

*Financial Statements and
Supplementary Information*

**Department of Chamorro Affairs –
Non-Appropriated Funds**
(A Component Unit of the Government of Guam)

*Year ended September 30, 2022
with Report of Independent Auditors*



Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Financial Statements and
Supplementary Information

Year ended September 30, 2022

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Report of Independent Auditors

The Board of Trustees
Department of Chamorro Affairs

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), a component unit of the Government of Guam, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the DCANAF's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the DCANAF at September 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DCANAF, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Department of Chamorro Affairs – Non-Appropriated Funds and do not purport to, and do not, present fairly the financial position of the Government of Guam as of September 30, 2022, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DCANAF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DCANAF's financial statements. The accompanying combining statement of net position and combining statement of revenues, expenses and changes in net position included on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2023 on our consideration of the DCANAF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DCANAF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DCANAF's internal control over financial reporting and compliance.

Ernst + Young LLP

May 17, 2023

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis

This section of the Department of Chamorro Affairs - Non-Appropriated Funds (DCANAF) annual financial statement report presents management’s discussion and analysis of DCANAF’s financial performance during the year ended September 30, 2022. Please use this information in conjunction with the information furnished in DCANAF’s financial statements. This will provide better understanding of DCANAF’s financial status in accordance with U. S. generally accepted accounting principles promulgated by the Standards of the Government Accounting Standards Board (GASB).

Our Mission

To create, develop, implement and maintain an integrated program for the preservation, promotion, and advancement of the native Chamorro and other Asian/Pacific Islander residents of Guam. It is intended that the public corporation be the guiding force in all aspects of Chamorro culture, language, preservation, education, arts, humanities, and history, through public policy, advocacy, research, publication, authentication, restoration, presentation, and production, and by providing and overseeing a repository for historical documents, cultural artifacts and documentary and narrative film and video.

Introduction

Department of Chamorro Affairs (DCA) was created in 1999 through Guam Public Law 25-69 and codified in Title 5 Guam Code Annotated (GCA) Chapter 87 as a non-stock, non-profit public corporation to implement an integrated program for the preservation, development and promotion of the Chamorro Heritage of Guam, for the public benefit and to provide specific services to the Chamorro people of Guam. The enabling statute further stated that the DCANAF be the catalyst in the preservation, development and promotion of language, arts, historic and cultural preservation, research, restoration, presentation, museum activities and support programs significant to Guam’s history and culture, and to enhance the future of the Chamorro people of Guam. DCA has been an integral component in the promotion of the Chamorro culture and represents a unique effort in government to bring together cultural programs, agencies and divisions within government which have a shared vision. The department has produced a series of books called “HALE`TA” (Our “Roots” Foundation) which chronicles the history of the Chamorro people through 4,000 years of existence on the island of Guam.

The purpose of DCA (non-appropriated funds and appropriated funds) is to assist in the implementation of an integrated program for the preservation, development, and promotion of the Chamorro heritage of Guam for the public benefit and to provide specific services to the Chamorro people. It is a catalyst for the preservation, development, and promotion of the language, arts, humanities, historic and cultural preservation, research, restoration, presentation, museum activities, and support programs significant in Guam’s history and culture, and to enhance the future of the Chamorro people of Guam.

Department of Chamorro Affairs – Non-Appropriated Funds
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Management’s Discussion and Analysis, continued

Introduction, continued

The DCA ensures indigenous tangible and intangible knowledge are accessible through visitor experience and community engagement using platforms such as the Chamorro Village and the Guam Museum to continue showcasing our island’s performing arts, history, exhibits, educational and interactive events, outreach and communication and philanthropy programs. The Chamorro Village and the Guam Museum have never been more important than ever before to ensuring that Chamorro is prevalent in the eyes of the community and to reopening our economy.

DCA has the following specific purposes and is authorized to:

- Formulate and develop standards and procedural requirements with regard to the development, promotion, and preservation of the Chamorro language and culture with all relevant restitutions and programs. **5 GCA, Ch. 87, Section 87104(w) Historic Language Preservation**
- Establish a joint appointment program with Guam colleges and universities in the teaching of the Chamorro language, culture and history; and further to establish reciprocal relationships with other institutions. **5 GCA, Ch. 87, Section 87104(x) Elementary/Intermediate Education**
- Promote increased understanding of Guam’s geology, biota, prehistory, history and contemporary culture. Serves as the official repository and custodian of historical artifacts of Guam and to acquire, preserve, and make available for public viewing, artifacts and archival materials relating to the cultural, historical and natural heritage of Guam. **5 GCA, Ch. 87, Section 87136(a) Geographical and Archaeological Validation**
- To provide for the preservation of all government publications including any printed or processed paper, books, periodicals, pamphlets or maps, originating in or printed with the imprint of, or at the expense and by the authority of the Government of Guam; including public records and other papers not in current use of the Executive, Judicial and Legislative Branches of the government of Guam and have been determined to have sufficient legal, historical or other value to warrant their continued preservation by the government of Guam; and also be the custodian of non-governmental historical records that contain significant information about the past or present, and are therefore worthy of long-term preservation and systematic management for historical or other research purposes. **5 GCA, Ch. 87, Section 87130(a) Heritage Archival Collection**

Department of Chamorro Affairs – Non-Appropriated Funds
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Management’s Discussion and Analysis, continued

Introduction, continued

- Ensure the retention and preservation of our documentary heritage as the official repository and custodian of historical government and non-government records of Guam. Acquire, preserve and make available for public use, records relating to the cultural and documentary heritage of Guam; and foster research on the records in its inventory and shall disseminate the results of this and other research to the public through the media as public exhibitions, demonstrations, lectures, scholarly activities, television programs, publications and other public programs contributing to and encouraging enlightenment. **5 GCA, Ch. 87, Section 87130(c) Collective Historic Preservation & Cultural Authentication.**
- Operate under its control a public market, or markets, for Guam products at such places or places deem proper. Any such market shall be maintained and operated at all times in a sanitary and orderly manner, beneficial to both producers and patrons alike. Producers and sellers desiring to use space within such market to display or sell their produce shall be levied a uniform fee based upon the amount of space used and period of such use. **Public Law 28-68, 5 GCA, Ch. 87, Section 87103(a)(viii) Chamorro Village, “I Sengsong Chamorro”**
- The Public Market Revolving Fund was created to deposit all funds collected from fees levied pursuant to Ch. 87 of 5 GCA, and to used exclusively for the administration, operation and maintenance of the *I Sengsong Chamorro*”, the Chamorro Village. **5 GCA, Ch. 87, Section 87152 Public Market Revolving Fund**
- Serve as the depository for certain specimens and objects of natural history and of botanical, ethnological, or archaeological value or interest, and any book, treatise, or pamphlet relating to natural history, botany, ethnology, or archaeology now in possession of the University of Guam, or any territorial department, bureau, or boards. **5 GCA, Ch. 83 & 87; 21 GCA, Ch. 76, Section 76114 Guam Museum**

DCA is comprised of:

- **The President’s Office (*Ufisanan I Mås Ge’Hilo’*)** - responsible for the day-to-day operations, and administers its programs and policies. The President’s Office is also mandated to submit to the Governor and the Guam Legislature a detailed annual report of activities and an audited, annual financial report.
- **The Research, Publications and Training (*Inaligao, Tinige’, Yan Fina’nå’gue*)** - conducts, researches, publishes and produces multi-media and print materials relating to the Guam Heritage.

Department of Chamorro Affairs – Non-Appropriated Funds
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Management’s Discussion and Analysis, continued

Introduction, continued

- **The Chamorro Language and Culture (*Kottura*)** - develops, promotes and preserves the Chamorro language and culture through various initiatives and activities. The Chamorro Language and Culture also studies and updates the orthographic rules of the Chamorro Language and updates the Chamorro-English and English-Chamorro Dictionary. The Chamorro Language and Culture division is included in the Research, Publication, and Training division on the supplemental schedules.
- **The Guam Museum (*I Faninadahen Kosas Guåhan*)** - provides museum services, preservation of all government of Guam publications, fostering research on the records and its inventory, providing public exhibits, demonstrations, lectures, scholarly activities, publications, and other public programs contributing to and encouraging an understanding of the Chamorro culture, its language and rich history and promotes Guam’s geology, biota, prehistory, history, and contemporary culture. The Guam Museum is also the official repository and custodian of historical artifacts of Guam and the Chamorro people and provides venues for the appreciation of Guam’s unique relationship with its sister islands in Micronesia and Asia through the understanding of shared regional cultures, traditions, practices and lore.
- **The Guam Archives (*Sagan Rikuetdon Guåhan*)** - serves as the official repository for all government publications including any printed or processed paper, book, periodical, pamphlet or map, originating in or printed with the imprint of, or at the expense and by the authority of the government of Guam. The Guam Archives is included in the Guam Museum division on the supplemental schedules. Under the Guam Museum, this program promotes an increased understanding of Guam’s geology, biota, prehistory, history and contemporary culture.
- **The Chamorro Village (*I Sengsong Chamorro*)** - provides a venue for local art and local retailers who sell Chamorro food, local Chamorro handmade arts and crafts, and perform cultural dance and music. The Department of Chamorro Affairs is authorized to promulgate rules and regulations to encourage the expansion and development of markets on Guam and to encourage and develop new businesses with emphasis on culture and tourism. The Chamorro Village promotes an incubator environment for entrepreneurial businesses to grow and eventually expand in the open market. The Chamorro Village also provides support for seminars, workshops, fairs and special activities for the local community; a popular attraction is the Wednesday Night Market, which offers entertainment and a variety of food, aquaculture and produce/nursery for sale by local vendors.

Department of Chamorro Affairs – Non-Appropriated Funds
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Management’s Discussion and Analysis, continued

Board of Trustees

Pursuant to 5 GCA Ch. 87 § 87105 all functions and powers of the Corporation shall be vested in and be exercised by and under the direction of a Board of Trustees, composed of nine (9) members. The Trustees shall be U.S. citizens and residents of Guam and no less than five (5), or fifty percent (50%) of the members of the governing body, must be Chamorro, defined as residents of the Mariana Islands as of 1898, or descendants thereof. *I Maga’hågan Guåhan* shall appoint the Trustees of the Corporation, which shall be comprised of representatives in each of the field of business, history or archaeology, tourism, economics or finance, Chamorro language and culture, arts and three (3) members at large. Five (5) Trustees constitute a quorum, and five (5) affirmative votes are required for the transaction of all business. The Board of Trustees meetings are conducted every first Thursday of the month.

The Board of Trustee Members are:

- Linda Taitano Reyes, Chairwoman
- Mary Michelle Gibson, Vice Chairwoman
- Dina Hernandez, Treasurer, Tourism
- Leonard Iriarte, Business
- Catherine Flores, Chamorro Language and Culture
- Vicente Meno, History
- Dina San Nicolas, Economics or Finance
- Darlene Taitano
- Vacant

Department of Chamorro Affairs – Non-Appropriated Funds
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Management’s Discussion and Analysis, continued

Financial Highlights

- The total assets of DCANAF exceeded its liabilities and deferred inflow of resources at September 30, 2022 by \$638,589.
- Total operating revenue increased in the current year by \$140,987 or 47% and total operating expenses increased by \$202,165 or 159%.

Department-Wide Financial Analysis

Net Position

The following information is condensed from the Statements of Net Position:

	<u>2022</u>	<u>2021</u>	<u>2022 % Increase from 2021</u>
Total assets	\$955,930	\$590,471	62%
Total liabilities	\$ 82,814	\$ 65,183	27%
Deferred inflow of resources	\$234,527	\$ ---	100%
Net position	\$638,589	\$525,288	22%

The following information is condensed from the Statement of Revenues, Expenses and Changes in Net Position:

	<u>2022</u>	<u>2021</u>	<u>2022 % Increase (decrease) from 2021</u>
Total revenues	\$442,854	\$301,867	47%
Total expenses	\$329,553	\$127,388	159%
Increase/decrease in net position	\$113,301	\$174,479	(35%)

Department of Chamorro Affairs – Non-Appropriated Funds
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Management’s Discussion and Analysis, continued

Economic Outlook

In Fiscal Year 2022, the Department of Chamorro Affairs, CHamoru Village successfully reopened the Wednesday Night Market in May 2022 and since its reopening, the CHamoru Village has seen an influx of visitors indicating a significant sign of normalcy after two (2) years in hiatus due to COVID-19. The CHamoru Village continues to be a destination spot for tourists and the community to enjoy a night of delicious food, live entertainment and shopping all in one place. Furthermore, the Guam Museum has seen a positive increase in visitors taking the opportunity to experience both the permanent exhibit and the rotating exhibit. The museum relies greatly on admission fees, and rentals to support its education events and exhibit development. We are hopeful that there will be a substantial increase in visitor arrivals for the coming year as the Guam Museum continues to make accessible the island’s tangible and intangible resources with the reopening of its facility.

Contacting DCA’s Financial Management

This financial report is intended to provide its readers with a general overview of DCANAF’s finances and to show DCANAF’s accountability for the money it receives. If you have any questions about this report or wish to request additional information, contact the Administrative Office: 193 Chalan Santo Papa Juan Pablo Dos, Hagåtña, Guam 96910. Phone: (671) 989-2426.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Statement of Net Position

September 30, 2022

Assets	
Cash	\$670,174
Accounts receivable, net of allowance for doubtful accounts of \$91,747	17,796
Inventory, net of allowance for obsolescence of \$78,233	23,241
Other assets	10,192
Lease receivable	<u>234,527</u>
Total assets	<u>955,930</u>
Liabilities	
Accounts payable	50,500
Security deposits	<u>32,314</u>
Total liabilities	<u>82,814</u>
Deferred inflow of resources - leases	<u>234,527</u>
Total net position - unrestricted	<u>\$638,589</u>

See accompanying notes.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Revenues:	
Lease revenue	\$346,137
Other income	83,226
Book sales	8,519
Donations	3,759
Interest on leases	<u>1,213</u>
Total revenues	<u>442,854</u>
Expenses:	
Contractual	118,984
Utilities	101,198
Supplies	64,362
Meals and entertainment	17,700
Communication	13,158
Travel	6,547
Miscellaneous	3,212
Office expense	2,132
Advertising	1,840
Cost of goods sold	<u>420</u>
Total expenses	<u>329,553</u>
Change in net position	113,301
Net position at beginning of year	<u>525,288</u>
Net position at end of year	<u>\$638,589</u>

See accompanying notes.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:

Receipts from lease revenue	\$320,551
Receipts from other income	98,219
Receipts from book sales	8,519
Receipts from grants and donations	3,759
Receipts from interest on leases	1,213
Payments to vendors	<u>(332,364)</u>
Net cash provided by operating activities	99,897
Cash at beginning of year	<u>570,277</u>
Cash at end of year	<u>\$670,174</u>

Reconciliation of operating revenues net of operating expenses to net cash provided by operating activities:

Change in net position	\$113,301
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(10,593)
Inventory	(15,180)
Other assets	(5,262)
Accounts payable	17,126
Security deposits	<u>505</u>
Net cash provided by operating activities	<u>\$ 99,897</u>

See accompanying notes.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Notes to Financial Statements

Year ended September 30, 2022

1. Organization and Summary of Significant Accounting Policies

Organization

The Department of Chamorro Affairs (DCA) was created by § 87101 of Article 4, Chapter 87 of Division 8, Title 5 Guam Code Annotated (GCA), which became effective on July 6, 1999. DCA is a non-stock, non-profit public corporation. DCA operates out of the Government of Guam and has non-appropriated funds within each division of the department. DCA is under the control and operation of a nine-member Board of Trustees appointed by the Governor of Guam with the advice and consent of the Guam Legislature. DCA is a line agency within the executive branch of the Government of Guam and receives appropriated funds from the Government of Guam.

The Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF) is a culmination of the non-appropriated funds of the following divisions:

- President’s Office – This department promotes the Chamorro culture within Guam and outside of Guam and provides oversight for the other departments within DCA.
- Research, Publication and Training – This program provides training, certifications, conferences and seminars thus promoting increased understanding of the Chamorro heritage. Included in Research, Publication and Training division is the Chamorro Language and culture division. The division is mandated to develop, promote and preserve the Chamorro language and culture through various initiatives and activities.
- Guam Museum – This division fosters an appreciation for Guam’s culture and natural heritage by promoting increased understanding for the island’s geology, biota, prehistory, and contemporary culture. The Museum serves as the official repository and custodian of historical artifacts and also acquires, preserves and makes available for public viewing, artifacts relating to the island’s heritage. The Museum’s other responsibilities include research on inventory and the dissemination of its results to the public through exhibitions, publications, and demonstrations. Included in the Guam Museum division is the Guam Archives division.

The Guam Museum Fund was established by § 87136 of Article 4, Chapter 87 of Division 8, Title 5 GCA, and states that it shall maintain separate and apart from other funds, the records of which shall be kept and maintained by the Trustees. Twenty-five percent (25%) of all building permit fees collected by the Department of Administration pursuant to § 66408 of Article 4, Chapter 66 of Division 2, Title 21 GCA, shall be deposited into the Fund, and shall not lapse at the end of the fiscal year and shall continue until fully expended. All monies received from sources other than government appropriations shall be deposited in the Guam Museum Fund. This fund is currently being subject to appropriations.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Organization, continued

The Guam Museum is mandated to be the official depository for all government publications including printed or processed paper, book, periodical pamphlet or map, originating in or printed with imprint of, or at the expense and by DCANAF of the Government of Guam.

- The Chamorro Village – This division maintains day-to-day operations of the Chamorro Village to provide a market and foster an environment that promotes local products, native cultures, and tradition of Guam. The main source of revenues for DCANAF is from the Chamorro Village through its leasing activities.

Basis of Accounting

The DCANAF is considered a special-purpose government component unit engaged only in business-type activities. Accordingly, DCANAF's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant internal activity within the departments has been eliminated. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. DCANAF reports as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Recently Adopted Accounting Pronouncement

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on beginning net position. At October 1, 2021, DCANAF recorded a lease receivable and related deferred inflow of resources of \$515,144 for its lease agreements as a lessor.

Department of Chamorro Affairs – Non-Appropriated Funds
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

DCANAF is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For the purpose of the statement of cash flows, cash is defined as cash on hand and in banks. As of September 30, 2022, the carrying amount of cash was \$670,174 and the corresponding bank balance was \$688,837. All of the bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, \$395,910 of the bank balance exceeds the FDIC deposit insurance limit of \$250,000.

Accounts Receivable

Accounts receivable are non-interest bearing and are primarily due from tenants of the Chamorro Village.

The DCANAF performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. The DCANAF does not accrue finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

Inventory

Inventory as of September 30, 2022 consists of book inventory which is recorded at the lower of cost (using first-in, first-out method) or market value.

Capital Assets and Depreciation

Capital assets acquired with non-appropriated funds, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Purchases and gifts valued at more than \$50,000 and having a useful life exceeding one year are capitalized. Depreciation is computed under the straight-line method using an estimated useful life of seven years for equipment.

The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend the lives of the assets are not capitalized.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Use of Restricted/Unrestricted Net position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, DCANAF's policy is to apply to restricted net position first.

Net Position

Net position represents the residual of all other elements presented in the statement of net position and is presented in the following categories:

Net investment in capital assets

Capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

Nonexpendable – Net position subject to externally imposed stipulations that require an entity to maintain them permanently.

Expendable – Net position whose use by an entity is subject to externally imposed stipulations that can be fulfilled by actions of an entity pursuant to those stipulations or that expire with the passage of time.

Unrestricted

The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Subsequent Events

The DCANAF has evaluated subsequent events through May 17, 2023, which is also the date that the financial statements were available to be issued.

2. Leases

The Chamorro Village leases retail outlets to various tenants under operating leases with terms ranging from one year to two years. The lease agreements call for various minimum monthly payments based on leased area. In addition to the minimum monthly rent, some leases also provide for percentage rent based on the tenant's revenue.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Leases, continued

Total amount of inflows of resources earned for the year ended September 30, 2022 as reported in the accompanying statement of revenues, expenses, and changes in net position is as follows:

Lease revenue	\$280,617
Short-term leases	65,520
Interest on leases	<u>1,213</u>
	<u>\$347,350</u>

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2022 are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	<u>\$234,527</u>	<u>\$341</u>	<u>\$234,868</u>

Supplementary Information

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Combining Statement of Net Position

September 30, 2022

	<u>President's Office</u>	<u>Chamorro Village</u>	<u>Research Publication and Training</u>	<u>Guam Museum</u>	<u>Combined Balance</u>
Assets					
Cash	\$ 12,658	\$ 220,656	\$ 29,941	\$ 406,919	\$ 670,174
Accounts receivable, net	---	16,766	300	730	17,796
Inventory, net	---	10,929	---	12,312	23,241
Other assets	2,313	7,879	---	---	10,192
Lease receivable	---	234,527	---	---	234,527
	<u>14,971</u>	<u>490,757</u>	<u>30,241</u>	<u>419,961</u>	<u>955,930</u>
Liabilities					
Accounts payable	---	40,998	---	9,502	50,500
Security deposits	---	32,314	---	---	32,314
	<u>---</u>	<u>73,312</u>	<u>---</u>	<u>9,502</u>	<u>82,814</u>
Deferred inflow of resources					
Deferred inflow - leases	---	234,527	---	---	234,527
	<u>---</u>	<u>234,527</u>	<u>---</u>	<u>---</u>	<u>234,527</u>
Net Position					
Unrestricted	<u>14,971</u>	<u>182,918</u>	<u>30,241</u>	<u>410,459</u>	<u>638,589</u>
	<u>\$ 14,971</u>	<u>\$ 182,918</u>	<u>\$ 30,241</u>	<u>\$ 410,459</u>	<u>\$ 638,589</u>
Total net position	<u>\$ 14,971</u>	<u>\$ 182,918</u>	<u>\$ 30,241</u>	<u>\$ 410,459</u>	<u>\$ 638,589</u>

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

	<u>President's Office</u>	<u>Chamorro Village</u>	<u>Research Publication and Training</u>	<u>Guam Museum</u>	<u>Combined Balance</u>
Revenues:					
Lease revenue	\$ ---	\$ 346,137	\$ ---	\$ ---	\$ 346,137
Other income	---	26,040	84	57,102	83,226
Book sales	---	---	8,519	---	8,519
Donations	---	---	10	3,749	3,759
Interest on leases	---	1,213	---	---	1,213
	<u>---</u>	<u>373,390</u>	<u>8,613</u>	<u>60,851</u>	<u>442,854</u>
Total revenues					
Expenses:					
Contractual	937	95,217	---	22,830	118,984
Utilities	---	101,198	---	---	101,198
Supplies	---	63,030	---	1,332	64,362
Meals and entertainment	---	17,700	---	---	17,700
Communication	---	4,515	---	8,643	13,158
Travel	---	---	---	6,547	6,547
Miscellaneous	129	276	130	2,677	3,212
Office expense	---	2,132	---	---	2,132
Advertising	---	---	---	1,840	1,840
Cost of goods sold	---	---	420	---	420
	<u>1,066</u>	<u>284,068</u>	<u>550</u>	<u>43,869</u>	<u>329,553</u>
Total expenses					
Change in net position	(1,066)	89,322	8,063	16,982	113,301
Net position at beginning of year	<u>16,037</u>	<u>93,596</u>	<u>22,178</u>	<u>393,477</u>	<u>525,288</u>
Net position at end of year	<u>\$ 14,971</u>	<u>\$ 182,918</u>	<u>\$ 30,241</u>	<u>\$ 410,459</u>	<u>\$ 638,589</u>



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Trustees
Department of Chamorro Affairs – Non-Appropriated Funds

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated May 17, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCANAF’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCANAF’s internal control. Accordingly, we do not express an opinion on the effectiveness of DCANAF’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCANAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DCANAF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DCANAF's response to the findings identified in our audit and described in the accompanying schedule of findings and response. DCANAF's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

May 17, 2023

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Schedule of Audit Findings and Responses

Finding No. 2022-001

Criteria

DCANAF should have a qualified accountant to handle the accounting process.

Condition

A lack of a qualified accountant resulted in:

- an inadequate financial statement close process
- prior audit adjusting entries had not been recorded
- audit adjusting entries were improperly recorded
- significant amount of credit balance in the trade receivables

Cause

DCA does not have a qualified accountant to handle the accounting process of the various non-appropriated funds.

Effect or potential effect:

DCANAF does not have an accountant who possesses adequate skill sets to ensure that accounting records are maintained so that timely financial statements can be generated.

This is the proximate cause for DCANAF's inadequate financial statement close process.

Recommendation

We recommend that DCA employ an experienced accountant.

Views of responsible officials:

DCA agrees. To correct this finding, the DCA requested for assistance from the Department of Administration (DOA), Division of Accounts. Based on DOA's review of DCA's fiscal year 2021 financial statements, it does not reveal major difficulties with ensuring that viable financial statements can be prepared. Further, DOA will be willing to assign an accountant at the end of each quarter to adjust DCA's financial records to comply with the requirements in accordance with accounting principles generally accepted in the United States of America. DCA hopes to correct this finding on or before August 31, 2023.