



Guam Economic Development Authority FY 2011 Financial Highlights

March 6, 2012

Guam Economic Development Authority's (GEDA) financial audit report includes two reports: (1) GEDA, Tobacco Settlement Authority (TSA), and State Small Business Credit Initiative (SSBCI), and (2) several trust funds administered by GEDA. SSBCI was a new fund established in Fiscal Year (FY) 2011. For this fiscal year, GEDA, TSA, and SSBCI closed with a net decrease of \$287 thousand (K), of which \$151K is from GEDA and \$136K is from TSA.

GEDA's primary trust funds are the Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF). Although collection efforts continue, collectability on the loans is an on-going concern with GEDA. The GDFA and ADF have combined loans of \$2.5 million (M), of which only \$448K or 18% are deemed collectible. Interest income from active loans amounted to only \$21K.

Independent auditors Deloitte & Touche, LLP issued an unqualified or "clean" opinion on GEDA's FY 2011 financial statements. In order to receive the clean opinion, 10 audit adjustments were made for GEDA, TSA & SSBCI that cumulatively increased net assets by \$496K, and seven audit adjustments were made for the trust funds that cumulatively decreased net assets by \$55K. GEDA is to be commended as this is the eighth year where no instances of noncompliance were identified in their financial statements. For this fiscal year, there was no management letter.

GEDA Operating Revenues and Expenditures

In FY 2011, GEDA closed the year with a decrease in net assets of \$287K. Revenues decreased by 5% or \$221K from \$4.9M to \$4.7M, and expenses increased by 12% or \$289K from \$2.4M to \$2.7M.

GEDA generates its own revenues to sustain annual operations from three primary sources: rental income from Industrial Parks, application and surveillance fees from Qualifying Certificate (QC) beneficiaries, and commission received from management of the Guam Ancestral Land Commission's (GALC) lease properties. Bond fees are a fourth source, but are not a recurring annual income. Rental income decreased by 9% or \$119K from \$1.3M to \$1.2M, while QC fees increased by 15% or \$67K from \$432K to \$499K. The decrease in rental income is mainly attributed to the loss of revenue from the Port Authority of Guam, while the increase in QC fees is attributed to unpaid prior year fees collected in current year.

GEDA engaged in a Memorandum of Understanding with the GALC to manage leases on Spanish Crown properties. GALC lease commission increased by 24% or \$19K from \$78K to \$97K. GEDA is considering making similar management agreements with other Government of Guam (GovGuam) agencies holding land inventories to generate lease revenues.

In FY 2011, GEDA's major expenses were: salaries and benefits, and office space and equipment rent. Salaries and benefits increased by 26% or \$417K from \$1.6M to \$2M, while office space and equipment rent increased by 37% or \$48K from \$128K to \$176K. The increase in salaries and benefits is attributed to a re-allocation from GEDA's trust funds, increase in benefits, annual salary increments, and the addition of one staff for a staff complement of 27. The increase in office space and equipment rent is attributed to an increase in office space rent effective March 2011.

SSBCI Fund Establishment

In FY 2011, the U.S. Department of Treasury agreed to allocate a total of \$13.2M from the SSBCI Job Act of 2010 to GovGuam until March 2017. The funds are to be used for programs designed to provide credit for small businesses. GEDA was tasked by the Office of the Governor to be primarily responsible for administering Guam's SSBCI program. In October 2011, Guam received the initial funding of \$4.3M or 33% of the total SSBCI funds.

G DFA and ADF Trust Fund Loans

For FY 2011, uncollectibility on the \$2.5M G DFA and ADF Trust Fund Loans still remain the same. The \$2.5M consists of \$2M reserve for doubtful accounts and \$448K for performing loans or loans with adequate collateral. Of the \$2M reserve amount, \$1.3M is for a single loan issued over 15 years ago. Consequently, GEDA is expected to collect only 18 cents on the dollar.

GEDA and Trust Fund Investments

In FY 2011, GEDA investments totaled \$3.8M and brought in interest earnings of \$121K. G DFA and ADF investments totaled \$10.4M yet only had interest earnings of \$82K. The trust funds received only 1 cent of interest earnings for every dollar invested.

GovGuam Overall Debt Calculation

Public Law (P.L.) 30-7 redefined assessed value from 70% to 90% of taxable appraised value. With the debt ceiling calculated as 10% of the assessed value, the debt capacity was \$1.026B as of January 1, 2012. A total of \$1.025B in GovGuam obligations are counted against the debt ceiling, leaving a balance of \$674K available for future debt obligations.

P.L. 31-76 authorized the issuance of \$344M Business Privilege Tax Bonds. GovGuam successfully closed the first bond series of \$235M with a 4.94% interest rate on December 1, 2011. The \$235M was used to pay for \$198M of unpaid income tax refunds and \$17M of Cost of Living Allowances to certain retired GovGuam employees. GEDA is working with the Governor's Fiscal Team to issue the second bond series. Since the bond market is still offering very low interest rates, GEDA hopes that the second series will perform as well as the first.

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