



Government of Guam
FY 2013 Financial Highlights (Amended)

July 1, 2014

Lack of Regular Financial Information

The audited financial statement is the only official source that provides a detailed view of the performance and changes in financial position of the Government of Guam (GovGuam). However, such information is not available until nine months after the year-end. Because of the government's antiquated financial management systems and the non-integration of the tax systems at the Department of Revenue and Taxation (DRT) with the Department of Administration (DOA), coupled with the breakdown in the Point of Sales system, the draft General Fund financial audit was not provided until June 21st, the latest in over 12 years, and yet the audit is to be submitted to the Federal Government by June 30th. Even after submission of the draft report, audit entries were still being proposed.

GovGuam, excluding autonomous agencies, brings in \$1.1 billion (B) in revenues: \$610.6 million (M) from the General Fund; \$308.4M from Federal Grants; \$62M for the Guam Department of Education Federal Grants; and \$165.5M from Other Governmental Funds, such as the Chamorro Lands Fund, Tourist Attraction Fund, Territorial Highway Fund, and the Territorial Education Facilities Fund that encompasses Real Property Tax revenues. GovGuam also has assets of \$1.9B and liabilities of \$1.7B, of which \$1.3B represents long-term liabilities.

Significant Investment in New FMIS and Personnel Needed

As a billion-dollar entity, policymakers such as the Legislature, the Governor, and others need regular, current, and reliable information as to the state of the condition of the government. While DOA provides regularly monthly cash flow reports, this is not sufficient to assess the financial health of the government and to allow users to make better-informed decisions. What is needed is significant investment in technology to include new Financial Management Information Systems (FMIS) that are fully integrated between DOA and DRT as well as other agencies. Similarly, significant investment in personnel is needed to handle the new FMIS and bring GovGuam into the types of financial reporting and online capabilities expected of a billion-dollar government.

Independent auditors Deloitte & Touche, LLP issued an unmodified or "clean" opinion on GovGuam's financial statements. The beginning net position of the governmental activities and discretely presented component units has been restated due to the implementation of new accounting pronouncements and the Chamorro Land Trust Commission's recognition of investment in land of \$406.6M. Additionally, in order to receive the clean opinion, 36 audit adjustments were made, of which 17 increased the General Fund's operating deficit by \$17.7M. Such adjustments are indicative of a weak accounting infrastructure in need of technical assistance, upgrade, and personnel.

GovGuam General Fund Surplus Remains

For fiscal year (FY) 2013, GovGuam ended with a surplus of \$2.3M compared to \$30.1M in FY 2012 as a result of the operating deficit of \$27.8M. Record-high revenues were reported at \$610.6M, but operating expenditures net of transfers amounted to \$658.9M resulting in over-expenditures of \$48.3M. Net bond proceeds of \$20.4M due to refunding reduced the over-expenditure of \$48.3M to

\$27.8M. For over 15 years, expenditures net of transfers have exceeded revenue levels. GovGuam is cautioned to be diligent in its spending and to live within its expected revenues.

Other Funds Contribute to Operating Deficit

The General Fund includes the main operating fund and nearly 40 other funds, which includes those created by legislation, the Department of Education (DOE), the Guam Legislature, the Unified Courts and others related to bond issuances. In FY 2013, several funds had an operating deficit that contributed to GovGuam operating deficit of \$27.8M to include DOE (\$32.8M) due to the American Recovery and Reinvestment Act capital expenditures and the Unified Courts of Guam (\$6.4M).

Record-High Revenues

In FY 2013, GovGuam received record-high revenues of \$610.6M compared to last year's record-high of \$596.2M. While Income Tax revenues declined by \$22.4M to \$261.8M, Section 30 Federal Income Tax Collections significantly increased by \$43M (or 81%) to \$96.1M.

Expenditure Levels Exceed Revenues

Expenditures, net of transfers, for line agencies, the Legislature, the Judiciary, and subsidies to autonomous entities were \$658.9M. The largest areas of expenditures occurred in the following functions:

- Public Education, representing the largest category at 44%, was \$287.8M compared to \$257.9M in FY 2012 and was comprised of: \$244.1M to DOE, \$30.6M to the University of Guam, and \$13.2M to the Guam Community College.
- Protection of life and property is the second largest category at 15% or \$96.7M, of which the Guam Fire Department is the largest at \$29.5M, followed by the Guam Police Department at \$28.4M, and the Department of Corrections at \$20.8M. The Office of the Attorney General, the Department of Youth Affairs, the Chief Medical Examiner and the Public Defender are also included in this category.
- General Government is the third largest category at 13% or \$88M, and is comprised of Department of Administration (DOA) at \$13.4M, the Department of Revenue and Taxation at \$12.3M, the Office of the Governor and Lieutenant Governor at \$6.3M, the Office of Public Accountability of \$1.2M, and other agencies. The other branches of government are also included under General Government with the Unified Courts of Guam at \$30.9M and the Guam Legislature at \$7.9M.

Effect of Earned Income Tax Credit (EITC) on Revenues

During the calendar year, GovGuam collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, GovGuam estimated 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. As of September 30, 2013, GovGuam recorded a provision for unpaid tax refunds in the amount of \$103.3M of which \$53M pertains to tax refunds related to EITC. Of the \$53M, \$39M relates to tax returns where no income tax through withholdings was contributed. Such high numbers of zero-based taxed returns should be further investigated by DRT.

Compliance

Please refer to OPA's Compliance Highlights for a separate commentary on the Single Audit Report and Management Letter. For a more detailed commentary of GovGuam's operations, refer to the Management's Discussion and Analysis in the report or visit www.guamopa.org.