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Guam Economic Development Authority – FY 2020 Financial Highlights

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Hagåtña, Guam – The Guam Economic Development Authority (GEDA) financial audit includes two reports: 1) GEDA’s Operating Fund, the State Small Business Credit Initiative (SSBCI), and the Tobacco Settlement Authority (TSA); and 2) the Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF) trust funds administered by GEDA. Both GEDA and its trust funds closed FY 2020 with an increase in net position (net income) by \$309 thousand (K) and \$318K, respectively.

Independent auditors, Ernst & Young LLP, expressed a clean opinion on the FY 2020 financial statements of both GEDA and its trust funds. In addition, the independent auditors did not identify any material weaknesses or significant deficiencies in either GEDA or its trust funds’ internal control over financial reporting. As a result, this is the 17th year in which GEDA had no instances of noncompliance in its financial statements. However, the management letter noted a matter related to GEDA’s provision for doubtful accounts.

Savings in Refunding Bonds

GEDA and various Government of Guam (GovGuam) agencies formulated successful financing strategies to take advantage of savings through the refunding of bonds as follows:

- Guam International Airport Authority (GIAA) successfully sold \$37.0 million (M) in refunding bonds. Debt service savings of \$1M and a cash flow relief of \$18.4M allow GIAA to proceed with capital improvement projects.
- Guam Waterworks Authority’s (GWA) sale of \$166.1M in refunding bonds resulted in \$12M in savings. Refunding a portion of the GWA Revenue Bonds Series 2013 resulted in debt service savings.

Pandemic Caused Negative Outlook for GovGuam Agencies

The pandemic’s impact on the local economy resulted in GovGuam agencies’ (bond issuers) outlook being downgraded by Standard & Poor’s and Moody’s. Similar to airports nationwide, where revenues significantly decreased because of the pandemic, GIAA’s outlook also changed to negative. Its bond ratings, however, remain moderate. Although GWA’s outlook was downgraded, its revenue bonds successfully sold at \$134M (par value) with a 30-year maturity. This bond sale is evident that GovGuam’s credit has a strong record despite the pandemic.

Minimal Increase in Total Operating Revenues

GEDA’s operating revenues minimally increased by \$39K, from \$2.91M in FY 2019 to \$2.95M in FY 2020. Rental income (\$1.24M), Qualifying Certificate application (\$741K), and Guam Ancestral Land Commission (GALC) lease commission (\$153K) are the primary revenues for GEDA’s operations. While earned bond fees are non-recurring annual revenue, this had the most increase. The sale of the refunding bonds and GWA’s revenue bond, stated above, increased

bond fees by \$663K from \$88K in FY 2019 to \$752K in FY 2020. However, the decrease in GALC lease commission by \$658K nearly offset the increase in earned bond fees.¹

SSBCI's operating revenues decreased by \$14K from \$35K in FY 2019, but its non-operating revenues increased by \$412K. The \$302K net gain in the fair value of investments largely contributed to the non-operating revenues increase. GEDA received \$13.23M in federal funding to support the SSBCI Program, which provides loans to small businesses in the underserved communities and businesses owned by women and minorities. Since its inception, the program distributed 73 credits to small businesses with 43 paid-off loans. At the end of FY 2020, four loans totaling \$1.4M were in various stages of delinquency.

TSA's operating revenues in FY 2020 decreased by \$13K from \$1.46M. GEDA records funding from the receipt of tobacco settlement revenue into TSA. In turn, the revenue pays for the debt service of the Series 2007 Tobacco Settlement Bonds with a remaining balance of \$31.7M in FY 2020.

\$521K Increase in G DFA and ADF Investments

The investment value of GEDA's trust funds, G DFA and ADF, increased by \$521K to \$13.19M in FY 2020. There were seven commercial loans totaling \$325K made under G DFA and a \$25K loan from ADF.

Other Post-Employment Benefits (OPEB)

Governmental Accounting Standards Board (GASB) No. 75 pertains to post-employment benefits other than pensions. These benefits provided by GovGuam include medical, dental, and life insurance to retirees and their spouses, children, and survivors. For FY 2020, GEDA's proportionate share of GovGuam's OPEB liability was \$3.17M, a \$919K increase from last year.

Rental Income Insufficient to Sustain GEDA's Operations

GEDA-managed industrial parks fund the majority of its operations. However, the loss of significant properties equating to \$632K annually and leases locked until 2065 have affected GEDA's initiatives. GEDA entered into a Memorandum of Understanding (MOU) with GALC and the Chamorro Land Trust Commission (CLTC) to recover the revenue loss. Accordingly, this proves profitable as GEDA collected \$1.8M to date from the MOU with GALC and may bring over \$300K annually from managing CLTC's properties.

Management Letter

The independent auditors issued a management letter regarding GEDA's accounting for its receivables with the following recommendations: (1) improve analysis on the adequacy of the allowance given for all receivables and (2) consider modifying the current methodology in providing allowance for doubtful accounts in light of the pandemic.

For a more detailed discussion on GEDA's operations, refer to the Management's Discussion and Analysis in the audit report at www.opaguam.org or www.investguam.com.

¹ The settlement of a GALC lease agreement significantly increased commission revenue in FY 2019, which is a revenue anomaly.