

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2012 AND 2011

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Years Ended September 30, 2012 and 2011

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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying statements of net assets (deficiency) of the Guam Economic Development Authority (the Authority), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets (deficiency) and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Economic Development Authority at September 30, 2012 and 2011, and the changes in their net assets (deficiency) and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The supplemental divisional information on pages 17 through 19, the supplemental schedule of salaries and wages on page 37 and the supplemental comparative divisional schedules on pages 38 through 40 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental divisional information, the supplemental schedule of salaries and wages and the supplemental comparative divisional schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP
March 8, 2013

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

PREFACE

The mission of the Guam Economic Development Authority, *Aturidat Inadilanton Ikunumihan Guahan* (GEDA), is to develop a sound and sustainable economy through innovative programs that preserve and promote local culture, economic opportunities and quality of life.

As a public corporation (12GCA Chapter 50), GEDA has broad responsibility for the centralized direction, control and supervision of an integrated plan for the economic development of Guam through its programs and offerings, which include public financial services, business and investment assistance and incentive programs, and real property management.

FY2012 HIGHLIGHTS

Although GEDA has a series of broad mandates, GEDA focused on key areas, serving as central financial manager for the Government of Guam (GovGuam), assisting local enterprise while promoting investments of entrepreneurial capital in Guam, along with an internal focus on program compliance, process improvement measures and leveraging limited resources. With that, the accomplishments and strides achieved have been milestones for both GEDA and Guam overall. Following are highlights of those milestones, overcoming great challenges and a vision to realize great opportunities for the sustainable growth of the island's economy.

In FY 2012, GEDA's website received a Silver Award from the Association of Government Accountants (July, 2012) and the Governor's MagPro Award for FY2012 Small Agency of the Year.

ASSISTING LOCAL ENTERPRISE/PROMOTING INVESTMENTS

Developing Guam's economy by supporting local enterprise and attracting new investments through incentive programs and industry diversification efforts has been a top priority for GEDA. The following are highlights of projects and promotions over this past year:

BUSINESS DEVELOPMENT & MARKETING DIVISION

Trade Missions/Seminars

GEDA assisted in the promotion of the Administration's Economic Development Initiatives by coordinating, attending and fielding follow up inquiries for the following Trade Missions and Local Seminars:

- Taiwan Trade Mission, April 2012
- Okinawa Trade Mission, May 2012
- Pacific International Tourism Expo, Vladivostok, Russia; May 2012
- Association of Film Commission International Conference, Los Angeles, CA.; June 2012
- Guam Housing Symposium Sponsor, June 19 – 20, 2012
- STEP Grant Trade Mission to Japan and Hong Kong, July 2012
- Select USA and EB-5 Conference, Washington DC, August 2012
- Guam Export Trade Seminar, September 2012

Qualifying Certificates (QC)

There were limited activities in the QC program during the year. GEDA worked with Grow Guam, a hydroponic farm, to expand the agricultural activities on Guam. Governor Calvo signed Q.C. No. 251 authorizing Tax Rebates to *Grow Guam*. We are currently reviewing 4 new applications that have yet to be presented to the GEDA Board for action.

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Investor Inquiries/Web Site Activity

GEDA's Investor Desk entertained over **90** Investor Inquires from October 2011 to September 2012.

<u>Month</u>	<u>Loans</u>	<u>QC</u>	<u>Total</u>
Oct. 2011	3	9	12
Nov. 2011	0	3	3
Dec. 2011	1	15	16
Jan. 2012	0	10	10
Feb. 2012	1	5	6
Mar. 2012	0	13	13
Apr. 2012	1	9	10
May-12	0	5	5
Jun. 2012	0	13	13
Jul. 2012	0	2	2
Aug. 2012	0	0	0
Sept. 2012	0	0	0
Total	6	84	90

GEDA's Web Site had **1,435,149** hits from October 2011 to September 2012.

<u>Month</u>	<u>Unique visitors</u>	<u>Number of visits</u>	<u>Pages</u>	<u>Hits</u>	<u>Bandwidth</u>
Oct-11	2,240	3,369	15,914	116,923	4.34 GB
Nov-11	2,148	3,431	6,757	44,422	1.46 GB
Dec-11	2,024	3,179	13,750	95,638	2.81 MB
Jan-12	3,095	4,611	16,203	112,242	3.52 GB
Feb-12	2,059	3,224	14,764	130,259	4.40 GB
Mar-12	2,293	3,609	16,830	130,004	5.11 GB
Apr-12	2,245	3,492	16,597	127,675	5.61 GB
May-12	2,332	3,931	17,152	121,351	5.76 GB
Jun-12	2,119	3,422	14,860	116,492	4.05 GB
Jul-12	2,126	3,820	16,404	134,134	6.03 GB
Aug-12	2,198	3,654	19,485	140,284	5.90 GB
Sep-12	2,497	4,043	19,348	165,725	7.23 GB
TOTAL	27,376	43,785		1,435,149	

Sports Tourism - UOG Sports Complex Tax Credit

The Governor signed P.L. 27-130, which provides seed funding via the issuance of \$1 million in tax credits that should be sufficient for A&E design and construction of the first phase of the project. GEDA developed the legislatively mandated Rules and Regulations via the AAA process, which was approved in June 2011. GEDA developed an application form and developed a mechanism with UOG to implement the Tax Credit program. GEDA is currently awaiting notification from UOG via resolution of their Board of Directors on the implementation of the Tax Credit program.

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National Export Initiative - U.S. SBA State Trade and Export Program Grant

President Obama's National Export Initiative (NEI) was introduced in response to the President's goal of doubling U.S. exports in the next five years as a means to support job creation. The NEI is focused on five areas which include: access to credit, especially for small and midsize firms; more trade advocacy and export promotion efforts; removing barriers to the sale of U.S. goods and services abroad; enforcement of trade rules; and pursuing policies that will increase global economic growth so that there is a strong worldwide market for U.S. goods and services.

In pursuit of President Obama's NEI, GEDA applied for the STEP grant and in September 2011, was awarded the amount of \$135,927 to assist in the promotion of local companies in becoming engaged in exporting. This is a year one award of a three-year SBA program. With the formation and support of the STEP Grant Committee, GEDA assisted local small businesses in expanding export base and was successful in organizing the Guam Export Trade Show that began with a 2-day training session by an export expert and wrapped up with an expo of over 50 small businesses.

Medical Education Development and Tourism

To further develop and expand medical initiatives for Guam to include increased services and capacities, all educational aspects and the utilization of the visitor industry to attract new and innovative medical technologies and services. Other activities include:

- GEDA has been working with an Investor Group who has plans to provide a Wellness Center as a means to promote Medical Tourism on Guam. The facility has already been purchased and significant progress in funding the retrofitting of this facility to accommodate Medical Tourism and Wellness are expected within the coming months. This facility has the added benefit of providing Guam's first EB-5 Immigrant Investor Visa opportunity.
- GEDA is in receipt of a QC application from the Guam Regional Medical Center that seeks to open a private hospital on Guam. When completed and accredited, this venture could greatly assist in the promotion of Guam as a Medical Tourism destination.

High Technology Light Manufacturing

- GEDA is in the final stages of underwriting a Qualifying Certificate that would assist a local manufacturing group in the production of hollow core doors and drywall metal frames.
- GEDA is also working with a group interested in constructing a facility that will produce Energy Efficient Windows and other Energy Efficient products, which will significantly reduce the energy footprint thus making Affordable Housing less costly to maintain.

Green Technology Research, Development and Manufacturing

GEDA is working to market Guam as a destination for the Research, Development and Manufacturing of Green Technologies. Promoting the research, development and manufacturing of Green Technology on island would not only reduce consumer costs for energy and provide a regional export out of Guam.

GEDA is in receipt of a QC application for a 20 megawatt Solar Farm which will assist GPA in pursuit of a reduced dependency on fossil fuels while reducing Guam's carbon emissions at the same time.

Film Industry – The Development of a Film Commission

On January 4, 2012, Governor Calvo signed into law P.L. 343-31 establishing the Guam Film Office within GEDA. GEDA has been mandated to develop and organize Guam's Film Industry overseeing all film, video and photographic projects and activities on Guam. GEDA will establish the Guam Film Office by February 2013 with the execution of the Rules & Regulations.

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Buy Local Initiative

GEDA participated along with the University of Guam and the Guam Chamber of Commerce in the promotion of the Buy Local Initiative. Exit surveys indicate that 90.6 percent of those surveyed are now buying local which will result in increased revenue for local vendors and the Government of Guam. It is GEDA's goal to enroll 100 local businesses in the "Buy Local" campaign.

Guam Product Seal

GEDA is in the final stages of drafting Rules and Regulations for an improved Guam Product Seal Program. The emphasis is twofold, first to add value to those holding a Guam Product Seal, and second, to enforce proper labeling and marketing of items purporting to be of Guam origin which are in fact made off-island. GEDA will release revised Rules and Regs by March 2013.

Traditions Affirming our Seafaring Ancestry (TASA)

GEDA has been assisting TASA in their quest to erect the "Guma Latte Marianas" at Ypao Beach Park as a testament to Guam's seafaring prowess and history.

Community Economic Outreach Program

AHRD/DOL, with assistance from GEDA, has been tasked with planning at least three meetings in an effort to spur employment opportunities via their respective programs. GEDA stands ready to assist with an overlay of finance options in support of local business expansion and diversification.

PUBLIC FINANCE DIVISION

Mandated to serve as the Central Financial Manager for the Government of Guam, GEDA assists with, coordinates and monitors Financial Advisory Services, Capital Financing, Debt Management and the Capital Markets. Accomplishments in FY2012 include the following:

Guam Highway Bond 2001 Refunding (October 2011)

The Government of Guam opted to redeem all of the remaining outstanding Guam Highway Bond, Series 2001 A. The bonds were redeemed from moneys that were on deposit in the Bond Fund and Bond Reserve Fund by August 30, 2011.

The Government of Guam issued a Request of the Government Regarding Liquidation of Investments Relating to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A to U.S. Bank National Association, the paying agent, on September 1, 2011. The defeasance occurred on October 2011.

Government of Guam Limited Obligation Business Privilege Tax Bonds, Series 2011A (December 2011)

Government of Guam successfully closed the \$235 million Government of Guam Business Privilege Tax Bonds, Series 2011 A on December 1, 2011. The Bonds were authorized under Public Law 31-76 to fund the following:

- \$198,000,000 of unpaid income tax refunds plus interest for 2010 and prior years,
- \$16,885,044.91 of cost of living allowances to certain retired Government employees,
- fund capitalized interest on the 2011A Bonds to and including January 1, 2014
- to pay expenses incurred in connection with the issuance of the 2011A Bonds

Standard and Poor's (S&P) assigned an "A" investment grade rating with a "Stable" outlook. Fitch Ratings assigned an "A-" investment grade rating with a "stable" outlook. Senior Underwriter Barclays Capital Inc. and co-managing underwriters Citigroup Inc. and Piper Jaffrey & Co., managed the transaction.

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\$235 million was highly successful as final All-in TIC came in at 4.94% for the 30-year bond financing. In general, given bond proceeds covered all the unpaid tax returns and up to \$16.9M of the COLA liability, the market has viewed the move to structure this outstanding liability into debt, improving Guam's general credit for this and the outstanding General Obligation Bonds.

Government of Guam Limited Obligation Business Privilege Tax Bond, Series 2012 B (June 2012)

The Government of Guam successfully closed \$108.7 million of Series 2012 B bonds on June 6, 2012 at an all-in cost of 4.60%. The bond proceeds were used by the Government of Guam to pay the following:

- \$25.1 million for payment owed to the Government of Guam Retirement Fund.
- \$18 million for Government of Guam health insurance premiums
- \$60 million of unpaid 2011 tax refunds.

As part of the pre-marketing efforts, GEDA continued its efforts to develop relationships with our top Guam bond investors to include personal visits with Nuveen, Blackrock, Franklin Funds, American Century, Wellington, MFS Investments, Prudential and Wells Fargo investment managers.

S&P assigned an "A" investment grade rating with a "Stable" outlook. Fitch Ratings assigned an "A-" investment grade rating with a "stable" outlook. Senior Underwriter Barclays Capital Inc. and co-managing underwriter Citigroup Inc., managed the transaction.

Guam International Airport Authority Loan (June 2012)

With GEDA's assistance, the Guam International Airport Authority successfully secured a loan with the First Hawaiian Bank in the amount of \$11.9 million to fund vitally needed upgrades to its facilities to realize energy efficiency in its facilities.

Interest on the loan is fixed at 3.75% for 5 years, with interest only for the first year construction period. The primary source of repayment is the savings realized from the Energy Performance contract. The alternate source of repayment will come from GIAA's revenues subordinated to the 2003 Revenue Bonds. The loan is additionally backed by a 90% U.S. Department of Agriculture guarantee. The loan is fully due on June 27, 2017.

S&P's review of the Government of Guam's (Section 30) Bonds, 2009A (June 2012)

Standard and Poor's Rating Services raised its long-term rating to BBB+ from BBB- on the Government of Guam's Limited Obligation (Section 30) Bonds, Series 2009A with a stable outlook.

The rating action reflects S&P's view of improved coverage of future maximum annual debt service (MADS) resulting from the retirement of Guam's senior-lien 2001 A bonds. The stable outlook reflects S&P's anticipation that annual revenue from the U.S. Department of Interior will continue to cover debt service on the bonds, especially given the debt service requirements decline to \$15.7 million in 2013 from \$21 million in 2012 because of the retirement of the 2001A Senior Bonds. The outlook also reflects S&P's anticipation that coverage will remain good – at not less than 2X – given the ABT, or materially higher if no additional debt is issued. Finally, the variances in amounts requested versus granted could decrease given GovGuam's enhanced process and technology for estimating advances.

Private Activity Bonds Financing for Multifamily Housing Seminar (June 2012)

GEDA together with Bond Counsel, Orrick Herrington & Sutcliffe hosted a seminar on June 7, 2012 at the GEDA Conference Room to provide information to help local contractors learn more about Private Activity Bonds (PAB's) and how to use PAB's to benefit their business. PAB's are a federal resource that may be used to finance housing and more.

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Bond Disclosure Services (August 2011)

GEDA is the Dissemination Agent for the Government of Guam and is designated to file the required bond disclosure documents on the Municipal Securities Rulemaking Boards' Electronic Municipal Market Access (EMMA) system website, the official site for Bond statements and trade data for the Municipal Market. Reports have been filed for the following bonds:

- 2007 Guam Economic Development Authority Tobacco Settlement Asset-Backed Bonds – 2011 Bond Information Report, GEDA's FY 2011 audited financial statement;
- 2007 General Obligation Bonds – 2011 Bond Information Report, GovGuam FY2011 audited financial statement;
- 2009 General Obligation Bonds - 2011 Bond Information Report, GovGuam FY2011 audited financial statement;
- 2009 Limited Obligation (Section 30) Bonds - 2011 Bond Information Report;
- 2010 Certificate of Participation's (John F. Kennedy project) - 2011 Bond Information Report, GovGuam FY2011 audited financial statement;
- 2011 Government of Guam Hotel Occupancy Tax Revenue Bonds – 2011 Bond Information Report, GovGuam FY2011 audited financial statement;
- 2011 Government of Guam Business Privilege Tax Bonds - 2011 Bond Information Report.

BOND MARKET UPDATE

With data received from Government of Guam underwriters, GEDA is able to provide the following Market update.

Tax-exempt benchmark rates were at their all-time lows at nearly every part of the curve with interest rates declining significantly of up to 171 bps since the high reached in April 2011.

The Bond Buyer reported in its 2012 midyear review, a massive jump in refunding pushed long-term municipal bond volume up significantly through first half 2012. Issuance rose 65% through June against the first six months of 2011, with refunding soaring over 145% over the same span. Technical were also very strong in 2012 with \$14 billion of bond fund inflows and bond redemptions (maturities/current/advance refunding) totaling \$129 billion from July through September. The Government of Guam opted to redeem all of the remaining outstanding Guam Highway Bond, Series 2001 A during this period. Investors interested in taxable munis were confronted with less supply in the first half of 2012 with a total of \$12.46 billion for the first six months. The Government of Guam issued \$27.3 million in its Business Privilege Taxable Bonds, Series 2012B-1 and 2012B-2 of which proceeds paid to the debt owed to the Government of Guam Retirement Fund.

Second quarter tax-exempt continues to show increases across most of the curve, according to the Municipal Market Data (MMD) scale. Yields out to three year were two basis points higher but were unchanged at the four-and five-year marks. Bonds maturing from six and eight years on the yield curve rose one to three basis points.

In July 2012, MMD reached new all-time historical lows since the 1981 inception of the index. Tax-exempt MMD benchmark rates fell 17 bps in 5 years, 16 bps in 10 and 31 bps in 30 years. After hitting historical lows since the inception of the MMD index in late July, rates have fluctuated but remained within 10 bps of those across the curve.

For the remaining year tax-exempt performed substantially better than treasuries. Rates in both markets were volatile but at its all time low. The high-yield market (A- and lower rated credits) was open and strong with investor absorbing limited supply as they reach for yields in the low-yield environment. Limited supply coupled with strong demand has helped push pricing spreads downward.

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Guam took advantage of these all-time low rates with its tax refunds bonds are also known as the island's Business Privilege Tax (BPT) bonds, which were floated in December 2011 and June 2012 to finance the tax refunds debt. All-In True interest costs of 4.94% and 4.60%, respectively. These bonds received the highest credit ratings in the island's history. S&P assigned an "A" investment grade rating with a "Stable" outlook. Fitch Ratings assigned an "A-" investment grade rating with a "stable" outlook.

LOANS

GDA Direct/Micro Loans Issued

During the year ended September 30, 2012, GEDA approved and issued 5 loans to small businesses, mainly in the retail, services and agricultural industries, under the GDA Direct/ADF Loan program. These loans range from \$10,000 to \$100,000 individually with an aggregate total of \$178,000.

GovGuam Mitigation Program - Grant and Loan Program (P.L. 31-13)

GEDA created Rules and Regulations for the Government of Guam Mitigation Program for Business Interruption, a program established by Bill 36-31, now Public Law 31-13. The program allows for grants up to \$12,000 and loans up to \$100,000 to small and mid-size businesses adversely impacted by government projects, such as road construction, to ensure their continued existence and minimize interruption to local commerce.

To date, GEDA has approved 2 grant applications under this program. GEDA will continue to promote this program to all applicable businesses.

State Small Business Credit Initiative (SSBCI) - \$13.1 Million allocated for Guam

On October 4, 2011, Governor Calvo received approval of the \$13,168,350 U.S. Treasury funding for the Guam SSBCI Program (Guam Capital Access Program, Guam Loan Guarantee Program, and Guam Loan Participation Program). The Guam SSBCI Programs provide credit enhancement to lenders and borrowers who cannot otherwise obtain loans or credit lines through standard commercial underwriting guidelines.

The Guam Loan Guarantee Program was initiated on August 3, 2012 with the Bank of Guam as a participating lender. In FY2012, Bank of Guam enrolled three (3) loans, totaling about \$364,000 in principal. Six (6) jobs are to be created or retained within the first year of the loan award.

GEDA will continue to promote the program to all Guam financial institutions and raise awareness about the Guam SSBCI Program to Guam's entrepreneurs and small business community. Subsequently, Community First Guam Federal Credit Union and Coast 360 Federal Credit Union also became eligible lenders of the program.

The SSBCI outreach included presentations by GEDA's program manager at the following events:

1. Radio Interview on K57 with Denise Hertslet, August 3, 2012;
2. Guest Speaker at the Guam Hotel and Restaurant Association's General Membership Meeting, September 20, 2012;
3. Guest Speaker at the Guam Chamber of Commerce's General Membership Meeting, September 27, 2012.

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REAL PROPERTY

GEDA manages three industrial parks: the E.T. Calvo Memorial Park, the Harmon Industrial Park, and the Guam Shipyard, generating an average of about 700 to 1000 jobs annually, \$41.0 million in payroll, over \$130.0 million in gross sales and over \$6.0 million in GRT. As the main source of GEDA's operating budget, the industrial parks generated approximately \$1.4 million in lease revenues for FY2012. In an effort to generate additional revenues for GEDA as a result of losing the Cabras Island Leases to the Port Authority of Guam in 2009, GEDA purchased certain improvements in FY2010, which are situated within the E.T. Calvo Memorial Park at a combined cost of \$500,000. As a result of this purchase, GEDA anticipates an increase in annual lease rents collected by some \$120,000, well above the previous lease arrangements whereby the Authority collected only \$68,000 per annum from these two subleases.

Leveraging GEDA's real property management program, GEDA engaged in a management Memorandum of Understanding with the Guam Ancestral Lands Commission (GALC), to manage leases on the Spanish Crown properties. For the period October 2007 to September 2012, GEDA collected over \$1.9 million in ground lease rents and participation rents of which \$1.65 million was remitted to GALC while the difference was retained by GEDA as provided for in the MOU. GEDA is currently looking into similar management agreements with other GovGuam agencies with land inventory that could generate lease revenues at fair market value rates.

In supporting small business initiatives, GEDA obtained a commitment by the Navy to secure up to \$1 billion in small business contracts over the next 5 years. Navy awarded a \$400 million HubZone MACC, a \$100 million Small Disadvantaged Business MACC, and a \$500 million Small Business MACC to many local businesses. This is one of GEDA's major undertakings to further efforts to ensuring that local businesses (most local businesses are considered by the federal government as small businesses) have as much opportunity to obtain contracts from the Military as possible. Between FY2010 and FY2012, \$169 Million has been expended by the Navy under the \$400 Million HUB Zone MACC of which Guam-based companies received 95% of expenditures. Of the \$28 Million expended by the Navy under the \$100 Million Small Disadvantaged Business MACC, Guam-based companies received 56% of expenditures. Of the \$246 Million expended under the \$500 Million Small Business MACC, Guam-based companies received 22%. Altogether, \$230 Million was received by Guam-based companies between FY2010 and FY2012 under the various MACC's.

Local businesses also participate in military contracting that is not associated with MACC's. GEDA maintains a database of all military contracting that indicates that from FY2010 to FY2012, Guam-based businesses received \$307 Million in military contracts unrelated to MACC's. Significant room for more local business participation in military contracting exists as the total received by Guam-based businesses for both MACC and non-MACC is only 25% of the total amount awarded by the military for work performed in Guam from FY2010 to FY2012.

Public Law 30-228 which authorized the use of over \$55 million of the proceeds from the 2011 Hotel Occupancy Tax Bond, requires the construction of various capital improvement projects throughout the island. GEDA, through a Memorandum of Agreement with the Office of the Governor of Guam (OOGG), has established a Program Management Office (PMO) to oversee, coordinate and manage capital improvement projects and other programs assigned to the PMO by the OOGG. These projects and programs include, but are not limited to, the construction of the Guam Chamorro and Educational Facility better known as the Guam Museum, the restoration and renovation of the Plaza De Espana, mitigation of the flooding in Tumon along with the restoration or renovation of various historic sites, and public parks and facilities throughout the island. The establishment of the PMO at GEDA carries out the Office of the Governor's objective that such programs and projects are properly managed to ensure that public resources are utilized in an efficient, expeditious and effective manner to allow for the implementation of as many projects and programs as possible and to allow local businesses, residents and visitors to enjoy the economic and social benefits of these projects and programs.

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FINANCIAL COMMENTS

The following table summarizes the statements of net assets (deficiency) and operations of Guam Economic Development Authority for 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 12,213,884	\$ 7,757,700	\$ 7,649,048
Long-term assets:			
Building, improvements and equipment, at cost, net	555,803	576,771	583,747
Deferred bond issuance costs	560,683	615,742	670,801
Deferred charges	0	0	62,500
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	\$ <u>13,333,870</u>	\$ <u>8,953,713</u>	\$ <u>8,969,596</u>
Liabilities and Net Deficiency:			
Current liabilities:			
Current portion of long-term debt ,net	\$ 1,850,000	\$ 1,720,000	\$ 1,600,000
Other current payables	5,402,455	1,137,390	1,004,052
Long-term liabilities:			
Long-term debt, net	29,627,861	29,720,093	29,759,262
Other long-term payable	<u>241,477</u>	<u>219,889</u>	<u>162,515</u>
Total liabilities	<u>37,121,793</u>	<u>32,797,372</u>	<u>32,525,829</u>
Net assets (deficiency):			
Invested in capital assets	555,803	576,771	583,747
Unrestricted	<u>(24,343,726)</u>	<u>(24,420,430)</u>	<u>(24,139,980)</u>
Net deficiency	<u>(23,787,923)</u>	<u>(23,843,659)</u>	<u>(23,556,233)</u>
	\$ <u>13,333,870</u>	\$ <u>8,953,713</u>	\$ <u>8,969,596</u>
Revenues, Expenses and Changes in Net Assets:			
Revenue:			
Operating revenues	\$ 2,677,516	\$ 2,384,569	\$ 2,396,977
Tobacco Settlement revenue	<u>2,385,822</u>	<u>2,341,023</u>	<u>2,518,458</u>
Total revenue	<u>5,063,338</u>	<u>4,725,592</u>	<u>4,915,435</u>
Expenses:			
Operating expenses	(2,718,851)	(2,714,278)	(2,425,014)
Other expense, net	<u>(2,288,751)</u>	<u>(2,298,740)</u>	<u>(2,351,953)</u>
Increase (decrease) in net assets	55,736	(287,426)	138,468
Net deficiency at beginning of year	<u>(23,843,659)</u>	<u>(23,556,233)</u>	<u>(23,694,701)</u>
Net deficiency at end of year	\$ <u>(23,787,923)</u>	\$ <u>(23,843,659)</u>	\$ <u>(23,556,233)</u>

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

Operating Revenues

In FY12, GEDA recorded operating revenues of \$2,677,516, compared to \$2,384,569 in fiscal year 2011. The year-to-year change of \$292,947 represents an increase of 12.3%. GEDA generates its own revenues to sustain annual operations from three primary sources. The first is the rental income from Industrial Parks, the second is application and surveillance fees from QC beneficiaries and the third source is from the management of the GALC Lease properties under the current MOU. Bond fees and other federal and local grants additional sources of revenues, but may not represent recurring annual income.

Industrial Park

12 GCA Section 50103 authorizes GEDA to lease Government of Guam land to promote investments in entrepreneurial capital thereby increasing opportunity for employment in manufacturing, industrial, commercial, recreational, retail and service enterprises. GEDA maintains industrial parks under leases from the Government of Guam: the 18-acre Harmon Industrial Park, and the 26-acre E.T. Calvo Memorial Park. A third industrial park is operated under a lease with the U.S. Navy for ship repair and other industrial services.

Rental income increased 0.6% from \$1,207,979 in FY11 to \$1,215,345 in FY12.

Qualifying Certificate (Q.C.) Program

The Qualifying Certificate program is an economic incentive tool to entice investors into Guam. The program was created in early 1965 to foster the growth of the then fledgling tourism industry. The tax incentive program that offers corporate income tax and corporate dividends tax rebates and real property tax abatements has proven to be a successful tool in the development of the tourism industry and will now serve a critical role in supporting the growth of new and emerging industries. QC Revenues decreased \$70,508 or 14.1% from \$499,181 in FY11 to \$428,673 in FY12 due to the expiration of a hotel QC translating to a loss of annual surveillance fees and a decrease in QC application fees.

Bond Fees

GEDA's mandate establishes GEDA as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Division, which assists with, coordinates and monitors, Capital Financing Debt Management and the Capital Markets. GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. Bond fees increased 36.1% from \$549,064 in FY11 to \$747,400 in FY12.

Capital Assets

Land, building, improvements and equipment decreased \$20,968 from \$576,771 in FY11 to \$555,803 in FY12. The decrease is the net of equipment purchase and accumulated depreciation for the year. There were no significant capital transactions during the year. For additional information concerning capital assets, please refer to note 3 to the financial statements.

Long-term Debt

No additions to long-term debt occurred during the year ended September 30, 2012. For additional information concerning debt, please refer to note 4 to the financial statements.

Operating Expense

GEDA's operating expense in FY12 was \$2,718,851, an increase of 0.16% over FY11 of \$2,714,278.

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Personnel Expenses

Salaries and benefits increased 2.7% or \$61,019 (including allocation to trust funds) in FY12, which is attributed to an increase in benefits, and one additional staff brought on with a new grant program.

Legal and Professional Services

Legal and Professional service expense increased by \$3,901 or 1.4% from \$273,534 in FY11 to \$277,435 in FY12. This is mainly attributed to unexpected legal services required.

Depreciation Expense

Depreciation expense decreased \$42,432 or 51.9% from \$81,758 in FY11 to \$39,326 in FY12.

Office Space and Equipment Rental

Office space and equipment rental increase \$35,319 or 20.0% from \$176,228 in FY11 to \$211,547 in FY12. This is attributed to an increase in office space rental.

Travel

Travel expense increased by \$61,612 or 80.3% from \$76,677 in FY11 to \$138,289 in FY12. Increase is attributed to GEDA's continued participation in trade and reverse-trade missions, as well as, attendance and/or hosting of conferences, forums, seminars related to economic development and financial management, the marketing of Guam as an investment destination and new grant program trainings.

FY2013 INITIATIVES AND ECONOMIC OUTLOOK

With Guam's growth potential expected to reach unprecedented levels over the next several years, in GEDA's role as central financial manager, GEDA will continue to work with both the Executive and Legislative Branch on implementing deficit reduction and economic development plans to bring GovGuam back to credit positive and provide better quality of life for the people of Guam, as well as maintain support of professional financial services to maintain Guam's image and participation in the municipal market.

BUSINESS DEVELOPMENT & MARKETING

U.S. SBA STEP Grant Awarded to GEDA

GEDA has been awarded \$369,000 in STEP Grant funding Year 2 to promote President Obama's NEI which seeks to double U.S. exports in the next 5 years. Besides maximizing the opportunity in the Tourism industry, GEDA will focus on assisting new and existing businesses with training on the development, manufacturing and marketing of products geared towards the souvenir and gift markets, now described as "Carry-On" products. GEDA's objective will be focused on the revamped and sustainable Guam Product Seal (GPS) Program for products manufactured on Guam. This will involve the development of a singular "Made on Guam" designation for these and other commodities identified for export. The GPS program also ties in with GEDA's "Buy Local" initiative that promotes spending money in our economy by purchasing local products and buying products from local vendors

Film Industry – The Development of a Film Commission

GEDA will organize an Advisory Council to create the Rules, Regulations and Fees for the Guam Film Office per Public Law 31-159. GEDA will spearhead the development of this new emerging industry segment through the development of an organized film commission, through marketing Guam as the modern tropical filming location, through the promotion of local services to complete projects and to create the trickle down effect for hotels, rental cars, wardrobe, etc.

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OTHER

- Pursue EB-5 investment opportunities for immigrants investing in new US commercial enterprises that create direct/indirect employment for US workers.
- Work intently with GVB to pursue economic opportunities in the Russian Market with the implementation of Parole Authority which commenced in January 2012.
- Work with GVB in developing a strategy to establish a business development presence in China.
- Pursue International Economic Development Council (IEDC) professional certification for GEDA staff.
- Continue work with Take Care on the promotion of Medical Industry Business Opportunities and acquire additional institutional knowledge in the Insurance Industry.
- Support the Administrations effort to embark upon Economic Trade Missions in Vietnam, Japan, Russia, China, Taiwan and Korea.
- Continue to respond to off-island inquires via the Internet Investor Desk and GEDA's Website.
- Continue to provide assistance to the Governor's Affordable Housing Coordinating Council.
- Continue to sit on the Guam Chamber of Commerce Small Business Committee.
- Continue to work with the Guam Farmer's Cooperative on the realization of a new Farmers Co-op Facility.

PUBLIC FINANCE

Public School Financing – Guam Department of Education

School modernization is urgently needed to accommodate increasing enrollments, to restore crumbling schools, to allow for smaller class sizes, to provide a regular maintenance program and to enhance educational facilities of our community. Ongoing projects include

- Okkodo High School Expansion: Public Law Nos. 30-178, 30,182, 31-31 and 31-74 authorized the Government of Guam to enter into a Lease-Leaseback agreement with the Guam Educational Facilities Foundation (GEFF), for the expansion and improvement of Okkodo High School. This lease financing will allow Guam Department of Education (GDOE) to take advantage of existing utilities, infrastructure and athletic facilities as considerable savings to GovGuam.
- GDOE Capital Facilities Upgrade: PL 31-229 (Bill 437) provides a mechanism for public school renovation. GEDA financing efforts are pending receipt of Guam DOE's direction on the RFP scope of services. The Governor's Educational Learning Task Force has reported that the GDOE facilities will require up to \$140M to address Capital Facility repairs and renovations with \$40M to come from ARRA grant funds.

Department of Land Management (DLM)

Public Law 29-135 authorized the Department of Land Management to borrow an amount not to exceed Fifteen Million Seven Hundred Fifty Thousand Dollars (\$15,750,000.00) for the construction for a new Land Resources Public Facility and for the purchase of collateral equipment.

Given the Government of Guam's debt ceiling constraints, GEDA is reviewing a Lease Revenue Bond (LRB) option for this project. An LRB will not affect the Government of Guam debt ceiling, as the security and source of payment for the bonds will be rental revenues subject to annual appropriation.

Department of Public Works GARVEE Bond

P.L. 31-233 authorizes the issuance of GARVEE bonds in a not to exceed \$75 million for the purpose of implementing the capital improvement highway projects identified in the 2030 Guam Transportation Plan (GTP) to improve Guam's highway infrastructure. GEDA is working with DPW to finalize by May 2013.

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University of Guam (UOG) and Guam Community College (GCC)

The University of Guam and Guam Community College, with the assistance of GEDA received authorization to fund the construction of the UOG Student Services Center and the Annex Building for the School of Engineering, and the extension of the GCC Gregorio Perez Crime Lab Building and for the renovation and hardening of GCC Buildings 100 and 200 through a Leaseback Financing vehicle.

With the passage of PL 31-229, GEDA, UOG, and GCC are working with the USDA to secure the financing for the projects authorized.

- UOG Projects: \$ 21.7 M, \$1M Liquid Fuel Tax or other revenues for lease payment
- GCC Projects: \$ 6.0 M, \$0.3 M Liquid Fuel Tax or other revenues for lease payment

Port Authority of Guam (PAG)

GEDA issued RFP12-014 on September 14, 2012 requesting for financing in the amount not to exceed Ten Million Dollars (\$10,000,000) to provide funding for PAG's service life extension repairs for PAG's wharf, upgrade of its financial management information technology system and acquisition of the one card handling equipment. GEDA and PAG are working with the Bank of Guam, the awardee for the financing, to finalize all loan documents.

GIAA Bond Refinancing

In 2003, GIAA issued \$216.25 million to current refund the Series 1993 Bonds; \$155,005,000 remains outstanding. GEDA is working with GIAA on a financing that will retire the existing bonds by July 2013 in which GIAA will realize up to \$20M in Net PV savings (13.33%) and up to \$22.5M in gross cash flow savings

Private Activity Bond Program

Private Activity Bonds (PAB's) are tax-exempt bonds issued by public entities to provide below-market financing for certain types of private projects that serve a public purpose, as specified by Federal tax law. Federal tax law also imposes a number of other restrictions and requirements on the issuance of Private Activity Bonds, among which is a "volume cap" at the state level that limits the amount of PAB's that can be issued each year. Each state receives an annual PAB volume cap allocation, calculated according to a formula established by federal tax law. In addition, federal law allows unused volume cap to be carried forward for future use; carry forward amounts expire after three years.

2013 carry-over volume cap in the amount of approximately \$258,717,723.00 will be available during the year for any of the designated types of bonds.

Guam Legislature Building

The 31st Guam Legislature is seeking GEDA's assistance to finance the renovation of the Guam Legislature Building, formerly known as the Guam Congress. They have expressed a desire to promote sustainability through energy conservation. They will seek Platinum LEED Certification, the first on Guam. The building will consist of the renovation of the 8,000 square foot existing public assembly structure, 12,000 square feet of additional office space, parking and site work for 50 vehicles. The new building will be home to the Speaker, 4 Senators and Central Office staff. Project cost is estimated at \$6.8M.

Contacting GEDA's Financial Management

This Management's Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting GEDA's operations. This financial report is designed to provide a general overview of GEDA's finances and to demonstrate GEDA's accountability for the funds it receives and expends.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in GEDA's report on the audit of financial statements which is dated February 23, 2012. That Discussion and Analysis explains in more detail major factors impacting the 2011 financial statements. A copy of that report can be obtained by contacting us at (671) 647-4332 or can be viewed at the Office of Public Accountability - Guam website at www.guamopa.org.

For additional information about this report, please contact Mr. Henry Taitano, Administrator, Guam Economic Development Authority, 590 South Marine Corps Drive, Tamuning, Guam 96913 or visit the website at www.investguam.com.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Statements of Net Assets (Deficiency)
September 30, 2012 and 2011

<u>ASSETS</u>	Divisional Information			2012	2011
	GEDA	SSBCI	TSA		
Current assets:					
Cash and cash equivalents	\$ 116,782	\$ 3,308,944	\$ 3,644,390	\$ 7,070,116	\$ 3,678,306
Investments	3,753,418	998,108	-	4,751,526	3,817,145
Due from trust funds administered by GEDA:					
Agricultural Development Fund	100	-	-	100	-
Guam Development Fund Act	14,459	-	-	14,459	33,718
Reimbursable expense	26,863	(26,863)	-	-	-
Other receivables, net of an allowance for doubtful receivables of \$36,809 in 2012 and \$115,434 in 2011	363,960	-	-	363,960	217,647
Promotional supplies	10,629	-	-	10,629	10,884
Prepaid expenses	-	3,094	-	3,094	-
Total current assets	4,286,211	4,283,283	3,644,390	12,213,884	7,757,700
Deferred bond issuance costs	-	-	560,683	560,683	615,742
Equity investment	3,500	-	-	3,500	3,500
Building, improvements and equipment, at cost, net	553,007	2,796	-	555,803	576,771
	\$ 4,842,718	\$ 4,286,079	\$ 4,205,073	\$ 13,333,870	\$ 8,953,713
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>					
Current liabilities:					
Current portion of bonds payable	\$ -	\$ -	\$ 1,850,000	\$ 1,850,000	\$ 1,720,000
Accounts payable	350,724	-	1,662	352,386	253,534
Due to trust funds administered by GEDA:					
Guam Development Fund Act	-	-	-	-	355
Agricultural Development Fund	-	-	-	-	2,020
Accrued liabilities	176,415	-	-	176,415	259,927
Interest payable	-	-	529,000	529,000	541,000
Deferred grant revenues	-	4,246,112	-	4,246,112	-
Deferred rental income	98,542	-	-	98,542	80,554
Total current liabilities	625,681	4,246,112	2,380,662	7,252,455	2,857,390
Non-current liabilities:					
Bonds payable, net of current portion and discount	-	-	29,627,861	29,627,861	29,720,093
DCRS sick leave liability	102,654	-	-	102,654	81,066
Deposits	138,823	-	-	138,823	138,823
Total non-current liabilities	241,477	-	29,627,861	29,869,338	29,939,982
Total liabilities	867,158	4,246,112	32,008,523	37,121,793	32,797,372
Commitments and contingencies					
Net assets (deficiency):					
Invested in capital assets	553,007	2,796	-	555,803	576,771
Unrestricted	3,422,553	37,171	(27,803,450)	(24,343,726)	(24,420,430)
Net assets (deficiency)	3,975,560	39,967	(27,803,450)	(23,787,923)	(23,843,659)
	\$ 4,842,718	\$ 4,286,079	\$ 4,205,073	\$ 13,333,870	\$ 8,953,713

See accompanying notes to financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2012 and 2011

	Divisional Information			2012	2011
	GEDA	SSBCI	TSA		
Revenues:					
Rental income	\$ 1,215,345	\$ -	\$ -	\$ 1,215,345	\$ 1,207,979
Tobacco Settlement revenue	-	-	2,385,822	2,385,822	2,341,023
Qualifying certificate application, surveillance and other	428,673	-	-	428,673	499,181
Bond fees earned	747,400	-	-	747,400	549,064
Grants revenue	114,768	67,987	-	182,755	31,457
GALC lease commission	96,057	-	-	96,057	96,888
Guarantee fees	-	7,286	-	7,286	-
	<u>2,602,243</u>	<u>75,273</u>	<u>2,385,822</u>	<u>5,063,338</u>	<u>4,725,592</u>
Operating expenses:					
Salaries and benefits	1,894,285	54,783	-	1,949,068	2,014,232
Legal and professional services	222,637	1,673	53,125	277,435	273,534
Office space and equipment rent	211,547	-	-	211,547	176,228
Travel	127,243	5,504	5,542	138,289	76,677
Depreciation and amortization	39,233	93	-	39,326	81,758
Advertising and promotions	39,020	60	-	39,080	39,193
Utilities, telephone and communication	8,476	-	-	8,476	14,277
Insurance	6,054	-	-	6,054	6,653
Supplies	9,915	-	-	9,915	7,962
Repairs and maintenance	1,884	-	-	1,884	2,110
Miscellaneous	37,159	618	-	37,777	21,654
	<u>2,597,453</u>	<u>62,731</u>	<u>58,667</u>	<u>2,718,851</u>	<u>2,714,278</u>
Operating income	<u>4,790</u>	<u>12,542</u>	<u>2,327,155</u>	<u>2,344,487</u>	<u>2,011,314</u>
Other income (expense):					
Interest income (expense), net	647	10,334	(2,423,883)	(2,412,902)	(2,435,777)
Investment income	104,751	-	-	104,751	120,870
Net (decrease) increase in the fair value of investments	(34,801)	17,091	-	(17,710)	(98,802)
Other income, net	37,110	-	-	37,110	114,969
Other income (expense), net	<u>107,707</u>	<u>27,425</u>	<u>(2,423,883)</u>	<u>(2,288,751)</u>	<u>(2,298,740)</u>
Net increase (decreases) in net assets	112,497	39,967	(96,728)	55,736	(287,426)
Net assets (deficiency) at beginning of year	<u>3,863,063</u>	<u>-</u>	<u>(27,706,722)</u>	<u>(23,843,659)</u>	<u>(23,556,233)</u>
Net assets (deficiency) at end of year	<u>\$ 3,975,560</u>	<u>\$ 39,967</u>	<u>\$ (27,803,450)</u>	<u>\$ (23,787,923)</u>	<u>\$ (23,843,659)</u>

See accompanying notes to financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	Divisional Information			2012	2011
	GEDA	SSBCI	TSA		
Cash flows from operating activities:					
Cash received on grants and contracts	\$ -	\$ 4,352,842	\$ -	\$ 4,352,842	\$ -
Cash received from customers	2,504,716	-	2,385,822	4,890,538	4,762,896
Cash paid to suppliers for goods and services	(652,122)	(15,528)	(58,667)	(726,317)	(407,437)
Cash paid to employees for services	(1,841,902)	(54,783)	-	(1,896,685)	(1,947,140)
Cash paid for retirement benefits	(30,795)	-	-	(30,795)	(53,698)
Net cash (used in) provided by operating activities	<u>(20,103)</u>	<u>4,282,531</u>	<u>2,327,155</u>	<u>6,589,583</u>	<u>2,354,621</u>
Cash flows from investing activities:					
Interest and investment income	69,950	17,091	-	87,041	22,068
Rollover of interest into investment	(69,950)	(17,091)	-	(87,041)	(22,068)
Maturity of investment securities	133,677	(981,017)	-	(847,340)	(22,128)
Net cash (used in) provided by investing activities	<u>133,677</u>	<u>(981,017)</u>	<u>-</u>	<u>(847,340)</u>	<u>(22,128)</u>
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(15,469)	(2,889)	-	(18,358)	(74,782)
Net cash used in capital and related financing activities	<u>(15,469)</u>	<u>(2,889)</u>	<u>-</u>	<u>(18,358)</u>	<u>(74,782)</u>
Cash flows from noncapital financing activities:					
Repayment of bond payable	-	-	(720,000)	(720,000)	(655,000)
Net interest received (paid) on deposit accounts and bonds payable	647	10,334	(1,623,056)	(1,612,075)	(1,656,887)
Net cash provided by (used in) noncapital financing activities	<u>647</u>	<u>10,334</u>	<u>(2,343,056)</u>	<u>(2,332,075)</u>	<u>(2,311,887)</u>
Net change in cash and cash equivalents	98,752	3,308,959	(15,901)	3,391,810	(54,176)
Cash and cash equivalents at beginning of year	18,030	(15)	3,660,291	3,678,306	3,732,482
Cash and cash equivalents at end of year	<u>\$ 116,782</u>	<u>\$ 3,308,944</u>	<u>\$ 3,644,390</u>	<u>\$ 7,070,116</u>	<u>\$ 3,678,306</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating (loss) income	\$ 4,790	\$ 12,542	\$ 2,327,155	\$ 2,344,487	\$ 1,979,857
Other income, net	37,110	-	-	37,110	146,426
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	39,233	93	-	39,326	81,758
(Increase) decrease in assets:					
Due from trust funds administered by GEDA	19,259	-	-	19,259	6,101
Reimbursable expense	5,886	(4,224)	-	1,662	-
Other receivables	(177,770)	31,457	-	(146,313)	(120,399)
Promotional supplies	255	-	-	255	(9,667)
Prepaid expenses	-	(3,094)	-	(3,094)	5,333
Deferred charges	-	-	-	-	62,500
Increase (decrease) in liabilities:					
Accounts payable	97,190	-	-	97,190	76,554
Due to trust funds administered by GEDA	(2,120)	(355)	-	(2,475)	(27,757)
Accrued liabilities	(83,512)	-	-	(83,512)	102,842
Unearned grant revenue	-	4,246,112	-	4,246,112	(6,301)
Deferred rental income	17,988	-	-	17,988	(6,301)
Deposits	-	-	-	-	72,000
DCRS sick leave liability	21,588	-	-	21,588	(14,626)
Net cash (used in) provided by operating activities	<u>\$ (20,103)</u>	<u>\$ 4,282,531</u>	<u>\$ 2,327,155</u>	<u>\$ 6,589,583</u>	<u>\$ 2,348,320</u>

See accompanying notes to financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Economic Development Authority (GEDA) was created by Public Law 8-80 on August 21, 1965, to assist in the implementation of an integrated program for the economic development of Guam. Enabling legislation set forth several specific purposes for the establishment of GEDA to include:

- (a) Aiding private enterprise without competing with it,
- (b) Expanding the money supply to finance housing facilities, and
- (c) Providing the means necessary for acquisition of hospital facilities.

To accomplish the stated purposes, GEDA is authorized to conduct research of, invest in, provide loans to, operate and provide technical assistance to industries and/or agricultural projects; issue revenue bonds; obtain Government of Guam land; purchase mortgages; and recommend to the Governor of Guam businesses qualifying for tax rebates and abatements. GEDA utilizes certain Trust Funds, such as the Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF) to accomplish certain of the stated purposes.

Guam Business Development Corporation (GBDC) was formed on October 18, 1988 as a wholly-owned subsidiary of GEDA for the purpose of acquiring and developing tourist-related property and protecting the various interests of GEDA and Funds administered by GEDA. GBDC was dissolved during the year ended September 30, 2011.

As a governmental entity created by public law, GEDA is not subject to taxes and is a component unit of the Government of Guam.

The financial statements of GEDA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. GEDA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

In 1998, the U.S tobacco industry reached an agreement with state governments releasing the tobacco companies from present and future smoking-related claims that had been or potentially could be, filed by the states. A Master Settlement Agreement (MSA) was reached in 1998 and Guam became one of the beneficiaries of the settlement amounts received as a result of this agreement. Pursuant to the *Guam Economic Development Authority Tobacco Settlement Revenue Bond Act*, as amended by Public Law 29-19, Guam has irrevocably assigned to GEDA all of its right, title and interest in amounts payable after April 10, 2001 to Guam under the MSA. GEDA therefore created the Tobacco Settlement Authority (TSA) to receive future tobacco settlement resources, to obtain debt and to service such debt.

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Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

Purpose, Continued

In 2011, the Government of Guam applied to receive an allocation of the total \$1.5 billion funds available under the State Small Business Credit Initiative (SSBCI) Job Act of 2010. The funds are to support the fifty states and territories for use in programs designed to increase access to credit for small businesses. In June 2011, GEDA entered into a Memorandum of Agreement (MOA) with the Office of the Governor of Guam. In the MOA, GEDA was delegated the primary responsibility of administrating Guam's SSBCI's program. On September 30, 2011, the Government of Guam and the United States Department of the Treasury entered into an "Allocation Agreement" in which Guam was approved to receive a total of \$13,168,380. The Allocation Agreement expires on March 31, 2017.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. In accordance with the accrual method, revenues are recognized when they are earned and expenses are recognized when they are incurred. GEDA's revenues are derived primarily from fees relating to subleasing of industrial parks, Qualifying Certificates (QCs) lease commissions, bond issuance fees and non-capital grant revenues, which are reported as operating revenues. Financing or investing related transactions are reported as non-operating revenues. All expenses related to operating GEDA are reported as operating expenses. Financing, investing and typhoon damages, net of recoveries are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets represent the residual interest in GEDA's assets after liabilities are deducted and consist of two sections: invested in capital assets and unrestricted. Net assets invested in capital assets include capital assets, restricted and unrestricted, net of accumulated depreciation. All other net assets are unrestricted.

Cash and Cash Equivalents

For the purpose of the statements of net assets and cash flows, cash and cash equivalents include balances deposited in banks and money market accounts.

Depreciation and Amortization

Buildings and improvements are depreciated on a straight-line basis over estimated useful lives of 7 to 30 years. Equipment and automobiles are depreciated on a straight-line basis over estimated useful lives of three to five years. GEDA generally capitalizes items with values \$500 or more and with useful lives extending beyond one year.

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Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

Investment in Stock

Investments in stock consist primarily of equity shares in a Guam financial institution, accounted at cost.

Bond Discounts and Issuance Costs

Bond discounts and debt issuance costs associated with the 2001 and 2007 series bonds are being amortized over the weighted average lives of the bonds using the straight-line method, which approximates the effective interest method.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, up to 100 hours of excess annual leave existing at February 28, 2003 may be credited to sick leave and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

Operating Expenses

Certain general and administrative expenses of the Funds administered by GEDA, other than legal expenses specifically related to the activities of a particular Fund, are borne by GEDA as part of its cost of administering the Funds. Additionally, GEDA allocates a percentage of payroll expense to the Funds based upon actual time personnel spend on the respective Fund. Additionally, GEDA allocates a percentage of rent expense to the Funds.

Risk Management

GEDA purchases automobile insurance covering \$300,000 for general single limited liability, inclusive of \$3,000 per person medical. GEDA also purchases commercial liability insurance against fire and typhoon damages to its leasehold improvements and contents. GEDA is self-insured against all other potential risks and losses. No losses in excess of insurable limits have been recognized in the past three years.

Concentrations of Credit Risk

Financial instruments which potentially subject GEDA to concentrations of credit risk consist principally of cash demand deposits and accounts receivable.

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Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk, Continued

At September 30, 2012 and 2011, GEDA has cash deposits in bank accounts that exceed federal depository insurance limits. Additionally, GEDA has investments in mutual fund and U.S. Government agency or sponsored-agency securities that are not subject to insurance. GEDA has not experienced any losses in such accounts.

Substantially all of GEDA's accounts receivables are due from companies and government agencies based in Guam. GEDA establishes an allowance for doubtful accounts based on management's evaluation of potential uncollectibility.

New Accounting Standards

During fiscal year 2012, GEDA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GEDA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GEDA.

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Notes to Financial Statements
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(1) Purpose and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GEDA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of GEDA.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GEDA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GEDA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GEDA.

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September 30, 2012 and 2011

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand and deposits in banks	\$ 3,425,726	\$ 18,015
Money market accounts	<u>3,644,390</u>	<u>3,660,291</u>
Cash and cash equivalents	\$ <u>7,070,116</u>	\$ <u>3,678,306</u>
Total shares in mutual funds	\$ 4,383,732	\$ 3,239,264
Brokered certificates of deposit (CDs)	315,149	-
U.S. Government treasury securities	52,645	89,249
U.S. Government agency securities	<u> -</u>	<u>488,632</u>
Investments	\$ <u>4,751,526</u>	\$ <u>3,817,145</u>

The deposits and investment policies of GEDA are governed by 5 GCA 21, *Investments and Deposits* and policies set by the Board of Directors in conjunction with applicable bond indentures. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any eligible financial institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, GEDA's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GEDA does not have a deposit policy for custodial credit risk.

At September 30, 2012 and 2011, the carrying amount of cash was \$3,425,726 and \$18,015, respectively, and the corresponding bank balances were \$3,523,231 and \$70,117, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$348,674 and \$70,117 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2012 and 2011, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

The bond indenture for the 2007 Series A and B Tobacco settlement bonds require the establishment of special funds to be held and administered by the trustees. Cash and cash equivalents held by TSA are restricted for bond services and are invested in money market accounts and are held and administered by TSA's trustees in accordance with the bond indentures. Accordingly, these balances are exposed to custodial credit risk.

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Notes to Financial Statements
September 30, 2012 and 2011

(2) Deposits and Investments, Continued

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, U.S Government securities and agency securities at September 30, 2012 and 2011 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

Interest rate risk is the risk that changes in interest rates will adversely affect their fair value of debt instruments. GEDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDA. As of September 30, 2011, GEDA's investment in FHLMC discount notes constituted 13% of its total investments.

As of September 30, 2012, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 2,218,698	N/A	N/A
Federated Government Obligations Fund (SS)	5	N/A	N/A
Pimco GNMA Fund Institutional Class (PTTRX)	315,419	N/A	N/A
Ishares TR Barclays Aggregate BD FD (AGG)	159,473	N/A	N/A
Ishares TR Barclays 10-20 Yr Treas BD FD (THL)	77,570	N/A	N/A
Dreyfus Treasury and Agency Cash Management			
- Ins (DYAXX)	1,612,567	N/A	N/A
Brokered CDs	315,149	-	N/A
US Government Treasury Note (U.S. T note)	<u>52,645</u>	12/31/13	AAA
	<u>\$ 4,751,526</u>		

Brokered CDs are placed with FDIC insured banks, under the applicable federal insurance deposit coverage, and all matured within one year.

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Notes to Financial Statements
September 30, 2012 and 2011

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2011, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 1,846,569	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	900,457	N/A	N/A
BlackRock Interim Govt Bond Inv C (BIGCX)	193,056	N/A	N/A
Franklin Adjustable US Govt Secs C (FCSCX)	136,867	N/A	N/A
MFS Limited Maturity C (MQLCX)	136,863	N/A	N/A
BlackRock Interm Govt Bond Inv A	25,452	N/A	N/A
Federal Home Loan Mortgage Corporation (FHLMC) discount note	488,632	10/06/11	N/A
U.S. T note	43,777	02/15/12	N/A
U.S. T note	<u>45,472</u>	12/31/13	N/A
	<u>\$ 3,817,145</u>		

Investments of GEDA and Trust Funds are maintained in pooled accounts. Related earnings and gains/losses are allocated based on percentage weight of total balances.

(3) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2012 and 2011 is as follows:

	<u>Beginning Balance October 1, 2011</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2012</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	546,603	-	-	546,603
Furniture and equipment	646,792	18,358	-	665,150
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>24,093</u>	<u>-</u>	<u>(9,622)</u>	<u>14,471</u>
	2,599,062	18,358	(9,622)	2,607,798
Less accumulated depreciation and amortization	<u>(2,022,291)</u>	<u>(39,326)</u>	<u>9,622</u>	<u>(2,051,995)</u>
	<u>\$ 576,771</u>	<u>\$ (20,968)</u>	<u>\$ -</u>	<u>\$ 555,803</u>

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Notes to Financial Statements
September 30, 2012 and 2011

(3) Building, Improvements and Equipment, Continued

	<u>Beginning Balance</u> <u>October 1, 2010</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2011</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	502,933	43,670	-	546,603
Furniture and equipment	615,680	31,112	-	646,792
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>24,093</u>	<u>-</u>	<u>-</u>	<u>24,093</u>
	2,524,280	74,782	-	2,599,062
Less accumulated depreciation and amortization	<u>(1,940,533)</u>	<u>(81,758)</u>	<u>-</u>	<u>(2,022,291)</u>
	<u>\$ 583,747</u>	<u>\$ (6,976)</u>	<u>\$ -</u>	<u>\$ 576,771</u>

(4) Long-Term Obligations

Bonds Payable

Bonds payable at September 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Tobacco settlement bonds, 2007 Series A current interest turbo term bonds, original principal amounts of \$17,505,000 and \$16,070,000, with interest rates at 5.25% and 5.625% per annum, respectively, payable semiannually on June 1 and December 1 ("Distribution Date"), principal payments due in varying annual installments commencing with a payment of \$1,025,000 on June 1, 2008 and increasing to \$3,840,000 on June 1, 2026. The Series A bonds are primarily secured by Tobacco Settlement Revenue (TSR) and Guam's right to be paid the TSR under the MSA (which was irrevocably assigned to GEDA as discussed in note 1).	\$ 29,055,000	\$ 29,775,000
Tobacco settlement bonds, 2007 Series B capital appreciation turbo term bonds, original principal amount of \$3,407,077. Interest on the Series B bonds is not paid currently, but is compounded based on an imputed interest rate of 7.25% on each Distribution Date to become part of the accreted value until the maturity date or earlier redemptions. The bonds bear an original maturity value of \$115,455,000 with final maturity date of June 1, 2057. The projected turbo redemption date, however, is June 1, 2034 with a total projected principal amount of \$16,773,618. Under the Turbo Redemption assumption, principal payments are due in varying annual installments commencing with a payment of \$917,533 on June 1, 2008 and increasing to \$1,191,488 on June 1, 2034. The Series B bonds are also secured by TSR with the Series A bonds; however, they are subordinate to the Series 2007A Bonds.	<u>16,773,618</u>	<u>16,773,618</u>

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Notes to Financial Statements
September 30, 2012 and 2011

(4) Long-Term Obligations, Continued

Bonds Payable, Continued

	<u>2012</u>	<u>2011</u>
Total	45,828,618	46,548,618
Less current portion	<u>(1,850,000)</u>	<u>(1,720,000)</u>
	43,978,618	44,828,618
Less discount on Series B capital appreciation turbo term bonds	(12,005,906)	(12,333,221)
Less discount on issuance	(1,218,047)	(1,337,658)
Less deferred difference on defeasance of 2001 bonds	<u>(1,126,804)</u>	<u>(1,437,646)</u>
	<u>\$ 29,627,861</u>	<u>\$ 29,720,093</u>

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2012 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2013	\$ 1,850,000	\$ 1,429,004	\$ 3,279,004
2014	1,980,000	1,331,879	3,311,879
2015	2,120,000	1,227,732	3,347,732
2016	2,270,000	1,116,300	3,386,300
2017	2,430,000	996,380	3,426,380
2018 through 2022	6,460,000	3,681,515	10,141,515
2023 through 2027	9,872,533	1,479,867	11,352,400
2028 through 2032	13,334,175	-	13,334,175
2033 through 2034	<u>5,511,910</u>	<u>-</u>	<u>5,511,910</u>
	<u>\$ 45,828,618</u>	<u>\$ 11,262,677</u>	<u>\$ 57,091,295</u>

On December 13, 2007, GEDA issued \$36,982,077 (original principal) in Series 2007 Tobacco Settlement Bonds. Net proceeds were \$35,478,149 (\$34,359,109 of original principal after issuance discount, underwriter discount and other issuance costs, plus an additional \$794,040 from the Series 2001 funds plus \$325,000 received in connection with the termination of Series 2001 Reserve Fund Agreement). Of this amount, \$8,345,278 was transferred into a custodial account for the benefit of the Government of Guam. The remaining \$27,132,871 was deposited in an irrevocable trust with an escrow agent to provide for the future service of the Series 2001 bonds through May 15, 2016. Except to the extent of any excess which is to be released upon termination (when all transfers and payments required are satisfied), GEDA has no interest in the funds or investments held in the escrow fund and as a result, the Series 2001 bond indenture was satisfied and discharged. Additionally, the transaction meets the requirement of an in-substance defeasance and as a result, the Series 2001 bonds and the related funds held by the escrow agent are not included in the accompanying financial statements.

Additionally, the defeasance resulted in a loss of \$2,628,344, representing the difference between the reacquisition price and the carrying amount of the Series 2001 bonds. The loss has been deferred and amortized over the remaining life the Series 2001 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

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(4) Long-Term Obligations, Continued

Bonds Payable, Continued

The defeasance of the bonds resulted in an increase of GEDA's aggregate debt service payment by approximately \$36 million over the life of the new Series 2007 bonds and an economic loss (difference between the present value of the old and new debt service payments, plus the \$8,345,278 received) of approximately \$455,000.

The difference between the original principal amount of \$3,407,077 and the projected turbo redemption projected value of \$16,773,618 represents discount that is amortizing into interest expense using the straight-line method through the weighted average life of the Series 2007 bonds.

The Series 2007 bonds are subject to mandatory redemption, in whole or in part, prior to their stated maturity dates from amounts on deposit in the Turbo Redemption Account on each Distribution Date. Due to a number of factors, including actual shipment of cigarettes in the United States and the actual level of payments received by the settling states under the MSA, the amount available to pay the principal or accredited value of and interest on the Series 2007 bonds may fluctuate from year to year.

As discussed in the above section, all Tobacco Settlement Revenue and interest earned in trust funds have been pledged to repay the bonds principal and interest. The debt service for the bonds was \$2,343,056 and \$2,499,050 for the years ended September 30, 2012 and 2011, respectively, or approximately 98% and 99%, respectively, of pledged revenues for those years.

During the years ended September 30, 2012 and 2011, the following changes occurred in liabilities reported as part of GEDA's long-term liabilities in the statements of net assets:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2012</u>	Due within <u>one year</u>
Bonds payable	\$ 46,548,618	\$ -	\$ (720,000)	\$ 45,828,618	\$ 1,850,000
Deferred amounts:					
Unamortized difference on bonds defeasance	(1,437,646)	-	310,842	(1,126,804)	-
Unamortized discount on bonds issued	(13,670,879)	-	446,926	(13,223,953)	-
	<u>31,440,093</u>	-	<u>37,768</u>	<u>31,477,861</u>	<u>1,850,000</u>
Other liabilities:					
DCRS sick leave liability	81,066	21,588	-	102,654	-
Deposits	<u>138,823</u>	-	-	<u>138,823</u>	-
	<u>219,889</u>	<u>21,588</u>	-	<u>241,477</u>	-
	<u>\$ 31,659,982</u>	<u>\$ 21,588</u>	<u>\$ 37,768</u>	<u>\$ 31,719,338</u>	<u>\$ 1,850,000</u>

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Notes to Financial Statements
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(4) Long-Term Obligations, Continued

	Balance October 1, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2011</u>	Due within <u>one year</u>
Bonds payable	\$ 47,203,618	\$ -	\$ (655,000)	\$ 46,548,618	\$ 1,720,000
Deferred amounts:					
Unamortized difference on bonds defeasance	(1,748,488)	-	310,842	(1,437,646)	-
Unamortized discount on bonds issued	(14,095,868)	-	424,989	(13,670,879)	-
	<u>31,359,262</u>	-	<u>80,831</u>	<u>31,440,093</u>	<u>1,720,000</u>
Other liabilities:					
DCRS sick leave liability	95,692	-	(14,626)	81,066	-
Deposits	<u>66,823</u>	<u>72,000</u>	-	<u>138,823</u>	-
	<u>162,515</u>	<u>72,000</u>	<u>(14,626)</u>	<u>219,889</u>	-
	<u>\$ 31,521,777</u>	<u>\$ 72,000</u>	<u>\$ 66,205</u>	<u>\$ 31,659,982</u>	<u>\$ 1,720,000</u>

(5) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

GEDA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GEDA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2012 and 2011

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GEDA's contributions to the DB Plan for the years ending September 30, 2012, 2011 and 2010 were \$176,392, \$195,272 and \$133,407, respectively, which were equal to the required contributions for the respective year ended.

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions into the DCRS plan for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

GEDA's contributions to the DCRS plan for the years ended September 30, 2012, 2011 and 2010 were \$277,864, \$234,273, and \$216,393, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$228,743, \$191,551 and \$174,800 were contributed toward the unfunded liability of the DB Plan at September 30, 2012, 2011 and 2010, respectively.

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(5) Employees' Retirement Plan, Continued

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDA has accrued an estimated liability of \$102,654 and \$81,066 at September 30, 2012 and 2011, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated. During the years ended September 30, 2012, 2011 and 2010, actual contributions paid were \$30,795, \$31,084 and \$33,064, respectively.

(6) Rental Income

GEDA leases industrial parks from the Government of Guam for an annual rent of \$1 with terms expiring in 2068. GEDA subleases space to various tenants under agreements that call for advance rental payments of one month's to one year's rent. GEDA records such advance rent as a receivable at the anniversary or due date; related income is deferred and recognized over the period to which it applies.

The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. However, negotiations are ongoing and a definitive agreement has not been finalized. Estimated lease expense payable under a previous term of approximately \$260,698 was directly paid by the lessee in 2006. GEDA did not record any lease expense for 2012 and 2011.

Future minimum rentals to be received under noncancelable subleases are as follows:

Years ending September 30:	
2013	\$ 845,900
2014	552,300
2015	449,600
2016	257,400
2017	140,400
2018 – 2022	625,800
2023 – 2027	25,000
2028 – 2032	25,000

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Notes to Financial Statements
September 30, 2012 and 2011

(6) Rental Income, Continued

2033 – 2037	25,000
2038 – 2042	25,000
2043 – 2047	25,000
2048 – 2052	25,000
2053 – 2057	25,000
2058 – 2062	<u>25,000</u>

\$ 3,071,400

(7) Lease Commitments

GEDA has an operating lease for office space expiring February 28, 2014. Concurrently, GEDA and Guam Housing Corporation (GHC), a Government of Guam agency, entered into a Memorandum of Understanding (MOU) in which GEDA charges GHC for use of a portion of the office space. At September 30, 2012, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding for 2013 are \$348,672 and \$116,448, respectively, and for 2014 are \$145,280 and \$48,520, respectively.

Rent expense, net of GHC reimbursements for the years ended September 30, 2012 and 2011, was \$224,967 and \$185,295, respectively, of which \$31,090 and \$25,608, respectively, was allocated to trust funds administered by GEDA.

(8) Related Parties

At September 30, 2012 and 2011, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2012</u>	<u>2011</u>
Guam Development Fund Act (GDFA)	\$ 11,472,831	\$ 11,443,130
Agricultural Development Fund (ADF)	968,921	868,650

Microenterprise Development Program (MDP), Guam Territorial Aquarium Foundation (GTAF), Music and Legends of Guam Fund (MLGF), Housing and Urban Development Fund (HUD), Music and Legends of Guam Fund (MLGF) Agricultural Expense Insurance Fund (AEIF), Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF) and the U.S. Base Realignment and Closure Committee (BRAC) have no assets, liabilities, or net assets as of September 30, 2012 and 2011 and had no activities during the years then ended.

(9) Contingencies

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. GEDA has not assessed the impact of the requirements of the law as of September 30, 2012. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

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Notes to Financial Statements
September 30, 2012 and 2011

(9) Contingencies, Continued

Tobacco Settlement Bonds Reserve Fund Agreement

In connection with its Series 2007 Tobacco Settlement Bonds, GEDA entered into a Reserve Fund Agreement (the "Agreement") with Lehman Brothers Special Financing, Inc. ("LBSF"), which requires LBSF to cause Lehman Brothers, Inc., as qualified dealer, to deliver securities that mature on or before the next interest payment date, at a price designed to produce a rate of return of at least 4.365%. The contractual termination date for the Reserve Fund Agreement is June 1, 2047. LBSF's obligation under the Agreement was guaranteed by Lehman Brothers Holdings Inc. ("LBHI"). On September 15, 2008, LBSF and LBHI filed for Chapter 11 bankruptcy protection. LBSF failed to deliver new Qualified Securities under the Agreement on the next scheduled delivery date of December 1, 2008, and, as a result, Co-Trustee U.S. Bank National Association declared an event of default under the Agreement and invested the amount on deposit in the Reserve Fund in short-term securities as required under the Agreement. On September 22, 2009, GEDA filed claims with the United States Bankruptcy Court against LBSF and LBHI, each for approximately \$1.8 million, as the estimated replacement market value of the Reserve Fund Agreement. Such replacement value represents the present value of the difference between the guaranteed rate and the market interest rate over the remaining term of the Agreement, i.e. through June 1, 2047. If the termination claim is not favorably resolved, GEDA's earnings from the investment of the Reserve Fund could be lower than originally expected, but no loss of principal has occurred or would occur. These events are not expected to have an adverse impact on the timely repayment of the Series 2007 Tobacco Settlement Bonds.

Additionally, GEDA is involved in various litigation which is inherent in its operations. Management is of the opinion that liabilities of a material nature will not be realized.

(10) SSBCI

On October 4, 2011, Guam received initial SSBCI program funding of \$4,345,556, approximating 33% of total funding. 80% of the amount must be obligated before the next tranche of funding can be received. Additionally, the Agreement allows certain direct and indirect costs for administering the program at 5% of initial funding and 3% of subsequent funding. At September 30, 2012 and 2011, GEDA had incurred administrative costs of \$67,987 and \$31,457, respectively.

Pursuant to Allocation Agreement term, GEDA has entered into a Lender Participation Agreement ("Agreement") with two financial institutions ("Lenders"). Under the Agreements, GEDA will guarantee loans made by the lenders to eligible Guam small businesses not to exceed 75% of each loan, with total loan enrolments not to exceed \$5 million under each Agreement. GEDA has sole and absolute right to approve or reject enrollment of any loan in the program where the amount of the loan exceeds \$500,000. For each loan enrolled by the Lenders under the Agreements, the Lenders shall pay GEDA up to 2% of the amount of the loan as guarantee fees. The guarantees are made in the form of cash deposits with the Lenders, not to exceed 75% of the total enrolled loan amount.

As of September 30, 2012, one Lender has enrolled three loans totaling \$364,296 in the program and remitted \$7,286 in guarantee fees to GEDA; additionally, \$273,222 of the total deposit of \$3,289,961 with this Lender is restricted under the Agreement.

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Notes to Financial Statements
September 30, 2012 and 2011

(11) State Trade and Export Promotions (STEP)

During the year ended September 30, 2012, GEDA was awarded the STEP grant in the amount of \$135,927 from the U.S. Small Business Administration (SBA) authorized by the Small Business Jobs Act of 2010. The STEP grant is designed to increase the number of small businesses that are exporting and to increase the value of exports for existing small businesses. As of September 30, 2012, GEDA has incurred total \$114,768 in grant expenditures, of which \$3,417 was reimbursed during the year and \$111,351 recorded in "Other receivables" in the accompanying statements of net assets (deficiency). In fiscal year 2013, GEDA has been awarded \$227,445 in STEP Grant as Year-2 funding.

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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and wages:		
Salaries	\$ 1,375,250	\$ 1,354,660
Benefits	<u>918,309</u>	<u>877,880</u>
Total salaries and wages	<u>\$ 2,293,559</u>	<u>\$ 2,232,540</u>
Employees at end of year	30	27

See accompanying independent auditors' report.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Comparative Divisional Schedules of Net Assets (Deficiency)
September 30, 2012 and 2011

ASSETS	GEDA		SSBCI		TSA	
	2012	2011	2012	2011	2012	2011
Current assets:						
Cash and cash equivalents	\$ 116,782	\$ 18,030	\$ 3,308,944	\$ (15)	\$ 3,644,390	\$ 3,660,291
Investments	3,753,418	3,817,145	998,108	-	-	-
Due from trust funds administered by GEDA:						
Agricultural Development Fund	100	-	-	-	-	-
Guam Development Fund Act	14,459	33,718	-	-	-	-
Reimbursable expense	26,863	32,749	(26,863)	(31,087)	-	(1,662)
Other receivables, net	363,960	186,190	-	31,457	-	-
Promotional supplies	10,629	10,884	-	-	-	-
Prepaid expense	-	-	3,094	-	-	-
Total current assets	<u>4,286,211</u>	<u>4,098,716</u>	<u>4,283,283</u>	<u>355</u>	<u>3,644,390</u>	<u>3,658,629</u>
Deferred bond issuance costs	-	-	-	-	560,683	615,742
Equity investment	3,500	3,500	-	-	-	-
Building, improvements and equipment, at cost, net	553,007	576,771	2,796	-	-	-
	<u>\$ 4,842,718</u>	<u>\$ 4,678,987</u>	<u>\$ 4,286,079</u>	<u>\$ 355</u>	<u>\$ 4,205,073</u>	<u>\$ 4,274,371</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)						
Current liabilities:						
Current portion of bonds payable	\$ -	\$ -	\$ -	\$ -	\$ 1,850,000	\$ 1,720,000
Accounts payable	350,724	253,534	-	-	1,662	-
Due to trust funds administered by GEDA:						
Guam Development Fund Act	-	-	-	355	-	-
Agricultural Development Fund	-	2,020	-	-	-	-
Accrued liabilities	176,415	259,927	-	-	-	-
Interest payable	-	-	-	-	529,000	541,000
Unearned grant revenues	-	-	4,246,112	-	-	-
Deferred rental income	98,542	80,554	-	-	-	-
Total current liabilities	<u>625,681</u>	<u>596,035</u>	<u>4,246,112</u>	<u>355</u>	<u>2,380,662</u>	<u>2,261,000</u>
Non-current liabilities:						
Bonds payable, net of current portion and discount	-	-	-	-	29,627,861	29,720,093
DCRS sick leave liability	102,654	81,066	-	-	-	-
Deposits	138,823	138,823	-	-	-	-
Total non-current liabilities	<u>241,477</u>	<u>219,889</u>	<u>-</u>	<u>-</u>	<u>29,627,861</u>	<u>29,720,093</u>
Total liabilities	<u>867,158</u>	<u>815,924</u>	<u>4,246,112</u>	<u>355</u>	<u>32,008,523</u>	<u>31,981,093</u>
Net assets (deficiency):						
Invested in capital assets	553,007	576,771	2,796	-	-	-
Unrestricted	3,422,553	3,286,292	37,171	-	(27,803,450)	(27,706,722)
Net assets (deficiency)	<u>3,975,560</u>	<u>3,863,063</u>	<u>39,967</u>	<u>-</u>	<u>(27,803,450)</u>	<u>(27,706,722)</u>
	<u>\$ 4,842,718</u>	<u>\$ 4,678,987</u>	<u>\$ 4,286,079</u>	<u>\$ 355</u>	<u>\$ 4,205,073</u>	<u>\$ 4,274,371</u>

See accompanying independent auditors' report.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2012 and 2011

	GEDA		SSBCI		TSA	
	2012	2011	2012	2011	2012	2011
Revenues:						
Rental income	\$ 1,215,345	\$ 1,207,979	\$ -	\$ -	\$ -	\$ -
Tobacco Settlement revenue	-	-	-	-	2,385,822	2,341,023
Qualifying certificate application, surveillance and other	428,673	499,181	-	-	-	-
Bond fees earned	747,400	549,064	-	-	-	-
Grants revenue	114,768	-	67,987	31,457	-	-
GALC lease commission	96,057	96,888	-	-	-	-
Guarantee fees	-	-	7,286	-	-	-
	<u>2,602,243</u>	<u>2,353,112</u>	<u>75,273</u>	<u>31,457</u>	<u>2,385,822</u>	<u>2,341,023</u>
Operating expenses:						
Salaries and benefits	1,894,285	1,986,212	54,783	28,020	-	-
Legal and professional services	222,637	236,450	1,673	3,422	53,125	33,662
Office space and equipment rent	211,547	176,228	-	-	-	-
Travel	127,243	69,485	5,504	-	5,542	7,192
Depreciation and amortization	39,233	81,758	93	-	-	-
Advertising and promotions	39,020	39,193	60	-	-	-
Utilities, telephone and communication	8,476	14,277	-	-	-	-
Insurance	6,054	6,653	-	-	-	-
Supplies	9,915	7,962	-	-	-	-
Repairs and maintenance	1,884	2,110	-	-	-	-
Miscellaneous	37,159	21,639	618	15	-	-
	<u>2,597,453</u>	<u>2,641,967</u>	<u>62,731</u>	<u>31,457</u>	<u>58,667</u>	<u>40,854</u>
Operating (loss) income	<u>4,790</u>	<u>(288,855)</u>	<u>12,542</u>	<u>-</u>	<u>2,327,155</u>	<u>2,300,169</u>
Other income (expense):						
Interest income (expense), net	647	426	10,334	-	(2,423,883)	(2,436,203)
Investment income	104,751	120,870	-	-	-	-
Net (decrease) increase in the fair value of investments	(34,801)	(98,802)	17,091	-	-	-
Other income, net	37,110	114,969	-	-	-	-
Other income (expense), net	<u>107,707</u>	<u>137,463</u>	<u>27,425</u>	<u>-</u>	<u>(2,423,883)</u>	<u>(2,436,203)</u>
Net increase (decrease) in net assets	112,497	(151,392)	39,967	-	(96,728)	(136,034)
Net assets (deficiency) at beginning of year	<u>3,863,063</u>	<u>4,014,455</u>	<u>-</u>	<u>-</u>	<u>(27,706,722)</u>	<u>(27,570,688)</u>
Net assets (deficiency) at end of year	<u>\$ 3,975,560</u>	<u>\$ 3,863,063</u>	<u>\$ 39,967</u>	<u>\$ -</u>	<u>\$ (27,803,450)</u>	<u>\$ (27,706,722)</u>

See accompanying independent auditors' report.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Comparative Divisional Schedules of Cash Flows
Years Ended September 30, 2012 and 2011

	GEDA		SSBCI		TSA	
	2012	2011	2012	2011	2012	2011
Cash flows from operating activities:						
Cash received on grants and contracts	\$ -	\$ -	\$ 4,352,842	\$ -	\$ -	\$ -
Cash received from customers	2,504,716	2,421,873	-	-	2,385,822	2,341,023
Cash paid to suppliers for goods and services	(652,122)	(366,567)	(15,528)	(15)	(58,667)	(40,855)
Cash paid to employees for services	(1,841,902)	(1,947,140)	(54,783)	-	-	-
Cash paid for retiree benefits	(30,795)	(53,698)	-	-	-	-
Net cash (used in) provided by operating activities	(20,103)	54,468	4,282,531	(15)	2,327,155	2,300,168
Cash flows from investing activities:						
Interest and investment income	69,950	22,068	17,091	-	-	-
Rollover of interest into investment	(69,950)	(22,068)	(17,091)	-	-	-
Maturity (purchase) of investment securities	133,677	(22,128)	(981,017)	-	-	-
Net cash provided by (used in) investing activities	133,677	(22,128)	(981,017)	-	-	-
Cash flows from capital and related financing activities:						
Purchase of property and equipment	(15,469)	(74,782)	(2,889)	-	-	-
Net cash used in capital and related financing activities	(15,469)	(74,782)	(2,889)	-	-	-
Cash flows from noncapital financing activities:						
Repayment of bond payable	-	-	-	-	(720,000)	(655,000)
Net interest received (paid) on deposit accounts and bonds payable	647	426	10,334	-	(1,623,056)	(1,657,313)
Net cash provided by (used in) noncapital financing activities	647	426	10,334	-	(2,343,056)	(2,312,313)
Net change in cash and cash equivalents	98,752	(42,016)	3,308,959	(15)	(15,901)	(12,145)
Cash and cash equivalents at beginning of year	18,030	60,046	(15)	-	3,660,291	3,672,436
Cash and cash equivalents at end of year	\$ 116,782	\$ 18,030	\$ 3,308,944	\$ (15)	\$ 3,644,390	\$ 3,660,291
Reconciliation of operating income to net cash provided by operating activities:						
Operating (loss) income	\$ 4,790	\$ (288,855)	\$ 12,542	\$ -	\$ 2,327,155	\$ 2,300,169
Other income, net	37,110	114,969	-	-	-	-
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	39,233	81,758	93	-	-	-
(Increase) decrease in assets:						
Due from trust funds administered by GEDA	19,259	6,101	-	-	-	-
Reimbursable expense	5,886	(31,086)	(4,224)	31,087	-	(1)
Other receivables	(177,770)	(88,942)	31,457	(31,457)	-	-
Promotional supplies	255	(9,667)	-	-	-	-
Prepaid expenses	-	5,333	(3,094)	-	-	-
Deferred charges	-	62,500	-	-	-	-
Increase (decrease) in liabilities:						
Accounts payable	97,190	76,554	-	-	-	-
Due to trust funds administered by GEDA	(2,120)	(28,112)	(355)	355	-	-
Accrued liabilities	(83,512)	102,842	-	-	-	-
Unearned grant revenue	-	-	4,246,112	-	-	-
Deferred rental income	17,988	(6,301)	-	-	-	-
Deposits	-	72,000	-	-	-	-
DCRS sick leave liability	21,588	(14,626)	-	-	-	-
Net cash (used in) provided by operating activities	\$ (20,103)	\$ 54,468	\$ 4,282,531	\$ (15)	\$ 2,327,155	\$ 2,300,168

See accompanying independent auditors' report.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2012 AND 2011

Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF) and the Music and Legends of Guam Fund (MLGF) (the Funds) as of September 30, 2012 and 2011, and the related statements of changes in fiduciary net assets for the years then ended. The Funds are administered by the Guam Economic Development Authority (the Authority) which is a component unit of the Government of Guam. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2012 and 2011, and the changes in their net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2013, on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


March 8, 2013

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Statements of Fiduciary Net Assets
September 30, 2012 and 2011

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund	
	2012	2011	2012	2011
Cash on hand and in bank	\$ 191,795	\$ 4,072	\$ 20,490	\$ 4,245
Investments	9,404,498	9,602,373	920,775	798,150
Notes and accrued interest receivable	2,203,617	2,257,256	53,212	226,716
Less allowance for doubtful receivables	(1,650,969)	(1,816,608)	(27,543)	(219,456)
Net notes and accrued interest receivable	552,648	440,648	25,669	7,260
Due from other funds:				
Guam Economic Development Authority	-	-	-	2,020
State Small Business Credit Initiative	-	355	-	-
Guam Development Fund Act	-	-	1,987	975
Other real estate:				
Land	548,571	625,195	-	56,000
Leasehold interest, net	756,368	770,487	-	-
Other receivables	18,951	-	-	-
	1,323,890	1,396,037	1,987	58,995
Total assets	\$ 11,472,831	\$ 11,443,130	\$ 968,921	\$ 868,650
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 54,334	\$ 37,784	\$ 10,973	\$ 10,973
Due to other funds:				
Guam Economic Development Authority	14,459	33,718	100	-
Agricultural Development Program	1,987	975	-	-
Total liabilities	70,780	72,477	11,073	10,973
Contingencies				
Net assets held in trust	11,402,051	11,370,653	957,848	857,677
Total liabilities and net assets	\$ 11,472,831	\$ 11,443,130	\$ 968,921	\$ 868,650

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Statements of Changes in Fiduciary Net Assets
Years Ended September 30, 2012 and 2011

	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program	Guam Territorial Aquarium Foundation	Music and Legends of Guam Fund
	2012	2011	2012	2011	2011	2011	2011
Additions:							
Investment income, net	\$ 117,765	\$ 43,432	\$ 1,504	\$ 1,755	\$ -	\$ -	\$ -
Interest from loans	27,623	20,926	1,264	463	-	-	-
Gain on sale or real estate owned, net	(4,737)	82,854	76,336	-	-	-	-
Other	153,835	163,991	201	-	-	-	-
Total additions	<u>294,486</u>	<u>311,203</u>	<u>79,305</u>	<u>2,218</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deductions:							
(Recovery of) provision for doubtful notes and accrued interest	(156,560)	64,369	(22,146)	(9,610)	-	-	-
Salaries and benefits	344,491	218,308	-	-	-	-	-
Rent	34,300	28,198	-	-	-	-	-
Legal and professional services	11,236	5,953	-	2,731	-	-	-
Depreciation	14,119	14,601	-	37	-	-	-
Bank charges	4,027	8,255	1,280	1,130	-	-	-
Travel	7,055	6,786	-	-	-	-	-
Miscellaneous	4,420	(6,547)	-	1,015	39,501	20,560	11,387
Total deductions	<u>263,088</u>	<u>339,923</u>	<u>(20,866)</u>	<u>(4,697)</u>	<u>39,501</u>	<u>20,560</u>	<u>11,387</u>
Net change in net assets	31,398	(28,720)	100,171	6,915	(39,501)	(20,560)	(11,387)
Net assets at beginning of year	<u>11,370,653</u>	<u>11,399,373</u>	<u>857,677</u>	<u>850,762</u>	<u>39,501</u>	<u>20,560</u>	<u>11,387</u>
Net assets at end of year	<u>\$ 11,402,051</u>	<u>\$ 11,370,653</u>	<u>\$ 957,848</u>	<u>\$ 857,677</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF), and the Music and Legends of Guam Fund (MLGF) are administered by the Guam Economic Development Authority (GEDA). GEDA utilizes the Funds to carry out its stated purpose of providing an integrated program for the economic development of Guam. The Funds are Fiduciary Fund Types and are component units of the Government of Guam. The specific purpose of each fund is as follows:

GDFA - GDFA was created to further the economic development of private business on Guam through loans and loan guarantees from a Revolving Loan Fund. The initial capital for this Fund was derived from a grant by the U.S. Government. Subsequent contributions have been made through appropriations by the Guam Legislature.

ADF - ADF was created to aid in the development or subsidization of poultry, pork and beef production, agricultural products, processing plants and equipment. This is done primarily through direct loans to individuals at a 4% interest rate. All contributions to this Fund have been appropriated by the Guam Legislature.

MDP - MDP was developed to facilitate the economic development of Guam by providing financial assistance to support the establishment, stabilization and expansion of microenterprises, i.e., persons of low and moderate income or a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise on Guam.

GTAF - GTAF was established by Public Law 20-163 to administer and oversee the feasibility study, site selection and development of the Guam Aquarium project.

MLGF - MLGF was created to satisfy any financial obligations of GEDA related to the Music and Legends of Guam Project Fund. The fund consists of all proceeds collected from the sale of the musical recording of the Music and Legends of Guam work originally released in 1979.

Additionally, GEDA administered the Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), the Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF), the U.S. Base Realignment and Closure Committee (BRAC) which have no assets, liabilities or net assets as of September 30, 2012 and 2011 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements. The specific purpose of each fund is as follows:

HUD - HUD was created for the purpose of segregating activities of a specific HUD grant.

AEIF - AEIF was created to insure or to reinsure insurers of farmers, livestock producers and commercial fishermen against losses due to natural disasters. The premiums are collected at rates sufficient to cover claims for losses and to provide a reasonable reserve against unforeseen losses. Initial funding was by an appropriation from the Government of Guam. There were no insurance policies issued in 2012 and 2011 nor were there any policies outstanding at September 30, 2012 and 2011.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

Purpose, Continued

ATF - ATF was created to establish a small business entrepreneur program dedicated to nurturing the aquaculture industry. The major goals of the program are to finance and construct a demonstration project in two phases; to demonstrate the potential of these systems in Guam; to have these facilities serve as a teaching tool for aquaculture students; to test the market demand for the fish; to establish a technical and managerial assistance program; to provide recommendations in the permitting process for aquaculture farmers; and to provide recommendations for regulating importation of cultured fish products. All contributions to this Fund were appropriated by ADF.

LRF - LRF was created to assist land claimants by making or guaranteeing loans to be repaid from proceeds received from judgments. No single loan may exceed \$200,000, and interest should not exceed 6% per annum. All contributions to the Fund were made by the Guam Legislature.

LARF - LARF was created to assist local artists to promote the preservation, development and production of Chamorro music and song. No single loan may exceed \$15,000, and no interest should be charged. All contributions to the Fund were made by the Guam Legislature.

BRAC - BRAC was created to further the economic development of Guam through planning and rehabilitation of Guam military bases and military base property. Capital for this Fund was derived from a grant by the U.S. Government.

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund would to be appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2012 and 2011.

As government entities created by public laws, the Funds are not subject to taxes.

Basis of Accounting

The Funds are accounted for as Fiduciary Fund Type – Private Purpose Trust Funds and are component units of the Government of Guam.

The Funds have adopted GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” (GASB 34) as amended by GASB Statement No.’s 37 and 38. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments.

All net assets, pursuant to GASB 34, are held in trust for specified purposes.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For the purpose of the statements of net assets, cash includes cash on hand and in banks.

Notes and Accrued Interest Receivable

Notes receivable consist of loans made to Guam businesses and individuals. In accordance with Section 3 of the Guam Development Fund Act of 1968, the term of a loan shall not exceed twenty-five years. Additionally, loans bear interest above the U.S. treasury rate. All loans are secured by collateral with any long-term loans being secured by real property.

It is the policy of G DFA and ADF to cease accrual of interest on delinquent loans when, in the opinion of management, the past due condition is an indication of possible uncollectibility.

Allowance for Doubtful Receivables

The allowance for doubtful receivables, which includes uncollectible loan principal balances and applicable costs of collection, is maintained at a level adequate to absorb probable losses. GEDA determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance with the approval of the Board of Directors.

Expenses

Certain general and administrative expenses of the Funds administered by GEDA, other than legal expenses specifically related to the activities of a particular Fund, are borne by GEDA as part of its cost of administering the Funds. Additionally, GEDA allocates a percentage of payroll expense to the Funds based upon actual time personnel spend on the respective Fund. Additionally, GEDA allocates a percentage of rent expense to the Funds.

New Accounting Standards

During fiscal year 2012, the Trust Funds implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Trust Funds.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Trust Funds.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Trust Funds.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Trust Funds.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Trust Funds.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(1) Purpose and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Trust Funds.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Trust Funds.

Reclassifications

Certain balances in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2012 and 2011 consist the following:

	<u>2012</u>	<u>2011</u>
Cash on hand and deposits in banks	\$ <u>212,285</u>	\$ <u>8,317</u>
Cash and cash equivalents	\$ <u>212,285</u>	\$ <u>8,317</u>
Total shares in mutual funds	\$ 9,526,039	\$ 8,825,979
Brokered Certificates of Deposit (CDs)	684,834	-
U.S. Government treasury securities	114,400	243,176
U.S. Government agencies securities	<u>-</u>	<u>1,331,368</u>
Investments	\$ <u>10,325,273</u>	\$ <u>10,400,523</u>

The deposits and investment policies of GEDA are governed by 5 GCA 21, *Investments and Deposits* and policies set by the Board of Directors. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any eligible financial institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(2) Deposits and Investments, Continued

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, GEDA's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GEDA does not have a deposit policy for custodial credit risk.

At September 30, 2012 and 2011, the carrying amount of cash was \$212,285 and \$8,317, respectively, and the corresponding bank balances were \$211,884 and \$43,017, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). Cash balances of \$175,132 and \$43,017 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2012 and 2011, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, U.S Government securities and agency securities at September 30, 2012 and 2011 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GEDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDA. As of September 30, 2011, GEDA's investment in FHLMC discount notes constituted 13% of its total investments.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 4,821,324	N/A	N/A
Federated Government Obligations Fund (SS)	12	N/A	N/A
Pimco GNMA Fund Institutional Class (PTTRX)	685,420	N/A	N/A
Ishares TR Barclays Aggregate BD FD (AGG)	346,543	N/A	N/A
Ishares TR Barclays 10-20 Yr Treas BD FD (THL)	168,562	N/A	N/A
Dreyfus Treasury and Agency Cash Management - Ins (DYAXX)	3,504,178	N/A	N/A
Brokered CDs	684,834	N/A	N/A
US Government Treasury Note (U.S. T note)	<u>114,400</u>	12/31/13	AAA
	<u>\$ 10,325,273</u>		

Brokered CDs are placed with FDIC insured banks, under the applicable federal insurance deposit coverage, and all matured within one year.

As of September 30, 2011, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 5,031,322	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	2,453,462	N/A	N/A
BlackRock Interm Govt Bond Inv C (BIGCX)	526,016	N/A	N/A
Franklin Adjustable US Govt Secs C (FCSCX)	372,919	N/A	N/A
MFS Limited Maturity C (MQLCX)	372,909	N/A	N/A
BlackRock Interm Govt Bond Inv A	69,350	N/A	N/A
Federal Home Loan Mortgage Corporation (FHLMC) discount note	1,331,368	11/06/11	N/A
U.S. T note	119,279	02/15/12	N/A
U.S. T note	<u>123,898</u>	12/31/13	N/A
	<u>\$ 10,400,523</u>		

Investments of GEDA and Trust Funds are maintained in pooled accounts. Related earnings and gains/losses are allocated based on percentage weight of total balances.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Government of Guam)**

Notes to Financial Statements
September 30, 2012 and 2011

(3) Other Real Estate, Land

G DFA and ADF have acquired certain land through foreclosure of loans.

A summary of the changes in other real estate for 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 681,195	\$ 787,195
Sales	<u>(132,624)</u>	<u>(106,000)</u>
Balance at end of year	\$ <u>548,571</u>	\$ <u>681,195</u>

During the year ended September 30, 2012 and 2011, G DFA and ADF sold certain properties totaling \$132,624 and \$106,000 for proceeds of \$204,223 and \$188,854, which resulted in a net gain of \$71,599 and \$82,854, respectively.

(4) Other Real Estate, Leasehold Interest

G DFA and ADF have acquired leasehold interests in land through foreclosure of loans. Leasehold interests are reflected at cost of \$1,231,600 (net of a valuation allowance of \$333,171) as of September 30, 2012 and 2011, net of accumulated amortization of \$142,061 and \$127,942 at September 30, 2012 and 2011, respectively.

(5) Commitments

GEDA has approved three G DFA loans totaling \$76,621 which remain undisbursed as of September 30, 2012.

(6) Contingencies

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. GEDA has not assessed the impact of the requirements of the law as of September 30, 2012. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

GEDA is involved in various litigation that is inherent in its operations. Management is of the opinion that liabilities of a material nature will not be realized.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Guam Economic Development Authority:

We have audited the financial statements of the Guam Economic Development Authority (GEDA) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of GEDA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered GEDA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GEDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GEDA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GEDA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of GEDA, others within the entity, the Office of Public Accountability - Guam, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Deloitte & Touche LLP

March 8, 2013