



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagåtña, Guam 96910

Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)

www.opaguam.org

Guam Economic Development Authority - FY 2021 Financial Highlights

April 7, 2022

The Office of Public Accountability (OPA) has released the financial statements for Guam Economic Development Authority (GEDA), report on compliance and internal control, management letter, and letter to those charged with governance for fiscal year (FY) 2021. GEDA closed FY 2021 with an increase of \$1.7 Million (M) in its net position (net income). For FY 2021, GEDA reduced its negative net position to (\$13.9M) from prior year's negative net position of (\$15.6M).

GEDA's financial statements include GEDA Operating Fund, State Small Business Credit Initiatives (SSBCI), Tobacco Settlement Agreement (TSA), and Agricultural Development Fund (ADF) combined with Guam Development Fund Act (GDFA), a Fiduciary Fund.

Independent auditors Ernst and Young, LLP expressed an unmodified (clean) opinion on GEDA's FY 2021 financial statements and did not identify any material weaknesses or significant deficiencies in the Reports on Internal Control over Financial Reporting. GEDA is commended for its 18th year for having no instances of noncompliance in its financial statements. However, the Auditors issued one comment in its letter to management relative to the recording of transactions involving GEDA programs.

Increases in Combined Operating and Non-Operating Revenues

Overall, GEDA's operating revenues of \$5.3M increased slightly by \$128 thousand (K) from \$5.2M in FY 2020. The increase was mainly attributed to increases in Grants Revenue (\$127K), Tobacco Settlement Revenue (\$71K), and Guam Ancestral Land Commission lease commission (\$14K). Bond fees, as non-recurring annual revenue, decreased by \$67K as these fees are only earned when underlying bonds are issued. There were also decreases in qualifying certificate application (\$14K) and rental income (\$4K).

Non-operating revenues of \$3M increased by a total of \$2.1M (or 231%) resulting from the increase in the fair value of investment by \$2M and investment income by \$143K. Cumulatively, total revenues of \$8.4M offset total expenses of \$6.7M generating a net income of \$1.7M.

GEDA Operating Fund

The Operating Fund generated a net income of \$216K, a \$235K decrease from its prior year's net income of \$451K. Operating expenses increased by \$462K caused by a significant increase in Grant Expense by \$569K. For FY 2021, GEDA's combined proportionate share of GovGuam's Pension Liability and Other Post-Employment Benefits Liability was \$10.5M, a \$2.6M increase from \$7.9M in FY 2020.

State Small Business Credit Initiative (SSBCI) Fund

In FY 2021, the fund generated a net income of \$1.8M, an increase of \$1.3M from the prior year of \$482K. This resulted in an increased net position from \$13.6M to \$15.3M. The net income was due mainly to the net increase in the fair value of investment by \$1.4M. Under the SSBCI program, GEDA signed a Lender Participation Agreement with four financial institutions. GEDA will guarantee the loans made by the lenders to eligible small businesses. As of September 30, 2021, outstanding guaranteed loans had a total principal balance of \$8.1M. Two loans amounting to \$690K were in default status.

Tobacco Settlement Authority (TSA)

The annual tobacco settlement revenues allocated to Guam are used to pay for the debt service of the Series 2007 Tobacco Settlement Bonds with a remaining balance of \$32.2M. The fund generated a net loss of (\$497K), a decrease from its prior year's net loss of (\$518K). The net loss increased the Fund's negative

net position to (\$29M). Net loss was due mainly to the net interest expense of \$2M, which offset the total operating revenues of \$1.5M.

Agricultural Development Fund (ADF)

For FY 2021, the Fund generated a net income of \$217K, thus increasing its net position from \$1.2M to \$1.4M. Net income was due mainly to investment income of \$253K, which increased by \$179K. Investments increased by \$192K, or 16%.

Guam Development Fund Act (GDFA)-Fiduciary Fund

The Fiduciary Fund was created to further the economic development of private businesses in Guam through loans and loan guarantees from a Revolving Loan Fund. The Fiduciary Fund generated a net income of \$1.8M, thus increasing its net position from \$12.1M to \$13.9M. The increase was due to an increase in investment income by \$1.7M, or 232%. Investment increased by \$990K.

COVID-19 Economic Assistance

FY 2021 was a year of tremendous economic challenge. GEDA mobilized its resources to become the “fiscal” first responder to the island’s small businesses. The focus at the start of the year was continuous aid to small businesses and an ongoing need for pandemic management. GEDA was mandated to administer Covid-19 grant assistance programs funded by the CARES Act.

- Guam Small Business Pandemic Assistance Grant - processed 2,352 applications totaling \$17M;
- HealthCare System Stabilization Grant Program - processed 24 applications totaling \$1.4M;
- Guam Small Business Rent Assistant Grant Program - processed 681 applications totaling \$4.6M;
- Guam Small Business Pandemic Assistance Grant - processed 1,505 applications totaling \$16.6M.

Challenges and Issues

Over the years, GEDA has been mandated by the Guam Legislature to perform duties not supported by Legislative appropriations. All expenses incurred must come out of the agency’s finite operating revenues. GEDA’s primary source of revenue is its Property leases, which are locked up until 2065. The revenue generated is less able to sustain its continuing operations and initiatives into the future. Public Law 34-99, which imposed a five (5) year duration limit on commercial leases, further complicated the process and added additional time to complete compliance with its process. This made commercial leases on government-owned lands “less” attractive to potential developers.

Qualifying Certificate (QC) Community Contribution Grants

GEDA launched the QC Community Contribution Grant Program Series 3 in April 2021 and Series 4 in May 2021 to address the needs of Non-Profit Organizations (NPOs). Similar to small businesses, these organizations suffered as a result of the COVID-19 pandemic. Series 3 awarded seven (7) grants totaling \$303K to NPOs and government agencies for training/retraining of the unemployed to obtain marketable skills to gain re-employment and entrepreneurship development projects. Series 4 awarded 15 grants totaling \$295K for various NPO and government agencies’ projects. GEDA continues to be committed to improving the quality of life for the people of Guam through sustainable economic opportunities and programs.

Management Letter

The Auditors commented and recommended that transactions related to GEDA’s program should be recorded as part of its governmental activities. Further, GEDA management should consider the guidance in the Government Accounting Standards Board Statement (GASB) No. 84 - Fiduciary Activities in developing policies and procedures to help identify governmental and fiduciary activities.

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.