



## **Guam Economic Development Authority FY 2013 Financial Highlights**

March 14, 2014

Guam Economic Development Authority's (GEDA) financial audit report includes two reports: (1) GEDA Operating Fund, the new State Small Business Credit Initiative (SSBCI), and the Tobacco Settlement Authority (TSA), and (2) several trust funds administered by GEDA. For fiscal year (FY) 2013, GEDA, SSBCI, and TSA continued its growth in net position (net income) with a net increase of \$367 thousand (K) compared to the FY 2012 net increase of \$111K. GEDA's primary trust funds, the Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF), had investments of \$9.9M, which earned \$431K in investment income for a return on investment of 4%, an improvement over FY 2012 investments of \$10.3 million (M), which earned \$119K in investment income for a return on investment of 1%.

Independent auditors Deloitte & Touche, LLP issued an unmodified opinion on GEDA's FY 2013 financial statements. In order to receive the clean opinion, 15 audit adjustments were made for GEDA, SSBCI, and TSA that cumulatively increased net assets by \$603K, and five audit adjustments were made for the trust funds that cumulatively increased net assets by \$960K. A separate management letter was issued, which contained two comments related to GEDA's investments and fixed assets. GEDA is to be commended as this is the tenth year with no instances of noncompliance in their financial statements.

### **Operating Revenues and Expenditures**

For FY 2013, GEDA closed with an increase in net position of \$367K. Revenues increased by 14% or \$704K from \$5.1M in FY 2012 to \$5.8M, and operating expenses increased by 15% or \$400K from \$2.7M in FY 2012 to \$3.1M. These three funds, the GEDA Operating Fund, SSBCI and TSA, all increased in revenues for FY 2013.

The GEDA Operating Fund generates its own revenues from three primary sources: bond fees (42%); rental income (36%); and fees from Qualifying Certificate (QC) beneficiaries (12%). Bond fees rose by 86% or \$639K, from \$747K in FY 2012 to \$1.4M in FY 2013 due mainly to the issuance of three bonds and a financing project by the Government of Guam and autonomous agencies. Rental income decreased modestly by \$33K from \$1.2M in FY 2012 to \$1.18M in FY 2013 due to the termination and a reduction in the E.T. Calvo Industrial Park leases. Meanwhile, QC fees decreased by 6% or \$27K from \$429K in FY 2012 to \$401K due to a timing delay of their receipt.

The SSBCI Funds rose by 23% or \$17K, from \$75K in FY 2012 to \$93K in FY 2013 due mainly to the increase in Guarantee fees. In October 2011, the Government of Guam received approval for \$13M U.S. Treasury funding for the Guam SSBCI Program which provides credit enhancement to lenders and borrowers who cannot otherwise obtain loans or credit lines through standard commercial underwriting guidelines. The Guam Loan Guarantee Program was initiated in August 2012 with one participating lender. In FY 2013 GEDA signed two additional lenders. To date, 19 loans were enrolled equating to \$4M in loans backed by SSBCI guarantees in the amount of \$3M.

The TSA fund is a separate fund that records the annual tobacco settlement revenues allocated to Guam. In turn these revenues are used to pay annual debt service on the outstanding balance of TSA bonds which as of September 2013 was \$32.3M. With the implementation of GASB 63 and 65, the FY 2012 numbers were restated, which resulted in an increase in net position to \$111K from \$56K.

Total operating expenses for FY 2013 were \$3.1M, a \$400K or 15% increase over the prior year of \$2.7M. The largest item was salaries and benefits which rose to \$2.2M from \$1.9M. No merit bonuses were paid and GEDA staff were not affected by the Hay Study pay increase due to their unclassified status. Legal and professional services increased slightly to \$314K from \$277K. The largest increase in expenditures was advertising and promotions which increased four-fold from \$39K to \$136K, a \$97K increase. Advertising and promotions centered on GEDA's continued participation in the State Trade and Export Promotions and Reverse Trade Missions with Hong Kong and Vietnam.

### **G DFA and ADF Trust Funds**

GEDA administers two trust funds: the Guam Development Fund Act and the Agricultural Development Fund. These two funds have combined investments of \$9.9M of which the G DFA is far larger with \$9.1M in investments. These investments are handled by two investment managers.

During the year, GEDA reduced the G DFA note portfolio by \$1.5M or 68%, from \$2.2M to \$701K. This was a result of two write-offs, one alone in the amount of \$1.2M. As of FY 2013, the note portfolio is at \$701K with an allowance for doubtful receivables of \$332K leaving a net receivables of \$369K. This translates to GEDA determining that only fifty-two cents to the dollar is collectible. Interest on these loans amounted to \$25K. For the ADF, the loan portfolio stands at \$41K with an allowance of \$27K for a net realizable value of \$14K. Again, this translates to thirty-four cents to the dollar estimated to be collectible.

For these development funds, GEDA is a lender of last resort and does not compete directly with Guam's lending financial institutions. One criteria to qualify as an applicant is to have been denied by two financial institutions. During the year, GEDA issued three new development loans totaling \$186K.

### **Report on Internal Control Over Financial Reporting and Management Letter**

The independent auditors did not identify any material weaknesses or significant deficiencies on GEDA's Report on Internal Control Over Financial Reporting. A separate management letter was issued which contained two comments related to investments and fixed assets. GEDA closed and opened new investment accounts resulting in some transactions not timely recorded and due to a lack of detail, certain fixed assets were not easily identifiable.

For a more detailed commentary, refer to the Management Discussion and Analysis in the audit report. Visit GEDA's website at [www.investguam.com](http://www.investguam.com) or OPA's website at [www.guamopa.org](http://www.guamopa.org) to view the reports in their entirety.