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To: Clerks Office
Cc: Rennae Meno
Subject: M&C Fwd: Guam Highway Fund - FY 2019 Financial Audit Reports
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06-29-20	1:47 PM	06-25-20	Guam Highway Fund- FY 2019 Financial Audit Reports.	Office of Public Accountability	35GL-20-1942

Sinseru yan Minagåhet,

Office of the Speaker • Tina Rose Muña Barnes
Committee on Public Accountability, Human Resources & the Guam Buildup

35th Guam Legislature
I Mina'trentai Singko na Liheslaturan Guåhan

Guam Congress Building | 163 Chalan Santo Papa | Hagatna, GU 96910
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Gumai pribilehu yan konfedensia este siha na mensåhi. Solo espesiåtmente para hågu ma entensioña pat ma aturisa para unrisibi. Sen prubidu kumu ti un ma aturisa para manribisa, na'setbe, pat mandespåtcha. Yanggen lachi rinisibu-mu nu este na mensåhi , put fabot ago' guatu gi I numa'huyong gi as speaker@guamlegislature.org yan despues destrosa todu siha I kopian mensåhi. Si Yu'os ma'åse'.

---------- Forwarded message ---------
From: **Michele Brillante** <mbrillante@guamopa.com>
Date: Mon, Jun 29, 2020 at 1:47 PM
Subject: Guam Highway Fund - FY 2019 Financial Audit Reports
To: <shamra.chargualaf@guam.gov>, <josephine.cepeda@guam.gov>, Tina Muña Barnes <speaker@guamlegislature.org>, Telena C. Nelson <senatortcnelson@guamlegislature.org>, <officeofsenatorshelton@guamlegislature.org>, <office.senatorkelly@guamlegislature.org>, Régine Biscoe Lee <senatorbiscoelee@guamlegislature.org>, Joe S. San Agustin <senatorjoessanagustin@gmail.com>, Therese Terlaje

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Cc: BJ Cruz <bjcruz@guamopa.com>, Michele Brillante <mbrillante@guamopa.com>

Hafa Adai,

Pursuant to 1 GCA Chapter 19 §1909(j), transmitted electronically are the Guam Highway Fund's (GHF) FY 2019 Financial Statements, Report on Compliance and Internal Control, Management Letter, and Letter to Those Charged with Governance. Also transmitted herein is the Office of Public Accountability's (OPA) financial highlights. These reports and our highlights may also be found on our website at www.opaguam.org.

Regards,

Michele Brillante
Accountability Auditor

Office *of* Public Accountability - Guam
"Auditing for Good Governance"

Main: 475-0390 ext. 217 | Fax: 472-7951 | Hotline: 472-8348
Website @ www.opaguam.org

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Guam Highway Fund – FY 2019 Financial Highlights

June 25, 2020

Hagåtña, Guam – The Office of Public Accountability (OPA) released the Guam Highway Fund's (GHF) financial statements, report on compliance and internal control, management letter, and the auditor's communication with those charged with governance for fiscal year (FY) 2019. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion on GHF's financial statements, for which no material weaknesses or significant deficiencies were identified. However, EY did issue a management letter for FY 2019.

During FY 2019, GHF revenues increased while GHF expenditures decreased, which ended FY 2019 with an increase in net position (net income) of $4.7 million (M). This was an improvement from the $321 thousand (K) net income in FY 2018.

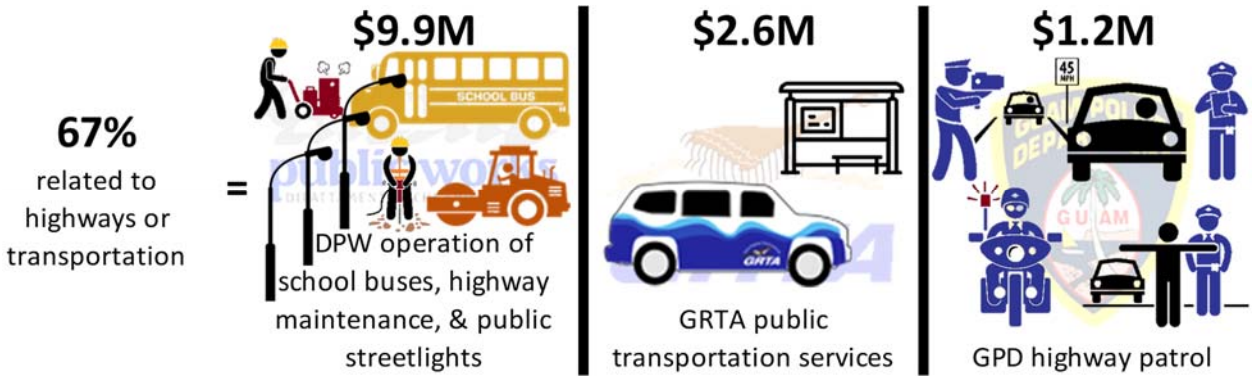
GHF records two governmental funds, both ending FY 2019 with a positive fund balance – the operating fund (or GHF) with $6.4M and the Capital Projects Fund with $176K. Combined, GHF's ending fund balance increased by 251% (or $4.7M), from $1.9M in FY 2018 to $6.6M in FY 2019.

Increased Revenues

Total revenues increased from $23.1M in FY 2018 to $25.2M in FY 2019. Collections from Liquid Fuel Taxes (LFT) increased by $1.1M (or 9%) due primarily to an additional 4¢ per gallon on LFT that became effective January 1, 2018. In addition, collections from automotive surcharges, vehicle registration fees, and driver's license fees also increased by $969K (or 10%).

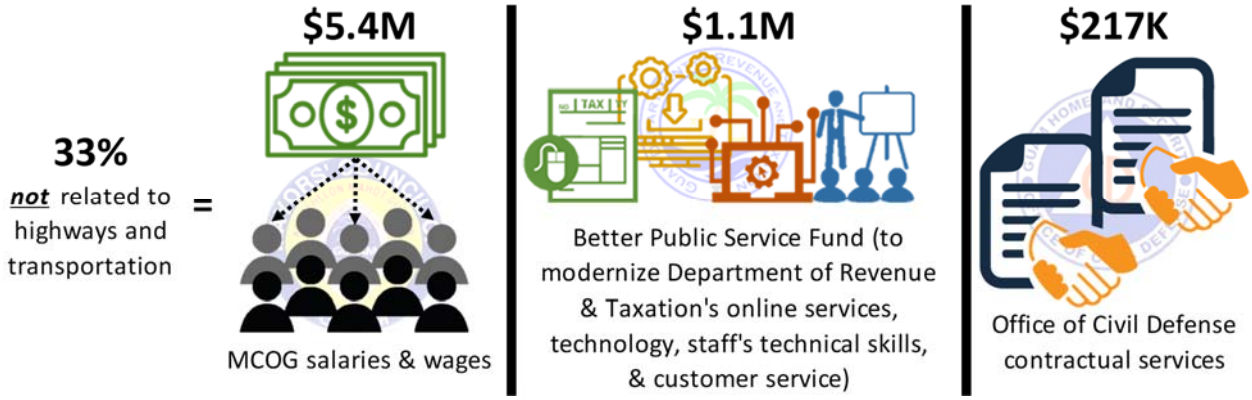
33% of Expenditures Unrelated to Highways and Transportation

Total expenditures decreased by $2.3M (or 10%) to $20.5M in FY 2019. Out of $20.5M in expenditures, 67% (or $13.7M) was related to highways or transportation. These include $9.9M to the Department of Public Works' (DPW) operation of school buses, highway maintenance, transportation, and public streetlights; $2.6M to the Guam Regional Transit Authority (GRTA); and $1.2M to the Guam Police Department's (GPD) highway patrol.



Doc. No. 35GL-20-1942.*

GHF is secured for the maintenance and construction of highways and roadways, as well as the implementation of all highway safety plans, programs, and projects. However, as with prior years, a significant portion of GHF expenditures were not related to highways or transportation. Out of FY 2019's total expenditures, 33% (or $6.8M) was unrelated to highways and transportation. Unrelated expenditures include $5.4M to Mayors' Council of Guam (MCOG) salaries and wages; $1.1M to the Better Public Service Fund; and $217K to Office of Civil Defense contractual services.



Capital Projects

The Capital Projects Fund accounts for highway construction projects funded by bond proceeds. With GHF-funded construction projects completed, there has been no project activity since FY 2016, and the Capital Projects Fund's ending balance has remained at $176K.

Management Letter

In a letter to management, EY noted one instance where a construction project's retainage was paid before the project's completion and approval. Management identified the error and corrected it by offsetting a future payment.

Uncorrected Misstatement

GHF had one uncorrected misstatement that would have increased its FY 2019 net position by $70K.

For more details on the use of GHF, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.

Financial Statements, Required Supplementary Information, and Supplementary and Other Information

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Year ended September 30, 2019
with Report of Independent Auditors



Building a better working world

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Financial Statements, Required Supplementary Information, and Supplementary and Other Information

Year ended September 30, 2019

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Report of Independent Auditors

Honorable Lou Leon Guerrero
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, 2019, 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' basic financial statements as listed in the table on contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; 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.

Auditor's 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 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 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.

A member firm of Ernst & Young Global Limited

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 those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2019, and the results of their operations for the year then ended in conformity with U.S. generally accepted accounting principles.

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 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 operation of the Government of Guam in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic 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, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The supplementary and other information included in pages 18 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary and other information included in pages 18 through 22 is the responsibility of the Funds' management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States. In our opinion, the 2019 information on pages 18 through 22 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The 2018 information on pages 18 through 22 as well as the additional information on pages 23 and 24 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated June 23, 2020 on our consideration of the Funds' 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 solely 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 effectiveness of the Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Ernst + Young LLP

June 23, 2020

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Management's Discussion and Analysis

Our discussion and analysis of the Government of Guam's ("GovGuam") Guam Highway Fund 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, 2019 and 2018. Please read it in conjunction with the financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2019, the combined fund balance increased by $4,731,045 (or 251%) from an ending fund balance of $1,881,928 in 2018 to $6,612,973 in 2019.

- During the years ended September 30, 2019 and 2018, total combined expenditures for governmental fund operations were $20,490,049 and $22,799,303, respectively, including expenditures for GovGuam's Department of Public Works of $8,554,040 and $9,788,531, respectively; expenditures for the Mayors' Council of Guam operations of $5,449,575 and $5,801,201 respectively; expenditures associated with Guam Regional Transit Authority operations of $2,590,815 and $2,992,694, respectively; expenditures for the Guam Police Department of $1,173,569 and $1,488,283, respectively; payments for utility costs associated with the operation of public streetlights of $837,763 and $1,351,753, respectively; and other legislatively mandated transfers out to other various GovGuam funds of $1,074,070 and $1,228,914, respectively. These expenditures were funded mainly by Liquid Fuel Tax revenue collections and Vehicle Registration/Drivers' License fees collected during the years ended September 30, 2019 and 2018 of $25,218,795 and $23,119,208, respectively.

- Total combined expenditures decreased by $2,309,254 (or 10%) from 2018 to 2019, which included decreases of: $1,197,991 for GovGuam's Department of Public Works, $401,879 for Guam Regional Transit Authority operations, $351,626 for Mayors' Council of Guam operations, and $314,714 for Guam Police Department operations. Increases include mandated transfers out to various GovGuam funds of $352,938 and public education of $548,946. Total combined revenues increased by $2,100,416 (or 9%) from $23,120,678 in 2018 to $25,221,094 in 2019 due primarily to an increase in liquid fuel taxes and vehicle registration fees which became effective on January 1, 2018.

- During the year ended September 30, 2019, the Guam Highway Fund generated an operating surplus of $4,731,045 compared with an operating surplus of $321,375 for the year ended September 30, 2018.

2. Overview of the Financial Statements

The financial statements include all of the activities of the Guam Highway Fund 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 (GAAP). 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, in compliance with accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

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, 2019 and 2018.

	2019	2018
Assets:		
Cash and cash equivalents	$3,412,580	$ 885,648
Tax receivables	1,104,309	1,163,115
Due from General Fund	3,614,394	1,190,175
Total assets	$8,131,283	$3,238,938
Liabilities:		
Accounts payable and other	$1,518,310	$1,357,010
Fund balances:		
Restricted	175,899	175,899
Committed	6,437,074	1,706,029
Total fund balances	6,612,973	1,881,928
Total liabilities and fund balances	$8,131,283	$3,238,938

Total assets increased by $4,892,345 (or 151%) from $3,238,938 in 2018 to $8,131,283 in 2019.

Total fund balances increased by $4,731,045 during 2019 from $1,881,928 to $6,612,973. 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. 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.

3. Financial Statement Analysis, continued

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, 2019 and 2018 are summarized as follows:

	2019	2018
Revenues:		
Liquid fuel taxes	$14,428,018	$13,297,415
License, fees and permits	10,790,777	9,821,893
Use of money and property	2,299	1,370
	25,221,094	23,120,678
Expenditures:		
Current:		
General government	1,099,034	1,499,680
Individual and collective rights	5,449,575	5,801,201
Protection of life and property	1,173,569	1,488,283
Public education	548,946	---
Transportation	8,554,040	9,752,031
Guam Regional Transit Authority	2,590,815	2,992,694
Payments to Public Transit Fund	---	253,891
Payments to Better Public Service Fund	1,074,070	975,023
Capital projects	---	36,500
	20,490,049	22,799,303
Net change in fund balances	$ 4,731,045	$ 321,375

3. Financial Statement Analysis, continued

Total revenues collected increased by $2,100,416 (or 9%) from $23,120,678 in 2018 to $25,221,094 in 2019. The increases reflected are in liquid fuel taxes, licenses, fees, permits and use of money and property show changes of $1,130,603, $968,884, and $929 in the respective order. Total expenditures decreased by $2,309,254 (or 10%) from $22,799,303 in 2018 to $20,490,049 in 2019 despite the increases in authorized Guam Legislature appropriations. Appropriations authorized by the Guam Legislature from the Guam Highway Fund for 2019 and 2018 were as follows:

	2019	2018
Department of Administration (includes utility costs) (1) (2)	$ 856,263	$ 1,683,776
Department of Public Works (includes bus operations) (1) (2)	14,227,044	11,169,101
Guam Police Department	1,196,817	1,510,063
Mayors' Council of Guam	5,443,701	5,800,648
Guam Regional Transit Authority	2,764,796	3,211,082
Bureau of Budget and Management Research	26,077	---
Typhoon Mangkhut (3)	---	500,000
Better Public Service Fund	990,058	1,177,711
Public Transit Fund	456,392	455,481
	$25,961,148	$25,507,862

(1) In 2019, Public Law 34-116 appropriated $837,763 and $9,566,389, respectively, to the Department of Administration and the Department of Public Works from the unappropriated fund balance of the Guam Highway Fund.

(2) In 2018, Public Law 34-42 appropriated $1,665,276 and $572,468, respectively, to the Department of Administration and the Department of Public Works from the unappropriated fund balance of the Guam Highway Fund.

(3) In 2018, Public Law 34-124 appropriated $500,000 for the purpose of funding emergency expenditures associated with Typhoon Mangkhut.

4. Capital Assets

In 2014, Public Law 32-41 authorized the acquisition of property from the Guam Highway Fund for the Tiyan Parkway Project. During the year ended September 30, 2014, land acquisitions from the Guam Highway Fund 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 2016 through 2019.

5. Outlook, Challenges and Opportunities

Public Law 34-44, passed on October 12, 2017, created additional revenue for village road repair and construction projects by increasing the liquid fuel tax rates by four cents ($0.04) per gallon, effective January 1, 2018.

In 2017, the Guam Legislature introduced Bill 36-34 to authorize the issuance of $50 million in Limited Obligation Highway Bonds. The Bill was not progressed and has lapsed. Access to funding, therefore, for village road repair and improvement remains limited to fiscal year receipt of liquid fuel taxes.

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 the Guam Highway Fund 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 the Director's Office, Department of Administration, Attention: Edward Birn, Director, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1101/1250, Email: edward.birn@doa.guam.gov; Website address: www.doa.guam.gov.

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Balance Sheet

September 30, 2019

	Guam Highway Fund	Capital Projects Fund	Total
Assets			
Cash and cash equivalents	$ 3,412,580	$ ---	$ 3,412,580
Taxes receivable	1,104,309	---	1,104,309
Due from General Fund	3,438,495	175,899	3,614,394
Total assets	$ 7,955,384	$ 175,899	$ 8,131,283
Liabilities			
Accounts payable	$ 63,564	$ ---	$ 63,564
Accrued payroll and other	624,960	---	624,960
Deposits and other liabilities	829,786	---	829,786
Total liabilities	1,518,310	---	1,518,310
Fund Balances			
Fund balances:			
Restricted for:			
Capital projects	---	175,899	175,899
Committed for:			
Highway operations	6,437,074	---	6,437,074
Total fund balances	6,437,074	175,899	6,612,973
Total liabilities and fund balances	$ 7,955,384	$ 175,899	$ 8,131,283

See accompanying notes to financial statements.

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended September 30, 2019

	Guam Highway Fund	Capital Projects Fund	Total
Revenues:			
Taxes	$ 14,428,018	$ ---	$ 14,428,018
Licences, fees and permits	10,790,777	---	10,790,777
Use of money and property	2,299	---	2,299
Total revenues	25,221,094	---	25,221,094
Expenditures:			
Current:			
Transportation	8,554,040	---	8,554,040
Individual and collective rights	5,449,575	---	5,449,575
Guam Regional Transit Authority	2,590,815	---	2,590,815
Protection of life and property	1,173,569	---	1,173,569
General government	1,099,034	---	1,099,034
Payments to Better Public Service Fund	1,074,070	---	1,074,070
Public education	548,946	---	548,946
Total expenditures	20,490,049	---	20,490,049
Net change in fund balances	4,731,045	---	4,731,045
Fund balances at the beginning of the year	1,706,029	175,899	1,881,928
Fund balances at the end of the year	$ 6,437,074	$ 175,899	$ 6,612,973

See accompanying notes to financial statements.

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Notes to Financial Statements

Year ended September 30, 2019

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.

1. Summary of Significant Accounting Policies, continued

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	$0.08 per gallon
Diesel Fuel Tax	$0.14 per gallon
All Other Fuel Tax	$0.15 per gallon

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

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

1. Summary of Significant Accounting Policies, continued

C. Measurement Focus and Basis of Accounting, continued

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).

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 Five Dollars ($5) 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. 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.

1. Summary of Significant Accounting Policies, continued

E. Budgetary Process, continued

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, 2019, significant encumbrances are summarized as follows:

	Guam Highway Fund	Capital Projects Fund	Total
	$3,514,617	$ ---	$3,514,617

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. At September 30, 2019, interfund balances are as follows:

	Guam Highway Fund	Capital Projects Fund	Total
Due from General Fund	$3,438,495	$175,899	$3,614,394

1. Summary of Significant Accounting Policies, continued

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.

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, 2018 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, 2019, the carrying amount of cash and cash equivalents was $3,412,580 and the corresponding bank balance was $3,412,580, which is maintained in a financial institution subject to insurance coverage by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2019, 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

During the year ended September 30, 2019, $1,074,070 was transferred to the Better Public Service Fund in accordance with Public Law 29-2.

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, 2019, remaining commitments associated with these appropriations amount to $108,302.

Supplementary and Other Information

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Comparative Balance Sheets

September 30, 2019 and 2018

	Guam Highway Fund		Capital Project Fund	
	2019	2018	2019	2018
Assets				
Cash and cash equivalents	$ 3,412,580	$ 885,648	$ ---	$ ---
Taxes receivable	1,104,309	1,163,115	---	---
Due from General Fund	3,438,495	1,014,276	175,899	175,899
Total assets	$ 7,955,384	$ 3,063,039	$ 175,899	$ 175,899
Liabilities				
Accounts payable	$ 63,564	$ 115,511	$ ---	$ ---
Accrued payroll and other	624,960	668,893	---	---
Deposits and other liabilities	829,786	572,606	---	---
Total liabilities	1,518,310	1,357,010	---	---
Fund Balances				
Fund balances:				
Restricted for:				
Capital projects	---	---	175,899	175,899
Committed for:				
Highway operations	6,437,074	1,706,029	---	---
Total fund balances	6,437,074	1,706,029	175,899	175,899
Total liabilities and fund balances	$ 7,955,384	$ 3,063,039	$ 175,899	$ 175,899

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Comparative Statements of Revenues, Expenditures by Function and Changes in Fund Balances

Years ended September 30, 2019 and 2018

	Guam Highway Fund		Capital Project Fund	
	2019	2018	2019	2018
Revenues:				
Taxes	$ 14,428,018	$ 13,297,415	$ ---	$ ---
Licenses, fees and permits	10,790,777	9,821,893	---	---
Use of money and property	2,299	1,370	---	---
Total revenues	25,221,094	23,120,678	---	---
Expenditures:				
Current:				
Transportation	8,554,040	9,752,031	---	---
Individual and collective rights	5,449,575	5,801,201	---	---
Guam Regional Transit Authority	2,590,815	2,992,694	---	---
Protection of life and property	1,173,569	1,488,283	---	---
General government	1,099,034	1,499,680	---	---
Payments to Better Public Service Fund	1,074,070	975,023	---	---
Public education	548,946	---	---	---
Payments to Public Transit Fund	---	253,891	---	---
Capital projects	---	36,500	---	---
Total expenditures	20,490,049	22,799,303	---	---
Net change in fund balances	4,731,045	321,375	---	---
Fund balances at beginning of the year	1,706,029	1,384,654	175,899	175,899
Fund balances at the end of the year	$ 6,437,074	$ 1,706,029	$ 175,899	$ 175,899

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Comparative Statements of Revenues, Expenditures by Object and Changes in Fund Balances

Years ended September 30, 2019 and 2018

	Guam Highway Fund		Capital Project Fund	
	2019	2018	2019	2018
Revenues:				
Taxes	$ 14,428,018	$ 13,297,415	$ ---	$ ---
Licenses, fees and permits	10,790,777	9,821,893	---	---
Use of money and property	2,299	1,370	---	---
Total revenues	25,221,094	23,120,678	---	---
Expenditures:				
Salaries and wages - regular	10,122,240	9,322,525	---	---
Salaries and wages - overtime	234,751	187,478	---	---
Salaries and wages - fringe benefits	3,276,956	4,364,069	---	---
Travel	10,785	8,253	---	---
Contractual services	3,241,102	4,784,590	---	---
Supplies	901,796	825,289	---	---
Equipment	52,889	36,972	---	---
Utilities - power and water	1,424,063	1,884,967	---	---
Communications	43,889	42,547	---	---
Grants and subsidies	1,074,070	1,228,914	---	---
Capital outlays	105,772	105,932	---	---
Miscellaneous	1,736	7,767	---	---
Total expenditures	20,490,049	22,799,303	---	---
Net change in fund balances	4,731,045	321,375	---	---
Fund balances at beginning of the year	1,706,029	1,384,654	175,899	175,899
Fund balances at the end of the year	$ 6,437,074	$ 1,706,029	$ 175,899	$ 175,899

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Schedule of Expenditures by Department by Object

Years ended September 30, 2019 and 2018

	2019	2018
Office of I Maga'lahen Guahan:		
Office of Civil Defense:		
Contractual services	$ 216,695	$ 129,427
Bureau of Budget and Management Research		
Internal Audit:		
Salaries and wages - regular	20,021	---
Salaries and wages - fringe benefits	6,055	---
	26,076	---
Department of Administration:		
Division of Accounts:		
Contractual services	18,500	18,500
Utilities - power and water	837,763	1,351,753
	856,263	1,370,253
Public Transit Fund:		
Grants and subsidies	---	253,891
Better Public Service Fund:		
Grants and subsidies	1,074,070	975,023
Total Department of Administration	1,930,333	2,599,167
Guam Regional Transit Authority:		
Salaries and wages - regular	389,155	398,049
Salaries and wages - fringe benefits	135,573	146,759
Contractual services	1,798,986	2,267,969
Supplies	239,388	172,950
Equipment	20,753	---
Communications	5,302	---
Miscellaneous	1,658	6,967
Total Guam Regional Transit Authority	2,590,815	2,992,694
Guam Police Department:		
Highway Patrol Division:		
Salaries and wages - regular	892,957	1,111,975
Salaries and wages - fringe benefits	280,612	376,308
Total Guam Police Department	1,173,569	1,488,283
Department of Education:		
Public Education:		
Salaries and wages - regular	392,807	---
Salaries and wages - fringe benefits	156,139	---
Total Department of Education	548,946	---
Department of Public Works:		
Office of the Director:		
Salaries and wages - regular	915,098	845,335
Salaries and wages - fringe benefits	285,327	287,280
Travel	5,065	280
Contractual services	51,708	91,245
Supplies	8,110	16,411
Equipment	---	418
Utilities - power and water	299,375	294,490
Communications	17,538	19,907
	1,582,221	1,555,366

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Schedule of Expenditures by Department by Object, continued

Years ended September 30, 2019 and 2018

	2019	2018
Department of Public Works, continued:		
Highway Maintenance Division:		
Salaries and wages - regular	1,646,935	1,809,647
Salaries and wages - overtime	176,784	172,902
Salaries and wages - fringe benefits	585,052	656,923
Travel	---	735
Contractual services	671,563	1,662,415
Supplies	428,742	508,925
Equipment	10,485	8,946
Utilities - power and water	286,924	273,155
Communications	9,293	11,856
Capital outlays	37,782	77,688
Miscellaneous	80	800
	3,853,640	5,183,992
Transportation Division:		
Salaries and wages - regular	674,599	414,838
Salaries and wages - overtime	57,967	14,308
Salaries and wages - fringe benefits	252,121	166,264
Travel	5,719	4,197
Contractual services	65,641	304,863
Supplies	203,488	101,817
Equipment	4,651	18,025
Communications	3,837	3,489
Capital outlays	67,990	28,244
	1,336,013	1,056,045
Building Construction and Facilities Maintenance:		
Salaries and wages - regular	402,983	520,408
Salaries and wages - fringe benefits	134,722	186,907
Contractual services	67,178	160,082
Supplies	17,598	18,894
Equipment	17,000	9,583
Communications	2,256	2,255
	641,737	898,129
Flood Mitigation Projects:		
Contractual services	---	36,500
Capital Improvement Projects Division:		
Salaries and wages - regular	569,990	716,669
Salaries and wages - fringe benefits	209,475	248,301
Travel	---	3,041
Contractual services	194,092	79,157
Supplies	4,470	6,292
Communications	5,663	5,039
	983,690	1,058,499
Highway Bonds:		
Contractual services	156,739	---
Total Department of Public Works	8,554,040	9,788,531
Mayors' Council of Guam:		
Operations:		
Salaries and wages - regular	4,217,695	3,505,606
Salaries and wages - overtime	---	267
Salaries and wages - fringe benefits	1,231,880	2,295,328
	5,449,575	5,801,201
	$ 20,490,049	$ 22,799,303

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Schedule of Construction Project Status

Year ended September 30, 2019

	Total Budget	Expenditures Year ended September 30, 2019	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	---	---
Bill Baza access road	419,634	---	419,634	---	---
	1,111,025	---	1,009,953	---	101,072
	$ 2,594,058	$ ---	$ 2,485,756	$ ---	$ 108,302

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Other Supplementary Information

September 30, 2019 and 2018

	2019	2018
Employees at end of year:		
Bureau of Budget and Management Research	1	---
Guam Regional Transit Authority	8	7
Guam Police Department:		
Highway Patrol Division	12	22
Department of Public Works:		
Office of the Director	19	18
Highway Maintenance Division	17	52
Transportation Division	16	20
Building Construction and Facilities Maintenance	9	11
Capital Improvement Projects Division	21	12
Bus Operations	131	---
Mayors' Council of Guam	192	209
	426	351

Compliance and Internal Control

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Year ended September 30, 2019



Building a better working world

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

Report on Compliance and Internal Control

Year ended September 30, 2019

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Report of Independent Auditors 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 Lou Leon Guerrero
Governor of Guam:

We have audited, in accordance with auditing standards generally accepted in the United States 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), which comprise the balance sheet as of September 30, 2019, 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, and have issued our report thereon dated June 23, 2020.

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 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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Ernst & Young LLP

June 23, 2020

Management comments and recommendations

Government of Guam
Guam Highway Fund
(A Governmental Fund of the Government of Guam)

September 30, 2019



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June 23, 2020

Mr. Edward M. Birn
Director
Guam Department of Administration
590 South Marine Corps Drive
2nd Floor, ITC Building, Suite 224
Tamuning, Guam 96932

In planning and performing our audit of the combined 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, 2019, in accordance with the auditing standards generally accepted in the United States, we considered its internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined 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 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 control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following observation which we believe merits the attention of those charged with governance:

Payment of Retainage

Observation

During our testing of Guam Highway Fund's expenditures, we noted one instance where retainage on construction project was paid prior to the completion and approval of the underlying project. Management identified the excess payment and made a correction by offsetting a future payment.

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Recommendation

We recommend that management establish controls to ensure that retainage is only paid upon acceptance of the project at the end of the contract.

* * * * * * * * * * * *

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

At this time, we would like to thank Gaudencio Rosario, Mary Grace Edrosa and the rest of the accounting staff for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matter or to respond to any questions, at your convenience.

Sincerely,

Ernst + Young LLP

The Auditor's Communication With Those Charged With Governance

Government of Guam
Guam Highway Fund
(A Component Unit of the Government of Guam)

Year ended September 30, 2019



Building a better working world

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June 23, 2020

Honorable Lou Leon Guerrero
Governor of Guam:

We have performed an audit of the financial statements of 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, 2019, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated June 23, 2020.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated November 15, 2019 and at our audit planning meeting with management.

Auditor's responsibility under professional standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern

The financial statements, required supplementary information and supplementary information are the responsibility of management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, we will express no such opinion.

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An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements.

Our responsibilities are included in our audit engagement letter.

The adoption of, or a change in significant accounting policies

The Funds' significant accounting policies are set forth in footnote 1 of the financial statements. During the year ended September 30, 2019, there were no significant changes in the previously adopted accounting policies or their application.

We have evaluated the significant qualitative aspects of the Funds' accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

Sensitive accounting estimates

A discussion of sensitive accounting estimates has been included in footnote 1 of the financial statements.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Our views about the qualitative aspects of the entity's significant accounting practices

We are not aware of any significant accounting policies used by the Funds in controversial or emerging areas or for which there is a lack of authoritative guidance.

Our views about the qualitative aspects of the entity's significant accounting practices, continued

We are not aware of any significant unusual transactions recorded by the Funds.

A discussion of significant accounting policies has been included in footnote 1 of the financial statements.

Material corrected misstatements, related to accounts and disclosures

There are no material corrected misstatements, related to accounts and disclosures, arising from the audit.

Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial

Refer to "Summary of Uncorrected Misstatements" in Appendix A.

Deficiencies in internal control

We have identified an other matter in the internal controls during the course of our audit which has been included in our separately issued management letter dated June 23, 2020.

Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements

Our auditor's report on the financial statements relates only to the financial statements and the accompanying notes.

We have reviewed the Management Discussion and Analysis and found the information presented to be consistent with the information in the audited financial statements.

Fraud and illegal acts

We are not aware of any matters that require communication.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

Representations from management

We have obtained from management a representations letter related to the audit and a copy of the management representations letter is included in Appendix B.

Changes to the terms of the audit with no reasonable justification for the change

We are not aware of any matters that require communication.

Significant findings and issues arising during the audit relating to related parties

We are not aware of any matters that require communication.

Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management

We are not aware of any matters that require communication.

Significant difficulties encountered during the audit

There were no serious difficulties encountered in dealing with management in performing the audit.

Disagreements with management

There were no material disagreements with the Funds' management on financial accounting and reporting matters during the audit.

Management's consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

AICPA ethics ruling regarding third-party service providers

Our responsibilities are included in our audit engagement letter.

Other findings or issues regarding the oversight of the financial reporting process

There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

****

This report is intended solely for the 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. However, this report is also a matter of public record.

Very truly yours,

Ernst + Young LLP

Honorable Lou Leon Guerrero
Governor of Guam

Appendix

A – Summary of Uncorrected Misstatements

B – Management Representations Letter

Communication schedule for uncorrected misstatements

Entity: Guam Highway Fund | Period Ended: 30-Sep-2019 | Currency: USD

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)								
No.	WP ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period		Income statement effect of the prior period	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable	Prior period Debit/(Credit)	Non taxable
Factual misstatements:												
SAD01	P0100	To correct double takeup of expenses in FY2019										
		Accrued expenses			69,671							
		Expenditures							(69,671)			
Projected misstatements:												
		None identified										
Judgmental misstatements:												
		None identified										
Total of uncorrected misstatements before income tax			0	0	69,671	0	0	0	(69,671)		0	
Total of uncorrected misstatements			0	0	69,671	0	0	0	(69,671)		0	
Financial statement amounts			7,955,384	-	(1,518,310)	0	(6,437,074)		(4,731,045)			
Effect of uncorrected misstatements on F/S amounts			0.0%	0.0%	-4.6%	0.0%	0.0%		1.5%		0.0%	
Memo: Total of non-taxable items (marked 'X' above)									0		0	

Uncorrected misstatements before income tax	1.5%	(69,671)	0
Less: Tax effect of misstatements at current year marginal rate	0%	0	0
Uncorrected misstatements in income tax		0	0
Cumulative effect of uncorrected misstatements after tax but before turnaround	1.5%	(69,671)	0

Turnaround effect of prior period uncorrected misstatements	After tax	Memo: Before tax
All factual and projected misstatements:	0	0
Judgmental misstatements (Note 3):	0	0
Cumulative effect of uncorrected misstatements, after turnaround effect	1.5%	(69,671)

Communication schedule for uncorrected misstatements

Entity: Guam Highway Fund Period Ended: 30-Sep-2019 Currency: USD

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)								Income statement effect of the prior period	
No.	WP ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period			
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable	Prior period Debit/(Credit)	Non taxable
		Current year income before tax							(4,731,045)			
		Current year income after tax							(4,731,045)			

I believe that the effect of the above uncorrected misstatement, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Edward M. Birn, Director

6/18/20

Gaudencio A. Rosario, Deputy Financial Manager

EDWARD M. BIRN
Director (Direktot)
EDITH C. PANGELINAN
Deputy Director (Sigundo Direktot)

DEPARTMENT OF ADMINISTRATION
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LOURDES A. LEON GUERRERO
Governor (Maga'hâga)
JOSHUA F. TENORIO
Lt. Governor (Sigundo Maga'lâhi)

June 23, 2020

Ernst & Young LLP
231Ypao Road
Suite 201
Tamuning, Guam 96913

In connection with your audit of the basic financial statements 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 (the Funds), which comprise the balance sheet as of September 30, 2019, 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, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position and the results of operations of the Funds in conformity with US generally accepted accounting principles (US GAAP).

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.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief.

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated November 15, 2019 for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US GAAP applied on a basis consistent with that of the preceding periods. We acknowledge our responsibility for 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. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit

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- Unrestricted access to persons within the Government from whom you determined it necessary to obtain evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
There have been no significant changes in internal control since September 30, 2019.

Minutes and contracts

There are no meetings of the Board of Directors and important management committees held from October 1, 2019 to June 23, 2020.

We have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Significant assumptions

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.
We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to the COVID-19 pandemic.

Ownership and pledging of assets

There are no assets capitalized under capital leases. The Government has satisfactory title to all assets appearing in the balance sheet. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged, except as disclosed in the financial statements. All assets to which the Government has satisfactory title appear in the balance sheet.

Receivables and revenues

Receivables recorded in the financial statements of the Funds represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to the statement of net position date, or other types of arrangements not constituting revenue. Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62—as amended.

We have disclosed to you all revenue terms (both expressed and implied). We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72-as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72-as amended.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties as defined in GASB Statement No. 56 – as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts have been made available to you.

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, accounted for and disclosed in the financial statements.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Events of default under debt agreements

No events of default have occurred with respect to any of the Government's debt agreements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of that are probable of assertion and must be disclosed in accordance with GASB Statement No. 62-as amended.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed GASB Statement No. 62-as amended, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62-as amended.

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

Purchase commitments

At September 30, 2019, the Government had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.
There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2019 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.
We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Government's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements.

Appendix B – Management Representations Letter, continued

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 does not believe that the financial statements are materially misstatement as a result of fraud.

We have disclosed that there are no allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Government.

Independence
We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Government and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Government's audit.

Conflicts of interest

There are no instances where any officer or employee of the Government has an interest in a company with which the Government does business that would be considered a "conflict of interest."- Such an interest would be contrary to Government policy.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the Management's Discussion and Analysis on pages 4 through 9. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

Supplementary and Other Information

We are responsible for the preparation and fair presentation of the following schedules (the "Supplementary and Other Information"):

- Comparative Balance Sheets
- Comparative Statements of Revenues, Expenditures by Function and Changes in Fund Balances
- Comparative Statements of Revenues, Expenditures by Object and Changes in Fund Balances
- Schedule of Expenditures by Department by Object
- Schedule of Construction Project Status
- Other Supplementary Information

We believe the supplementary and other information, including its form and content, is fairly stated in all material respects in relation to the basic financial statements as a whole.

There have been no changes in the methods of measurement or presentation of the supplementary and other information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Going concern

The Government's ability to continue as a going concern was evaluated and appropriate disclosures are made in the financial statements as necessary under GASB requirements.

Other representations

We have identified and disclosed to you all provisions of laws, and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.

The financial statements present only the Funds. They are not intended to present the financial position and results of operations of the Government in conformity with US GAAP.

Components of balance sheet (and classifications of fund balance (nonspendable fund balance, and restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

Expenditures have been appropriately classified in or allocated to functions and programs in the Statement of Revenues, Expenditures and Changes in Fund Balances, and allocations have been made on a reasonable basis.

Revenues are appropriately classified in the Statement of Revenues, Expenditures and Changes in Fund Balances.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported in the financial statements.

Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

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

Investments are properly valued.

Our policy regarding whether to first apply restricted or unrestricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available is appropriately disclosed and fund balance was properly recognized under the policy.

Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

The Government has obligated, expended, received and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by the Guam or federal law. Such obligation, expenditure, receipt or use of public funds was in accordance with any limitations, conditions or mandatory directions imposed by Guam or federal law.

There have been no instances of payment of retainage prior to acceptance of the project at the end of the contract other than what were noted during your audit.

Money or similar assets handled by the Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate and in accordance with law.

There has been no:

a. Action taken by the Government management that contravenes the provisions of federal laws, 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.

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

Subsequent events

Subsequent to September 30, 2019, no events or transactions, including events related to the COVID-19 pandemic, have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to the Government and the Government's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the Funds' financial position and the results of their operations.

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Appendix B – Management Representations Letter, continued

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and were, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Funds as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,

EDWARD M. BIRN
Director

GAUDENCIO A. ROSARIO
Deputy Financial Manager