



**Government of Guam
FY 2015 Financial Highlights**

June 30, 2016

The Government of Guam (GovGuam) General Fund ended fiscal year (FY) 2015 with a \$59.5 million (M) deficit. This is \$2.4M less than the \$61.9M deficit in FY 2014 and brings the cumulative General Fund deficit to \$119.1M. The FY 2015 deficit was mainly caused by a \$26.6M shortfall in projected revenues, \$24.4M in unbudgeted expenditures, and \$10.8M in debt service that was not reimbursed from the Solid Waste Operations Fund. Income taxes were \$11.7M under estimates and gross receipt taxes were \$20.7M below expectations. Although all GovGuam agencies were within their budgets except for the Department of Education (DOE) and the Guam Police Department (which over expended by \$615,575), it was not enough to offset the revenue shortfall.

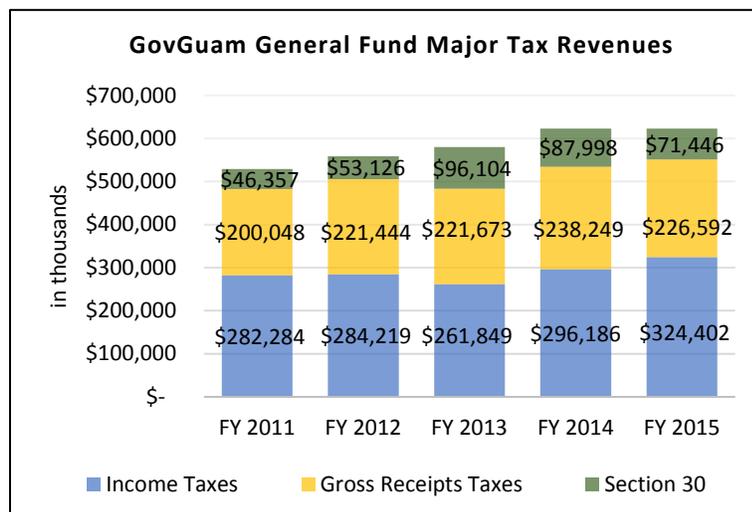
Independent auditors Deloitte & Touche, LLP issued an unmodified or “clean” opinion on GovGuam’s financial statements. Seven audit adjustments were made that decreased GovGuam’s fund balance by \$13.2M which included \$12.8M to increase the liability for tax refunds. There were also nine uncorrected misstatements that GovGuam management deemed immaterial to the financial statements that would have decreased the fund balance by \$5.8M.

Earned Income Tax Credit (EITC) Increases

The EITC has grown exponentially from \$6.2M in 2000, or 11% of tax refunds, to \$56.8M in 2014, or 43% of tax refunds. Because the EITC continues to represent a substantial amount of tax refunds, EITC tax returns should be closely examined by the Department of Revenue and Taxation to ensure filers who claim this tax credit are duly entitled and without duplicate dependents. The EITC is for low to mid income filers who meet certain criteria and who usually do not contribute or have any taxes withheld. This allows opportunities to receive tax refunds in excess of taxes paid.

No Substantial Growth in GovGuam General Fund Revenues

FY 2015 General Fund revenues of \$647.7M marginally increased by \$185,102 from FY 2014, a



vast departure from historical revenue increases since FY 2010 ranging from \$14.5M to \$56.2M. Since FY 2010, GovGuam has steadily realized income tax revenue growth indicating improvements in Guam’s economy as individual and corporate tax returns are reporting increased taxable earnings.

FY 2015 General Fund expenditures net of transfers were \$707.6M and continued to exceed annual revenues causing deficit fund balances despite revenue increases since FY 2010.

Expenditures Not Budgeted

Actual expenditures were \$580.0M, or \$10.1M more than the \$569.8M budgeted primarily due to unfunded payments for DOE’s municipal school leases and Layon Landfill condemnation tax credits. Another factor contributing to over expenditures is the \$13.4M deficit already established with the approved FY 2015 budget where \$668.5M was expected in revenues and \$681.9M was budgeted for expenditures and net transfers.

In addition, \$19.4M was transferred to the Section 2718 Fund for various appropriations due to revenues that did not materialize in FY 2015. The Section 2718 Fund accounts for rebate proceeds from the Public Health Services Act and was intended to offset the growing cost of retiree healthcare benefits which escalated to \$34.9M in FY 2015 from \$19.4M in FY 2014.

The General Fund also expected reimbursements of \$10.8M for debt service payments from the Solid Waste Operations Fund that also did not materialize.

The following summarizes notable budgetary items that did not meet expectations:

	Final Budget	Actual	Variance
Income Tax	\$ 336,092,105	\$ 324,402,280	\$ (11,689,825)
Gross Receipts Tax	247,298,659	226,592,159	(20,706,500)
Guam Department of Education	203,619,753	212,232,603	(8,612,850)
Layon Landfill Tax Credits	-	13,932,660	(13,932,660)
Transfer out to Section 2718 Fund	-	19,351,074	(19,351,074)
Transfer in from Solid Waste Operations Fund	10,802,450	-	(10,802,450)

Besides the General Fund, other GovGuam revenue sources include \$298.3M in federal grants, \$57.8M in DOE federal grants, and \$181.9M in other governmental funds. Only the General Fund ended FY 2015 with a deficit fund balance.

Unrestricted Net Position - \$1.8 Billion Deficit

The Government-Wide financial statements present another aspect of GovGuam’s financial status because it includes capital assets, long term liabilities, and debt. In FY 2015, GovGuam’s unrestricted net position reported a \$1.8 billion (B) deficit, an increase of \$959.4M from FY 2014 (before restatement). This was the result of \$846.2M recognized as GovGuam’s net pension liability from GASB 68, a recent governmental accounting standard. Additionally, bonds payable, net of current portion, increased by \$67.2M to \$1.1B. GovGuam previously issued bonds primarily for operational expenditures, including tax refund payments, instead of capital investment. In FY 2015, \$410.5M in bonds were issued to refund \$381.0M of general obligation bonds. This resulted in additional outstanding debt of \$14.4M.

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.