



FY 2010 Performer and A.F.T.E.R. Analysis Highlights

April 4, 2012

From a scale of 1 being least favorable to 10 being most favorable, the Government of Guam (GovGuam) received an overall score of **1.27** 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 2010 score of 1.27 is Guam's lowest score in nine years and the lowest score among nine insular areas analyzed. GovGuam's unfavorable rating continues primarily due to its FY 2010 deficit of \$77.7 million (M) and cumulative deficit of \$234.7M.

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
1.27	1.30	1.31	2.66	1.32	1.70	2.86	2.21	2.04

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 2010, GovGuam received 11 unfavorable ratings out of the 12 ratios and an unfavorable overall rating, indicating the continued deterioration of its financial condition.

Of GovGuam's \$1.2 billion (B) in assets, 120% was funded with debt or other obligations, a 7% increase from the prior year. This means that for every \$1.00 of assets, GovGuam owes \$1.20 to others. This unfavorable ratio remains consistent with prior 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 2010, GovGuam's net asset deficiency (deficit) increased by \$77.7M or 50% from \$157M to \$234.7M. The increase in the deficit was due to continued over-expenditures as the government's primary operating fund, the General Fund, incurred expenses of \$499.9M while revenues amounted to \$491M. The deficit is primarily financed by delaying the payment of income tax refunds totaling approximately \$284.9M.

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 2010, the level of unrestricted net assets as a percent of annual revenues showed a negative 80%. The Government Financial Officers Association recommended 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 Decreases

GovGuam's unfavorable current and quick ratios are indicators of the government's cash flow difficulties, which decreased when compared to FY 2009's ratios. GovGuam's current ratio (current

assets to current liabilities) of 0.36 to 1 indicates it has only 36 cents of current assets to pay \$1 of current liabilities. Last year's ratio was 0.44 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 0.04 to 1, compared to 0.05 to 1 in the previous year. This indicates that GovGuam has only 4 cents in cash and short-term investments to pay \$1 of current liabilities. A desirable quick ratio is 1.0 to 1.

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 \$516.6M in FY 2010. This equates to taxes per capita of \$3,242, which is considered high in comparison to other insular areas. This measure shows the government's tax burden on its citizens. The financing margin of debt per capita was also considered to be high. This ratio revealed that GovGuam's long-term debt of \$1.15B equates to a debt burden on its citizens was \$7,228 per person. The \$1.15B is comprised of \$867.4M in long-term debt and other non-current liabilities, and \$284.9M in provisions for tax refunds.

Additional Debt issued in FY 2012

Public Law (P.L.) 30-7 redefined assessed value from 70% to 90% of taxable appraised value, with the debt ceiling calculated at 10% of the assessed value. With that change, the debt capacity was calculated at \$1.026B as of January 1, 2012. A total of \$1.025B in GovGuam obligations are counted against the debt ceiling, leaving a balance of \$674K available for future debt obligations.

P.L. 31-76 authorized the issuance of \$344M Business Privilege Tax Bonds. GovGuam successfully closed the first bond series of \$235M with a 4.94% interest rate on December 1, 2011. The \$235M was used to pay for \$198M of unpaid income tax refunds and \$17M of Cost of Living Allowances to certain retired GovGuam employees. The government is currently working to issue the second bond series.

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 sixth consecutive year that the government-wide audit was issued timely and fourth year that its financial statements had no qualifications. The compliance report was qualified due to material weaknesses and significant deficiencies resulting in questioned costs of \$3,734. Despite this, GovGuam is to be commended for making significant efforts to resolve cumulative questioned costs, now at \$2.3M 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.