



# THE PERFORMETER®

## And A.F.T.E.R Analysis

A Financial Statement Analysis Using Indicators of the  
Financial Health and Success

and a

Status Report of Audit Findings, Timeliness and  
Exception Resolution (A.F.T.E.R.)

of

The Government of Guam

as of and for the Year Ended September 30, 2006



# What Is The Performer®?

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- An analysis that takes a government's financial statements and converts them into useful and understandable measures of financial performance
- Financial ratios and a copyrighted analysis methodology are used to arrive at an overall rating of 1-10
- The overall reading is a barometer of GovGuam's financial health and performance



# How to Use The Performer®

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- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of GovGuam as a whole
- Use the comparisons to prior years to monitor trends in financial indicators



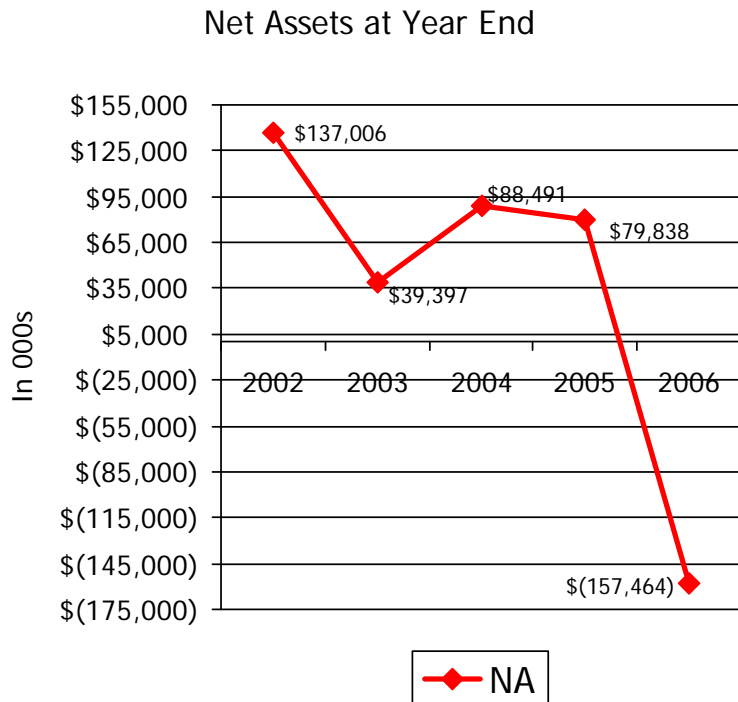
# Limitations of the Performer®

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- The Performer® should not be used as the only source of financial information to evaluate GovGuam's performance and condition
- The analysis is an overall rating of GovGuam as a whole and not of specific activities, funds or units
- The Performer® is based on Crawford & Associates' professional judgment and is limited as to its intended use

# Change in Net Assets

Did our overall financial condition improve, decline or remain steady over the past year?



Net assets include all assets of GovGuam, except for fiduciary funds held for the benefit of others. It is measured as the difference between total assets, including capital assets, and total liabilities, including long-term debt.

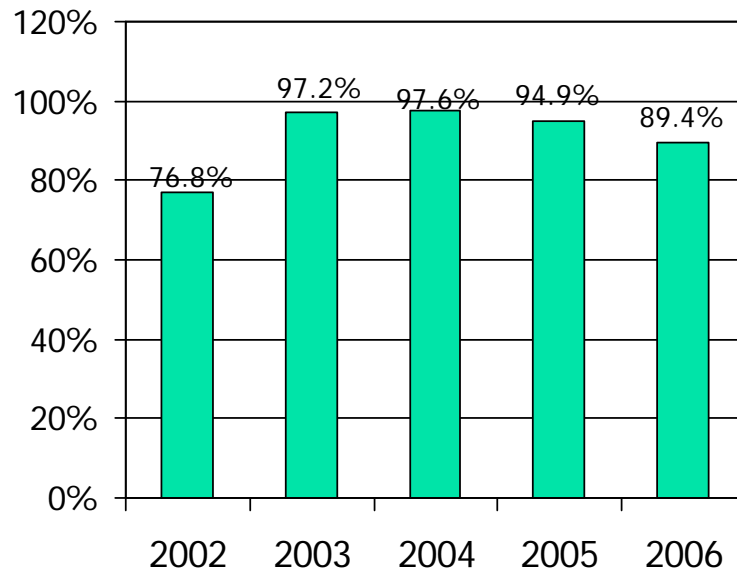
For the year ended September 30, 2006, total net assets decreased by \$221.6 million or 345.7% from the prior year. This decrease was due in a large part to the recognition as current year expense two transactions that qualify as special items (cost of living allowance judgment and the earned income tax credit adjustment) totaling \$153.6 million. Without considering these two special items, net assets would have decreased by \$68 million.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
-53.5%	-50.2%	19.8%	-9.8%	-345.7%					

# Intergenerational Equity

## Who is paying for today's costs of services?

Revenues as a % of Annual Expenses



A measure of whether the government lived within its means in the measurement year, or was required to use prior year resources to fund a portion of current year costs, or shifted the funding of some of the current year costs to future periods. This measure also removes the effect of special items.

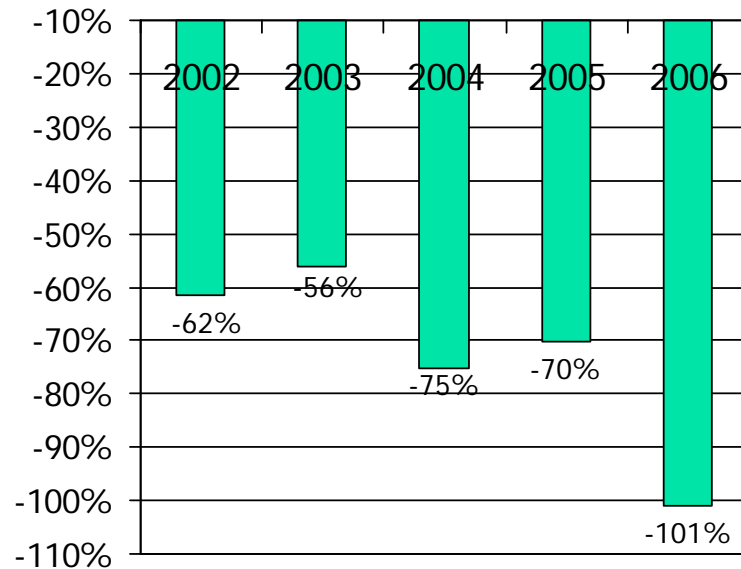
For the year ended September 30, 2006, GovGuam funded 89.4% of their current year expenses with current year revenues, which is an unsatisfactory percentage. This percentage is a decline from those reported in the most recent previous years.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
76.8%	97.2%	97.6%	94.9%	89.4%					

# Level of Unrestricted Net Assets

## How do our total rainy day funds look?

Unrestricted Net Assets as a % of Annual Revenues



The level of total unrestricted net assets is an indication of the amount of unexpended and available resources GovGuam has at a point in time to fund emergencies, shortfalls or other unexpected needs.

For the year ended September 30, 2006, GovGuam's total unrestricted net asset **deficit** approximated 100.1% of annual total revenues.

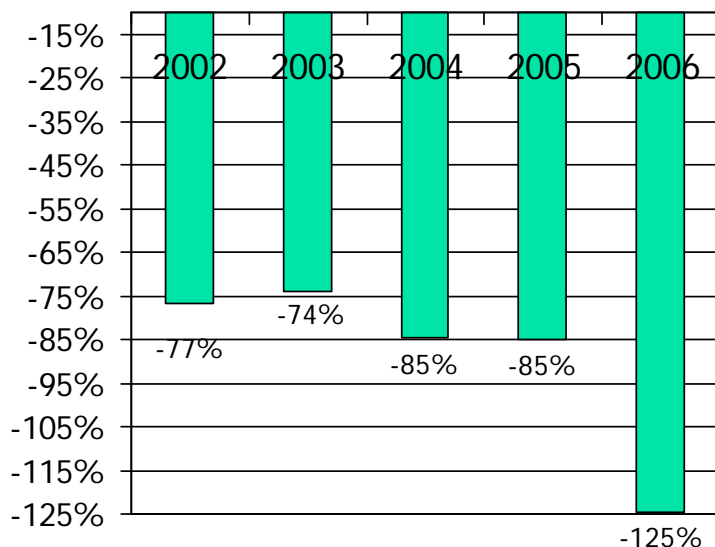
This is due in a large part to the recognition as expense of the two special items described on page 5, which continued to decrease the amount of unexpended and available resources that GovGuam has available to it to fund shortfalls, emergencies or other unexpected needs.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
-61.5%	-56.1%	-75.2%	-70.1%	-100.9%					

# Level of Budgetary Fund Balance

## How does our budgetary carryover look?

Budgetary Unreserved Fund Balance  
as a Percentage of Annual Revenues



- The level of budgetary unreserved fund balance is an indication of the amount of unexpended, unencumbered and available resources GovGuam has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs. In this analysis, only the General Fund is considered.
- For the year ended September 30, 2006, GovGuam's unreserved fund balance **deficit** of the General Fund was 124.6% of its annual revenues. This is an increase of the deficit from the prior year, and continues a trend of declining General Fund fund balance over the past few years.
- The large increase from the prior year is due mainly to the recognition as expense of two special items that are referred to on page 5 of this analysis.

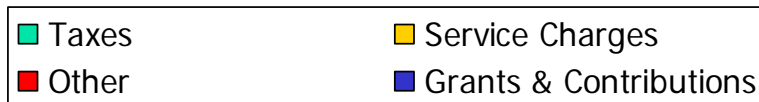
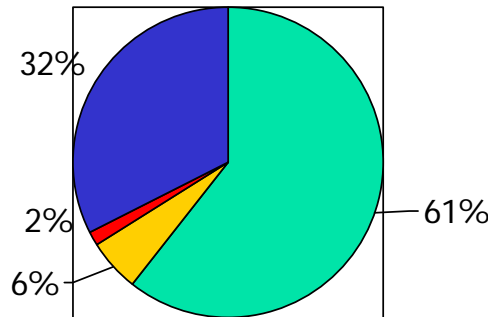
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
-76.6%	-73.7%	-84.6%	-85%	-124.6					



# Revenue Dispersion

How heavily are we relying on revenue sources we can't directly control?

2006 Revenue Percentages by Source



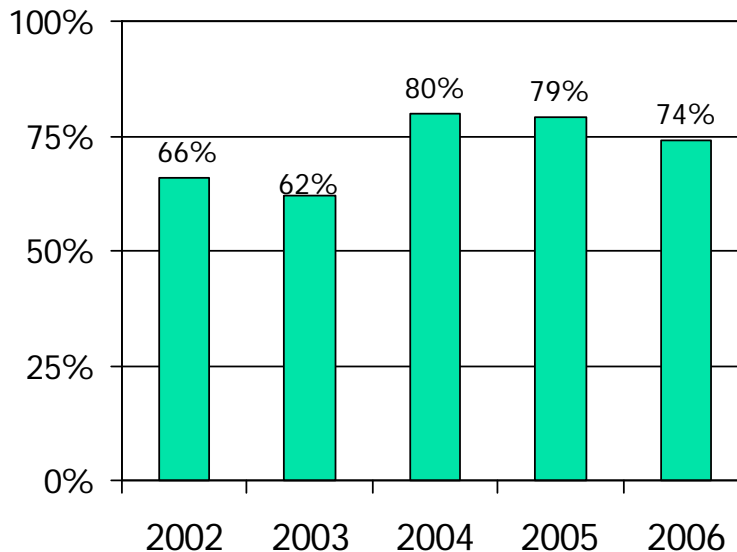
- The percentage dispersion of revenue by source indicates how dependent GovGuam is on certain types of revenue. The more dependent GovGuam is on revenue sources beyond its direct control, such as taxes tied to the I.R.S. codes and revenues from other governments such as grants, the less favorable the dispersion.
- For the year ended September 30, 2006, GovGuam had direct control over 37.4% of its revenues, including charges for services and some local taxes. This ratio indicates GovGuam has exposure, as do most governments, to financial difficulties due to reliance (62.6%) non-controlled revenues.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
36.8%	35.6%	40.1%	36.7%	37.4%					

# Capital Asset Condition

How much useful life do we have left in our capital assets?

Percentage of Capital Assets' Useful Life Remaining



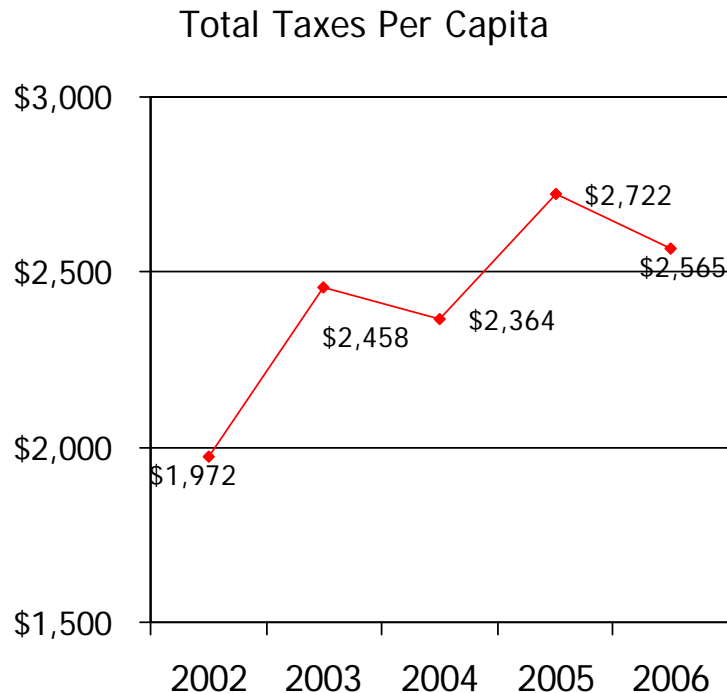
The capital asset condition ratio compares capital assets cost to accumulated depreciation to determine the overall percentage of useful life remaining. A low percentage could indicate an upcoming need to replace a significant amount of capital assets.

At September 30, 2006, GovGuam's depreciable capital assets amounted to \$917 million while accumulated depreciation totaled \$241.5 million. This indicates that, on the average, GovGuam's capital assets have 74% of their useful lives remaining. This is a near excellent financial indicator, although it does continue a decline from ratios of the most recent prior years.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
66%	62%	80%	76%	74%					

# Financing Margin - Taxes

Will our citizens be willing to pay increased taxes for operations or capital improvements, if needed?



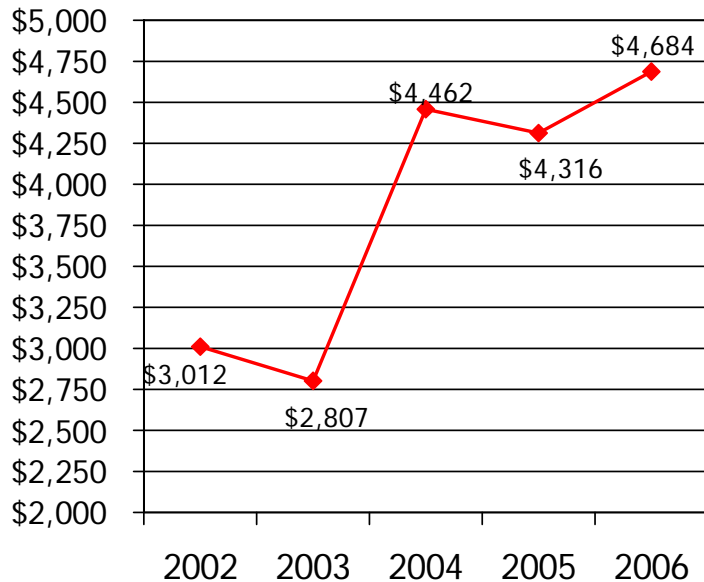
- The financial ratio of taxes per capita is an indication of GovGuam's tax burden on its citizens and other taxpayers. The ratio includes all taxes, including gross receipts, income and other taxes except for hotel taxes.
- For the year ended September 30, 2006, total taxes amounted to \$397 million or \$2,565 per capita. This indicates relatively high tax burden, although a slight decrease from the ratio of the prior year. Taxes per capita have remained relatively consistent over the last few years.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
\$1,972	\$2,458	\$2,364	\$2,722	\$2,565					

# Financing Margin - Debt

Will we be able to issue more debt, if needed?

Debt Per Capita



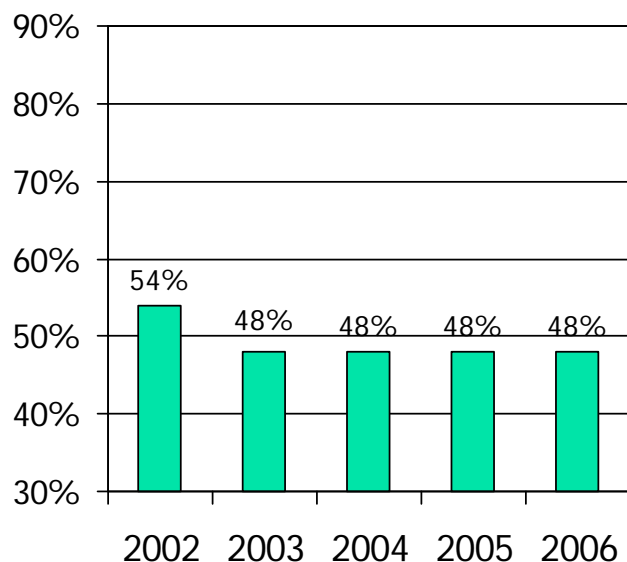
- The financial ratio of debt per capita is an indication of GovGuam's debt burden on its citizens and other taxpayers.
- For the year ended September 30, 2006, GovGuam had \$725.2 million of long-term debt or \$4,684 per capita which is considered a high debt burden on its citizens. For consistency purposes of the comparison to prior years, the provision for tax refunds liability (approximately \$272.9 million) is included in this calculation.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
\$3,012	\$2,807	\$4,462	\$4,316	\$4,684					

# Pension Plan Funding Ratio

Will we be able to pay our employees when they retire?

Plan Assets as a Percentage of  
Accrued Liability



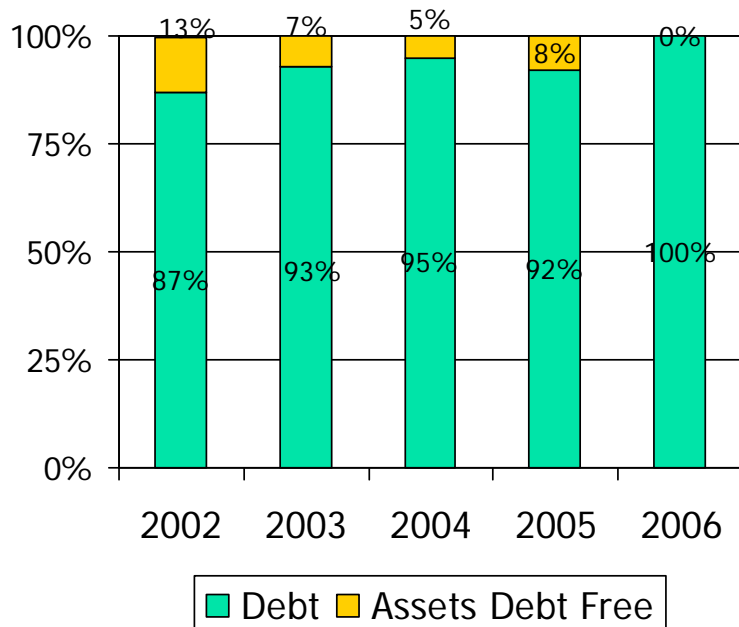
- The pension funding ratio compares the actuarial fair value of the pension plan's assets to the actuarial accrued liability for pension benefits. A percentage less than 100% indicates the plan is under-funded at the valuation date.
- At September 30, 2006 (based upon the most recent actuarial information from 2004), GovGuam's pension plan assets were 48% of the accrued pension benefit liability, indicating the plan was less than half funded at the last valuation date. This is also consistent with the plan's funding in previous years, but is considered an unfavorable funding percentage.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
54%	48%	48%	48%	48%					

# Debt to Assets

## Who really owns GovGuam?

Percentage of Debt to Assets



The debt to assets ratio measures the extent to which GovGuam had funded its assets with debt. The lower the debt percentage, the more equity GovGuam has in its assets.

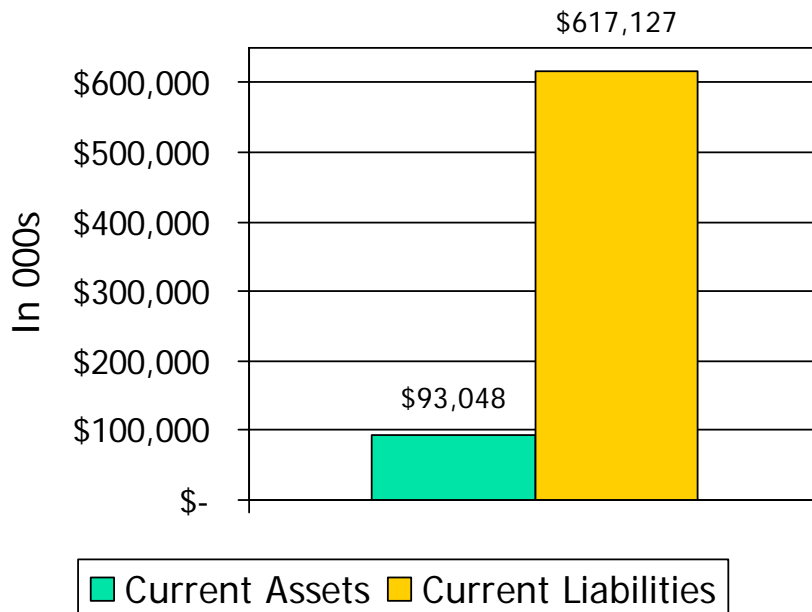
At September 30, 2006, 100% (117.1%) of GovGuam's \$918.4 million of total assets were funded with debt or other obligations. This is an unfavorable financial indicator and indicates that for each dollar of assets GovGuam owns, it owes \$1.17 of that dollar to others. The change from the previous year was due in a large part to the recognition of expenses and liabilities considered special items as noted on page 5 of this analysis.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
86.8%	93.1%	95%	91.5%	117.1%					

# Current Ratio

Will our vendors and employees be pleased with our ability to pay them on time?

Current Assets Compared to Current Liabilities



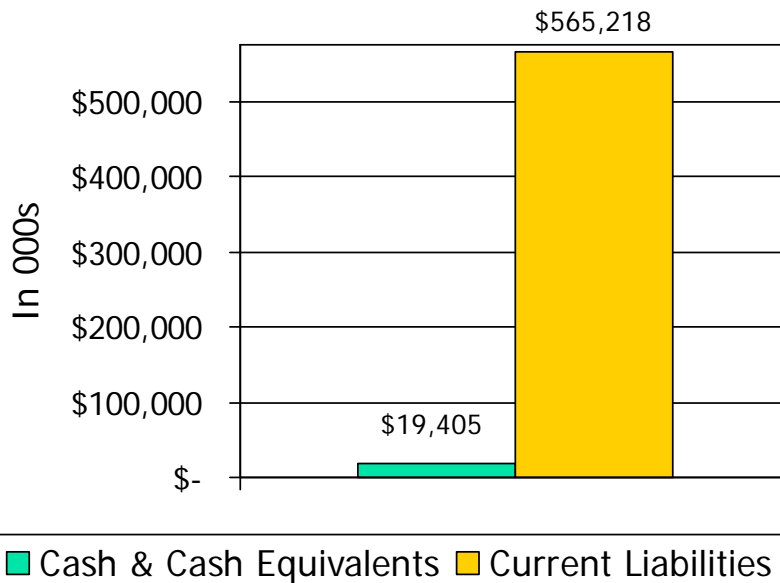
- The current ratio is one measure of GovGuam's ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. This measure is that of only the General Fund, the primary operating fund of GovGuam.
- At September 30, 2006, GovGuam's General Fund had a ratio of current assets to current liabilities of 0.15 to 1. This indicates that GovGuam has 15 cents of current assets to pay for every \$1 of current liabilities and is considered an unfavorable indicator of liquidity, and continues a decline which began in previous periods.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0.48	0.32	0.30	0.17	0.15					

# Quick Ratio

## How is our short-term cash position?

Cash and Cash Equivalents Compared to Current Liabilities



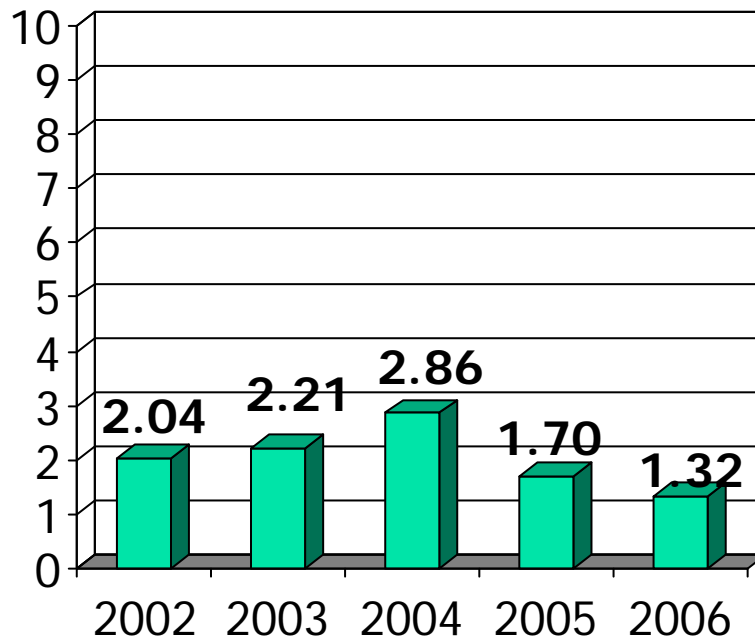
- The quick ratio is another, more conservative, measure of GovGuam's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations with cash. This measurement is only of GovGuam's General Fund, the primary operating fund.
- At September 30, 2006, GovGuam's General Fund had a ratio of cash and cash equivalents to current liabilities of 0.03 to 1. This indicates that GovGuam had 3 cents in cash and short-term investments available to pay every \$1 of current liabilities, and may be an indicator of cash flow difficulties.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0.07	0.05	0.07	0.02	0.03					



# Performer<sup>®</sup> Reading

## Overall Reading



The 2006 reading of 1.32 indicates the evaluator's opinion that GovGuam's overall financial health and performance continued to decline from previous years. The government's decrease in net assets, which causes an increase in the net asset deficit, along with continued increases in the General Fund's unreserved fund balance deficit, pension plan funding woes and insufficient current and quick ratios continue to contribute to this low reading. Further complicating the health and performance is the recognition as expenses and liabilities of certain special items, such as the cost of living allowance judgment and the earned income tax credit judgment.



# What is the A.F.T.E.R. Analysis?

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The A.F.T.E.R. Analysis is very simply an analysis of the status of audit findings, the timeliness of the submission of the audit and the resolution of certain audit exceptions, this analysis can be used to track a government's progress towards eliminating its most significant findings and exceptions, along with tracking the timeliness of submission to the Federal Clearinghouse.



# A.F.T.E.R.

	2002	2003	2004	2005	2006
Number of F.S. Opinion Qualifications/Exceptions	18	9	3	2	2
Number of Major Federal Program Qualifications/Exceptions	14	12	10	11	13
Number of F.S. Findings					
A. Internal Control and Compliance	11	1	0	0	0
B. Internal Control Only	54	6	5	3	2
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
TOTAL	65	7	5	4	2
Percentage of Findings Repeated	46%	50%	40%	0%	0%
Number of A-133 Findings					
A. Internal Control and Compliance	29	22	16	30	35
B. Internal Control Only	15	1	9	0	0
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	44	23	25	30	35
Percentage of A-133 Findings Repeated	68%	41%	40%	23.3%	8.6%
Number of months Y/E the F.S. were Released	15	14	10	9	9
Number of Qualifications/Exceptions Related to C.U.	8	6	2	1	1
\$ of Questioned Costs-Current Year	\$4,258,861	\$1,243,982	\$514,486	\$584,348	\$2,773,997
\$ of Questioned Costs- Cumulative	\$51,340,337	\$41,600,469	\$25,137,159	\$10,509,029	\$5,760,688
\$ of Questioned Costs Resolved – Current Year	\$21,471	\$10,983,850	\$16,977,796	\$15,212,478	\$7,522,338



# Thank You

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- We would like to commend and thank GovGuam's management, U.S. Department of Interior and the Graduate School - USDA for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to GovGuam's annual financial report.
- Visit our website at [www.crawfordcpas.com](http://www.crawfordcpas.com) for other useful tools for governments.