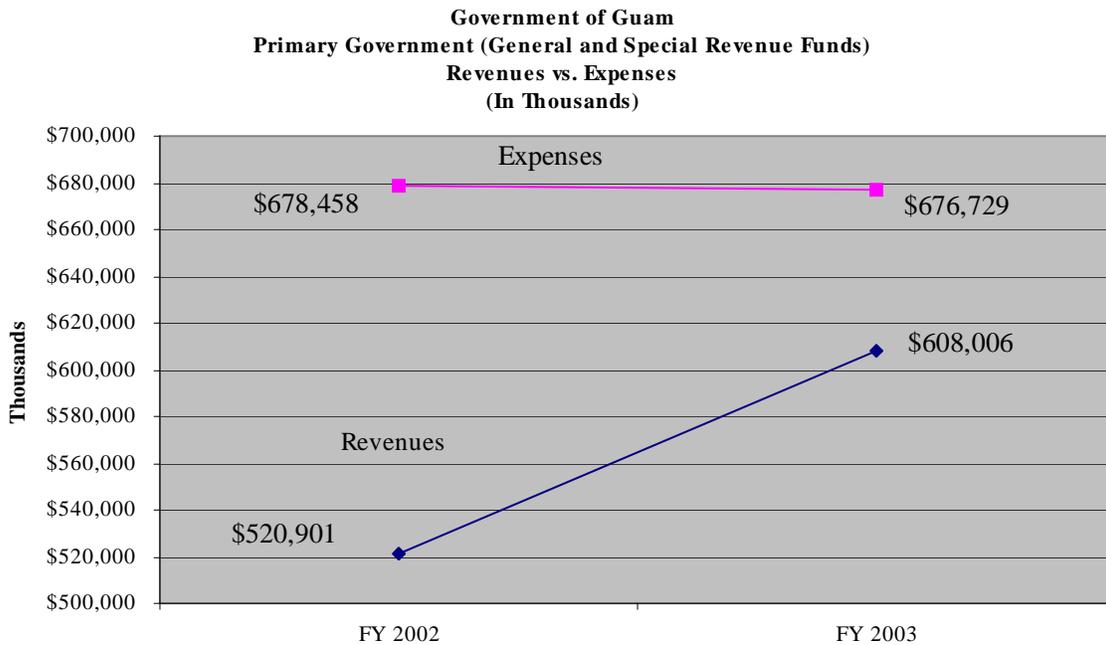


**Government of Guam
General Purpose Financial Highlights
Year Ended September 30, 2003**

November 22, 2004

GovGuam Begins To Recover In FY 2003

After the dramatic financial decline in FY 2002, the Government of Guam (GovGuam) began to recover in FY 2003. Although GovGuam incurred a loss (decrease in net assets) of \$68.7 million in FY 2003, this was a significant improvement from FY 2002's \$157.6 million loss. The FY 2003 loss would have been further mitigated were it not for the Earned Income Tax Credit (EITC) liability of \$60 million that was recognized entirely in FY 2003.

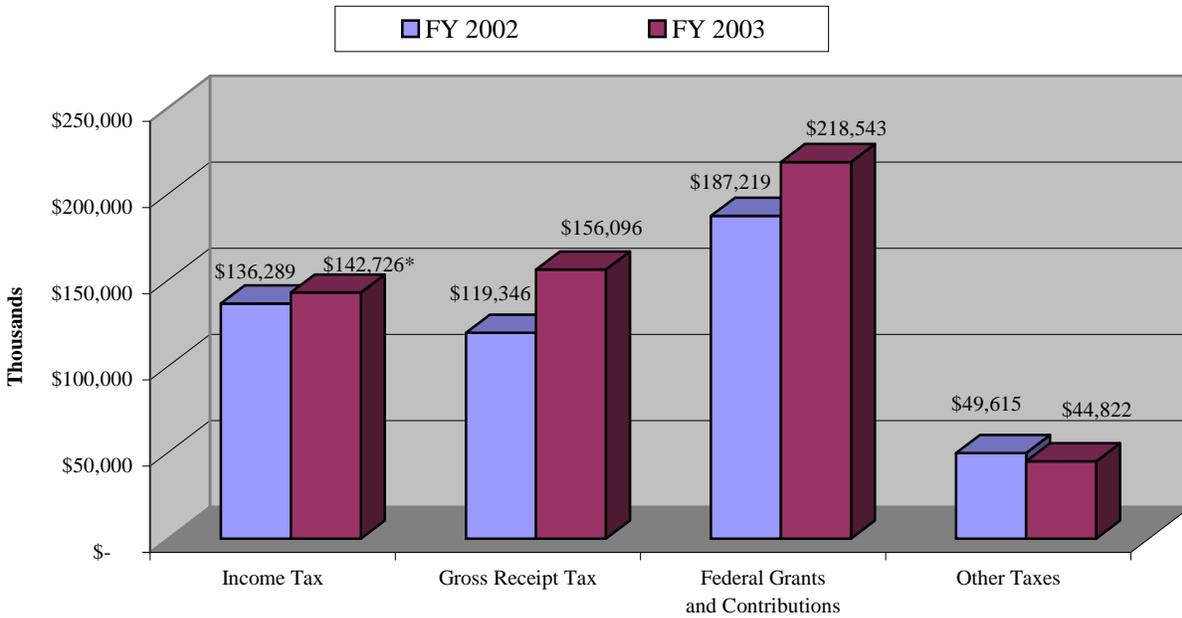


Primary Government revenues increased by \$87 million, most of which was attributable to increases in Income and Gross Receipts Taxes. Income tax revenues increased from \$136.3 million in FY 2002 to \$202.7 million in FY 2003. As stated previously, however, the \$66.4 million increase was diminished by the recognition of a \$60 million Earned Income Tax Credit (EITC) liability, which represented GovGuam's failure to provide for EITC since 1996¹. Approximately \$10 million of the liability is attributed to FY 2003. The remaining \$50 million was attributed to prior years. Had it not been for this liability, GovGuam's loss would have been minimized to \$8.7 million as opposed to \$68.7 million.

Gross Receipts Tax (GRT) revenues increased by \$36.8 million due to the temporary increase in GRT from 4% to 6% during April 2003 through April 2004.

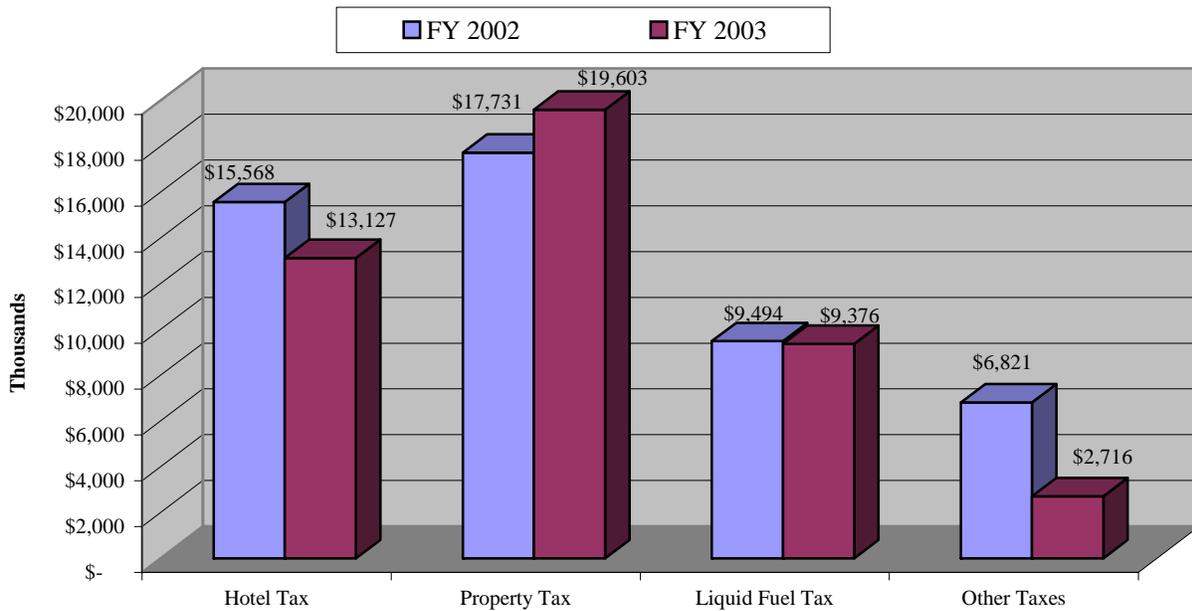
¹ No EITC liability exists for FY 1997

**Government of Guam
Primary Government
Tax and Grant Revenues
(In Thousands)**



* \$142,726 is net of \$60,000 in EITC liability.

**Government of Guam
Primary Government
Other Tax Revenues
(In Thousands)**



Federal Grants and Contributions were also a major source of revenues for the Primary Government in FY 2003 increasing from \$187.2 million in FY 2002 to \$218.5 million in FY 2003.

Receivables Reserve And Write-Offs

Of the \$229.4 million in taxes owed to GovGuam, \$173.4 million represented Income and Gross Receipt Taxes owed by taxpayers. Of the \$173.4 million, approximately \$126.7 million have been reserved and deemed uncollectible. This means that for every dollar owed, 73 cents may be uncollectible. This reserved amount, however, has decreased by nearly \$25 million when compared to FY 2002's reserved amount of \$151.3 million. Additionally, another \$54.5 million in tax receivables have been deemed uncollectible from the other governmental funds.

As of 2003 fiscal year end, GovGuam has a net receivable from the federal government of \$15.8 million. This is a significant reduction from FY 2002's \$41 million receivable balance. The reduction was in part due to aggressive collection efforts and a \$13 million write-off of federal grants. GovGuam was unable to submit timely documentation to be reimbursed the \$13 million, which therefore was written off.

Expenditures Trends

GovGuam's FY 2003 expenses totaled to \$676.7 million, decreasing slightly from last year's by \$1.7 million. Approximately \$223 million were expensed for Public Education, \$74 million for Public Safety, \$74 million for Community Services, and \$33 million for Public Health.

Audit Qualifications

Like previous years, the FY 2003 General Purpose Financial Statements (GPFS) has a "Qualified" audit opinion, which indicates that the GovGuam did not apply certain generally accepted accounting principles or the auditors were prevented from performing certain audit procedures. Specifically for the FY 2003 GPFS, the auditors were prevented from auditing tax-related balances. Another issue that prompted a qualified opinion were the lack of audited financial figures for certain component units of GovGuam, specifically the GovGuam Retirement Fund, the Guam Memorial Hospital Authority, the Guam Housing Corporation, the Guam Community College, the Guam Economic Development and Commerce Authority, and the Guam Visitor's Bureau. Unaudited figures are used to represent these entities in these financial statements.

Despite the lack of audited figures, the FY 2003 GovGuam financial statements are the most comprehensive version yet to have been released. These financial statements incorporate the audited/unaudited financial data of all major and most non-major component agencies of GovGuam, with the exception of the Guam Rental Corporation. The inclusion of GovGuam's component units' financial data in these financial statements allow for a more comprehensive view of GovGuam's overall financial status. OPA, in conjunction with the autonomous agencies will continue to emphasize efforts to ensure the timely completion of all financial statement audits.

Other qualifications pertained to an undisclosed liability relevant to the closure of the landfill and the lack of adequate fixed asset records. GovGuam was required by GASB Statement No. 34 to include and report its fixed assets since FY 2002. The assessment and appraisal of GovGuam's fixed asset inventory is an ongoing project. Therefore, this qualification will remain for several more years.

Late Issuance Of Audit Reports

GovGuam is annually required to complete the Single Audit (which includes the GPFS) within nine months after fiscal year end or by June 30th. The Department of Administration, however, improved its timeliness by getting its FY 2003 financial information ready for audit several months earlier than usual.

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