



FY 2012 Performer and A.F.T.E.R. Analysis Highlights

January 16, 2014

From a scale of 1 being least favorable to 10 being most favorable, the Government of Guam (GovGuam) received an overall score of **2.81** from the most recent Performer and Audit Findings, Timeliness, and Exception Resolution (A.F.T.E.R.) Analysis. This analysis was conducted by Crawford & Associates, P.C. for the U.S. Department of the Interior, Office of Insular Affairs (DOI-OIA). The FY 2012 score of 2.81 is Guam's highest score in eight years but remains the lowest score among the eight insular areas analyzed¹. GovGuam's unfavorable rating continues primarily due to its cumulative deficit of approximately \$194.2 million (M). The primary cause of the slight increase in the rating from the prior year is related to the slight reduction in the overall deficit of the government, and an improvement in the operational deficit of the General Fund due to bond proceeds of \$352.7M and Government Accounting Standards Board Statement No. 54 (GASB 54) implementation.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
2.81	2.73	1.27	1.30	1.31	2.66	1.32	1.70	2.86	2.21

The Performer is an analysis of a government's financial statements used to measure government financial performance. The Performer uses 12 individual ratios to identify financial warning signals and provides an overall rating as a collective benchmark of a government's success as a whole. In FY 2012, GovGuam received 10 unfavorable ratings out of the 12 ratios and an unfavorable overall rating, indicating the continued deterioration of its financial condition.

As of September 30, 2012, GovGuam's \$1.46 billion (B) of total assets were funded with debt or other obligations. This indicates that for each dollar of assets GovGuam owns, it owes \$1.46 of that dollar to others. Although there has been recent improvement, the unfavorable ratio remains consistent over the years and indicates that GovGuam continues to live beyond its means.

GovGuam Deficit Contributes to Low Overall Rating

The Performer considers the full accrual version of GovGuam's total assets and liabilities. In FY 2012, GovGuam's net asset deficiency (deficit) decreased by \$4.9M or 2.6% from the prior year, indicating revenues recorded for the year exceeded expenses incurred during the year. Revenues were \$596.2M, the highest recorded revenues in 15 years, which can be attributed to increased economic activity. This continues a trend that began in FY 2011 by reducing the overall deficit that existed at the end of FY 2010. At the end of FY 2012, the overall deficit was approximately \$194.2M, an improvement from a deficit high of \$248.4M in FY 2010.

¹ As of January 2014, the Commonwealth of the Northern Mariana Islands (CNMI) and U.S. Virgin Islands Performer analysis had not been completed.

Underfunded Pension Plan

GovGuam's deficit along with relatively high taxes, debt per capita ratios, and the underfunding of the pension plan are the primary causes for this year's continued low score. GovGuam pension plan assets were 43% of the accrued pension benefit liability. This indicates that the pension plan was less than half funded at the last valuation date. The underfunding of retirement pensions is the lowest ratio received over the last ten years. As of September 30, 2012, the unfunded liability totals \$1.64B.

Taxes and Debt per Capita Considered High in Comparison to Other Insular Areas

Total taxes, comprised of gross receipts, income and other taxes, except for hotel taxes, amounted to \$610.5M in FY 2012. This equates to taxes per capita of \$3,831, which is considered high in comparison to other insular areas. This measure shows the government's tax burden on its citizens. The lower tax burden of the insular areas is reflective of the state of their infrastructure and government programs. When compared to the U.S. state and local tax burden, Guam ranked 34 out of the 50 states. The tax burden per capita average was \$4,112², ranging from a high of \$6,984 to a low of \$2,625.

The financing margin of debt per capita was also considered to be high. This ratio revealed that GovGuam's long-term debt of \$1.4B equates to a debt burden to its citizens of \$8,810 per person. The \$1.4B is comprised of \$1.3B in long-term debt and other non-current liabilities, and \$101M in provisions for tax refunds.

No Cash Reserves (Unrestricted Net Assets)

Because GovGuam has been in a deficit position for over a decade, it does not have any available resources to fund emergencies, shortfalls, or other unexpected needs. In FY 2012, the level of unrestricted net assets as a percent of annual revenues showed a **negative 70.7%**. The Government Financial Officers Association recommends the establishment of unrestricted net assets or cash ranging from 5% to 15% of its operating expenses. Guam has a long way to go to achieve this benchmark.

Ability to Pay Liabilities (Liquidity)

GovGuam's unfavorable current and quick ratios are indicators of the government's cash flow difficulties. GovGuam's current ratio (current assets to current liabilities) of 1.10 to 1 indicates that GovGuam has \$1.10 of current assets to pay for every \$1.00 of current liabilities and is considered an unfavorable indicator of liquidity. However, it is a notable increase from last year's ratio of 0.48 to 1. An adequate current ratio is 2.0 to 1.

In addition, GovGuam has a quick ratio (total cash and short-term investments to current liabilities) of 0.34 to 1, compared to 0.03 to 1 in the previous year. This indicates that GovGuam has only 34 cents in cash and short-term investments to pay \$1 of current liabilities. A desirable quick ratio is 1.0 to 1.

Improvement in Audit Findings and Questioned Costs Resolution

The A.F.T.E.R. Analysis is used to monitor a government's progress towards resolving its most significant findings and exceptions and timely submission of the resolution to the Federal Clearinghouse. The analysis found favorable results for the resolution of audit findings. This is the

² 2010 figures were utilized for the basis of comparison due to the limited availability of data. *Facts & Figures 2013: How Does Your State Compare* from the Tax Foundation (<http://taxfoundation.org/article/facts-figures-2013-how-does-your-state-compare>).

eighth consecutive year that the government-wide audit was issued timely and sixth year that its financial statements had no qualifications. The compliance report was qualified due to material weaknesses and significant deficiencies; however, questioned costs are minimal totaling \$35,293. GovGuam is to be commended for making significant efforts to resolve cumulative questioned costs, now at \$1.4M from \$51.3M in FY 2002.

Acknowledgement

The Performer and A.F.T.E.R. Analysis developed by Crawford and Associates, P.C. is one of several methods utilized by the Graduate School's Pacific Islands Training Initiative to assist DOI-OIA in assessing insular governments' tracking of their financial health and performance. It is an overall rating of the government and is intended to complement GovGuam's annual financial reports. It should not be used as the only source of financial information to evaluate performance. The analysis can be viewed at our website at www.guamopa.org or at www.pitiviti.org, the official website of the Pacific and Virgin Islands Training Initiatives.