

**GOVERNMENT OF GUAM
GENERAL PURPOSE FINANCIALS HIGHLIGHTS
Year Ended September 30, 2002**

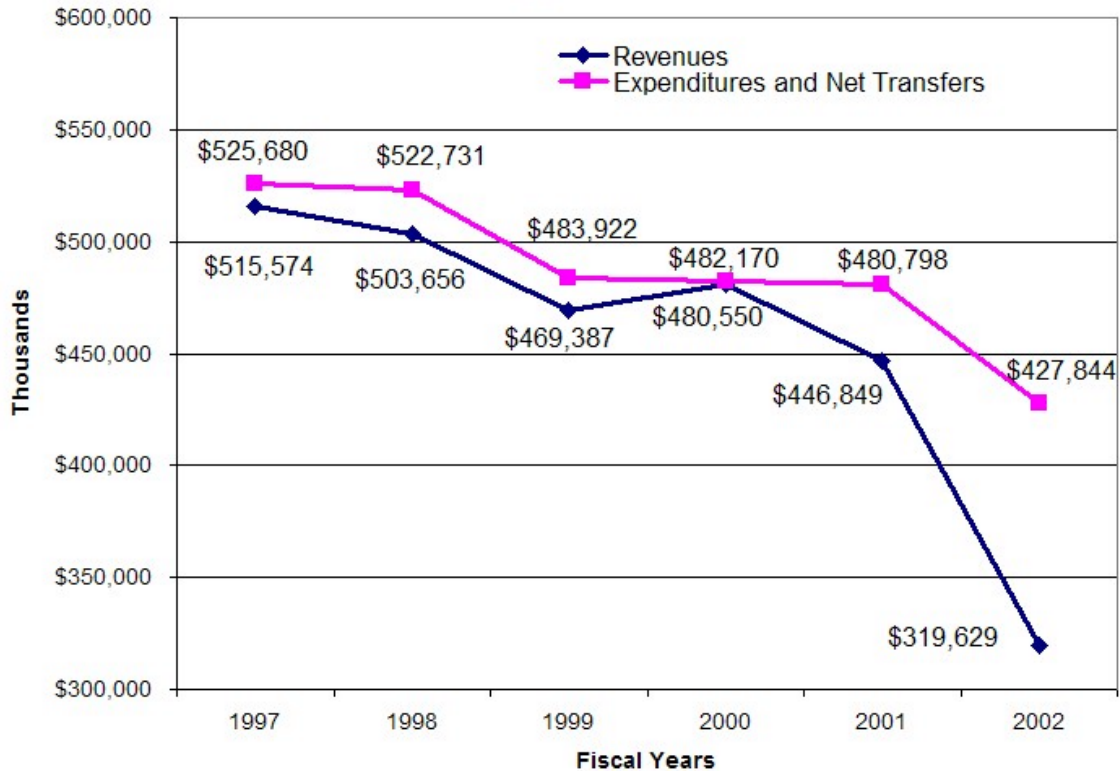
January 27, 2004

Dramatic Decline in General Fund Revenues

The Government of Guam had a dramatic decline in general fund revenues of \$127 million going from \$447 million in FY 2001 to \$320 million in FY 2002. This steep drop was mainly attributed to the decrease in income tax revenues of \$109 million and gross receipts taxes of \$18 million.

Total expenditures also declined by \$53 million but not enough to keep pace with the steep revenue drop of \$127 million. Total FY 2002 expenditures were \$428 million compared to \$481 million in FY 2001. The General Fund spent \$108 million more than it took in. This deficit spending was partially financed by the refinancing of the water bonds, which resulted in \$49 million in additional cash and a new \$10 million note for payment of public assistance and allotments to the Department of Education. For more details, see the graph below with the 6-year comparison of revenues and expenditures.

**Government of Guam General Fund
Revenues vs. Expenditures/Net Transfers**



The General Fund's cash continues to be a balancing act. At the end of FY 2002, the General Fund had cash and equivalents of \$21 million while liabilities for income tax refunds were \$142 million, accounts payable were \$80 million, and annual long-term debt payments were \$36 million.

Lack of Reconciliations

The Department of Revenue and Taxation's (DRT) subsidiary records for tax receivables and provisions for income tax refunds and other records have not been audited since 1986. There has been a corresponding lack of reconciliations between the Department of Administration (DOA) and DRT. There was a \$22 million adjustment to decrease tax revenues and increase income tax refunds. Other adjustments were necessary to tie out the tax information of the two agencies including a \$65 million adjustment for income tax receivables and a \$9 million adjustment for gross receipts tax receivable.

At the end of the fiscal year total income and tax receivables were \$179 million, however, the estimate for uncollectible accounts was \$151 million. The net effect of this provision means that for every \$1 dollar in tax receivables, 84 cents is deemed to be uncollectible.

Federal Grants

At the start of the fiscal year there were \$44 million in federal grant receivables. During the year the General fund received \$190 million in federal grants and spent another \$188 million against those grants leaving a balance of \$ 41 million in federal grant receivables. There was \$4.2 million of grant receivables that were written off and another \$2.8 million was set aside for potential uncollectible grants.

In the accounting of federal grants, while the net difference between the detail grant receivable was only \$280,000, there were over 120 grants whose individual records did not reconcile to the main accounts. These differences totaled over \$7 million in debits and another \$6.8 million in credits, with differences as large as \$2 million and \$900,000 for some grants.

Questioned Costs

There were \$4 million of questioned costs in FY 2002. This is a vast improvement over 2001, which had \$9.8 million in questioned costs. These questioned costs relate primarily to findings carried forward from the previous year, which consists largely of non-compliance with procurement requirements.

Audit Findings

For 2002, there were 113 internal control findings compared to 109 from the previous year. Many of the findings were repeat findings from the past several years. The lack of resolution of these findings is indicative of the fragile state of DOA's Division of Accounts and their inability to provide timely and accurate financial information of the Government of Guam. For a more detailed

discussion, see Deloitte Touche's letter of January 17, 2004 that outlines six major areas that need to be addressed in order to improve the financial information of the General Fund.

Late Issuance of Audit Reports

All audit reports of the Government of Guam are required to be issued no later than 9 months after the fiscal year, which is June 30th (1 GCA §1909). While the General Fund continues to be some 6 months behind, the General Fund is not alone. As of the release of this report there were 12 entities who have not issued their 2002 audit reports, with the Guam Visitors Bureau the most delinquent having not issued audit reports since 1998. The other 11 entities are the Department of Education, the Guam Community College, the Retirement Fund, the Guam Memorial Hospital, the Port Authority of Guam, the Guam Waterworks Authority, the Guam Telephone Authority, the Territorial Highway Fund, the Tourist Attraction Fund, the Guam Housing Corporation, and the Guam Rental Corporation.