

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT

Honorable Felix P. Camacho
Governor of Guam:

We have audited the accompanying financial statements of the Tourist Attraction Fund and of those funds related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A (TAF), as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Government of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audit.

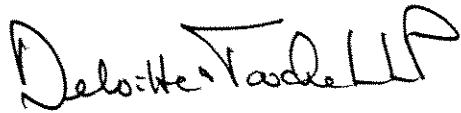
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Tourist Attraction Fund and those funds related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the Tourist Attraction Fund and those funds related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, as of September 30, 2006, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 12 to 17 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Government of Guam's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2007, on our consideration of the TAF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

April 30, 2007

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Balance Sheet
September 30, 2006

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Restricted assets:				
Cash and cash equivalents	\$ -	\$ 6,730,585	\$ 9,598,535	\$ 16,329,120
Investments	-	-	3,375,000	3,375,000
Taxes receivable	1,322,155	-	-	1,322,155
Due from the General Fund	1,700,456	-	-	1,700,456
Total assets	<u>\$ 3,022,611</u>	<u>\$ 6,730,585</u>	<u>\$ 12,973,535</u>	<u>\$ 22,726,731</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 66,217	\$ 11,727	\$ -	\$ 77,944
Total liabilities	<u>66,217</u>	<u>11,727</u>	<u>-</u>	<u>77,944</u>
Commitments and contingencies				
<u>FUND BALANCES</u>				
Fund balances:				
Reserved for:				
Related assets	1,700,456	-	-	1,700,456
Continuing appropriations	-	4,221,131	-	4,221,131
Debt service	-	-	12,973,535	12,973,535
Encumbrances	47,462	2,039,932	-	2,087,394
Unreserved	1,208,476	457,795	-	1,666,271
Total fund balances	<u>2,956,394</u>	<u>6,718,858</u>	<u>12,973,535</u>	<u>22,648,787</u>
Total liabilities and fund balances	<u>\$ 3,022,611</u>	<u>\$ 6,730,585</u>	<u>\$ 12,973,535</u>	<u>\$ 22,726,731</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2006

	Tourist Attraction Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 19,787,802	\$ -	\$ -	\$ 19,787,802
Use of money and property	-	272,902	62,678	335,580
Total revenues	19,787,802	272,902	62,678	20,123,382
Expenditures:				
Current:				
General government	47,734	8,877	-	56,611
Community services	25,000	-	-	25,000
Protection of life and property	636,058	-	-	636,058
Individual and collective rights	552,786	-	-	552,786
Payments to Guam Visitors Bureau	12,144,578	-	-	12,144,578
Capital projects	-	150,841	-	150,841
Debt service:				
Principal	-	-	4,505,000	4,505,000
Interest	-	-	2,774,889	2,774,889
Total expenditures	13,406,156	159,718	7,279,889	20,845,763
Excess (deficiency) of revenues over (under) expenditures	6,381,646	113,184	(7,217,211)	(722,381)
Other financing sources (uses):				
Operating transfers in	-	-	6,370,682	6,370,682
Operating transfers out	(6,370,682)	-	-	(6,370,682)
Total other financing sources (uses)	(6,370,682)	-	6,370,682	-
Net change in fund balances	10,964	113,184	(846,529)	(722,381)
Fund balances at the beginning of the year	2,945,430	6,605,674	13,820,064	23,371,168
Fund balances at the end of the year	\$ 2,956,394	\$ 6,718,858	\$ 12,973,535	\$ 22,648,787

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(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 Tourist Attraction Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Tourist Attraction Fund, created by 11 GCA 30107, was established to fund various recreational projects and visitor industry activities. Additionally, 11 GCA 30108 provides for 25 percent of all revenues collected by the Tourist Attraction Fund be appropriated to the Infrastructure Improvement Fund. Revenues are derived from an excise tax that is levied and imposed on transient occupants of a room or rooms in a hotel, lodging house, or similar facility in Guam. On December 1, 1997, Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, were issued. The Capital Projects Fund is used to account for the construction of capital improvement projects from bond proceeds. The Debt Service Fund is used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

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 Tourist Attraction Fund and funds related to the Limited Obligation Infrastructure Improvement Bonds, 1997 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 60 days of the end of the current fiscal period. Revenues susceptible to accrual include excise taxes. Miscellaneous revenues from other financing sources 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.

From April 1, 1995 and thereafter, the excise tax rate is set at eleven percent of the rental price charged or paid per occupancy per day. If the room or rooms are rented more than once within a twenty-four hour period, each time of occupancy shall be subject to the tax for such accommodations. This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Appropriations

Section 26 of Public Law 25-98 authorized the reprogramming and re-appropriation of appropriations from completed capital improvement projects. Specifically, all unexpended, un-obligated and unencumbered balances of the appropriations in Subsection (i) of Section 1505, Article 5, Chapter 1 of Title 5 of the Guam Code Annotated, were reprogrammed and re-appropriated.

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 Territorial 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 as reservations of fund balances 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.

F. Cash and Cash Equivalents

Cash and cash equivalents includes short-term investments in U.S. Treasury obligations and commercial paper with a maturity date within three months of the date acquired.

G. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

H. Receivables

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

I. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered. Receivables resulting from transactions between GovGuam's General Fund and the Tourist Attraction Fund are classified as "due from the General Fund" on the balance sheet.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Receivables/Payables, Continued

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

The interfund balances at September 30, 2006, are summarized below:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Due From:			
General Fund	\$ <u>1,700,456</u>	\$ <u> -</u>	\$ <u> -</u>

J. Restricted Assets

The bond indenture relating to the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, requires amounts to be restricted for capital projects and set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

K. Fund Balance

In the accompanying financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose, which includes continuing appropriations, amounts reserved for debt service, and amounts committed to liquidate contracts and purchase orders of the prior period. Designations of fund balance represent tentative management plans that are subject to change.

The unreserved fund balances represent the amount available for future operations. The reserve for related assets as of September 30, 2006, is represented by interfund receivables not expected to be repaid within the next twelve months.

L. 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.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies are governed by GovGuam's enabling legislation and bond indentures. Management is required to engage one or more fund custodians to assume responsibility for the physical possession of investments.

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the governmental entity or its agent in the entity's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the entity's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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. GovGuam does not have a deposit policy for custodial credit risk.

As of September 30, 2006, the carrying amount of cash and cash equivalents was \$16,329,120 and the corresponding bank balances were \$16,329,120, which represent short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2006.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(2) Deposits and Investments, Continued

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the governmental entity or its agent in the entity's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the entity's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2006.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Bond indentures limit investments in commercial paper to those rated in the highest rating category issued by Standard and Poor's which mature no more than 270 days after the date of purchase.

At September 30, 2006, the Debt Service Fund relating to the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, recorded fixed income securities as follows:

	<u>S & P Credit Rating</u>	<u>Maturity Date</u>	<u>Total</u>
Corporate notes:			
Aquinas Funding LLC	A-1+	11/01/2006	\$ 614,000
Natexis Banques Populaires	A-1+	11/01/2006	2,367,000
Premier Asset Collateralized Entity	A-1+	10/31/2006	<u>394,000</u>
			<u>\$ 3,375,000</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. There was no interest rate risk for investments as of September 30, 2006.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(3) Interfund Transfer Activity

Interfund transfers from the Tourist Attraction Fund to the Debt Service Fund represent the transfer of pledged revenues as required by the bond indenture. Interfund transfer activity during the year ended September 30, 2006, is summarized below:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
Transfers Out To:			
Debt Service Fund	\$ <u>6,370,682</u>	\$ <u>-</u>	\$ <u>-</u>
Transfers In From:			
Special Revenue Fund	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,370,682</u>

(4) Bonds Payable

On December 1, 1997, the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, were issued in fully registered form, in denominations of \$5,000 or multiples thereof in the aggregate principal amount of \$76,275,000. The bonds mature annually on November 1, 1999 through November 1, 2012, and subsequently on November 1, 2012 and 2017 (term bonds). Interest on the bonds is payable semiannually on May 1 and November 1 of each year. The term bonds are subject to mandatory sinking fund requirements and to redemption prices (as percentages of the face value of the bonds) as follows:

November 1, 2007 to October 31, 2008	102%
November 1, 2008 to October 31, 2009	101%
November 1, 2009 and thereafter	100%

The 1997 Series A bonds are limited obligations of GovGuam payable entirely from a first lien and pledge of revenues. Revenues are defined in the bond indenture as all amounts received from the imposition of hotel occupancy taxes. GovGuam has pledged to maintain these revenues at a level sufficient to equal the sum of 125 percent of the aggregate debt service becoming due within the next fiscal year, plus amounts required to be deposited pursuant to the tax certificate for the bonds and amounts required to meet the bond reserve fund requirement.

Minimum debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,735,000	\$ 2,520,789	\$ 7,255,789
2008	4,990,000	2,253,351	7,243,351
2009	5,250,000	1,971,751	7,221,751
2010	4,960,000	1,697,176	6,657,176
2011	3,290,000	1,488,016	4,778,016
2012-2016	19,065,000	4,736,278	23,801,278
2017-2018	<u>9,030,000</u>	<u>457,000</u>	<u>9,487,000</u>
	\$ <u>51,320,000</u>	\$ <u>15,124,361</u>	\$ <u>66,444,361</u>

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(4) Bonds Payable, Continued

In accordance with the bond indentures, the depository has established trust accounts as follows:

- Construction Fund – amounts deposited therein are used to (1) implement infrastructure improvement projects prescribed in Public Law 23-137, adopted on January 2, 1997, (2) pay the cost of bond issuance and letter of credit fees and (3) pay the principal and interest on the bonds should other sources be insufficient. The Construction Fund account is accounted for within the Capital Projects Fund.

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

- Bond Fund - an amount equal to the sum of (1) the aggregate amount of interest to accrue on the bonds during the then current calendar month upon all bonds then outstanding, plus (2) an amount which, if paid in equal monthly installments in each month over the semiannual or annual period prior to the next principal payment date, would aggregate to the amount of the principal becoming due and payable on the outstanding serial bonds on such principal payment date, plus (3) an amount which, if paid in equal monthly installments in each month over the semiannual or annual period prior to the next principal payment date, would aggregate to the amount of mandatory sinking fund account payments required to be paid for the outstanding term bonds on such principal payment date.
- Rebate Fund - an amount, if any, needed to be deposited therein pursuant to the rebate certificate with respect to the 1997 Series A Bonds.
- Bond Reserve Fund - an amount, if any, needed to equal the least of (1) the maximum annual debt service, (2) 10% of the proceeds received from the sale of the bonds or (3) 125% of average annual debt service on the bonds or an amount as may be specified by supplemental indentures providing for the issuance of a series of bonds. The maximum annual debt service is defined as the sum of (1) the interest falling due on the then outstanding bonds, (2) the principal amount of the outstanding serial bonds falling due by their terms, and (3) the aggregate amount of all mandatory sinking fund payments required; all as computed for the bond year in which such sum shall be the largest. Amounts in the Bond Reserve Fund are to be used for the purpose of making up any deficiency in the Bond Fund.
- Bond Expense Fund - an amount equal to the amount of bond expenses estimated by the trustee to be due and payable during the next succeeding calendar month.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(4) Bonds Payable, Continued

During the year ended September 30, 2006, payments to the trustee totaled \$7,279,889, of which \$4,505,000 represents payment on principal and \$2,774,889 as interest:

Bonds payable at September 30, 2005	\$ 55,825,000
Principal repayment	<u>4,505,000</u>
Bonds payable at September 30, 2006	\$ <u>51,320,000</u>

At September 30, 2006, \$12,973,535 of the fund balance in the Debt Service Fund is reserved for debt service purposes.

At September 30, 2006, management of the Funds is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

(5) Payments to Guam Visitors Bureau (GVB)

Public Law 28-68 authorizes the general appropriation to GVB for operations and personnel services to be paid from the Tourist Attraction Fund. Additionally, Public Law 28-68 authorizes the funding of special projects to be administered by GVB. During the year ended September 30, 2006, total appropriations made to GVB for operations and personnel services amounted to \$10,986,245. Additionally, appropriations to GVB for special projects amounted to \$1,158,333 for the year ended September 30, 2006.

(6) Commitment

During the year ended September 30, 2006, the Capital Projects Fund entered a design-build construction contract for the reconstruction of Pale San Vitores Road in the amount of \$2,000,000, which is recorded within encumbrances of the Capital Projects Fund in the accompanying financial statements. No capital-related expenditures have been incurred under this contract during the year ended September 30, 2006.

(7) Contingency

On March 9, 2007, Standard & Poor's Ratings Services placed its "B" rating on GovGuam's General Obligation debt on CreditWatch with negative implications. The action is based on GovGuam's disclosure of the need to borrow up to \$6 million from local banks to meet its current payroll obligation for public school system employees. The CreditWatch placement indicated that the liquidity crisis is directly attributed to GovGuam's long-term structural financial imbalance, with recurring deficits, a large and growing negative General Fund balance, and significant long-term liabilities. The CreditWatch placement also reflected the possibility that these challenges will further diminish GovGuam's ability to meet operational responsibilities while addressing long-term requirements. Without clear evidence of addressing these concerns, a multiple-notch downgrade is likely. As repayment of the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, is guaranteed by a pledge of all revenues generated by the Tourist Attraction Fund, management is of the opinion that this CreditWatch placement will not have an impact on the future debt service requirements of these outstanding bonds payable. However, GovGuam's executive and legislative branches have yet to adopt a formal deficit reduction plan to address these issues. Accordingly, the financial statements of the Tourist Attraction Fund do not include adjustments, if any, that might result from the outcome of this uncertainty.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Notes to Financial Statements
September 30, 2006

(8) Subsequent Event

On October 31, 2006, Public Law 28-151 was signed into law, which appropriated \$4,000,000 from the Construction Fund. On November 2, 2006, \$4,000,000 was transferred to GovGuam's General Fund for the purpose stated in the Public Law.

(9) Restatement

Subsequent to the issuance of TAF's 2005 financial statements, management determined that accounts payable balances and amounts due from GovGuam's General Fund were misstated. As a result, fund balances (deficits) have been restated from the amounts previously reported to correct for this error as follows:

	<u>Tourist Attraction Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Fund balances (deficits) at October 1, 2005, as previously reported	\$ (2,406,972)	\$ 12,033,824	\$ 13,820,064	\$ 23,446,916
Understatement of accounts payable	-	(75,748)	-	(75,748)
Overstatement of amounts due from General Fund	-	(5,352,402)	-	(5,352,402)
Understatement of amounts due from General Fund	<u>5,352,402</u>	<u>-</u>	<u>-</u>	<u>5,352,402</u>
Fund balances at October 1, 2005, as restated	\$ <u>2,945,430</u>	\$ <u>6,605,674</u>	\$ <u>13,820,064</u>	\$ <u>23,371,168</u>

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Balance Sheets
September 30, 2006 and 2005

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2006	2005	2006	2005	2006	2005
ASSETS						
Restricted assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 6,730,585	\$ 6,748,593	\$ 9,598,535	\$ 2,933,064
Investments	-	-	-	-	3,375,000	10,887,000
Taxes receivable	1,322,155	1,468,811	-	-	-	-
Due from the General Fund	1,700,456	1,476,619	-	-	-	-
Total assets	\$ 3,022,611	\$ 2,945,430	\$ 6,730,585	\$ 6,748,593	\$ 12,973,535	\$ 13,820,064
LIABILITIES						
Accounts payable	\$ 66,217	\$ -	\$ 11,727	\$ 142,919	\$ -	\$ -
Total liabilities	\$ 66,217	\$ -	\$ 11,727	\$ 142,919	\$ -	\$ -
FUND BALANCES						
Fund balances:						
Reserved for:						
Related assets	1,700,456	1,476,619	-	-	-	-
Continuing appropriations	-	30,403	4,221,131	2,538,505	-	-
Debt service	-	-	-	-	12,973,535	13,820,064
Encumbrances	47,462	23,327	2,039,932	266,521	-	-
Unreserved	1,208,476	1,415,081	457,795	3,800,648	-	-
Total fund balances	\$ 2,956,394	\$ 2,945,430	\$ 6,718,858	\$ 6,605,674	\$ 12,973,535	\$ 13,820,064
Total liabilities and fund balances	\$ 3,022,611	\$ 2,945,430	\$ 6,730,585	\$ 6,748,593	\$ 12,973,535	\$ 13,820,064

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficits)
Years Ended September 30, 2006 and 2005

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2006	2005	2006	2005	2006	2005
Revenues:						
Taxes						
Use of money and property	\$ 19,787,802	\$ 18,946,882	\$ -	\$ -	\$ -	\$ -
Total revenues	19,787,802	18,946,882	272,902	163,758	62,678	42,652
Expenditures:						
Current:						
General government	47,734	34,000	8,877	9,438	-	-
Community services	25,000	-	-	-	-	-
Protection of life and property	636,058	-	-	-	-	-
Individual and collective rights	552,786	20,031	-	-	-	-
Payments to Guam Visitors Bureau	12,144,578	10,187,022	-	-	-	-
Capital projects	-	-	150,841	3,537,536	-	-
Debt service:						
Principal	-	-	-	-	4,505,000	4,285,000
Interest	-	-	-	-	2,774,889	3,011,258
Total expenditures	13,406,156	10,241,053	159,718	3,546,974	7,279,889	7,296,258
Excess (deficiency) of revenues over (under) expenditures	6,381,646	8,705,829	113,184	(3,383,216)	(7,217,211)	(7,253,606)
Other financing sources (uses):						
Operating transfers in	-	847,304	-	-	6,370,682	-
Operating transfers out	(6,370,682)	-	-	-	-	(847,304)
Total other financing sources (uses), net	(6,370,682)	847,304	-	-	6,370,682	(847,304)
Net change in fund balances (deficits)	10,964	9,553,133	113,184	(3,383,216)	(846,529)	(8,100,910)
Fund balances (deficits) at the beginning of the year	2,945,430	(6,607,703)	6,605,674	9,988,890	13,820,064	21,920,974
Fund balances at the end of the year	\$ 2,956,394	\$ 2,945,430	\$ 6,718,858	\$ 6,605,674	\$ 12,973,535	\$ 13,820,064

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balances (Deficits)
Years Ended September 30, 2006 and 2005

	Tourist Attraction Fund		Capital Projects Fund		Debt Service Fund	
	2006	2005	2006	2005	2006	2005
Revenues:						
Taxes	\$ 19,787,802	\$ 18,946,882	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	-	272,902	163,758	62,678	42,652
Total revenues	19,787,802	18,946,882	272,902	163,758	62,678	42,652
Expenditures:						
Salaries and wages - regular	471,702	-	-	-	-	-
Salaries and wages - overtime	11,857	-	-	-	-	-
Salaries and wages - fringe benefits	117,610	-	-	-	-	-
Contractual services	294,653	46,736	150,841	3,537,536	-	-
Building rent	47,181	-	-	-	-	-
Supplies	183,039	5,660	-	-	-	-
Equipment	38,413	-	-	-	-	-
Utilities - power and water	30,914	-	-	-	-	-
Communications	3,301	-	-	-	-	-
Capital outlays	36,531	1,635	-	-	-	-
Grants and subsidies	12,144,578	10,187,022	-	-	-	-
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	4,505,000	4,285,000
Miscellaneous	26,377	-	8,877	9,438	2,774,889	3,011,258
Total expenditures	13,406,156	10,241,053	159,718	3,546,974	7,279,889	7,296,258
Excess (deficiency) of revenues over (under) expenditures	6,381,646	8,705,829	113,184	(3,383,216)	(7,217,211)	(7,253,606)
Other financing sources (uses):						
Operating transfers in	-	847,304	-	-	6,370,682	-
Operating transfers out	(6,370,682)	-	-	-	-	(847,304)
Total other financing sources (uses), net	(6,370,682)	847,304	-	-	6,370,682	(847,304)
Net change in fund balances (deficits)	10,964	9,553,133	113,184	(3,383,216)	(846,529)	(8,100,910)
Fund balances (deficits) at the beginning of the year	2,945,430	(6,607,703)	6,605,674	9,988,890	13,820,064	21,920,974
Fund balances at the end of the year	\$ 2,956,394	\$ 2,945,430	\$ 6,718,858	\$ 6,605,674	\$ 12,973,535	\$ 13,820,064

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Expenditures by Department by Object
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Department of Administration:		
Division of Accounts:		
Contractual services	\$ 17,000	\$ 34,000
Principal retirement	4,505,000	4,285,000
Interest and fiscal charges	2,774,889	3,011,258
Miscellaneous	8,877	9,437
Total Department of Administration	<u>7,305,766</u>	<u>7,339,695</u>
Department of Revenue and Taxation:		
Regulatory Division:		
Salaries and wages - regular	24,366	-
Salaries and wages - fringe benefits	6,368	-
Total Department of Revenue and Taxation	<u>30,734</u>	<u>-</u>
Guam Police Department:		
Tumon Precinct:		
Salaries and wages - regular	471,702	-
Salaries and wages - overtime	11,857	-
Salaries and wages - fringe benefits	117,610	-
Supplies	674	-
Utilities - power and water	30,914	-
Communications	3,301	-
Total Guam Police Department	<u>636,058</u>	<u>-</u>
Mayor's Council of Guam:		
Operations:		
Contractual services	246,920	12,737
Building rent	47,180	-
Supplies	182,365	5,660
Equipment	38,413	-
Capital outlays	36,531	1,635
Miscellaneous	1,377	-
Total Mayor's Council of Guam	<u>552,786</u>	<u>20,032</u>
Payments to Component Units:		
Guam Visitors Bureau:		
Grants and subsidies	12,144,578	10,187,022
Other appropriations:		
Guam Territorial Band:		
Miscellaneous	25,000	-
Tumon Bay Projects:		
Capital outlays	150,841	3,537,536
	<u>\$ 20,845,763</u>	<u>\$ 21,084,285</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Other Supplementary Information
Years Ended September 30, 2006 and 2005

	2006	2005
Employees at end of year:		
Department of Revenue and Taxation	1	-
Guam Police Department	41	-
	42	-
Debt Service Fund Restricted Cash and Investments:		
Infrastructure Improvement Bond Fund	\$ 5,463,298	\$ 6,342,048
Infrastructure Improvement Reserve Fund	7,442,294	7,434,543
Revenue Fund	67,907	43,437
Bond Expense Fund	36	36
	\$ 12,973,535	\$ 13,820,064

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

**Schedule of Construction Project Status
Year Ended September 30, 2006**

	Total Budget	Expenditures Year Ended September 30, 2006	Cumulative Expenditures	Outstanding Encumbrances	Continuing Appropriations
Tumon Bay Projects:					
Tumon Bay Infrastructure Design Fees	\$ 1,592,430	\$ -	\$ 1,580,276	\$ -	\$ 12,154
Tumon Bay Beautification Gov Flores	8,716,965	-	8,448,228	-	268,737
Landscape San Vitores to Beach	3,900,000	-	3,861,870	-	38,130
San Vitores Roadway Power Underground	4,951,992	-	4,909,950	39,932	2,110
Sub-Total	<u>19,161,387</u>	<u>-</u>	<u>18,800,324</u>	<u>39,932</u>	<u>321,131</u>
Tumon Redevelopment Projects:					
Reconstruction of Pale San Vitores Road	2,000,000	-	-	2,000,000	-
Sub-Total	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>
Typhoon Chata'an Reimbursement:					
Transfer to Chata'an Reimbursement Fund	3,900,000	-	-	-	3,900,000
Sub-Total	<u>3,900,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,900,000</u>
	<u>\$ 25,061,387</u>	<u>\$ -</u>	<u>\$ 18,800,324</u>	<u>2,039,932</u>	<u>\$ 4,221,131</u>

See accompanying independent auditors' report.