.

Effect: The Guam Highway Fund is in noncompliance with applicable procurement regulations.

Recommendation: We recommended that the department or agency responsible for procuring goods or services under the Guam Highway Fund enforce established procurement regulations consistently for all procurement, and maintain records sufficient to detail the significant history of procurement. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

Prior Year Status: Lack of compliance with Guam procurement requirements was reported as a finding in prior audits as items 2016-001, 2014-001 and 2013-001.

Auditee Response and Corrective Action Plan: The Department of Administration disagrees with the finding. Please refer to the more detailed response provided by GSA to a similar finding in the OPA Report No. 18-01 on Guam Regional Transit Authority Procurement and Billing of Public Transit Services, dated February 28, 2018.

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GOVERNMENT OF GUAM
GUAM HIGHWAY FUND

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

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

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