

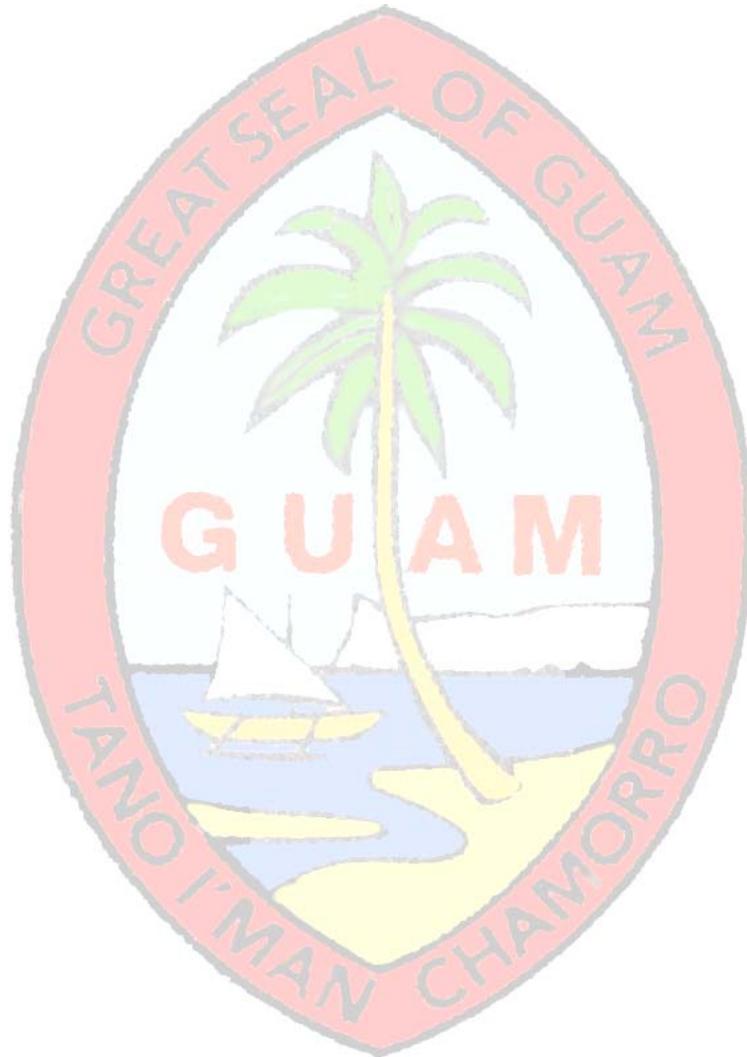


# GOVERNMENT OF GUAM Financial Section

**Tumon Bay:** "Tumon, with its beautiful white sand beaches and protected waters, has developed over the last four decades into Guam's tourism center. It is Guam's economic center. Tourism makes up more than half the economy of the island. Tourists flock to the shopping centers each day to local malls and shopping centers in the area." source: [guampedia.com/tamuning](http://guampedia.com/tamuning) and <http://en.wikipedia.org/wiki/Tumon>

Guam





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## INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo  
Governor  
Government of Guam:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise GovGuam's basic financial statements as set forth in the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the GovGuam Retirement Fund, which represents 92%, 94% and 71%, respectively, of the assets, net position/fund balances and revenues of the aggregate remaining fund information, and the Antonio B. Won Pat International Airport Authority, the Guam Housing and Urban Renewal Authority, the Guam Housing Corporation, and the Guam Preservation Trust, which represent 28%, 41% and 13%, respectively, of the assets and deferred outflows, net position and operating revenues of GovGuam's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the GovGuam Retirement Fund, the Antonio B. Won Pat International Airport Authority, the Guam Housing and Urban Renewal Authority, the Guam Housing Corporation, and the Guam Preservation Trust, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

#### ***New Accounting Pronouncements***

As described in Note 1Y to the financial statements, during the year ended September 30, 2013, GovGuam has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The beginning net position of the governmental activities and the aggregate discretely presented component units has been restated for the effect of adopting these accounting pronouncements.

#### ***Restatement***

As discussed in Note 16 to the financial statements, the beginning net position of the governmental activities and the beginning fund balance of the Chamorro Lands major fund have been restated for the correction of an error.

Our opinions are not modified with respect to these matters.

## ***Other Matters***

### ***Required Supplementary Information***

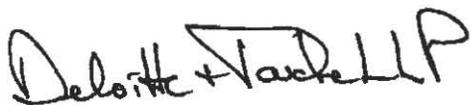
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 as well as the Schedule of Revenues, Expenditures, and changes in Deficit - Budget and Actual - General Fund and notes thereto, on pages 121 through 123, and the Schedule of Funding Progress, on page 124, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GovGuam's basic financial statements. The Introductory Section and the Statistical Section, as set forth in the foregoing table of contents, as well as the Other Supplementary Information on pages 126 through 212, are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management. The additional information on pages 130 through 141 and 150 through 212 as well as the 2013 information on pages 142 through 149 were derived from and relate 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 standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the additional information on pages 130 through 141 and 150 through 212 as well as the 2013 information on pages 142 through 149 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The 2012 information on pages 142 through 149 as well as the Introductory Section and the Statistical Section has 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.



June 30, 2014

## GOVERNMENT OF GUAM

### Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2013

Our discussion and analysis of the Government of Guam ("GovGuam") financial performance provides an overview of GovGuam's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with GovGuam's financial statements, which follow this section. Fiscal year 2012 comparative information has been included, where appropriate.

#### FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2013, GovGuam's total net position increased by \$13.2 million (or 6.8%) from a net position of \$194.7 million (as restated) in the prior year to a net position of \$207.9 million.
- During fiscal year 2013, GovGuam's expenses for governmental activities were \$1.13 billion and were funded in part by \$452.4 million in program revenues and \$687.6 million in taxes and other general revenues. Expenses were up from fiscal year 2012 by \$17.8 million (or 1.6%) whereas revenues were up from fiscal year 2012 by \$26.1 million (or 2.3%).
- For the fiscal year ended September 30, 2013, the General Fund reported expenditures (including transfers out) of \$691.8 million, an increase of \$7.4 million (or 1.1%) from fiscal year 2012 expenditures and balance transfers out of \$684.5 million.
- At September 30, 2013, the General Fund reported a cumulative fund balance of \$2.3 million, which is a decrease of \$27.8 million from the prior year fund balance of \$30.1 million.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to GovGuam's basic financial statements. GovGuam's basic financial statements comprise three components: 1) governmental-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds and component units.

#### Government-Wide Financial Statements

The government-wide statements report information about GovGuam as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report GovGuam's net position and how it has changed. Net position - the difference between GovGuam's assets and liabilities - is one way to measure GovGuam's financial health or position.

- Over time, increases or decreases in GovGuam's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of GovGuam, additional non-financial factors such as changes in GovGuam's tax base, the condition of GovGuam's roads and infrastructure, and the quality of services also need to be considered.

## GOVERNMENT OF GUAM

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

### Government-Wide Financial Statements, Continued

The government-wide financial statements of GovGuam are divided into two categories:

- Primary government - this grouping comprises governmental activities, which includes most of GovGuam's basic services such as education, public safety, health, finance, judiciary, and general administration. Local sourced tax revenues and other federal grants finance most activities of the primary government.
- Discretely presented component units - GovGuam includes numerous other entities in its report. Although legally separate, these "component units" are important because GovGuam is financially accountable for them.

### Fund Financial Statements

The fund financial statements provide more detailed information about GovGuam's most significant funds - not GovGuam as a whole. Funds are accounting devices that GovGuam uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by enabling legislation.
- GovGuam establishes other funds to control and manage money for particular purposes (like Solid Waste Operations Fund) or to show that it is properly using certain grants (like federal grants reported in the Federal Grants Fund).

GovGuam has two kinds of funds:

- Governmental funds - Most of GovGuam's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of GovGuam's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance GovGuam's programs.
- Fiduciary funds - GovGuam is the trustee, or fiduciary, for other assets that because of trust arrangement, can be used only for the trust beneficiaries. GovGuam is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of GovGuam's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from GovGuam's government-wide financial statements because GovGuam cannot use these assets to finance its operations.

## GOVERNMENT OF GUAM

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

### A FINANCIAL ANALYSIS OF GOVGUAM AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At September 30, 2013, GovGuam reports positive balances in two of the categories of net position. By far, the largest portion of GovGuam's net position (\$508.6 million) reflects its investment in capital assets (eg., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. GovGuam uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although GovGuam's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. An additional portion of GovGuam's net position (\$534 million) represents resources that are subject to external restrictions or enabling legislation as to the purpose they can be used for. The summary of Net Position (condensed) presented below, with comparable balances for fiscal year 2012, discloses this relationship:

#### GovGuam's Net Position As of September 30

	Governmental Activities <u>2013</u>	(As Restated) Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
Current and other assets	\$ 912,981,294	\$ 980,073,927	-6.8%
Capital assets	<u>972,226,579</u>	<u>890,578,799</u>	9.0%
<b>Total assets</b>	<u><b>1,885,207,873</b></u>	<u><b>1,870,652,726</b></u>	<b>0.8%</b>
Long-term debt outstanding	1,074,417,580	1,089,450,900	-1.4%
Other liabilities	<u>602,935,825</u>	<u>568,507,783</u>	2.8%
<b>Total liabilities</b>	<u><b>1,677,353,405</b></u>	<u><b>1,675,958,683</b></u>	<b>0.1%</b>
Net position:			
Net investment in capital assets	508,552,458	449,802,534	13.1%
Restricted	534,036,117	535,609,662	-29%
Unrestricted	<u>(834,734,107)</u>	<u>(790,718,123)</u>	5.6%
<b>Total net position</b>	<u><b>\$ 207,854,468</b></u>	<u><b>\$ 194,694,073</b></u>	<b>6.8%</b>

At the end of fiscal year 2013, GovGuam's unrestricted net deficiency amounted to \$834.7 million, an increase of \$44 million (or 5.6%) from the prior year unrestricted net position deficiency. This deficiency is the result of having long-term commitments that are greater than currently available resources. Specifically, GovGuam did not include in past annual budgets the full amounts needed to finance future liabilities arising from outstanding bonds payable, capital lease obligations and other loans as well as to pay for closure and post closure costs of the Ordot Dump, and unused employee leave balances. GovGuam will include these amounts in future years' budgets as they become due.

## GOVERNMENT OF GUAM

### Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2013

#### Changes in Net Position

For the year ended September 30, 2013, net position of the primary government increased by \$13.2 million compared to prior year's net position of \$194.7 million. This result indicates that GovGuam's financial condition, as a whole, again improved from the prior year. For the year ended September 30, 2013, net position of the primary government changed as follows, with comparable amounts for fiscal year 2012:

#### GovGuam's Changes in Net Position For the Years Ended September 30

	Governmental Activities <u>2013</u>	(As Restated) Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 76,251,059	\$ 80,307,806	-5.1%
Operating grants and contributions	376,118,645	383,852,332	-2.0%
General revenues:			
Income taxes	261,854,651	284,823,341	-8.1%
Gross receipts taxes	221,672,983	221,443,640	0.1%
Other taxes	179,646,037	130,238,002	37.9%
Other general revenues	<u>24,440.670</u>	<u>17,751.776</u>	37.7%
<b>Total revenues</b>	<b><u>1,139,988,045</u></b>	<b><u>1,118,416,897</u></b>	<b>2.3%</b>
<b>Expenses:</b>			
General government	148,651,381	214,648,400	-30.7%
Protection of life and property	116,757,499	105,498,131	10.7%
Public health	276,151,415	253,441,750	9.0%
Community services	24,512,384	25,639,150	-4.4%
Culture and recreation	22,247,794	24,332,721	-8.6%
Individual and collective rights	61,011,520	25,649,133	137.9%
Transportation	30,029,865	26,906,615	11.6%
Public education	340,576,575	325,265,139	4.7%
Environmental protection	23,137,218	30,383,714	-23.8%
Economic development	18,296,407	16,498,455	10.9%
Interest	<u>69,975.052</u>	<u>65,300.070</u>	7.2%
<b>Total expenses</b>	<b><u>1,131,347,110</u></b>	<b><u>1,113,563,278</u></b>	<b>1.6%</b>
Contributions to permanent fund	4,519,460	12,397,661	-63.5%
<b>Change in net position</b>	<b>13,160,395</b>	<b>17,251,280</b>	<b>-23.7%</b>
<b>Net position, beginning of year</b>	<b><u>194,694,073</u></b>	<b><u>177,442,793</u></b>	<b>9.7%</b>
<b>Net position, end of year</b>	<b><u>\$ 207,854,468</u></b>	<b><u>\$ 194,694,073</u></b>	<b>6.8%</b>

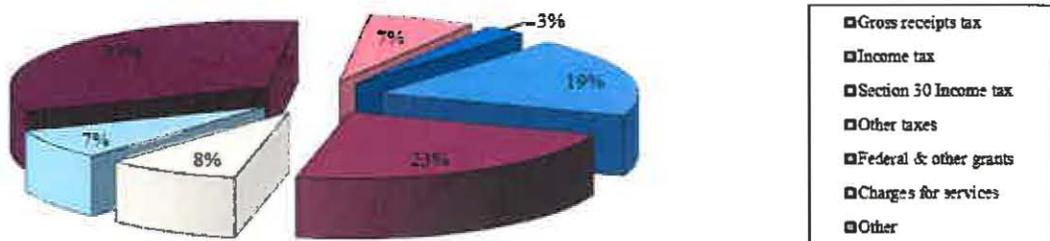
## GOVERNMENT OF GUAM

### Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2013

GovGuam's revenues from governmental activities, including local revenues, totaled \$1.14 billion in fiscal year 2013. The cost of governmental activities also totaled \$1.13 billion, resulting in an overall slight positive change in net position of \$13.2 million.

Graphs 1 and 2 below show the major components of revenues and cost of governmental activities.

**Graph 1**  
**GovGuam's Revenue Sources**  
For the Year Ended September 30, 2013



As in prior years, local sourced tax revenues and federal and other grants are the major sources of revenue for GovGuam, which comprises 56.9% and 34.3%, respectively, of the total revenues for fiscal year 2013. Charges for services provided 7.2% of the total revenues.

**Graph 2**  
**GovGuam's Cost of Governmental Activities**  
For the Year Ended September 30, 2013



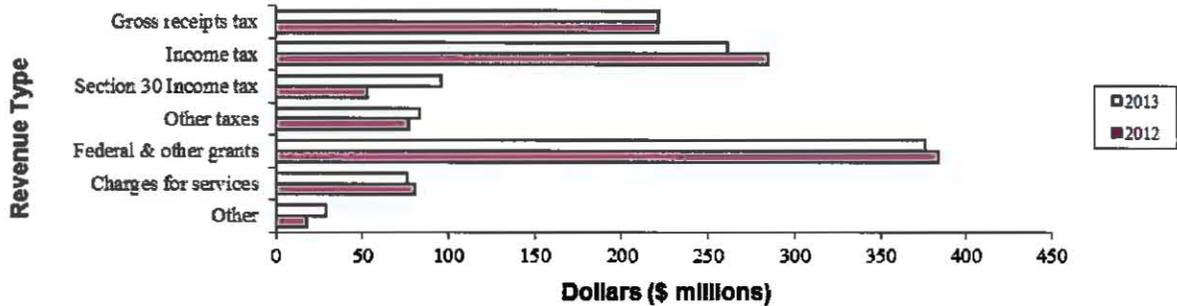
GovGuam's expenses cover a range of services. The largest expenses were for public education and public health, which comprises 30.1% and 24.4%, respectively, of the total expenses for fiscal year 2013. Other expenses that make up a portion of the costs of governmental activities include community services (\$24.5 million), economic development (\$18.3 million), unallocated interest expense (\$70 million), transportation expenses (\$30 million), and culture and recreation (\$22.2 million).

**GOVERNMENT OF GUAM**

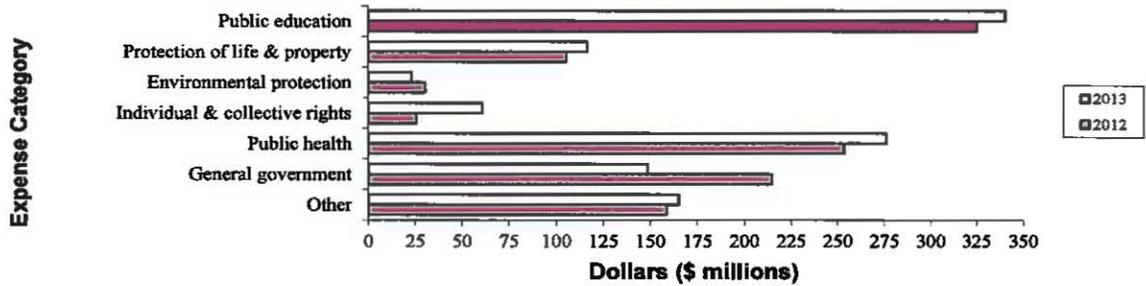
**Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013**

Graphs 3 and 4 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2013 and 2012.

**Graph 3  
GovGuam's Revenue Sources  
For the Years Ended September 30**



**Graph 4  
GovGuam's Cost of Governmental Activities  
For the Years Ended September 30**



Other expenses in fiscal year 2013 included community services of \$24.5 million, down from \$25.6 million (or 4.3%) in fiscal year 2012, culture and recreation expense of \$22.2 million, down from \$24.3 million (or 8.6%) in fiscal year 2012, transportation expenses of \$30 million, up from \$26.9 million (or 11.5%) in fiscal year 2012, economic development expenses of \$18.3 million, down from \$16.5 million (or 11%) in fiscal year 2012, and unallocated interest expense of \$70 million, up from \$65.3 million (or 7.2%) in fiscal year 2012.

## GOVERNMENT OF GUAM

### Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2013

#### Analysis of Changes in Net Position

During the current fiscal year, GovGuam's total net position increased by \$13.2 million compared with prior fiscal year of \$17.3 million. This represents a decrease in the change in net position of \$4.1 million. The key elements of this change are an increase in general revenues and contributions of \$25.5 million (or 3.8%) offset by an increase in expenses, net of program revenues, of \$29.6 million (or 4.6%). The elements of these changes are reflected below:

	Governmental Activities <u>2013</u>	(As Restated) Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
<b>General revenues:</b>			
Income taxes	\$ 261,854,651	\$ 284,823,341	-8.1%
Gross receipts taxes	221,672,983	221,443,640	0.1%
Other taxes	179,646,037	130,238,002	37.9%
Other	<u>24,444,670</u>	<u>17,751,776</u>	37.7%
<b>Total general revenues</b>	<b>687,618,341</b>	<b>654,256,759</b>	<b>5.1%</b>
Contributions to permanent funds	<u>4,519,460</u>	<u>12,397,661</u>	-63.5%
<b>Total general revenues and contributions</b>	<b><u>692,137,801</u></b>	<b><u>666,654,420</u></b>	<b>3.8%</b>
<b>Expenses, net of program revenues:</b>			
General government	124,246,855	161,289,677	-23.0%
Protection of life and property	92,766,491	82,136,636	12.9%
Public health	80,055,601	70,478,543	13.6%
Community services	12,712,987	18,871,722	-32.6%
Culture and recreation	20,325,004	22,726,089	-10.6%
Individual and collective rights	48,017,219	11,680,186	311.1%
Transportation	(3,425,471)	(440,580)	677.5%
Public education	267,620,456	246,502,407	8.6%
Environmental protection	(9,586,438)	(8,859,266)	8.2%
Economic development	(21,525,668)	(18,167,915)	18.5%
Interest	<u>67,770,370</u>	<u>63,185,641</u>	7.3%
<b>Total expenses</b>	<b><u>678,977,406</u></b>	<b><u>649,403,140</u></b>	<b>4.6%</b>
<b>Change in net position</b>	<b><u>\$ 13,160,395</u></b>	<b><u>\$ 17,251,280</u></b>	<b>-23.7%</b>

General revenues increased by \$37.9 million (or 5.8%) from the previous fiscal year. The increase was primarily due to increases in comparison with prior year, Section 30 Federal income tax collections of \$40 million (or 75.3%) compared with prior year, property taxes of \$2 million or (10.6%), alcohol and tobacco taxes of \$2.6 million (or 15%) compared with prior year, and hotel occupancy taxes of \$3.3 million (or 12.6%) compared with prior year offset by a decrease in income tax collections of \$23 million or (8%). Public education net expenses increased by \$21.1 million (or 8.6%) from the previous fiscal year due to spending of ARRA funding. General government net expenses increased by \$29.6 million (or 4.6%) over the previous fiscal year. This increase was due mainly to the Department of Education ARRA capital projects expenditures of \$29 million.

## GOVERNMENT OF GUAM

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

### FINANCIAL ANALYSIS OF GOVGUAM'S FUNDS

As noted earlier, GovGuam uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2013, GovGuam's governmental funds reported a combined fund balance surplus of \$593.7 million, an increase of \$384.8 million compared with a combined fund surplus of \$208.9 at the end of fiscal year 2012. This is primarily attributable to the restatement for Chamorro Lands of \$406.6 million and a negative change in the General Fund of \$27.8 million. The restatement is as a result of another unprecedented milestone in which an estimated one-third of GovGuam's "crown lands" have been inventoried, registered and assigned value thus meeting GASB 52 criteria for recognition in the financial statements

The General Fund is the chief operating fund of GovGuam. At the end of the current fiscal year, General Fund has a fund balance of \$2.3 million as compared with the prior year fund balance of \$30.1 million, a decrease in performance of \$27.8 million. This current year negative change in fund balance was attributed primarily due to GDOE federal stimulus capital projects expenditures of \$29 million in FY13 for which revenues were recorded in a prior fiscal year.

The Federal Grants Assistance Fund has a total fund balance of \$0.1 million, which primarily represents accumulated interest income received not yet expended at year end. Fund balance of the Federal Grants Assistance Fund increased marginally from prior year with total revenues and transfers in of \$346.2 million supporting expenditures and transfers out of the same amount, up from total revenues and transfers in of \$339.5 million (or 2%) in fiscal year 2012.

The Guam Department of Education (GDOE) Federal Grants Fund has a zero total fund balance at the end of the current fiscal year. Total revenues and transfers in for the GDOE Federal Grants Fund amounted to \$69.2 million, which funded various education-related federal grant programs and which was lower than fiscal year 2012 revenues and transfers in of \$70.8 million by \$1.6 million or 2.3%. In 2011, the GDOE Federal Grants Fund recognized federal stimulus funds in the amount of \$80.2 million associated with ARRA State Fiscal Stabilization Funds.

The Landfill CIP Fund was established in fiscal year 2009 to account for the proceeds of Section 30 limited obligation revenue bonds issued for the purpose of funding the construction of a new landfill and the closure of Ordot Dump.

#### General Fund Budgetary Highlights

During the fiscal year ended September 30, 2013, there was a net \$41.7 million increase in appropriations between the original and final budget for Executive Branch operations which was primarily due to transfers out appropriations to GMH and also payments to refunding of the GOB1993 funded by proceeds from Business Privilege Tax Bonds Series 2013C (P.L. 31-276).

Actual revenues collected (including operating transfers in) of \$624 million, were higher than budgeted amounts of \$614.1 million by \$9.9 million. The net increase is due primarily to the increase in Section 30 Federal income tax collections of \$44.4 million and the decrease in income tax collections of \$32 million due to an adjustment to increase the provision for tax refunds for EITC claims for which no withholding tax was contributed.

## GOVERNMENT OF GUAM

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

GovGuam's investment in capital assets for its governmental activities as of September 30, 2013 amounted to \$1.48 billion, net of accumulated depreciation of \$505.8 million, leaving a net book value of \$972.2 million. GovGuam's capital assets include land, infrastructure, buildings, machinery and equipment, and various projects under construction. (See table below)

#### GovGuam's Capital Assets (net of depreciation) As of September 30

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
Land	\$ 41,865,823	\$ 11,454,623	265.5%
Landfill cells	71,937,991	68,414,968	5.1%
Buildings	340,945,758	326,504,047	4.4%
Machinery, equipment and furniture	26,826,839	19,270,965	39.2%
Infrastructure	359,495,027	379,835,237	-5.4%
Construction in progress	<u>131,155,141</u>	<u>85,098,959</u>	54.1%
<b>Total</b>	<b><u>\$ 972,226,579</u></b>	<b><u>\$ 890,578,799</u></b>	<b>9.2%</b>

Major capital asset additions for fiscal year 2013 were as follows:

\$49.3 million for work carried out under Highway federally funded projects, including GovGuam's road expansions and upgrades.

- \$29.1 million for the acquisition of the Land for the Layon Landfill.
- \$20.4 million for the projects completed related to Southern High School Gym and Fine Arts Building, Untalan Gym and Oceanview Gym.
- \$6.2 million for the case management system for the Unified Court of Guam.

Additional information on GovGuam's capital assets can be found in note 5 to the basic financial statements.

#### Long-Term Debt

The Organic Act authorizes GovGuam to borrow for such purposes as approved by the Guam Legislature. At the end of the current fiscal year, GovGuam had total bonded debt outstanding of \$1.07 billion. Of this amount, \$402.5 million comprises debt backed by the full faith and credit of GovGuam and \$663.1 million is revenue bonded debt that is payable from and secured solely by the specific revenue sources. In addition to this bonded debt, GovGuam had two loans payable and outstanding of \$8.8 million at year end.

**GOVERNMENT OF GUAM**

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

A breakdown of GovGuam's total long-term debt is shown below.

**GovGuam's Outstanding Debt  
As of September 30**

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
General obligation bonds (backed by GovGuam)	\$ 402,476,727	\$ 433,738,737	-7.2%
Limited obligation bonds (backed by specific tax and fee revenues)	663,127,638	644,710,521	2.9%
Loans payable (backed by specific tax and fee revenues)	<u>8,813,215</u>	<u>11,001,642</u>	-19.9%
<b>Total</b>	<b><u>\$ 1,074,417,580</u></b>	<b><u>\$ 1,089,450,900</u></b>	<b>-1.4%</b>

GovGuam's total long-term debt decreased by \$15 million (or 1.4%) during the current fiscal year.

As of October, 2013, GovGuam's underlying Standard and Poor's Corporation bond ratings were as follows:

- \$151.9 million General Obligation Bonds, 2007 Series A (BB-/Stable).
- \$271.1 million General Obligation Bonds, 2009 Series A (BB-/Stable).
- \$202.4 million Limited Obligation (Section 30) Bonds, 2009 Series A (BBB+/Stable).
- \$90.7 million Hotel Occupancy Tax Bonds, 2011 Series A (BBB+/Stable).
- \$235 million Business Privilege Tax Bonds, 2011 Series A (A/Stable).
- \$108.7 million Business Privilege Tax Bonds, 2012 Series B (A/Stable).

GovGuam's GOB credit rating upgrade and the BPT investment grade credit rating of A, the unprecedented payment in TY13 of all A status tax refunds without external financing, the elimination of the GF deficit, the number of visitor arrivals, increase in construction such as the new regional medical center, as well the economic development projects planned and in progress, the fiscal stabilization and sustainability initiatives implemented, all appear positive for Guam's standing in the capital markets,

In accordance with the Organic Act, the debt ceiling limitation or public indebtedness of GovGuam must not exceed 10% of the aggregate tax value (assessed value) of property in Guam, which is \$1.14 billion as of September 30, 2011, the date that such certification was performed. Total debt outstanding as of September 30, 2013, subject to the debt ceiling limitation is \$1.11 billion. The legal debt margin at September 30, 2013 was \$31.5 million.

Additional information on GovGuam's long-term debt can be found in notes 6 and 7 to the basic financial statements.

## GOVERNMENT OF GUAM

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

### ECONOMIC FACTORS, NEXT YEAR BUDGET AND RATES, AND CHALLENGES

Guam's overall economic performance throughout Fiscal Year 2013 leveled off, with some economic growth expected in the next few years. Growth is dependent on whether the U.S. Marines will move to Guam given its new time table and whether new investment opportunities materialize as a result of that in the coming years. Guam hopes to benefit from an increased interest by Chinese and Russian travelers to U.S. locations, and the anticipated opening of new hotels in Tumon to accommodate increased demand from tourists abroad. Incremental infrastructure investments continue to be made in Guam. New signs emerge for employment opportunities which lead to sustained consumer spending in the region.

The Government of Guam consistently rebuilds confidence by restructuring its debt and addressing its current obligations on a disciplined and timely basis, while instituting cost and budgeting controls upon its agencies. As to our local tax base there has been consistent growth in General Fund revenues with annual revenues increasing from \$483.2 million in Fiscal Year 2009, to \$596.7 million in Fiscal Year 2012, a 23% increase between FY2009 and FY2012 levels. For Fiscal Year 2013, General Fund revenues authorized by the Guam Legislature have been set at \$575.7 million, an increase of 3.5% over Fiscal Year 2012. The Government of Guam's current and accumulated debt remains a challenge. Direct expenditures from the federal government have decreased modestly in recent years.

Based on the 2010 Guam Census it's civilian and military population in 2010 was 159,358, well short of the projected 180,692 set by U.S. Census in 2000. Projected population for 2013 is 160,378. On the labor force front the total number of people employed as of September 2013 is 61,740, an increase of 1,150 or 1.9 percent since September 2011. Over the same time period private average hourly earnings were \$12.85, an increase of 61 cents; and average weekly earnings were \$467.56, an increase of \$29.02. Job gains increased the most in the Construction, Transportation, Utilities and Manufacturing industries. As of September 2013, Guam's unemployment rate was 10.0 percent.

In 2013, overall prices showed no change as compared to 2012. Food prices increased by 3.2 percent, Housing decreased by 0.2 percent, Apparel and Upkeep decreased by 4.8 percent, Transportation decreased by 3.8 percent, Medical Care decreased by 1.8 percent, Recreation increased by 1.2 percent, Education and Communication increased by 1.8 percent and Other Goods and Services increased by 0.1 percent from the 4<sup>th</sup> quarter 2012 to the 4<sup>th</sup> quarter 2013. Energy prices decreased by 1.2 percent, and All Items Less Food and Energy (core index) decreased by 1.1 percent from the 4<sup>th</sup> quarter 2012 to the 4<sup>th</sup> quarter 2013. Over the past 3 years, Guam has been experiencing decreasing average level of prices along with steady employment levels.

Tourism arrivals have rebounded altogether given financial stability in the region increasing from 1,170,857 in Fiscal Year 2010, to 1,337,665 in Fiscal Year 2013, the fourth highest in our history. The outlook is positive as Guam's Visitors Bureau forecasts tourism arrivals to increase by 1.0 percent, to 1,350,164 in Fiscal Year 2014. This anticipated increase translates into stability in the industry job market, increasing gross receipts and occupancy taxes for the local treasury.

Construction permits continue to exceed the \$200 million set in Fiscal Year 2008, despite learning of the consequential delays of the U.S. Marines relocation to Guam. In Fiscal Year 2011 gross construction permit valuations were \$216.8 million, and in Fiscal Year 2013 increased to \$308.6 million. It is anticipated permits will exceed \$300 million in 2014 given the completion of new hotels and the occupancy of affordable homes now underway.

## GOVERNMENT OF GUAM

Management's Discussion and Analysis (Unaudited)  
Year Ended September 30, 2013

Given a positive outlook in tourism arrivals, moderation in fuel price changes and a stable outlook in global financial markets the short to medium term economic outlook for Guam remains modestly positive. Couple that with aggressive investments in promoting Guam as an attractive tourist and investment location alongside gains made from the imminent relocation of the U.S. Marine relocation to Guam the future remains positive.

### CONTACTING GOVGUAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Government of Guam's finances for all of Guam's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the Island's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Kathrine B. Kakigi, Financial Manager, P.O. Box 884, Hagatña, Guam 96932. Telephone No: (671) 475-1169/1260 Facsimile: (671) 472-8483 Website Address: <http://www.doadmin.guam.gov>

**GOVERNMENT OF GUAM**

Statement of Net Position  
September 30, 2013

	Primary Government	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 56,764,236	\$ 99,418,844
Investments	61,160,109	22,834,523
Receivables, net	145,377,480	154,450,540
Due from primary government	-	3,420,561
Due from private purpose trusts	4,528,968	-
Due from component units	1,867,990	-
Inventories	1,031,346	69,144,464
Other current assets	11,212,052	3,215,793
Restricted assets:		
Cash and cash equivalents	82,270,947	163,057,056
Investments	134,858,434	25,696,815
Total current assets	499,071,562	541,238,596
Noncurrent assets:		
Investments	1,000,000	40,137,012
Land and other real estate	411,159,732	-
Receivables, net	-	9,040,581
Capital assets:		
Nondepreciable capital assets	173,020,964	289,689,296
Capital assets, net of accumulated depreciation	799,205,615	1,227,220,910
Land held for development	-	3,155,947
Unamortized bond issuance costs	-	9,492,061
Other noncurrent assets	1,750,000	11,681,693
Restricted assets:		
Cash and cash equivalents	-	75,253,876
Investments	-	208,184,544
Total noncurrent assets	1,386,136,311	1,873,855,920
Total assets	1,885,207,873	2,415,094,516
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding	-	17,221,283
Deferred forward delivery contract costs	-	1,274,798
Total deferred outflows of resources	-	18,496,081
	\$ 1,885,207,873	\$ 2,433,590,597

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**  
**Statement of Net Position, Continued**  
**September 30, 2013**

	Primary Government	Component Units
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Current portion of compensated absences payable	\$ 19,409,381	\$ 7,405,826
Current portion of capital lease obligations	4,385,000	13,064,559
Current portion of bonds payable	11,715,000	16,942,204
Current portion of notes payable	554,346	8,501,760
Accounts payable and other current liabilities	84,607,602	74,326,813
Contracts payable	-	16,581,394
Accrued interest payable	20,895,972	18,268,320
Accrued payroll and other	25,992,519	17,723,368
Payable to federal agencies	19,409,300	-
Provision for tax refunds	103,346,133	-
COLA liability	4,858,941	-
Due to primary government	-	1,867,990
Due to component units	3,420,561	-
Unearned revenues	64,242,848	19,231,345
Deposits and other liabilities	11,019,055	30,924,756
Total current liabilities	373,856,658	224,838,335
<b>Noncurrent liabilities:</b>		
Compensated absences payable, net of current portion	5,547,802	6,618,734
Capital lease obligations, net of current portion	112,575,000	73,203,679
Bonds payable, net of current portion	1,053,889,365	1,036,186,785
Notes payable, net of current portion	8,258,869	68,879,149
Tax credits payable, net of current portion	29,112,970	-
Due to IRS, net of current portion	19,937,926	-
DCRS sick leave liability	20,666,759	12,656,959
Other noncurrent liabilities	53,508,056	3,780,349
Total noncurrent liabilities	1,303,496,747	1,201,325,655
Total liabilities	1,677,353,405	1,426,163,990
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred regulatory fuel revenue	-	25,208,323
Deferred forward delivery contract revenues	-	5,029,141
Deferred amount on refunding	-	585,743
Total deferred inflows of resources	-	30,823,207
<b>NET POSITION</b>		
Net investment in capital assets	508,552,458	604,393,387
Restricted for:		
Capital projects	31,410,241	9,354,184
Retirement of indebtedness	36,143,581	24,441,525
Endowment - nonexpendable	411,159,732	5,700,681
Public health	23,943,354	-
Environmental protection	16,860,693	-
Other purposes	14,518,516	170,775,481
Unrestricted	(834,734,107)	161,938,142
Total net position	207,854,468	976,603,400
	\$ 1,885,207,873	\$ 2,433,590,597

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

**Statement of Activities  
Year Ended September 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
<b>Governmental Activities:</b>						
General government	\$ 148,651,381	\$ 15,319,604	\$ 9,084,922	\$ -	\$ (124,246,855)	\$ -
Protection of life and property	116,757,499	14,978,649	9,012,359	-	(92,766,491)	-
Public health	276,151,415	3,679,984	192,415,830	-	(80,055,601)	-
Community services	24,512,384	854,164	10,945,233	-	(12,712,987)	-
Culture and recreation	22,247,794	1,372,075	550,715	-	(20,325,004)	-
Individual and collective rights	61,011,520	594,713	12,399,588	-	(48,017,219)	-
Transportation	30,029,865	13,063,553	20,391,783	-	3,425,471	-
Public education	340,576,575	4,079,949	68,876,170	-	(267,620,456)	-
Environmental protection	23,137,218	22,131,963	10,591,693	-	9,586,438	-
Economic development	18,296,407	176,405	39,645,670	-	21,525,668	-
Interest (unallocated)	69,975,052	-	2,204,682	-	(67,770,370)	-
<b>Total primary government</b>	<b>\$ 1,131,347,110</b>	<b>\$ 76,251,059</b>	<b>\$ 376,118,645</b>	<b>\$ -</b>	<b>(678,977,406)</b>	<b>-</b>
<b>Component Units:</b>						
Antonio B. Won Pat International Airport Authority	\$ 64,668,357	\$ 55,854,236	\$ 946,273	\$ 16,489,713	-	8,621,865
Guam Memorial Hospital Authority	99,806,089	69,261,522	-	6,338,614	-	(24,205,953)
Guam Power Authority	456,135,275	447,806,472	-	8,132,518	-	(196,285)
Guam Waterworks Authority	84,807,033	74,338,191	-	4,480,568	-	(5,988,274)
Port Authority of Guam	46,761,202	41,883,705	-	4,785,296	-	(92,201)
University of Guam	90,916,881	13,778,186	38,008,396	1,392,000	-	(37,738,299)
Nonmajor component units	108,913,413	9,577,022	56,243,145	2,050,936	-	(41,042,310)
	<b>\$ 952,008,250</b>	<b>\$ 712,499,334</b>	<b>\$ 95,197,814</b>	<b>\$ 43,669,645</b>	<b>-</b>	<b>(100,641,457)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income					261,854,651	-
Gross receipts					221,672,983	-
Section 30 Federal income tax collections					96,104,113	-
Hotel occupancy					29,331,058	-
Property					21,263,267	-
Tobacco					19,615,319	-
Liquid fuel					9,825,967	-
Alcoholic beverages					780,319	-
Excise					2,725,994	-
Investment earnings					1,959,211	9,247,054
Contributions from primary government					-	77,555,939
Other					22,485,460	19,815,958
<b>Total general revenues</b>					<b>687,618,342</b>	<b>106,618,951</b>
Contributions to permanent fund					4,519,459	-
					<b>692,137,801</b>	<b>106,618,951</b>
<b>Change in net position</b>					<b>13,160,395</b>	<b>5,977,494</b>
Net position at beginning of year, as previously reported					(194,216,991)	983,002,382
Restatement (Notes 1Y and 16)					388,911,064	(12,376,476)
Net position at beginning of year, as restated					194,694,073	970,625,906
Net position at end of year					<b>\$ 207,854,468</b>	<b>\$ 976,603,400</b>

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

**Balance Sheet  
Governmental Funds  
September 30, 2013**

	General	Special Revenue		Capital Projects	Permanent	Other	Total
		Federal Grants Assistance	GDOE Federal Grants	Landfill CIP	Chamorro Lands	Governmental Funds	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 14,463,903	\$ 6,311,900	\$ 1,457,088	\$ -	\$ -	\$ 34,531,345	\$ 56,764,236
Investments	48,237,908	-	-	-	-	13,922,201	62,160,109
Land and other real estate	-	-	-	-	411,159,732	-	411,159,732
Receivables, net:							
Taxes	43,206,018	-	-	-	-	5,037,836	48,243,854
Federal agencies	32,646,786	35,901,813	14,535,064	-	-	-	83,083,663
Other	2,809,790	-	-	-	-	11,240,173	14,049,963
Due from other funds	42,969,582	-	-	-	-	16,142,827	59,112,409
Due from private purpose trust funds	4,528,968	-	-	-	-	-	4,528,968
Due from component units	-	-	-	-	-	1,867,990	1,867,990
Inventories	1,031,346	-	-	-	-	-	1,031,346
Prepayments	6,104,477	-	7,689	-	-	705,660	6,817,826
Deposits and other assets	3,769,980	-	-	-	-	2,579	3,772,559
Restricted assets:							
Cash and cash equivalents	24,883,029	-	-	11,710,968	-	45,676,950	82,270,947
Investments	69,642,761	-	-	48,937,283	-	16,278,390	134,858,434
Total assets	\$ 294,294,548	\$ 42,213,713	\$ 15,999,841	\$ 60,648,251	\$ 411,159,732	\$ 145,405,951	\$ 969,722,036
<b>LIABILITIES AND FUND BALANCES</b>							
Accounts payable	\$ 70,934,515	\$ 3,174,134	\$ 3,736,743	\$ 2,457,626	\$ -	\$ 4,304,584	\$ 84,607,602
Accrued payroll and other	20,313,925	802,315	4,099,300	-	-	776,979	25,992,519
Due to other funds	16,142,827	22,703,120	4,182,032	-	-	16,084,430	59,112,409
Due to component units	3,144,084	-	-	-	-	276,477	3,420,561
Payable to federal agencies	-	15,427,534	3,981,766	-	-	-	19,409,300
Unearned revenues	63,287,000	-	-	-	-	955,848	64,242,848
Provision for tax refunds	103,346,133	-	-	-	-	-	103,346,133
COLA liability	4,858,941	-	-	-	-	-	4,858,941
Deposits and other liabilities	9,940,226	-	-	-	-	1,078,829	11,019,055
Total liabilities	291,967,651	42,107,103	15,999,841	2,457,626	-	23,477,147	376,009,368
Fund balances:							
Non-spendable	2,031,346	-	-	-	411,159,732	-	413,191,078
Restricted	71,888,444	-	-	58,190,625	-	72,571,585	202,650,654
Committed	22,140,650	-	-	-	-	48,214,553	70,355,203
Assigned:		106,610	-	-	-	3,237,065	3,343,675
General fund	(93,733,543)	-	-	-	-	-	(93,733,543)
Special revenue funds	-	-	-	-	-	(2,094,399)	(2,094,399)
Total fund balances	2,326,897	106,610	-	58,190,625	411,159,732	121,928,804	593,712,668
Total liabilities and fund balances	\$ 294,294,548	\$ 42,213,713	\$ 15,999,841	\$ 60,648,251	\$ 411,159,732	\$ 145,405,951	\$ 969,722,036

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

**Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
September 30, 2013**

Total fund balance - governmental funds		\$ 593,712,668
Amounts reported for governmental activities in the statement of net position are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		621,667
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		1,750,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	\$ 41,865,823	
Construction in progress	131,155,141	
Depreciable capital assets and infrastructure	1,304,973,241	
Accumulated depreciation	<u>(505,767,626)</u>	
Capital assets, net of accumulated depreciation		972,226,579
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Bonds payable	(1,065,604,365)	
Loans payable	(8,813,215)	
Capital lease obligations	(116,960,000)	
Due to IRS	(19,937,926)	
Tax credits payable	(29,112,970)	
Accrued interest payable	(20,895,972)	
Compensated absences payable	(24,957,183)	
DCRS sick leave liability	(20,666,759)	
Landfill closure and postclosure costs	<u>(53,508,056)</u>	
Long-term liabilities		<u>(1,360,456,446)</u>
Net position of governmental activities		<u>\$ 207,854,468</u>

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2013**

	General	Special Revenue		Capital Projects	Permanent	Other Governmental Funds	Total
		Federal Grants Assistance	GDOE Federal Grants	Landfill CIP	Chamorro Lands		
<b>Revenues:</b>							
Taxes	\$ 582,357,741	\$ -	\$ -	\$ -	\$ -	\$ 80,815,930	\$ 663,173,671
Intergovernmental	2,388,344	308,421,595	61,536,695	-	-	1,378,085	373,724,719
Licenses and permits	5,454,970	-	-	-	-	46,155,386	51,610,356
Charges for services	4,171,584	-	440,830	-	-	19,542,818	24,155,232
Fines and forfeits	485,471	-	-	-	-	-	485,471
Interest and investment earnings	50,812	-	-	92,496	4,519,459	1,815,903	6,478,670
Contributions from component units	2,204,682	-	-	-	-	-	2,204,682
Indirect cost reimbursement	189,244	-	-	-	-	-	189,244
Other	13,332,562	-	-	-	-	11,210,073	24,542,635
<b>Total revenues</b>	<b>610,635,410</b>	<b>308,421,595</b>	<b>61,977,525</b>	<b>92,496</b>	<b>4,519,459</b>	<b>160,918,195</b>	<b>1,146,564,680</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General government	68,203,713	9,029,349	-	890,811	-	16,257,472	94,381,345
Protection of life and property	92,310,739	10,937,132	-	-	-	14,512,421	117,760,292
Public health	20,670,331	216,890,978	-	-	-	11,801,897	249,363,206
Community services	12,624,323	11,678,900	-	-	-	208,223	24,511,446
Recreation	3,009,100	550,715	-	-	-	704,171	4,263,986
Individual and collective rights	43,822,615	11,380,289	-	-	-	4,343,186	59,546,090
Transportation	-	20,391,783	-	-	-	6,574,547	26,966,330
Public education	244,053,198	-	62,091,975	-	-	1,589,086	307,734,259
Environmental protection	-	10,591,693	-	-	-	12,142,490	22,734,183
Economic development	3,529,849	7,026,083	-	-	-	102,939	10,658,871
Payments to:							
GovGuam Retirement Fund	1,907,849	-	-	-	-	8,432,738	10,340,587
Guam Community College	13,166,268	239,475	-	-	-	2,721,104	16,126,847
Guam Educational Telecommunications Corporation	541,977	-	-	-	-	-	541,977
Guam Housing Corporation	243,058	-	-	-	-	-	243,058
Guam Memorial Hospital Authority	16,804,677	6,600,224	-	-	-	3,206,732	26,611,633
Guam Preservation Trust	-	-	-	-	-	1,697,000	1,697,000
Guam Regional Transit Authority	-	-	-	-	-	3,270,945	3,270,945
Guam Visitors Bureau	-	-	-	-	-	16,209,494	16,209,494
Guam Waterworks Authority	-	1,758,973	-	-	-	-	1,758,973
Port Authority of Guam	-	1,260,177	-	-	-	-	1,260,177
University of Guam	30,554,431	1,418,809	-	-	-	1,854,624	33,827,864
Miscellaneous appropriations	22,274,382	-	-	-	-	-	22,274,382
Capital projects	-	29,236,113	-	8,811,400	-	6,960,836	45,008,349
Debt service:							
Principal retirement	14,076,534	-	3,370,000	-	-	2,271,893	19,718,427
Bond issuance costs	229,256	-	-	-	-	-	229,256
Interest and fiscal charges	61,593,331	-	3,730,000	-	-	5,737,526	71,060,857
<b>Total expenditures</b>	<b>649,615,631</b>	<b>338,990,693</b>	<b>69,191,975</b>	<b>9,702,211</b>	<b>-</b>	<b>120,599,324</b>	<b>1,188,099,834</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(38,980,221)</b>	<b>(30,569,098)</b>	<b>(7,214,450)</b>	<b>(9,609,715)</b>	<b>4,519,459</b>	<b>40,318,871</b>	<b>(41,535,154)</b>
<b>Other financing sources (uses):</b>							
Proceeds from refunded bonds issued	22,640,000	-	-	-	-	-	22,640,000
Premium on refunded bonds issued	2,957,923	-	-	-	-	-	2,957,923
Payment to refunding bond escrow agent	(25,088,795)	-	-	-	-	-	(25,088,795)
Proceeds from refinancing short-term obligations	19,937,926	-	-	-	-	-	19,937,926
Transfers in from other funds	32,926,414	37,765,960	7,214,450	-	-	13,460,623	91,367,447
Transfers out to other funds	(42,202,800)	(7,356,400)	-	-	-	(42,553,680)	(92,112,880)
<b>Total other financing sources (uses), net</b>	<b>11,170,668</b>	<b>30,409,560</b>	<b>7,214,450</b>	<b>-</b>	<b>-</b>	<b>(29,093,057)</b>	<b>19,701,621</b>
<b>Net change in fund balances</b>	<b>(27,809,553)</b>	<b>(159,538)</b>	<b>-</b>	<b>(9,609,715)</b>	<b>4,519,459</b>	<b>11,225,814</b>	<b>(21,833,533)</b>
Fund balances at beginning of year, as previously reported	30,136,450	266,148	-	67,800,340	-	110,702,990	208,905,928
Restatement (Note 16)	-	-	-	-	406,640,273	-	406,640,273
Fund balances at beginning of year, as restated	30,136,450	266,148	-	67,800,340	406,640,273	110,702,990	615,546,201
<b>Fund balances at end of year</b>	<b>\$ 2,326,897</b>	<b>\$ 106,610</b>	<b>\$ -</b>	<b>\$ 58,190,625</b>	<b>\$ 411,159,732</b>	<b>\$ 121,928,804</b>	<b>\$ 593,712,668</b>

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

**Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes in  
Fund Balances to the Statement of Activities  
Year Ended September 30, 2013**

Net change in fund balances - total governmental funds		\$ (21,833,533)
Amounts reported for governmental activities in the statement of activities are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Guam Department of Education capital lease		(908,427)
Revenue timing differences result in greater revenue in the government-wide financial statements		(2,057,175)
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year these amounts consist of:		
Capital outlays, net of disposals	125,645,275	
Depreciation expense	<u>(43,997,495)</u>	
		81,647,780
The incurrence of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities. For the current year, these amounts consist of:		
Limited Obligation bonds issued	(22,640,000)	
Premium on bonds issued	(2,957,923)	
Repayment of Limited Obligation bonds	6,330,000	
Repayment of General Obligation bonds	31,665,000	
Repayment of loans	2,188,427	
Repayment of capital leases	4,195,000	
Amortization of bond premiums	1,070,843	
Amortization of bond discounts	<u>(623,027)</u>	
		19,228,320
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:		
Change in IRS payable	(19,937,926)	
Change in tax credits payable	(29,112,970)	
Change in accrued interest payable	831,040	
Change in compensated absences payable	(2,073,037)	
Change in landfill closure and postclosure care costs	(11,418,820)	
Change in DCRS sick leave liability	<u>(1,204,857)</u>	
		(62,916,570)
Change in net position of governmental activities		<u>\$ 13,160,395</u>

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**September 30, 2013**

	Pension Trust	Private Purpose Trust	Agency Fund
<u>ASSETS</u>			
Cash and cash equivalents	\$ 7,436,766	\$ 13,022,256	\$ -
Time certificates of deposit	-	1,000,000	-
Investments at fair value:			
Common stocks	969,334,249	-	-
U.S. Government securities	189,991,596	-	-
Corporate bonds and notes	166,735,779	-	-
Money market funds	49,016,947	-	-
Mutual funds	491,842,178	-	-
DC plan forfeitures	5,412,162	-	-
Total investments	1,872,332,911	-	-
Accounts receivable:			
Employer contributions	2,622,521	-	-
Member contributions	1,210,593	-	-
Interest and penalties on contributions	274,402	-	-
Accrued investment income	4,075,645	-	-
Due from brokers for unsettled trades	7,627,324	-	-
Service credits	798,635	-	-
Notes receivable - ERIP	993,746	-	-
Supplemental/COLA benefits	50,818,265	-	-
Supplemental/Insurance benefits advanced	3,511,711	-	-
Other	4,695,486	-	-
Total receivables	76,628,328	-	-
Deposits and other assets	-	-	17,517,256
Capital assets	880,091	-	-
Total assets	1,957,278,096	14,022,256	\$ 17,517,256
<u>LIABILITIES</u>			
Unearned revenue	2,597,509	-	\$ -
Accounts payable and accrued expenses	2,173,721	-	-
Accrued payroll and other	184,894	-	-
Due to other funds	-	4,528,968	-
Deposits and other liabilities	-	8,586,924	17,517,256
Due to brokers for unsettled trades	33,767,086	-	-
Total liabilities	38,723,210	13,115,892	\$ 17,517,256
<u>NET POSITION</u>			
Restricted for:			
Employees' pension benefits	1,918,554,886	-	-
Individuals, organizations and other governments	-	906,364	-
Total net position	\$ 1,918,554,886	\$ 906,364	

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Year Ended September 30, 2013**

	Pension Trust	Private Purpose Trust
<b>Additions:</b>		
<b>Contributions:</b>		
Employer contributions	\$ 132,827,694	\$ -
Member contributions	31,131,038	-
Use of money and property	-	1,672,278
Transfers in from other funds	-	745,433
<b>Total contributions and revenues</b>	<b>163,958,732</b>	<b>2,417,711</b>
<b>Net investment income:</b>		
Net appreciation in fair value of investments	183,569,067	-
Interest	28,797,311	-
Dividends	17,019,088	-
Other	2,549,016	-
<b>Total investment income</b>	<b>231,934,482</b>	<b>-</b>
Less: investment expenses	5,423,051	-
<b>Net investment income</b>	<b>226,511,431</b>	<b>-</b>
<b>Total additions</b>	<b>390,470,163</b>	<b>2,417,711</b>
<b>Deductions:</b>		
Benefits	190,280,431	-
Refunds	17,284,728	-
Interest on refunded contributions	914,543	-
Administrative and general expense	4,263,649	-
Individual and collective rights	-	2,676,397
<b>Total deductions</b>	<b>212,743,351</b>	<b>2,676,397</b>
<b>Change in net position held in trust for:</b>		
Employees' pension benefits	177,726,812	-
Individuals, organizations, and other governments	-	(258,686)
<b>Net position at beginning of year</b>	<b>1,740,828,074</b>	<b>1,165,050</b>
<b>Net position at end of year</b>	<b>\$ 1,918,554,886</b>	<b>\$ 906,364</b>

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

Statement of Net Position  
Component Units  
September 30, 2013

	Antonio B. Won Pat International Airport Authority	Guam Memorial Hospital Authority	Guam Power Authority	Guam Waterworks Authority	Port Authority of Guam	University of Guam	Nonmajor Component Units	Total
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>								
<b>Current assets:</b>								
Cash and cash equivalents	\$ 1,666,054	\$ 3,600,068	\$ 31,222,218	\$ 2,662,074	\$ 10,848,206	\$ 15,344,800	\$ 34,075,424	\$ 99,418,844
Investments	-	-	-	-	-	10,025,720	12,808,803	22,834,523
Receivables, net	16,319,149	21,172,593	50,329,621	14,254,906	9,156,152	11,140,666	32,077,453	154,450,540
Due from primary government	-	662,108	-	-	-	724,992	2,033,461	3,420,561
Inventories	213,305	3,329,509	61,975,925	1,615,170	131,149	635,004	1,244,402	69,144,464
Prepayments	-	164,426	537,109	670,292	11,464	-	237,920	1,621,211
Deposits and other assets	-	-	13,479	-	-	1,311,672	269,431	1,594,582
<b>Restricted assets:</b>								
Cash and cash equivalents	-	-	132,800,902	16,984,203	-	-	13,271,951	163,057,056
Investments	-	-	4,845,762	-	-	7,482,058	13,368,995	25,696,815
<b>Total current assets</b>	<b>18,198,508</b>	<b>28,928,704</b>	<b>281,725,016</b>	<b>36,186,645</b>	<b>20,146,971</b>	<b>46,664,912</b>	<b>109,387,840</b>	<b>541,238,596</b>
<b>Noncurrent assets:</b>								
Investments	28,466,289	-	-	-	-	9,901,032	1,769,691	40,137,012
Receivables, net	-	-	-	-	-	-	9,040,581	9,040,581
<b>Capital assets:</b>								
Nondepreciable capital assets	171,891,379	8,697,574	42,400,142	26,971,092	19,421,658	4,453,775	15,853,676	289,689,296
Capital assets, net of accumulated depreciatio	232,958,349	31,484,993	484,334,813	295,207,115	55,170,099	67,539,924	60,525,617	1,227,220,910
Land held for development	-	-	-	-	-	-	3,155,947	3,155,947
Unamortized bond issuance costs	-	-	9,492,061	-	-	-	-	9,492,061
Other assets	10,966,295	161,144	417,629	-	-	-	136,625	11,681,693
<b>Restricted assets:</b>								
Cash and cash equivalents	-	209,267	-	70,632,440	445,691	3,966,478	-	75,253,876
Investments	130,549,525	-	49,278,574	17,200,655	-	11,155,790	-	208,184,544
<b>Total noncurrent assets</b>	<b>574,831,837</b>	<b>40,552,978</b>	<b>585,923,219</b>	<b>410,011,302</b>	<b>75,037,448</b>	<b>97,016,999</b>	<b>90,482,137</b>	<b>1,873,855,920</b>
<b>Total assets</b>	<b>593,030,345</b>	<b>69,481,682</b>	<b>867,648,235</b>	<b>446,197,947</b>	<b>95,184,419</b>	<b>143,681,911</b>	<b>199,869,977</b>	<b>2,415,094,516</b>
<b>Deferred outflows of resources:</b>								
Deferred amount on refunding	-	-	16,084,264	321,057	-	-	815,962	17,221,283
Deferred forward delivery contract costs	-	-	1,274,798	-	-	-	-	1,274,798
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>-</b>	<b>17,359,062</b>	<b>321,057</b>	<b>-</b>	<b>-</b>	<b>815,962</b>	<b>18,496,081</b>
	\$ 593,030,345	\$ 69,481,682	\$ 885,007,297	\$ 446,519,004	\$ 95,184,419	\$ 143,681,911	\$ 200,685,939	\$ 2,433,590,597

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

Statement of Net Position, Continued  
Component Units  
September 30, 2013

	Antonio B. Won Pat International Airport Authority	Guam Memorial Hospital Authority	Guam Power Authority	Guam Waterworks Authority	Port Authority of Guam	University of Guam	Nonmajor Component Units	Total
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>								
<b>Current liabilities:</b>								
Current portion of bonds payable	\$ -	\$ -	\$ 12,310,000	\$ 2,500,000	\$ -	\$ -	\$ 2,132,204	\$ 16,942,204
Current portion of notes payable	2,263,500	814,082	-	3,272,319	708,048	201,557	1,242,254	8,501,760
Current obligations under capital leases	-	-	13,064,559	-	-	-	-	13,064,559
Accounts payable	2,435,697	20,210,697	24,650,361	5,609,595	5,496,307	6,284,441	9,639,715	74,326,813
Contracts payable	5,454,840	-	-	11,126,554	-	-	-	16,581,394
Accrued interest payable	-	-	14,689,852	3,036,453	-	-	542,015	18,268,320
Accrued payroll and other	3,013,828	11,729,764	1,077,440	1,172,065	369,046	-	361,225	17,723,368
Due to primary government	1,867,990	-	-	-	-	-	-	1,867,990
Unearned revenue	-	3,600,000	-	-	237,301	7,203,397	8,190,647	19,231,345
Compensated absences	354,394	1,613,189	2,078,481	502,367	1,063,410	1,219,805	574,180	7,405,826
Deposits and other liabilities	1,015,279	3,365,402	21,022,784	2,616,089	520,305	48,411	2,336,486	30,924,756
<b>Total current liabilities</b>	<b>16,405,528</b>	<b>41,333,134</b>	<b>88,893,477</b>	<b>29,835,442</b>	<b>8,394,417</b>	<b>14,957,611</b>	<b>25,018,726</b>	<b>224,838,335</b>
<b>Noncurrent liabilities:</b>								
Compensated absences	748,412	2,159,477	1,112,489	843,123	296,904	547,416	910,913	6,618,734
Capital lease obligations	-	-	73,203,679	-	-	-	-	73,203,679
Noncurrent portion of bonds payable	250,226,161	-	545,937,741	205,283,096	-	-	34,739,787	1,036,186,785
Noncurrent portion of notes payable	8,664,728	9,939,043	-	17,534,651	13,950,936	12,051,906	6,737,885	68,879,149
Other noncurrent liabilities	-	-	3,149,507	169,228	-	27,098	434,516	3,780,349
DCRS sick leave liability	197,783	3,459,430	2,582,611	1,211,126	1,216,520	2,349,317	1,640,172	12,656,959
<b>Total noncurrent liabilities</b>	<b>259,837,084</b>	<b>15,557,950</b>	<b>625,986,027</b>	<b>225,041,224</b>	<b>15,464,360</b>	<b>14,975,737</b>	<b>44,463,273</b>	<b>1,201,325,655</b>
<b>Total liabilities</b>	<b>276,242,612</b>	<b>56,891,084</b>	<b>714,879,504</b>	<b>254,876,666</b>	<b>23,858,777</b>	<b>29,933,348</b>	<b>69,481,999</b>	<b>1,426,163,990</b>
<b>Deferred inflows of resources:</b>								
Deferred regulatory fuel revenue	-	-	25,208,323	-	-	-	-	25,208,323
Deferred forward delivery contract revenues	-	-	5,029,141	-	-	-	-	5,029,141
Deferred amount on refunding	585,743	-	-	-	-	-	-	585,743
<b>Total deferred inflows of resources</b>	<b>585,743</b>	<b>-</b>	<b>30,237,464</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,823,207</b>
<b>Net Position:</b>								
Net investment in capital assets	154,075,891	40,182,567	32,028,800	184,944,929	59,932,773	60,709,624	72,518,803	604,393,387
<b>Restricted:</b>								
Capital projects	-	-	9,354,184	-	-	-	-	9,354,184
Retirement of indebtedness	1,184	-	18,793,414	5,646,927	-	-	-	24,441,525
Endowment - nonexpendable	-	-	-	-	-	5,641,680	59,001	5,700,681
Other purposes	130,129,701	-	-	6,065,315	445,691	11,128,872	23,005,902	170,775,481
Unrestricted (deficit)	31,995,214	(27,591,969)	79,713,931	(5,014,833)	10,947,178	36,268,387	35,620,234	161,938,142
<b>Total net position</b>	<b>316,201,990</b>	<b>12,590,598</b>	<b>139,890,329</b>	<b>191,642,338</b>	<b>71,325,642</b>	<b>113,748,563</b>	<b>131,203,940</b>	<b>976,603,400</b>
	\$ 593,030,345	\$ 69,481,682	\$ 885,007,297	\$ 446,519,004	\$ 95,184,419	\$ 143,681,911	\$ 200,685,939	\$ 2,433,590,597

See accompanying notes to basic financial statements.

**GOVERNMENT OF GUAM**

**Statement of Revenues, Expenses, and Changes in Net Position  
Component Units  
Year Ended September 30, 2013**

	Antonio B. Won Pat International Airport Authority	Guam Memorial Hospital Authority	Guam Power Authority	Guam Waterworks Authority	Port Authority of Guam	University of Guam	Non-major Component Units	Total
<b>Operating revenues:</b>								
Charges for services	\$ 55,854,236	\$ 69,261,522	\$ 447,806,472	\$ 74,338,191	\$ 41,883,705	\$ 13,778,186	\$ 9,577,022	\$ 712,499,334
Grants and contracts	946,273	-	-	-	-	38,008,396	56,243,145	95,197,814
Other	3,455,669	606,088	2,926,573	462,030	184,589	4,941,196	7,239,813	19,815,958
<b>Total operating revenues</b>	<b>60,256,178</b>	<b>69,867,610</b>	<b>450,733,045</b>	<b>74,800,221</b>	<b>42,068,294</b>	<b>56,727,778</b>	<b>73,059,980</b>	<b>827,513,106</b>
<b>Operating expenses:</b>								
Cost of services	37,929,530	96,356,080	354,992,132	49,278,892	27,094,212	76,693,025	84,770,206	727,114,077
Depreciation and amortization	22,668,001	4,423,908	31,155,714	14,319,394	4,892,633	3,027,205	5,065,177	85,552,032
General and administrative	-	2,858,668	31,589,477	6,007,108	8,831,804	8,864,964	17,311,112	75,463,133
<b>Total operating expenses</b>	<b>60,597,531</b>	<b>103,638,656</b>	<b>417,737,323</b>	<b>69,605,394</b>	<b>40,818,649</b>	<b>88,585,194</b>	<b>107,146,495</b>	<b>888,129,242</b>
<b>Operating income (loss)</b>	<b>(341,353)</b>	<b>(33,771,046)</b>	<b>32,995,722</b>	<b>5,194,827</b>	<b>1,249,645</b>	<b>(31,857,416)</b>	<b>(34,086,515)</b>	<b>(60,616,136)</b>
<b>Nonoperating revenues (expenses):</b>								
Contributions from the primary government	14,701	9,315,182	-	-	-	34,137,281	34,088,775	77,555,939
Contributions to the primary government	-	-	-	-	-	(2,204,682)	-	(2,204,682)
Investment income	2,976,706	-	2,150,244	19,606	-	3,096,608	1,003,890	9,247,054
Interest expense	(6,093,981)	(2,161,134)	(41,254,435)	(13,538,467)	(541,162)	(573,081)	(2,961,584)	(67,123,844)
Bond issuance costs	(3,912,357)	-	(1,594,168)	-	-	-	-	(5,506,525)
Other income (expenses), net	5,935,512	5,993,701	4,450,651	(1,663,172)	(5,401,391)	446,076	1,194,666	10,956,043
<b>Total nonoperating revenues (expenses), net</b>	<b>(1,079,419)</b>	<b>13,147,749</b>	<b>(36,247,708)</b>	<b>(15,182,033)</b>	<b>(5,942,553)</b>	<b>34,902,202</b>	<b>33,325,747</b>	<b>22,923,985</b>
<b>Net income (loss) before capital contributions</b>	<b>(1,420,772)</b>	<b>(20,623,297)</b>	<b>(3,251,986)</b>	<b>(9,987,206)</b>	<b>(4,692,908)</b>	<b>3,044,786</b>	<b>(760,768)</b>	<b>(37,692,151)</b>
<b>Capital contributions</b>	<b>16,489,713</b>	<b>6,338,614</b>	<b>8,132,518</b>	<b>4,480,568</b>	<b>4,785,296</b>	<b>1,392,000</b>	<b>2,050,936</b>	<b>43,669,645</b>
<b>Change in net position</b>	<b>15,068,941</b>	<b>(14,284,683)</b>	<b>4,880,532</b>	<b>(5,506,638)</b>	<b>92,388</b>	<b>4,436,786</b>	<b>1,290,168</b>	<b>5,977,494</b>
<b>Net position at beginning of year, as previously reported</b>	<b>305,990,385</b>	<b>26,875,281</b>	<b>137,258,218</b>	<b>201,859,012</b>	<b>71,233,254</b>	<b>109,311,777</b>	<b>130,474,455</b>	<b>983,002,382</b>
<b>Restatement (Note 1Y)</b>	<b>(4,857,336)</b>	<b>-</b>	<b>(2,248,421)</b>	<b>(4,710,036)</b>	<b>-</b>	<b>-</b>	<b>(560,683)</b>	<b>(12,376,476)</b>
<b>Net position at beginning of year, as restated</b>	<b>301,133,049</b>	<b>26,875,281</b>	<b>135,009,797</b>	<b>197,148,976</b>	<b>71,233,254</b>	<b>109,311,777</b>	<b>129,913,772</b>	<b>970,625,906</b>
<b>Net position at end of year</b>	<b>\$ 316,201,990</b>	<b>\$ 12,590,598</b>	<b>\$ 139,890,329</b>	<b>\$ 191,642,338</b>	<b>\$ 71,325,642</b>	<b>\$ 113,748,563</b>	<b>\$ 131,203,940</b>	<b>\$ 976,603,400</b>

See accompanying notes to basic financial statements.

# GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

## (1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Government of Guam (GovGuam) have been prepared in conformity 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. GovGuam's significant accounting policies are described below:

### A. Reporting Entity

Guam is an unincorporated territory of the United States of America with policy relations between Guam and the United States under the jurisdiction of the Office of Insular Affairs, U.S. Department of the Interior. In 1950, the U.S. Congress provided Guam with an Organic Act that organized GovGuam as a constitutional government comprised of locally elected executive and legislative branches and an appointed judicial branch. In addition, Guam has an elected representative to the U.S. Congress who possesses the same powers and privileges as representatives from the various States, with the exception of voting on the House floor.

The Executive Branch consists of a popularly elected Governor and Lieutenant Governor, each serving a four-year term, with executive department heads appointed by the Governor with the consent of the Guam legislature. The Legislative Branch is a unicameral parliament consisting of 15 members elected for a term of two years. The Judicial Branch is comprised of the Supreme Court of Guam and a Territorial Superior Court with judges appointed for eight-year terms by the Governor. Under the Organic Act, GovGuam is required to submit to the U.S. Congress and the Secretary of the Interior a comprehensive annual financial report in conformance with the standards of the National Council on Governmental Accounting within 120 days after the close of the fiscal year; however, GovGuam has not complied with this requirement.

For financial reporting purposes, GovGuam has included all funds, organizations, agencies, boards, commissions and institutions. GovGuam has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with GovGuam are such that exclusion would cause GovGuam's basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether GovGuam, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on GovGuam. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board. Each component unit of GovGuam has a September 30 year-end.

Component units are entities that are legally separate organizations for which GovGuam's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with GovGuam are such that exclusion would cause GovGuam's basic financial statements to be misleading or incomplete. GovGuam is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on GovGuam.

## GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### A. Reporting Entity, Continued

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- (a) Antonio B. Won Pat International Airport Authority (AWPIAA), formerly known as the Guam International Airport Authority, was created by Public Law 13-57 (as amended) as an autonomous instrumentality of GovGuam to own and operate the facilities of the Guam International Air Terminal. It is charged with the acquisition, construction, operation and maintenance of airports and related facilities for civil aviation on Guam. AWPIAA supports its operations through landing fees and charges for use of its facilities and through rentals under concessionaire agreements and is governed by a seven-member Board of Directors, all of whom are appointed by the Governor of Guam. AWPIAA is fiscally dependent upon GovGuam whereby AWPIAA cannot issue bonded debt without legislative approval.
- (b) Guam Memorial Hospital Authority (GMHA) was created by Public Law 14-29 as an autonomous instrumentality of GovGuam to administer and operate the Guam Memorial Hospital. GMHA is governed by a seven-member Board of Trustees, all of whom are appointed by the Governor of Guam. GovGuam provides financial support to GMHA through legislative appropriations.
- (c) Guam Power Authority (GPA) was created by the GPA Act of 1968 and is responsible for the supervision of construction, maintenance of operations and regulations of all electrical utility services within GovGuam. It operates the power system for GovGuam and has created an Island-wide Power System Agreement with the United States Navy. GPA derives revenues from sales of electricity and is governed by the five-member Consolidated Commission on Utilities (CCU), all of whom are elected for two or four year terms. GPA is fiscally dependent upon GovGuam whereby GPA cannot issue bonded debt without legislative approval.
- (d) Guam Waterworks Authority (GWA), formerly the Public Utility Agency of Guam (PUAG), was created by Public Law 23-119 and is responsible for supervising the construction, maintenance operations and regulations of all water and sewerage services within GovGuam. GWA derives its operating revenues from water and wastewater fees charged to residential, commercial and government customers, based on consumption, and is governed by the CCU. GWA is fiscally dependent upon GovGuam whereby GWA cannot issue bonded debt without legislative approval.
- (e) Port Authority of Guam (PAG) was created by Public Law 13-87 as an autonomous instrumentality of GovGuam to own and operate the facilities of the Commercial Port of Guam. PAG is governed by a five-member Board of Directors, all of whom are appointed by the Governor of Guam. PAG is fiscally dependent upon GovGuam whereby PAG cannot issue bonded debt without legislative approval.

## GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### A. Reporting Entity, Continued

- (f) The University of Guam (UOG) was created by Public Law 13-194 and is responsible for operating Guam's institution of higher education. UOG is governed by a nine-member Board of Regents, all of whom are appointed by the Governor of Guam. GovGuam provides financial support to UOG through legislative appropriations.

In addition, the financial data of the following nonmajor component units are included - the Guam Community College, the Guam Housing and Urban Renewal Authority, the Guam Housing Corporation, the Guam Economic Development Authority, the Guam Visitors Bureau, the Guam Preservation Trust, and the Guam Educational Telecommunications Corporation (PBS GUAM).

Fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of GovGuam. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of GovGuam. The fiduciary component units are as follows:

- (a) The GovGuam Retirement Fund (GGRF) has been blended into GovGuam's financial statements. The governing body consists of a seven-member Board of Trustees. Two members are elected by active Fund members; two members are elected by GGRF members among the roster of retirees; and three members are appointed by the Governor of Guam. GGRF was enacted to provide retirement amenities and other benefits to GovGuam employees, who upon entry to service are eligible for membership. GGRF is reported as if it were part of the primary government because of the fiduciary responsibility that GovGuam retains relative to the operations of GGRF. The operations of GGRF are reported as a Fiduciary Fund Type - Pension Trust Fund.

GovGuam's component units, departments, and funds that are separately audited issue their own basic financial statements, each of which has a September 30 year-end. These statements may be obtained by directly contacting the various entities' administrative offices or at the web site of the Office of Public Accountability - [www.guamopa.com](http://www.guamopa.com).

Antonio B. Won Pat International Airport  
Authority  
P.O. Box 8770  
Tamuning, GU 96931

Guam Memorial Hospital Authority  
850 Governor Carlos G. Camacho Rd.  
Tamuning, GU 96913

Guam Power Authority  
P.O. Box 2977  
Hagatna, GU 96932

Guam Waterworks Authority  
P.O. Box 3010  
Hagatna, GU 96932

Port Authority of Guam  
1026 Cabras Hwy, Ste. 201  
Piti, GU 96925

University of Guam  
University Station  
University Drive  
Mangilao, GU 96923

# GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Guam Community College  
P.O. Box 23069, GMF  
Barrigada, GU 96921

Guam Housing and Urban Renewal  
Authority  
117 Bien Venida Avenue  
Sinajana, GU 96926

Guam Housing Corporation  
P.O. Box 3457  
Hagatna, GU 96932

Guam Preservation Trust  
Suite 211, 194 Hernan Cortes Avenue  
Hagatna, GU 96932

Guam Economic Development Authority  
Suite 511, ITC Building  
590 South Marine Corps Drive  
Tamuning, GU 96913

Guam Visitors Bureau  
401 Pale San Vitores Road  
Tamuning, GU 96913

Guam Educational Telecommunications Corporation  
P.O. Box 21449, GMF  
Barrigada, GU 96921

In addition to the aforementioned University of Guam (UOG) and Guam Community College (GCC) component units, the accompanying component units' column of the basic financial statements includes the University of Guam Endowment Foundation, Inc. and the Guam Community College Foundation, Inc., which are legally separate, tax-exempt, separately audited, component units of UOG and GCC, respectively. Inclusion of these component units is in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14.

GASB Statement No. 39 provides additional guidance for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government and to clarify reporting requirements for those organizations. The foundations' resources can only be used by or are for the benefit of UOG and GCC to which they serve. They are presented within the respective financial statements of UOG and GCC because of their nature and significance to these entities. Complete financial statements of the foundations may be obtained at their respective offices. The foundations are not considered major component units of GovGuam under the definitions put forth under GASB Statement 34, but are blended within UOG and GCC.

The Public Utilities Commission (PUC) is a related organization under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39. PUC consists of seven members, all of whom are appointed by the Governor of Guam. GovGuam's accountability does not extend beyond the appointments. Accordingly, PUC is classified as another stand-alone governmental unit, not a component unit of GovGuam, and therefore is not part of these financial statements.

# GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

## (1) Summary of Significant Accounting Policies, Continued

### B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. GovGuam did not report any business-type activities during the year ended September 30, 2013. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated (for example, internally restricted), to indicate that management does not consider it to be available for general operations.

The government-wide Statement of Net Position reports \$534,036,117 of restricted net position, of which \$55,322,563 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue and offset or supplant the net operating deficit or surplus from governmental operations.

# GOVERNMENT OF GUAM

## Notes to Financial Statements September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

GovGuam reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Transactions between funds within a fund type, if any, have not been eliminated.

#### D. Measurement Focus and Basis of Accounting

##### Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the fiduciary fund and component unit financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

##### Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of GovGuam and 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 and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, GovGuam considers most revenues other than federal grants and assistance awards and property taxes to be available if they are collected within 90 days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal period. GovGuam considers property taxes to be available if they are collected within 60 days of the end of the current fiscal period.

# GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

## (1) Summary of Significant Accounting Policies, Continued

### D. Measurement Focus and Basis of Accounting, Continued

#### Governmental Fund Financial Statements, Continued:

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year for which they are received or subject to accrual, grants expended or services provided. 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 are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

#### Fiduciary Funds and Component Units Financial Statements:

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. GovGuam has elected to add an additional major fund that is of specific public interest, namely the GDOE Federal Grants Assistance Fund. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. GovGuam reports the following major funds:

- General Fund - this fund is the primary operating fund of GovGuam. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Federal Grants Assistance Fund - a Special Revenue Fund that accounts for all activities of U.S. special federal assistance grants and contracts utilized by GovGuam to finance general governmental operations.
- GDOE Federal Grants Fund - a Special Revenue Fund that accounts for all activities of U.S. special federal assistance grants and contracts utilized by GovGuam to finance public education.

## GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### D. Measurement Focus and Basis of Accounting, Continued

- Landfill CIP Fund - a Capital Projects Fund that accounts for bond proceeds issued by GovGuam for the purpose of financing facilities of the Solid Waste Management System of Guam.
- Chamorro Lands Fund - a Permanent Fund that accounts for developed Chamorro land and other real estate owned by GovGuam and is held in various land banks. Such are legally restricted to the extent that only earnings from lease rental payments, and not principal, may be used to support GovGuam operations.

The nonmajor governmental funds are comprised of the following:

- Special Revenue Funds – these funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.
- Capital Projects Funds – these funds account for the financial resources obtained from bond issuances for the acquisition or construction of capital assets and facilities.
- Debt Service Funds – these funds account for the financial resources obtained and used for the payment of principal and interest revenue bond obligations established in accordance with bond indentures.

In addition, GovGuam reports the following fiduciary fund types:

- Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of GovGuam's pension plans.
- Private Purpose Funds are used to account for resources held in trust under which principal and income benefit certain individuals.
- Agency Funds account for assets GovGuam holds on behalf of others. Agency funds are custodial in nature and do not involve measurement of operations.

#### E. Cash and Cash Equivalents

Cash and cash equivalents of the primary government and the discretely presented component units include cash on hand, demand deposits, and short-term investments in time certificates of deposit and U.S. Treasury obligations with a maturity date within three months of the date acquired by GovGuam. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are classified as investments.

#### F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units 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 and is primarily determined based on quoted market values.

# GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

## (1) Summary of Significant Accounting Policies, Continued

### G. Land and Other Real Estate

Land and other real estate held as investments in permanent funds of \$411,159,732, which comprise of \$404,399,838 held by the Chamorro Land Trust Commission and \$6,759,894 held by the Guam Ancestral Lands Commission, are reported at fair value. Fair value is based on estimated current value (primarily assessed real estate property tax valuations) and appraisals. Investments that do not have an established market are reported at estimated fair value. Earnings from lease agreements associated with these investments are reported as revenues of the Chamorro Land Trust Commission and the Guam Ancestral Lands Commission. Only developed land supported by valid lease agreements is included in the valuation whereas other undeveloped land not supported by lease agreements is reported at historical cost.

### H. Receivables

In general, tax revenue is recognized on the government-wide financial statements when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to GovGuam for its expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies" in the governmental funds balance sheet.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing on the island of Guam. The allowance for uncollectible accounts primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

### I. Inventories

Inventories of the primary government and the discretely presented component units comprise diesel fuel, parts and supplies and are generally valued at the lower of cost (FIFO) or market.

### J. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### K. Interfund Receivables/Payables

During the course of its operations, GovGuam records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental fund balance sheet and the statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

## GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### L. Capital Assets

Capital assets, including property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Construction in progress includes all associated cumulative costs of a constructed capital asset. Construction in progress is relieved at the point at which an asset is placed in service for its intended use. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are capitalized when the cost of the individual items exceeds \$50,000. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. With the exception of the Layon Landfill, capital assets of the primary government are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Landfill cells are depreciated based on capacity used/available at year end.

Capital assets of the discretely presented component units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

#### M. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then.

#### N. Unearned Revenues

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. Unearned revenue in the governmental fund types primarily relates to Section 30 federal income tax collections remitted to the trustee in accordance with the bond indenture associated with the 2009 Series A bond issue, and federal funds received in advance of eligible expenditures. On September 13, 2013, GovGuam received Section 30 federal income tax collections from the United States Government in the amount of \$63,287,000, which pertains to revenues of the following fiscal year.

#### O. Provision for Tax Refunds

During the calendar year, GovGuam collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, GovGuam estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as provision for tax refunds and as a reduction of tax revenue. The provision for tax refunds is evaluated on a regular basis by management and is based upon management's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

# GOVERNMENT OF GUAM

## Notes to Financial Statements September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### O. Provision for Tax Refunds, Continued

Accordingly, changes to the provision for tax refunds are accounted for on a prospective basis. As of September 30, 2013, GovGuam recorded a provision for unpaid tax refunds in the amount of \$103,346,133, which includes \$637,000 relating to interest payable to taxpayers for unpaid prior year tax refunds. Refunds to taxpayers include payments relating to the U.S. Federal Earned Income Tax Credit (EITC). During the year ended September 30, 2013, approximately \$53,000,000 in payments related to EITC, of which \$39,000,000 related to zero-based tax returns.

#### P. Long-term Debt

The liabilities reported in the government-wide financial statements include GovGuam general obligation bonds, limited obligation bonds, long-term notes and capital leases, and long-term liabilities including vacation, sick leave, long-term liabilities to other governmental entities, and closure and post-closure costs associated with the Ordot Dump and Layon Landfill. Long-term obligations financed by component units are recorded as liabilities in the discretely presented component unit's column.

In accordance with Section 1423a of the Organic Act, the debt ceiling limitation or public indebtedness of GovGuam must not exceed 10% of the aggregate tax value (assessed value) of property in Guam, which is \$1,139,464,853 as of September 30, 2011, the date that such certification was performed. Total debt outstanding as of September 30, 2013, subject to the debt ceiling limitation is \$1,108,023,558.

#### Q. Dedicated Revenues and Pledges

GovGuam has pledged a portion of future General Fund Section 30 revenues to repay \$202,425,000 in limited obligation bonds issued in June 2009. This debt is payable solely from Section 30 revenues payable to GovGuam by the United States Government pursuant to Section 30 of the Organic Act, Title 48, U.S. Code, Section 41421(h). Total principal and interest remaining on this debt is approximately \$344,762,191 payable through December 2034. For the year ended September 30, 2013, principal and interest paid and total Section 30 revenues were \$17,390,154 and \$96,104,113, respectively.

GovGuam has also pledged a portion of future hotel occupancy tax revenues to repay \$90,665,000 in limited obligation infrastructure improvement bonds issued in April 2011. This debt is payable solely from these certain tax revenues generated by GovGuam. Total principal and interest remaining on the limited obligation infrastructure improvement bonds is approximately \$178,512,621 payable through November 2040. For the year ended September 30, 2013, principal and interest paid and total hotel occupancy tax revenues were \$6,998,363 and \$29,331,058, respectively.

GovGuam has also pledged a portion of future judicial fees, fines and building rental receipts to repay an \$11,000,000 note payable to a bank executed in September 2006. This debt is payable solely from these certain judicial fees, fines and building rental receipts generated by GovGuam. Total principal and interest remaining on the note payable is approximately \$10,972,522 payable through September 2019. For the year ended September 30, 2013, principal and interest paid and total judicial fees, fines and building rental receipt revenues were \$993,005 and \$1,764,880, respectively.

## GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### Q. Dedicated Revenues and Pledges, Continued

GovGuam has pledged a portion of future General Fund gross receipts tax revenues to repay the following debt: (i) \$235,000,000 in limited obligation bonds issued in December 2011; (ii) \$108,700,000 in limited obligation bonds issued in June 2012; and (iii) \$22,640,000 in limited obligation bonds issued in January 2013. This debt is payable solely from these certain tax revenues generated by GovGuam. Total principal and interest remaining on this debt is approximately \$695,762,127 payable through January 2042. For the year ended September 30, 2013, principal and interest paid and total gross receipts tax revenues were \$17,473,440 and \$221,672,983, respectively.

Finally, GovGuam has entered into a municipal school lease agreement whereby GovGuam has pledged a portion of future Compact Impact grant revenues to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$98,500,000 payable through December 2025. For the year ended September 30, 2013, lease payments made and total Compact Impact grant revenues received were \$7,100,000 and \$7,100,000, respectively.

#### R. Bond Premiums and Discounts

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond premiums and discounts. Bond issuance costs, except any portion related to prepaid insurance costs, are expensed in the period incurred. Prepaid insurance costs are reported as assets and are amortized over the term of the debt using the straight-line method.

In the governmental fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received and discount deducted on debt issuance are reported as other financing sources and other financing uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

#### S. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then.

#### T. Fund Equity/Net Position

GovGuam reports net position as restricted when restrictions are externally imposed by citizens and/or public interest groups or legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Otherwise, these balances are considered unrestricted.

# GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. Fund Equity/Net Position, Continued

Net Position has been restricted as follows:

“Restricted for capital projects” - identifies amounts of unspent proceeds of bond issuances that can only be used for capital projects.

“Restricted for retirement of indebtedness” - identifies amounts held by fiscal agents to fund future debt service obligations as required under bond indentures. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted.

“Restricted for endowments: nonexpendable” - identifies amounts held for endowment and similar type funds, including land and other real estate, in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

“Restricted for other purposes” - identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the GovGuam enabling statutes. Included in this restriction are reserves for prior appropriations continued.

Fund balance classifications are based on the extent to which GovGuam is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- 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 Guam Legislature, GovGuam’s highest level of decision-making authority, and does not lapse at year-end. Formal action of the Guam Legislature is required to establish, modify or remove the limitations on committed fund balances.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by either the Guam Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned includes negative fund balances in other governmental funds.

## GOVERNMENT OF GUAM

Notes to Financial Statements  
September 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### T. Fund Equity/Net Position, Continued

GovGuam has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of GovGuam is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

#### U. 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 financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the provision for tax refunds.

#### V. Compensated Absences

Compensated absences are recorded as a long-term liability in the statement of net position. Amounts to be paid during the next fiscal year are reported as current liabilities. For the governmental fund financial statements, vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Vacation pay is convertible to pay upon termination of employment.

In accordance with Public Law 27-5 and Public Law 28-68, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service: (1) One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service; (2) Three-fourths day (6) hours for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service; or (3) One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law 27-106 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess shall be lost.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GovGuam has accrued an estimated liability of \$20,666,759 at September 30, 2013 for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.