



Government of Guam FY 2014 Financial Highlights

June 30, 2015

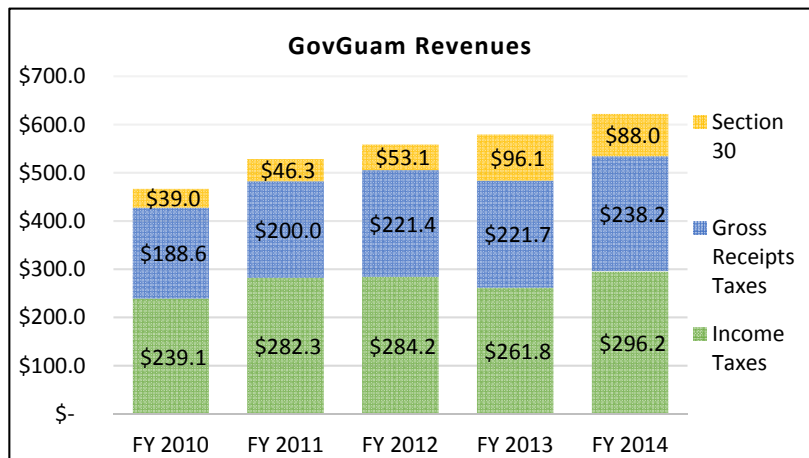
Historically, deficit fund balances were the norm for the Government of Guam (GovGuam) General Fund except in fiscal year (FY) 2012 and FY 2013. In FY 2014, however, this trend resurfaced due to over-expenditures. The GovGuam General Fund ended FY 2014 with a \$59.6 million (M) deficit fund balance compared to \$2.3M positive fund balance in FY 2013 and \$30M in FY 2012. The deficit was mainly due to \$32.7M in retroactive pay to law enforcement officers, \$21M in DOE capital projects expenditures, and \$9.8M for Layon Landfill tax credits. The deficit occurred despite a \$36.9M increase in revenues.

Independent auditors Deloitte & Touche, LLP issued an unmodified or “clean” opinion on GovGuam’s financial statements after 13 audit adjustments were made that increased GovGuam’s fund balance by \$8.2M. There were also 12 uncorrected misstatements that GovGuam management deemed immaterial to the financial statements that would have decreased the fund balance by \$9.4M. The largest of these was the understatement of tax refunds by \$8.6M.

GovGuam Revenue Growth Continues

Since FY 2010, GovGuam has realized revenue growth primarily in income taxes, gross receipt taxes and Section 30 collections. This indicates Guam’s economy is slowly improving as individual and corporate tax returns are reporting increased taxable earnings.

Although revenues have continued to increase since FY 2010, expenditure increases have outpaced growing revenues; thus, causing deficit fund balances. In FY 2012, GovGuam received \$352.7M in bond proceeds to pay tax refunds, outstanding COLA proceeds, and other operational costs. This caused positive



fund balances in FY 2012 of \$30.1M. In FY 2013, the fund balance dropped to \$2.3M because of continued over-expenditures. Expenditures net of transfers have consistently exceeded revenues.

Long term debt is typically issued to finance capital investments such as roads and buildings. However, issuing debt to finance operations can have daunting effects on expenditures as well by requiring debt service payments for up to 30 years.

The Government-Wide financial statements present another aspect of GovGuam’s financial status because it includes long term debt and capital assets. In FY 2014, GovGuam’s unrestricted net

position reported a deficit of \$871.6M. This was the result of \$1 billion in long term bond borrowing, payables which were previously issued primarily for operational expenditures instead of capital investment.

Besides the General Fund, other GovGuam revenue sources include \$289.4M in federal grants, \$54.4M in DOE federal grants, and \$183.4M in other governmental funds. Only the General Fund ended FY 2014 with a deficit fund balance.

General Fund Budgeted Expenditures Exceed Budgeted Revenues

Actual revenues were \$640.8M or \$20.9M more than budgeted revenues of \$619.8M primarily due to additional tax revenues. However, actual expenditures were \$603.6M or \$46.7M more than the \$556.8M budgeted expenditures primarily due to retroactive pay for law enforcement officers, Layon landfill condemnation tax credits, and others as follows:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Law Enforcement Retro Pay	8,650,000	32,719,352	(24,069,352)
Department of Education	196,445,012	206,505,855	(10,060,843)
Landfill Tax Credits-Principal & Interest	-	9,785,956	(9,785,956)
Law Enforcement:			
Guam Police Department	28,541,258	31,092,839	(2,551,581)
Department of Corrections	20,063,435	21,322,543	(1,259,108)
Guam Fire Department	<u>27,723,833</u>	<u>33,102,583</u>	<u>(5,378,750)</u>
Total Law Enforcement	<u>76,328,526</u>	<u>85,517,965</u>	<u>(9,189,439)</u>

A number of lapses in prior year appropriations were allowed to carry over into FY 2014 and additional appropriations were made throughout the year. This caused budgeted expenditures (net of transfers) and encumbrances of \$650.3M to exceed budgeted revenues of \$619.8M by \$30.5M in the final FY 2014 budget authorization.

Earned Income Tax Credit

GovGuam’s FY 2014 estimated provision for unpaid tax refunds was \$99.3M of which \$56M is for tax returns filed for earned income tax credits (EITC). The EITC is a tax credit for low to mid income workers who meet certain criteria. This means some tax filers will receive EITC tax refunds (and possibly other tax credits) although they did not contribute or withhold any tax. The high number of these returns warrants scrutiny of their validity to ensure the filers are entitled to these credits.

Government Accounting Standards Board (GASB) Statement-Net Pension Liability

The implementation of GASB 68, Accounting and Financial Reporting for Pensions, will have a material effect on GovGuam’s financial statements as well as other components units beginning FY 2015. As of October 1, 2014, the net pension liability will be recorded at \$1.3 billion as a reduction in fund balance.

Compliance

OPA’s Compliance Highlights offers a separate commentary on the Single Audit Report and Management Letter. For details of GovGuam’s operations, refer to the Management’s Discussion and Analysis in the audit report or visit www.opaguam.org.