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### **Guam Economic Development Authority -- FY 2022 Financial Highlights**

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Hagåtña, Guam – The Office of Public Accountability (OPA) released the Guam Economic Development Authority's (GEDA) Financial Statements, Report on Compliance and Internal Control, Management Letter, and Auditor's Communication with Those Charged with Governance for fiscal year (FY) 2022. Independent auditors, Ernst and Young LLP (EY), have expressed an unmodified (clean) opinion on GEDA's FY 2022 financial statements. In its Report on Internal Control and Compliance, they found no material weaknesses but identified two significant deficiencies.

GEDA closed FY 2022 with a minimal increase of \$250 thousand (K) in its net position (net income), bringing GEDA's negative net position to \$13.6 Million (M) from prior year's negative net position of \$13.9M. As of FY 2022, GEDA's total assets grew to \$58.5M due to the recognition of Lease Receivable of \$28.4M in compliance with the Governmental Accounting Standards Board (GASB) Codification L20, Leases.

#### **Combined Revenues and Expenses Increased**

GEDA experienced a growth in its total revenues by \$4.7M (or 56%), from \$8.4M in FY 2021 to \$13M in FY 2022. However, GEDA's total expenses also grew by \$6.1M (or 92%), from \$6.7M in FY 2021 to \$12.8M in FY 2022.

Operating revenues increased by \$6.5M (or 121%) from \$5.3M in FY 2021 to \$11.8M in FY 2022. The increase was mainly attributed to the \$5.4M recognition in operating grants GEDA received for the implementation and administration of grant programs. Additionally, there was a \$1.2M (or 76%) increase in Tobacco Settlement revenue, and a \$428K (or 62%) increase in bonds fees earned from GEDA's assistance in the issuance of Guam Power Authority (GPA) and Government of Guam (GovGuam) bonds.

Similarly, operating expenses increased by \$2.9M (or 69%), mainly due to an increase of \$2.5M (or 1,033%) in legal and professional services. This covers consultant and marketing fees paid for task orders and various projects mainly related to child care grant programs. Salaries and benefits grew by \$314K (or 14%) due to the hiring of 12 additional limited-term employees. Additionally, travel expenses rose by \$146K (or 2,481%) as travel resumed following the coronavirus pandemic, enabling staff to attend various conferences, trainings, and bond meetings.

#### **Operating Income Growth and Investment Challenges**

During FY 2022, GEDA generated a net operating income of \$4.7M, an increase of \$3.6M (or 312%) from its prior year net operating income of \$1.1M. For FY 2022, GEDA's other income and expenses resulted in net other expenses of (\$4.5M), which is a 914% decrease from the prior year's net other income of \$551K. This is greatly attributed to the net decrease in the fair value of investments by \$5.7M (or 227%), which was due to volatility in market conditions that resulted in fluctuating investment values. As of FY 2022, the investment value of \$14.3M decreased by \$2.8M (or 16%) from the prior year's investment value of \$17M. Interest income on leases of \$418K was recognized in FY 2022 due to the implementation of GASB Codification L20, Leases.

### **Guam Development Fund Act (GDFA) - Fiduciary Fund**

EY issued separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position in compliance with the GASB Statement No. 84, Fiduciary Activities. This includes the assets of the GDFA, the Fiduciary Fund for which GEDA has been legally designated to control, but is not a beneficiary.

The Fiduciary Fund was created to further the economic development of private businesses on Guam through loans and loan guarantees from a Revolving Loan Fund. During FY 2022, the Fiduciary Fund generated a net loss of \$2.8M, thus decreasing its net position from \$13.9M in FY 2021 to \$11.1M in FY 2022. The decrease was primarily due to the decrease in investment income by \$4.9M, from a net investment income of \$2.5M in FY 2021 to a net investment expense of (\$2.4M) in FY 2022. Investments decreased by \$3M (or 23%). Similarly, the decreases in investment and investment income resulted from market volatility.

### **Bond Market Update and Financing Summary**

In FY 2022, the United States markets faced challenges due to economic concerns and inflation, leading to municipal outflows. Despite this, GEDA was able to work with various government agencies to secure savings and favorable rates. Notable financings included a \$2.5M interim construction loan for a recreation/emergency center and successful bond sales for GPA and the Guam International Airport Authority. These efforts resulted in significant net present value savings totaling \$8.1M for the two agencies and a debt reduction of \$28.2M for GPA.

### **Qualifying Certificate (QC) Contribution Grants**

In response to a performance audit report by the OPA regarding the QC Community Cash Contributions from October 1, 2012 to September 30, 2017, GEDA established the QC Community Contribution Program. The initiative, which GEDA launched Series 5 in November 2021 and Series 6 in June 2022, was accessible to projects within five service areas. These areas included health care, public safety, higher education, cultural preservation, and economic development. Series 5 granted 14 awards totaling \$340K and Series 6 granted 15 awards totaling \$323K for various projects. GEDA's commitment to enhancing the quality of life for the people of Guam through sustainable economic opportunities and programs remains steadfast.

### **Loan Programs**

GEDA operates two loan programs to support different sectors of the economy, the Agriculture Development Fund (ADF) and GDFA. The ADF focuses on individuals, corporations, and partnerships that engage in commercial agriculture businesses, offering financing for working capital needs and supplies/inventory purchases. In FY 2022, GEDA granted one farm loan of \$50K and serviced a total of six loans. On the other hand, the GDFA targets businesses in agriculture, fishing, manufacturing, tourism, and their support industries. GDFA provides long-term financing for fixed assets, working capital, and supplies/inventory. In FY 2022, GEDA issued four commercial loans amounting to \$232K and had one pending loan request of \$92K. The Compliance Division monitored 27 loans during FY 2022.

### **Claims and Litigation**

GEDA is engaged in various legal matters intrinsic to its operations. In the Farmers Market project, GEDA settled with the contractor in October 2021 for \$287K. Similarly, in the Museum project, GEDA settled with the contractor in December 2021 for \$850K. The settlement amounts for both projects were paid through Hotel Occupancy Tax bonds.

## **Fiscal Year 2023 Initiatives**

### **Child Care Assistance Grant Program**

In April 2022, the Office of the Governor provided over \$100M in grant funds to further support other sectors of the childcare industry in FY 2023 to include home care, after-school programs, village youth programs, new childcare facilities, and childcare employee retention grants. The program has been launched and GEDA will continue to work with the applicants for completion.

### **Guam HealthCare Campus Lease Back Financing**

Public Law (P.L.) 36-56 pledges \$35M as annual lease payment for the new Healthcare Facility for up to 40 years. The first payment will be funded by the federal reimbursement of the Earned Income Tax Credit and subsequent payments by the General Fund. GEDA expects to issue a Request for Proposal for a developer in FY 2023.

### **Challenges and Issues**

In FY 2022, GEDA faced several significant challenges and issues, which had or could hamper its operations. One major problem is the burden of unfunded mandates by I Liheslaturan Guåhan, which financially strains the agency as these are not supported by legislative appropriations. All GEDA's expenditures were funded by its operating revenues. Additionally, as the Central Financial Manager and Consultant for GovGuam, GEDA has to record hundreds of thousands in write-offs due to incomplete financing requests resulting from failure to secure legislative support. Moreover, GEDA's ability to receive bond fees is restricted by legislation (P.L. 34-57), impacting its potential revenue.

### **Subsequent Events**

As of the date of the report on the audited financial statements, GEDA is unable to reasonably estimate super typhoon Mawar's impact on its financial statements. Fortunately, the GEDA office space did not experience structural damage and only incurred minimal surface damage. However, there are likely to be significant future costs if denied assistance for damages from the Federal Emergency Management Agency.

### **Report on Compliance and Internal Control and Management Letter**

In the Report on Internal Control over Financial Reporting, EY identified two significant deficiencies in internal control related to the implementation of GASB Codification L20, Leases, and the recognition of Grant Revenues. EY found that the calculation of lease receivables and deferred inflow of resources did not consider the impact of (1) rate escalation and (2) the appropriate discount rates for the remaining lease term. This issue was attributed to management's inadequate training on GASB L20 provisions. In addition, grant revenues of approximately \$60K were included in FY 2022, related to expenditures incurred in FY 2021 for the Guam Small Business Pandemic Assistance Grant program. This was due to GEDA lacking adequate procedures and controls to ensure timely recognition of grant revenues. The potential effects of these deficiencies are misstatements in the financial statements and recording transactions in the incorrect period, respectively.

The management letter noted that GEDA's arrangements with GovGuam as processor and administrator of federally-funded grant programs are without a formal memorandum of understanding, potentially leading to inaccuracies in financial reporting.

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](http://www.opaguam.org) or [www.investguam.com](http://www.investguam.com).