



Guam Economic Development Authority FY 2015 Financial Highlights

April 26, 2016

Guam Economic Development Authority's (GEDA) financial audit includes two reports: 1) GEDA Operating Fund, the State Small Business Credit Initiative (SSBCI), and the Tobacco Settlement Authority (TSA); and 2) two trust funds administered by GEDA. For fiscal year (FY) 2015, total combined funds experienced an increase in net position (net income) by \$780 thousand (K). GEDA would have recognized a loss in the operating fund of \$124K for FY 2015 without the \$262K increase in net income due to the pension adjustment.

Independent auditors Deloitte & Touche, LLP issued an unmodified "clean" opinion on GEDA's FY 2015 financial statements. However, 14 audit adjustments were made in the GEDA Operating Fund, which had a net effect of \$385K mainly due to the pension adjustment. 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 12th year of having no instances of noncompliance in their financial statements. However, a management letter cited three deficiencies related to investments, fixed assets, and accounts payable.

Bond Issuance Outlook

In December 2014, Guam's municipal bonds were the subject of a Bloomberg Financial article. It noted that in 2014, "bonds from Guam are delivering the best returns in the U.S. municipal market." The increased investor demand has translated into record low borrowing rates in 2015 for Guam-issued municipal bonds. This occurred despite the Puerto Rico debt restructuring bill in Congress, which may affect the market for other U.S. territories to include Guam. The Governor of Guam has stated that Guam has no need for bankruptcy protection.

In 2015, GEDA assisted the Government of Guam (GovGuam) in selling the Business Privilege Tax (BPT) Series 2015D Bonds. The \$412.5 million (M) bond issue is the largest ever sold by Guam with the final price achieving an all-time low interest rate for long-term Guam bonds of 4.02%. The BPT Series 2015D Bonds refunded all of the 2007 General Obligation (GO) Bonds and all of the callable 2009 GO Bonds. Debt service on these bonds amount to \$33.7M in 2016 and \$48.9M in 2017. It reaches its highest amount in 2022 at \$56.3M.

Operating Revenues Increased

The GEDA Operating Fund total operating revenues increased by \$48K or 2% from \$2.22M in the prior year to \$2.26M. Its main revenues were derived from three sources comprised of 49% rental income, 32% bond fees earned, and 15% Qualifying Certificate (QC) commissions. Rental income nominally increased by 2% or \$27K from \$1.08M in FY 2014 to \$1.11M in FY 2015. Bond fees earned of \$723K, increased by \$146K or 25% from the prior year of \$576K due to increase in principal of bonds issued compared to FY 2014. QC fees of \$342K decreased by \$106K or 24% over the prior year due to a reduction of \$100K in Public Investment contribution from QC#250.

SSBCI Fund total revenues of \$150K increased by \$40K or 36% from the prior year of \$110K primarily due to an increase in guarantee fees. In September 2011, GovGuam received approval for \$13.2M U.S. Treasury funding for the Guam SSBCI Program providing credit enhancement to lenders and borrowers who cannot otherwise obtain loans or credit lines through standard commercial underwriting guidelines. The U.S. Treasury and GovGuam entered into an Allocation Agreement for this funding set to expire March 2017. As of September 30, 2015, two lenders enrolled 48 loans totaling \$10.5M and remitted \$80K in guarantee fees to GEDA. Additionally, loans under the guaranty program had outstanding balances of \$6.0M, which significantly increased by \$2.2M or 60% from the prior year of \$3.7M.

TSA Fund total revenues increased by \$444K from \$2.5M in FY 2014 to \$3.0M in FY 2015 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, 2015 was \$31.1M. Since its inception, the original principal amount of the TSA bond was issued at \$37M. Tobacco Bonds will not be paid off until 2034.

GEDA's two trust funds, the Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF), had investments of \$10.6M. GEDA currently has 22 GDFA loans, of which two are new loans, and five ADF loans.

Government Accounting Statement – Pension Liability

The implementation of GASB 68 related to *Accounting and Financial Reporting for Pensions* in FY 2015 resulted in the restatement of GEDA's FY 2014 financial statements, recognizing GEDA's pro rata share of GovGuam's net pension liability. Per the Government of Guam Retirement Fund, the GovGuam's pension liability of \$1.3 billion (B) in FY 2014 was reduced to \$1.2B in FY 2015. GEDA's pro rata share decreased by \$284K, going from \$4.5M in FY 2014 to \$4.2M in FY 2015. The restatement and the change in pension liability reduced salaries and benefits expenses by \$262K in FY 2015 and \$187K in FY 2014.

Management Letter

A separate management letter cited three deficiencies related to the following:

- Investments. Recording of investments shared by GEDA, GDFA, and ADF are cumbersome and prone to error. Also, separate GL accounts are not utilized to record different investment accounts.
- Fixed Assets. Six assets without a property tag number and one obsolete or damaged asset not surveyed or disposed of.
- Accounts Payable. Long outstanding obligations of \$51K for excess reimbursements related to 2011 bonds.

Disclosure: The Public Auditor's step son is one of the three legal counsels for GEDA.

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