

Government of Guam
Financial Highlights for the Year Ended September 30, 2004

August 2, 2005

The FY 2004 Government of Guam (GovGuam) audit was issued to the federal clearinghouse on July 29, 2005, less than one month beyond the June 30 deadline, the earliest the annual reports have been issued. Independent auditors, Deloitte and Touche, rendered a qualified audit opinion for the report in only two areas covering the year ended September 30, 2004.

Audit Qualifications

Of the four audit qualifications from FY 2003, two have been removed in FY 2004. This year, the auditors were satisfied with the presentations of capital assets and the closure and post-closure costs of the Ordot Dump, prompting removal of these qualifications. GovGuam's capital assets (excluding autonomous agencies) were reported for the first time at \$691 million after depreciation, and include property, plant, equipment, and infrastructure (roads, bridges, ramps, etc.). The removal of the qualification was the result of improved record keeping and documentation pertaining to capital assets. The Ordot Dump closure and post-closure costs of \$17 million have been recorded this year following the completion of an independently prepared financial plan for Ordot Dump Closure / New Municipal Solid Waste Landfill.

However, the auditors still could not audit tax related balances and two out of 13 autonomous agencies were not able to present audited financial statements, specifically, the Guam Memorial Hospital (GMH) and the Guam Visitors Bureau (GVB). GMH is currently working on its FY 2004 audit while GVB is still working on its FY 2003 audit. Therefore, these qualifications remain for FY 2004.

General Fund Deficit

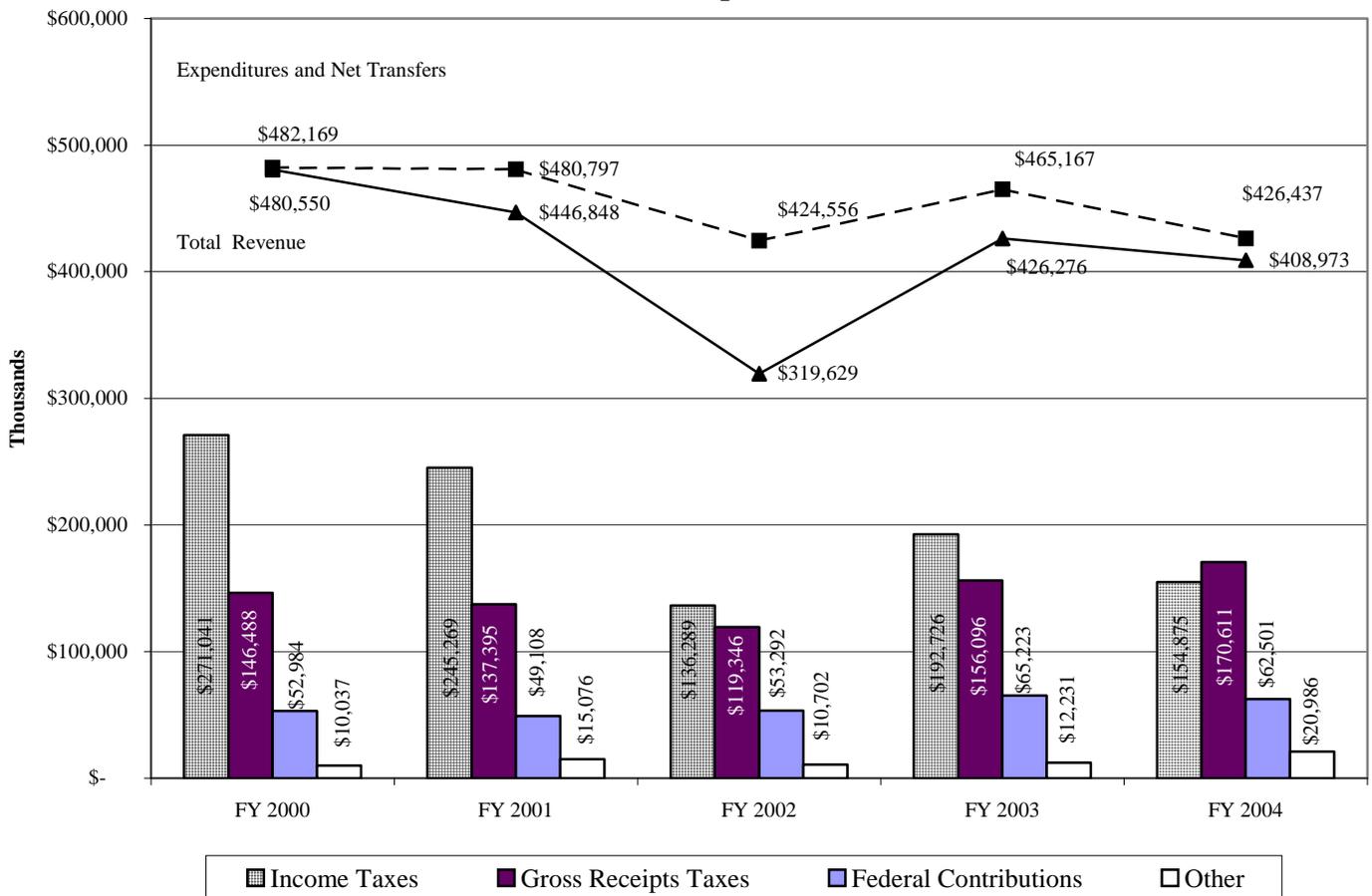
For the first time in many years, **the General Fund deficit did not increase**. FY 2004 revenues and special items exceeded expenditures by half a million dollars. The General Fund deficit however is still in excess of \$300 million and reported at \$314 million. The deficit is the cumulative result of General Fund expenditures exceeding General Fund revenues over the years. This year, the deficit remained stable due to an \$18 million over-provisioning of the tax refund liability, which offset any further increases to the General Fund deficit. This was determined after the Department of Revenue and Taxation made tremendous progress to become current with income tax processing after years of providing estimates of tax liabilities because of unprocessed returns.

In FY 2004, total General Fund revenues were \$409 million comprised mainly of income taxes, gross receipts taxes, and federal contributions. For the first time, gross receipts taxes surpassed income taxes. Income tax revenues declined \$38 million, (from \$193 million in FY 2003 to \$155 million in FY 2004) while gross receipts tax revenues increased \$15 million (from \$156 million in FY 2003 to \$171 million in FY 2004). The decrease in income taxes was due in part

to the reduction in tax rates initiated by President Bush's tax relief plan while the increase in GRT was due to the temporary increase in GRT rates from 4 % to 6 %. Federal contributions totaled \$63 million.

General Fund expenditures were \$325 million and \$101 million in net transfers and subsidies to other funds and entities. Expenditures in the amount of \$187 million, or 57 % went to education: public education - \$146 million, the University of Guam - \$28 million, and the Guam Community College - \$12 million.

Government of Guam General Fund Revenues and Expenditures



General Fund liabilities of \$445 million include a \$227 million provision for tax refunds, of which \$60 million is for the prior years' earned income tax credit. General Fund receivables reported taxes receivables of \$27 million net of uncollectible taxes of \$138 million.

For a more detailed discussion of GovGuam's financial condition, see the Management's Discussion and Analysis.

