



## **Guam Economic Development Authority FY 2014 Financial Highlights**

March 31, 2015

Guam Economic Development Authority's (GEDA) financial audit report includes two reports: (1) GEDA Operating Fund, the new State Small Business Credit Initiative (SSBCI) Fund, and the Tobacco Settlement Authority (TSA) Fund, and (2) two trust funds administered by GEDA. For fiscal year (FY) 2014, total combined funds experienced an increase in net position (net income) of \$101 thousand (K), going from a negative \$24 million (M) in FY 2013 to a negative \$23.9M in FY 2014.

Independent auditors Deloitte & Touche, LLP issued an unmodified opinion on GEDA's FY 2014 financial statements. However, nine audit adjustments were made, which had a net effect of \$109K. There were also five uncorrected misstatements totaling \$21K. The independent auditors did not identify any material weaknesses or significant deficiencies on GEDA's Report on Internal Control Over Financial Reporting. GEDA is to be commended for its eleventh year of having no instances of noncompliance in their financial statements. However, a management letter cited two deficiencies.

Under the Governmental Accounting Standards Board (GASB) No. 68, Accounting and Financial Reporting for Pensions, GEDA is anticipated to record a net pension liability of \$4.6M. This provision will have a material effect on GEDA's financial statements and will be implemented in FY 2015.

### **Operating Revenues Decreased by \$1.1M or 35%**

The GEDA Operating Fund had total operating revenues of \$2.1M for a decrease of \$1.1M or 35% from the prior year of \$3.3M. The GEDA Operating Fund's main revenues were derived from three sources comprised of rental income of 50%, bond fees earned of 27%, and fees from Qualifying Certificate (QC) beneficiaries of 21%. Rental income of \$1.1M, decreased by \$103K or 9% from the prior year of \$1.2M due to the termination and a reduction of a lease. Bond fees earned of \$576K, decreased significantly by \$810K or 58% from the prior year of \$1.4M due to the timing of bond issuances. QC fees of \$448K, increased by \$47K or 12% over the prior year due to the timing of the QC revenues received. In addition, a sale of land and leasehold for a net gain of \$1.1M was realized in FY 2014.

SSBCI Fund total revenues of \$110K increased by \$18K or 19%, from the prior year of \$93K due to increased grants revenue. In October 2011, the Government of Guam received approval for \$13.2M 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. As of September 30, 2014, two lenders have enrolled 36 loans totaling \$6.5M and remitted \$128K in guaranty fees to GEDA. Additionally, loans under the guaranty program had outstanding balances of \$3.7M, which increased by \$1.7M or 86%, from the prior year of \$2M. Since its inception, the SSBCI has a total of 36 loans issued from this program.

TSA Fund total revenues of \$2.5M, increased by \$138K or 6%, from the prior year of \$2.4M due to tobacco settlement revenue. 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 30, 2014 was \$31.9M. Since its inception,

the original principal amount of the TSA bond was issued at \$37M.

**Total Expenditures Increased by \$382K or 12%**

Total combined operating expenses for FY 2014 were \$3.5M, a \$382K or 12% increase over the prior year of \$3.1M. The largest expense items include the following: (1) salaries and benefits of \$2.4M, which increased by \$244K or 11% from \$2.2M; (2) legal and professional services of \$506K, which increased by \$192K or 61% from \$314K; and (3) office space and equipment, which decreased nominally by \$5K or 2% from \$206K.

In addition, GEDA's travel expense decreased by \$87K or 50%, going from \$176K to \$89K. The decrease is attributed to GEDA's State Trade and Export Promotions which expired during FY 2014.

**G DFA and ADF Trust Funds**

GEDA's two trust funds, the Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF), had investments of \$10.8M which earned \$685K in investment income for a return on investment (ROI) of 6%. This was an improvement over FY 2013 investments of \$9.9M which earned \$431K in investment income for an ROI of 4%. These investments were maintained by two investment managers.

During the year GEDA increased the GDFA note portfolio by \$573K or 82%, going from \$701K in FY 2013 to \$1.3M in FY 2014. This was a result of collections realized, which were initially allowed in the amount of \$170K leaving a net receivable of \$1.1M. This means that GEDA collected only 87 cents to the dollar. Interest on these loans amounted to \$37K. For the ADF, the loan portfolio stands at \$61K with an allowance of \$7K for a net realizable value of \$53K. This translates to 88 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. In FY 2014, there were no new development loans issued.

**Sale of Land and Leasehold Interest for \$1.1M**

In May 2014, GEDA recognized a \$1.1M net gain from a sale of a GDFA leasehold. The property was obtained through foreclosure, listed on the Multiple Listing Service by a real estate broker, and sold to the highest offerer for \$2.2M. The \$1.1M net gain on sale of was reflected in other income in the operating fund. As a result, other income increased significantly by \$833K or a 548% increase over the prior year, going from \$161K in FY 2013 to \$1M in FY 2014.

**Management Letter**

A separate management letter cited two deficiencies related to the following: (1) Fixed assets totaling \$71K could not be located, and (2) \$14K of unidentified accounts payable were long outstanding obligations dating from 2006 to 2012.

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.opaguam.org](http://www.opaguam.org) to view the reports in their entirety.