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Government of Guam – FY 2022 Financial Highlights

November 21, 2023

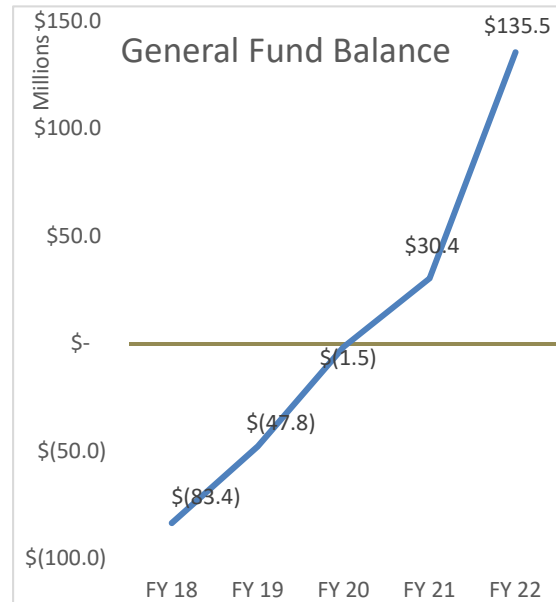
Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Government of Guam (GovGuam) financial statements and letter to those charged with governance for Fiscal Year (FY) 2022. The GovGuam General Fund ended FY 2022 with a \$105.1 million (M) surplus, which increased the General Fund balance from \$30.3M in FY 2021 to \$135.5M. However, this FY 2022 surplus has since been subsequently appropriated by the Guam Legislature.

Independent Auditors, Ernst & Young LLP (EY), issued an unmodified (“clean”) opinion on GovGuam’s financial statements. A separate commentary on the Single Audit Report and Management Letter will be released.

FY 2022 Audit Issuance Significantly Delayed

EY was appointed auditors for the government-wide financial statements, replacing Deloitte and Touche LLP as Deloitte Guam exited the Deloitte network and wound down its business. Although EY performed the audit of certain component units in previous years, this was their first year for the government-wide audit.

A significant part of the delay to the completion and issuance of the Basic Financial Statements, the Report on Compliance, and other audit reports can be attributed to the change in auditors and their need to gather information and assemble data necessary for the audit, as part of their audit procedures for an initial first year audit, which was not transferred from the previous auditors.



In addition, issues related to Other Post-Employment Benefits and the Department of Administration’s implementation of the Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, caused the audit report to be released 13 months after FY 2022. It is also two months after FY 2023. Going forward, the OPA is firm on the requirement that audits be released no later than March, six months after the end of the fiscal year under audit review.

FY 2022 Surplus Subsequently Appropriated

In September 2022, the Guam Legislature made several appropriations in Public Law (P.L.) 36-107 totaling \$25.9M from the unappropriated General Fund balance of FY 2022, which included \$20M to the Guam Memorial Hospital Authority (GMHA).

In December 2022, P.L. 36-123 appropriated \$26.4M from the 2022 General Fund surplus to extend the Prugrãman Ayuda Para I Taotao-Ta Energy Credit Program. An additional \$15.6M was appropriated in May 2023 through P.L. 37-16 to further extend the program.

In October 2023, P.L. 37-43 appropriated at least \$30M to GMHA to make vendor payments and perform all necessary building repairs.

General Fund Revenues and Expenses

For FY 2022, the General Fund reported revenues (including transfers in) of \$850.2M, an increase of \$67.8M from FY 2021 revenues and transfers in of \$782.4M. Correspondingly, the General Fund reported expenditures (including transfers out) of \$748.7M, a slight decrease of \$2.1M from FY 2021 expenditures and transfers out of \$750.8M.

In FY 2022, the General Fund generated an excess of revenues over expenditures of \$100.8M. For the last four years, the Administration placed emphasis on maximizing federal revenues, reducing costs previously borne by the General Fund. This effort is the biggest single contribution to the deficit reduction. Together with Other Financing Sources of \$4.3M, a surplus of \$105.1M has been reported.

General Fund Revenue Budget vs. Actual

General Fund revenues of \$814M were higher than estimated collections of \$699.7M. The net increase of \$114.3M is primarily attributable to income tax and gross receipts tax collections of \$53.4M and \$36.6M, respectively, above budget. Revenues have been under-budgeted since FY 2019.

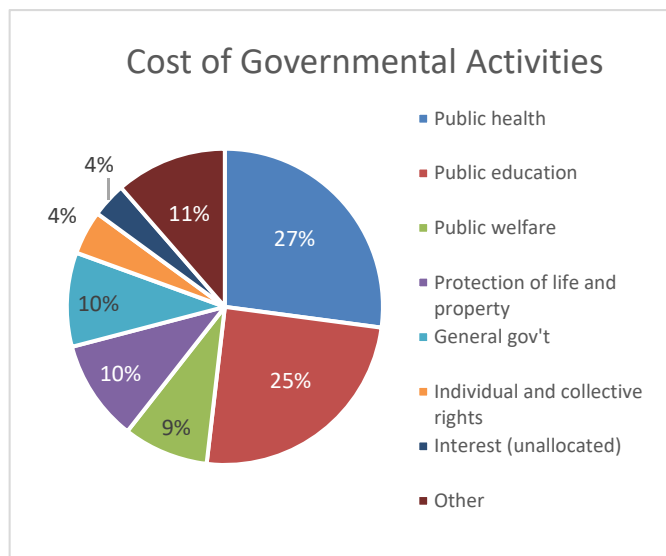
GovGuam’s Primary Government Net Position

GovGuam’s total net position for FY 2022 decreased by \$122.3M (or 5%) from a negative \$2.464 billion (B) in the prior year to a negative \$2.342B. This was primarily attributable to revenues for governmental activities of \$1.893B exceeding expenses for governmental activities of \$1.776B.

Program revenues decreased by \$210M (or 17.4%) from the previous fiscal year. The change was primarily due to a decrease, compared with the prior year, in operating grants and contributions recognized as revenues. Conversely, general revenues increased by \$71.2M (or 8.6%) from the previous fiscal year. The change was due to an increase, compared with the prior year, in income taxes of \$19.7M (or 5.6%); gross receipts taxes of \$30.3M (or 10.2%); Section 30 federal income tax collections of \$11M (or 16.9%); and other taxes and revenues of \$10.1M (or 9.2%).

For FY 2022, GovGuam’s expenses for governmental activities were \$1.776B and were funded by \$996.7M in program revenues, including federal grants and contributions of \$907.4M, and \$896.4M in taxes and other general revenues.

GovGuam’s expenses cover a range of services. The largest expenses were for public health, public education, and protection of life and property, which comprise 27%, 25%, and 10%, respectively, of the total expenses for FY 2022. Other expenses that make up a portion of the costs of governmental activities include public welfare (\$155.9M), individual and collective rights (\$80.3M), community services (\$54M), culture and recreation (\$44.2M), transportation (\$42.9M), economic development (\$31.9M), and environmental protection (\$30.6M).



Government-Wide Long Term Debt and Debt Ceiling

In accordance with the Organic Act, the debt ceiling limitation or public indebtedness of GovGuam must not exceed 10% of the aggregate tax value (assessed value) of property in Guam, which amounts to \$1.352B as of October 2022, the date that such certification was performed. As of September 30, 2022, total debt outstanding subject to the debt ceiling limitation is \$940.8M; and the legal debt margin was \$411.1M. During FY 2022, GovGuam's overall total long-term debt decreased by \$57.1M. The decrease resulted from the principal repayment of GovGuam's general obligation and bonded debt of \$1.8M and \$46.5M, respectively, and GovGuam's financed purchase obligations of \$8.6M.

Special Revenues - ARPA Assistance Fund

This fund was created in FY 2021 to account for the initial receipt of \$579M and subsequent payment of federal assistance grants created under the American Recovery Plan Act 2021 (ARPA), which was signed into law by President Biden on March 11, 2021. During FY 2022, GovGuam expended \$195.6M in ARPA grants, leaving a balance of \$304M. The ARPA mandated that the Earned Income Tax Credit paid by GovGuam will be reimbursed by the Federal government. The ARPA also provides for reimbursement to Guam for the Child Tax Credit. Both these reimbursements, provided to Guam as advance payments, are mandated by statute to be annual payments and do not expire with the remainder of ARPA funding.

Implementation of GASB Statement No. 87

During FY 2022, GovGuam implemented GASB 87, Leases. The "Statement" established criteria for accounting and financial reporting for leases. It creates a single model for lease accounting and requires recognition of certain leased assets and liabilities for leases that were previously classified as operating leases. A lessee is required to recognize and post to the government-wide balance sheet a lease liability and an intangible right to use asset. The adoption of GASB 87 increased capital assets and liabilities by approximately \$29M. In September 2022, the Graduate School USA provided a 5-day on-site course on the implementation of GASB 87.

New Financial Management Information System

After several procurement attempts, GovGuam finally awarded a new FMIS contractor to develop and deploy a new FMIS for the primary government. It is a five-year contract with a go-live date of January 8, 2024 for the core financial systems. The financial statements for FY 23 will be prepared using data currently maintained by the AS400 system which has been in operation for over 30 years. The new system is being designed to record and report financial data more quickly and more fully and has taken into account the comments of the auditors and of the Public Auditor in past years.

Typhoon Mawar

In May 2023, Typhoon Mawar, a Category 4 storm passed over Guam causing widespread damage to the infrastructure and delivery of power and water. Immediate help was available from the Federal Emergency Management Agency (FEMA) and the Red Cross, and the Guam National Guard was activated. The Governor allocated \$50M from the General Fund towards the recovery effort, prioritizing the funding. Immediate help was available to residents through the federal Disaster Supplemental Nutrition Assistance Program and Small Business Administration loans for damage reconstruction.

Compliance

A separate commentary on the Single Audit Reports and Management Letter accompany this report. Refer to the Management's Discussion and Analysis in the audit report at www.opaguam.org for a detailed discussion of GovGuam's operations.