



OFFICE OF THE PUBLIC AUDITOR

Government of Guam

Financial Highlights for the Year Ended September 30, 2008

June 26, 2009

As of September 30, 2008, the government of Guam's (GovGuam) General Fund deficit stands at \$415.5 million (M), a notable improvement from the \$501.9M deficit at the beginning of the fiscal year. This \$86.4M deficit decrease is attributable to three factors: (1) the refunding and issuance of general obligation bonds, (2) the issuance of long-term debt for streetlights, and (3) the adjustment of medical bill accrual for Guam Memorial Hospital Authority (GMHA). Fiscal year 2008 marks the second year GovGuam's financial statements were issued with an unqualified "clean" opinion.. However, the Single Audit reports on compliance and internal controls were again qualified and had \$1.9M in questioned costs. The audit was conducted by independent auditors Deloitte & Touche, LLP.

Factors Reducing Deficit

Issuance of General Obligation Bond

The first factor in reducing the deficit occurred in November 2007 when GovGuam issued a new debt of \$151.9M in general obligation bonds. Of this amount, \$66.8M was used to refund the outstanding 1993 Series A bonds with an average interest rate of 4.2%. Bond proceeds of \$69.3M went to GPSS for capital improvement projects totaling \$26.1M; tax refund payments of \$18.6M; court-ordered COLA payments of \$14M; and court mandated payments for the Department of Integrated Services for Individuals with Disabilities and the Department of Mental Health and Substance Abuse totaling \$5.3M.

Issuance of Long-Term Debt to Pay Delinquent Streetlight Bills

Another factor reducing the 2008 deficit was the issuance of a promissory note totaling \$13.8M to pay the Guam Power Authority for delinquent streetlight bills. Monthly payments are \$350,000 at 7% per annum. The note was collateralized by the pledge and assignment of Section 30 revenues.

Adjustment of Medical Bill Accrual

The third factor occurred when Public Law 29-132 clarified the application of funds appropriated from the GMHA Pharmaceuticals Fund for medical services rendered to qualified MIP and Medicaid clientele. This resulted in a \$13.2M reduction to the deficit.

Increased Tax Collections

Total revenues in 2008 were \$513.2M, a slight decrease from the \$514.8M collected in 2007, or a difference of \$1.6M. Tax revenues increased by \$16.8M going from \$426M in 2007 to \$443M in 2008. Gross receipts taxes (GRT) alone rose to \$185.8M, a \$13M or 7.6% increase from the prior year. This is the first time that GRT collections have reached this level since 1997, when they were \$184.5M. There was also a corresponding increase in income taxes going from \$250.8M in 2007 to \$254.1M in 2008, a \$3.3M increase.

These tax collection increases were offset by a \$29.4M decrease in Section 30 monies. In 2007, Section 30 monies were \$74.7M due to a one-time payment of \$21.2M from the federal government for a retroactive adjustment from 1984 to 2005. However, there was an adjustment of \$16.5M for the over-claims for FY 2003 and 2004. This repayment is being paid over three years beginning in FY 2007.

Overall Expenditures Increase \$32.6M

In 2008, the General Fund's expenditures saw a \$32.6M increase, going from \$421.5M in 2007 to \$454.2M. Expenditures for public education, made up primarily of the Guam Public School System and Department of Public Works Bus Operations, increased by \$9.7M, going from \$183.4M in 2007 to \$193M in 2008.

Payments to Retirees

In FY 2008, the General Fund expended \$39.5M on behalf of retirees. This was comprised of \$19.8M for retiree healthcare premiums, \$11.4M for supplemental annuity benefits fund, \$7.6M for COLA, and \$684K for Medicare reimbursements. In FY 2007, total payments on behalf of retirees amounted to \$27.2M. The \$12.3M increase in retiree benefits was due to the increase in retiree healthcare premiums, which went from \$7.3M in 2007 to \$19.8M in 2008, a \$12.5M (or 172%) increase. As of September 30, 2008, there were 7,085 retirees and survivors. This equates to an average of \$5,568 in benefits paid for GovGuam's retirees and survivors.

Consent Decree

In March 2008, the US District Court of Guam imposed a \$2.9M fine for the failure of GovGuam to abide by the mandates of the Consent Decree to close the Ordot Dump and open a new landfill. That \$2.9M fine was used to pay for the Receiver's expenses. In addition, GovGuam incurred various fines amounting to \$824K. Total charges relating to the consent decree are \$3.7M.

Interest and Other Charges, Credit Card Charges

Payments for carryover appropriation expenditures, interest on retirement, interest on tax refunds, and credit card fees are among the non-appropriated items that the General Fund is obligated to pay annually. In 2008, the General Fund paid a total of \$26M for these non-appropriated items.

The General Fund paid \$8.6M in interest alone for tax refunds in 2008 as compared to \$4.8M in 2007. As of September 30, 2008, outstanding tax refunds amounted to \$278M. While GovGuam is paying more in tax refunds, interest of \$8.6M is the consequence of the government's inability to pay tax refunds timely.

Credit card charges and bank charges totaled \$4M. These costs are mainly attributed to services provided by one vendor for the use of the point-of-sale system. These fees went up by \$900K from prior year.

The Guam Legislature should consider these non-appropriated items in budget discussions because these have an effect on the total expenditures of the General Fund.

Internal Controls Over Compliance and Questioned Costs

In FY 2008, Deloitte & Touche qualified the Single Audit report again. The qualification has remained since 1991, the earliest records OPA has on file. GovGuam reduced the number of findings which are significant deficiencies from 26 to 21. Questioned costs are now \$1.9M compared to \$2.8M in 2007. Of the \$1.9M in questioned costs, 64.6% or \$1.2M are procurement related. The top procurement finding was for Office of Homeland Security with \$809K.

Total unresolved questioned cost as of September 30, 2008 is \$7.8M.

Management Letter

The independent auditors noted five management findings relating to the lack of required quotations relating to the procurement of the 2007 General Obligation Bond, sequencing of issued checks, monitoring of unclaimed checks, lack of supporting sub-ledgers, and the lack of monthly reconciliations for insurance security deposits.

A separate document to the Governor of Guam was issued by Deloitte and Touche auditors outlining strategies, emphasis, required communication, and adjustments.

Outlook for Fiscal Year 2009

The Guam Legislature enacted various laws (29-116, 30-1, and 30-7) that authorized the issuance of Deficit Financing Bonds to finance certain General Fund liabilities, other past due expenditures of GovGuam, and facilities of the Solid Waste Management System. As a result of these authorizations to borrow, GovGuam subsequently issued bonds in June 2009 in the aggregate amount of \$473.5M for these purposes. Of this amount, \$271.1M will be used to pay liabilities associated with the court-ordered COLA settlement, delinquent tax refunds, and other debts of the General Fund. Payments to COLA recipients totaled \$83M, which will completely liquidate the liability. The remaining \$187.8M will be used for 2006 and prior year tax refunds and other debts of the General Fund.

The remaining \$202.4M is to be used to comply with the Consent Decree, including the closure of the Ordot Dump and opening of a new landfill. Accordingly, GovGuam will no longer be required to make the \$1M weekly payments stipulated under a Court Order issued by the US District Court.

For a more detailed commentary of GovGuam's operations, refer to Management's Discussion and Analysis in the report or visit www.guamopa.org.