

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

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

SEPTEMBER 30, 2010 AND 2009

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

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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 and subsidiary (the Authority), a component unit of the Government of Guam, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets (deficiency) and 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.

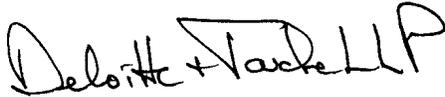
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 and subsidiary at September 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board* (GASB). This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental divisional information on pages 15 through 17, the supplemental data on page 34 and the supplemental comparative divisional schedules on pages 35 through 37 are presented for the purpose of additional analysis and are not required parts of the basic financial statements. This additional information is the responsibility of the Authority's management. Such information has been subjected to audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2011, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

February 15, 2011

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Management's Discussion and Analysis
Year Ended September 30, 2010

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.

FY2010 HIGHLIGHTS

This past year has been filled with great challenges for GEDA and the island as a whole. Although GEDA has a series of broad mandates, GEDA focused on key areas, serving as central financial manager for the Government of Guam, 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:

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:

TRADE MISSIONS AND EVENTS

• **PASEI and Rotary Club of Forbes Park – April 2010**

While in Manila, GEDA met with representatives of the Philippine Franchise Association (PFA), the Philippine Association of Service Exporters, Inc. (PASEI) and the Rotary Club of Forbes Park. The delegation also took part in a factory tour and represented the People of Guam at the Guam-Typhoon Ondoy Medical Relief Mission Transfer Ceremony. At the meeting with PASEI, the Administrator provided the audience of 125 attendees a presentation entitled, the "Guam Update 2010."

• **Hita Marianas Conference in San Diego – May 24th to 28th**

A GEDA delegation attended the conference to provide information on the Guam Build-up and the programs within GEDA available to investors. At GEDA's request, the Government of Guam's Financial Advisor, Ms. Aulii Limtiaco, also served as a panelist at the conference. GEDA also was an Exhibitor at the conference.

• **OCAJI – The Overseas Construction Association of Japan, Inc. – July 12th**

A GEDA delegation welcomed the Overseas Construction Association of Japan, Inc. at the Governor's conference room on Monday, July 12th to give a brief overview of Guam's general and financial information, business opportunities and information on the military build. The group consisted of 24 representatives from the construction industry and law firms from Japan looking at the opportunities that are available on Guam.

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- **1st Annual TropLinks Symposium – August 22nd to 25th**

A GEDA delegation represented the Government of Guam at the 1st Annual TropLinks Symposium in Cairns, Australia from August 22nd to August 25th in which a presentation on Guam's economic development and current and future opportunities was given to a group of about 100 participants.

- **Makati Business Meetings – Oct. 14th to 15th**

GEDA set up 2 follow up meetings in Makati for on-going investment concerns to include a meeting with a conglomerate of franchises looking to expand to Guam and with the Philippine Franchise Assoc. (PFA) who has also expressed interest in expanding their territory to Guam.

- **“Buy Local” Campaign**

GEDA is a member of the Guam Chamber of Commerce Small Business Committee (SBC), developing a “Buy Local” initiative. The Buy Local Campaign was launched at the Guam Chamber of Commerce Business Expo. In collaboration with the University of Guam (UOG), Small Business Development Center (SBDC), Veteran's Business Outreach Center (VBOC) and the Guam Chamber, GEDA will assist with the development of the entire campaign to include an educational component and a marketing component.

- **UOG Outdoor Multi-purpose Sports Complex Tax Credit Program**

GEDA has updated the Rules for the UOG Outdoor Multi-purpose Sports Complex Tax Credit Program based on recommendations from the Office of Public Accountability (OPA) and the Office of the Governor. Final documents were transferred to the Governor's office on December 17, 2010 for signature.

The loan department is focusing in assisting our small business through a number of program updates as follows:

- Continue the focus on outreach programs and work hand in hand with the SBDC;
- Continue work on streamlining the processing time;
- Minimize fees for applicants;
- Amend existing loan eligibility criteria to be more customer friendly; and
- Work towards fully automating the Loan Accounting System.

PROMOTIONS

- **Patchwork Industries**

GEDA has participated in a groundbreaking project for Guam entitled “Estorian Kantan Chamorro.” Years back, the GEDA Board approved “KOTTURA” – a movement for the revitalization of Hagatna. Part of the plan was the creation of the “Creative Industries” sector, which consisted of creating a downtown art district. Although the KOTTURA project is on hold, the continued development of society, art and technology have led to the evolution of companies such as Patchwork Industries.

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- **Investor Flash Drives**

In the latter part of 2008 GEDA received the Promotional Award in recognition of “Guam – Your Business Smart Destination” CD brochure, by the International Economic Development Council. The CD brochure received international recognition amongst economic development professionals nationwide. These CD brochures have been utilized at numerous promotions and trade missions held over the past several years. To continue with the trends in technology, GEDA has introduced “The Investor Drives” that are flash drives that have replaced the CD brochure. The drives are in the shape of the famous Guam Latte Stones that contain a wealth of information to include: Investor Incentive Programs, Business Opportunities, Guam Military Build-up and Local Government information, Doing Business on Guam, and much more.

- **GEDA Web Site**

Information relating to the traffic to our investguam.com web site for the year

<u>Month</u>	<u>No of Unique Visitors</u>	<u>No of Visitors</u>	<u>No of Pages</u>	<u>No of Hits</u>	<u>Bandwidth in GB</u>
Oct 2009	2911	4319	16454	135497	3.90
Nov 2009	3089	4738	17750	129398	4.47
Dec 2009	2580	3972	14620	107896	3.49
Jan 2010	2784	3954	15803	112934	3.54
Feb 2010	2345	3351	13239	105370	3.23
Mar 2010	2695	3927	16173	124335	4.46
Apr 2010	2426	3648	15376	127649	4.01
May 2010	2562	3768	15620	125629	4.26
Jun 2010	2225	3370	13470	113863	3.59
Jul 2010	2204	3073	13542	112500	3.36
Aug 2010	2238	3715	18509	122340	3.38
Sept 2010	2218	3452	16129	120370	4.18
Oct 2010	2219	3233	13903	117437	3.54
Nov 2010	2129	2968	13088	106955	3.39
Dec 2010*	1532	2103	8590	74557	1.66

Statistics through December 23, 2010

FINANCIAL SERVICES

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 the last year include the following:

Guam Waterworks Authority (GWA) GEDA worked closely with the financial management team of GWA to bring the agency into a favorable position for the second phase of their legislative authorized borrowing:

- On October 07, 2009, in the course of routine surveillance, Fitch Ratings affirmed *the Guam Waterworks Authority BB rating on with a stable outlook*. The revision in the Rating Outlook reflected a weaker financial position than previous estimates.

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- On December 07, 2009, Moody's Investment Services affirmed *the Guam Waterworks Authority Ba2 rating with a stable outlook*. The rating reflected the essentiality of services provided by the authority and management oversight provided through the Consolidated Commission on Utilities, the underlying economic position of Guam and its population, the willingness of the Public Utilities Commission to raise rates, and a capital plan driven by an Environmental Protection Agency stipulated order.
- In June 2010, GEDA secured a \$30 million loan for GWA with the Bank of Guam. Proceeds of the loan were necessary for GWA to shore up their cash reserves before entering the bond market for future projects in order for GWA to begin the first five years of the Authority's overall 20 year plan.
- As a result of all these efforts, on November 23, 2010, GEDA and the GWA were able to market and secure a \$156.3 million bond financing at parity to the 2005 Series Indenture to assist in GWA's Moratorium Project list and other GWA Master Plan Projects.

Guam Power Authority (GPA) In June 2010, GEDA worked with Guam Power Authority in the issuance of the GPA \$206 million Revenue Bonds 2010 Series A.

- Bond proceeds to finance the local portion of the Smart Grid project which goes towards matching grant funds offered by the Department of Energy under the American Recovery and Reinvestment Act (ARRA) of 2009, other GPA capital projects and to provide for reserves and to pay the costs of refinancing GPA's outstanding obligations relating to its commercial paper program.
- The bonds were issued in two (2) series: a triple tax-exempt senior bond series and a taxable subordinate series. The senior bonds were rated BBB by Standard & Poor (S&P), BBB- by Fitch and Ba1 by Moody's. The subordinate bonds were rated BBB- by S&P, BB+ by Fitch and Ba2 by Moody's.

In August 2010, Department of Education, Government of Guam issued a \$66.7 million Certificate of Participation Series 2010 A (John F. Kennedy High School Project) for the demolition and construction of a new John F. Kennedy (JFK) High School at the Tumon site. Certificate proceeds funded the demolition and construction of the new building with additional rentals to cover maintenance, insurance and capital replacements. The COP's were assigned a "B" rating with a stable outlook by Standard & Poor's issued on August 16, 2010.

BOND MARKET UPDATE

Following the credit crisis in 2008 and 2009, the municipal market had a banner year in 2010, with interest rates declining to historic lows, investor demand remaining strong and ARRA taxable programs such as Build America Bonds ("BABs") gaining increasing market popularity.

Tax-exempt rates hovered near historic lows for much of the year, with the 10-year and 30-year "AAA" Municipal Market Data ("MMD") benchmark rates reaching as low as 2.17% and 3.67%, respectively. These rates represented the lowest each of these indices had ever reached over the course of the last 10-years. Record low interest rates and the ability to issue BABs caused many issuers to expedite their capital borrowing programs. 2010 long-term municipal issuance totaled a record high of \$430.1 billion, 5.7% above the \$406.8 billion issued in 2009. Taxable bonds made up 27% of the total amount issued in 2010, due to the popularity of BABs, with tax-exempt issues comprising the remaining 73%. Like many other States and U.S. Territories, Guam took advantage of the attractive borrowing environment, issuing over \$391 million in debt over the course of the year.

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As previously noted, BABs dramatically reshaped the municipal market in 2010, with over \$117.3 billion of such bonds issued in 2010. Investor demand also remained strong through most of the year. Over the first 10-months of 2010, inflows into long-term municipal funds reached approximately \$32.2 billion. High-yield funds saw particularly strong demand, as investors increasingly sought out incremental yield in lower-rated securities. This fared well for Guam bond sales in 2010, as buyers were increasingly attracted to "BBB" and below credits.

Credit spreads (or the penalty cost for lower-rated credits) also tightened significantly throughout 2010, as investors became increasingly attracted to lower-rated credits offering enhanced yields. 30-year "BBB" credit spreads, for instance, fell from their high of 260 bps (2.60%) in 2009 to a low of 131 bps (1.31%) in 2010, an improvement of 129 bps (1.29%).

As the end of 2010 neared, the municipal market quickly began to reverse many of the gains experienced in the early part of the year. The pending expiration of the BAB program, credit concerns, and budget woes across the nation began to eat away at investor confidence. With the market's tone turning increasingly negative, market participants began to fear what the end of the BAB program would mean for the municipal market. During the last 2 months of 2010, long-term municipal mutual funds experienced \$20.7 billion in outflows, largely reversing the historic inflows experienced during the beginning of the year. Increased supply throughout the fourth quarter of 2010, as issuers rushed to utilize the BAB program prior to its expiration, coupled with these heavy outflows placed extreme pressure on interest rates, as demand began to outweigh supply. After reaching historic lows in August 2010, the benchmark 10-year and 30-year "AAA" MMD rates rose by as much as 110 bps (1.10%) and 118 bps (1.18%) by year-end, respectively.

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 \$6.7 million in gross receipts taxes. As the main source of GEDA's operating budget, the industrial parks generated approximately \$1.7 million in lease revenues for FY2009 and \$1.3 million in FY2010. 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 \$500K. As a result of this purchase, the Authority anticipates a substantial increase in annual lease rents collected by some \$180,000, 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 (MOU) with the Guam Ancestral Lands Commission (GALC), to manage leases on Spanish Crown properties. For the period October 2007 to February 4, 2011, GEDA collected \$768,882 in ground lease rents and participation rents of which \$656,719 was remitted to GALC while \$112,162 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.

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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. In addition, GEDA produced and released in FY 2010 a comprehensive report on federal transactions on Guam spanning over the past eight years and can be found on GEDA's website. 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.

To begin understanding local business involvement in federal contracting as prime contractors, GEDA staff initiated a literature search but found surprisingly little published information on local businesses and their contracting preferences. GEDA began assembling contracting information from a variety of sources including the U. S. Government's federal business opportunities website (www.fbo.gov) and the Department of Defense website (www.dod.gov) and while GEDA continues to maintain a database of federal contracts, each of the source websites has various limitations that prevent development of a complete database. Information on federal contracting is maintained by numerous federal agencies (and various divisions even within one of these agencies) located in Guam, the U.S Mainland, and even foreign countries, thus increasing the difficulty of developing a thorough database. Indefinite Delivery/Indefinite Quantity (IDIQ) and Multiple Award Construction Contracts (MACC) provide advantages to the federal government but because task orders issued under IDIQ and MACC are not publicized, the development of a comprehensive database on contracts awarded for work performed in Guam is further complicated. As a result, GEDA contacted the Bureau of Statistics and Plans whose staff expertise and technical assistance enabled the downloading of a significant amount of raw data produced by the federal government on federal transactions (explained below) in Guam via its website www.USAspending.gov.

GEDA's report analyzes the extent to which businesses participate in federal contract awards for work performed in Guam, with particular emphasis on local companies. While there is debate concerning the definition of local businesses, the report avoids this debate by simply utilizing the vendor's address as stated in the federal database. The database reports "transactions" which are distinct from "contracts" as used in this report. One contract may have multiple transactions. The bulk of these transactions are "payments" although they also include numerous zero dollar and negative dollar entries. The former appear to be contract amendments that have no dollar payments while the latter are de-obligations of dollar amounts. Zero and negative dollar entries are excluded from the detailed analysis in this report. De-obligations; however, are summarized by year to show the amount of money that might otherwise have circulated in the Guam economy had these monies not been de-obligated.

The entrepreneurial spirit continues to be the strength of our national and local economies, with studies showing that new business start-ups provide long-term benefits to the local economy. With the federal transaction report indicating that only seven percent of Guam's licensed local businesses have been participating in federal transactions, and the anticipated 25% increase in the island's population over the next several years, it is imperative to continue fostering and promoting the entrepreneurial spirit within our island community and amongst island residents, to ensure sustainability of Guam's economy beyond the build up.

Bonding, financing operations, and increasing local business capabilities while ensuring that the federal government does not bundle requirements beyond local capabilities are critical to helping our local companies prepare to participate in contracting opportunities associated with the buildup. Creation of the Procurement Technical Assistance Center in conjunction with other existing programs including the GEDA Small Business Loan Program, the Small Business Development Center at UOG, the U. S. Small Business Administration and the Chamber of Commerce Small Business Focus Group offer opportunities for small businesses to overcome developmental challenges.

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GEDA is also beginning to evaluate local business prospects for post-construction contracting to ensure that Guam's services contractors will benefit from the Military build up. The intent here is develop a report that will provide information to local businesses that may assist them in planning for support service contract opportunities that may arise from Marine Relocation once construction has been completed. The report will accomplish this objective by analyzing 77 categories of products and 26 categories of services procured by the U. S. military in Japan and Okinawa. By accessing historical information for work performed in Japan, local businesses may be able to predict how the relocation of Marines to Guam may increase contracting opportunities with respect to the types of products and services required and the level of military demand for these products and services. GEDA will continue to serve as a conduit to effectively and strategically advocate for Guam's local small businesses, the backbone of our island's economy that deserve the opportunity to prosper during this significant growth period.

PROCESS IMPROVEMENT & PROGRAM COMPLIANCE

In GEDA's efforts to continue the strengthening of the enforcement processes for GEDA Qualifying Certificate (QC) program, the following are key accomplishments in this area:

QC Revocation. As mandated by Guam Public Law 29-002, a provision amending §58111(b) chapter 58 of 12 GCA provided GEDA with the means to address noncompliant QCs. GEDA immediately began development of its internal processes and criteria for revocation of noncompliant QC.

- Six beneficiaries were identified as meeting this criteria having been in noncompliance with the terms and conditions of their QC for over 12-months. Subsequently the division was able to successfully initiate suspension of tax benefits and revoked two (2) of these noncompliant QC's in 2010 and prompted two (2) QC Beneficiaries to come into full compliance with their QC.
- GEDA will continue to pursue revocation of the remaining two (2) QC's for FY 2011.

Cash contributions due diligence. Recognizing that there were long standing due diligence and accountability issues regarding the cash contributions remitted by QC Beneficiaries to third party benefactors, GEDA developed a procedure for monitoring cash contributions that QC Beneficiaries had been remitting directly to the third party benefactor entities such as the Chamorro Village for restroom upkeep and the Guam Visitors Bureau for anti-graffiti projects.

- The procedure requires the QC Beneficiaries to remit to GEDA its cash contributions for third party benefactors. These funds will be held in trust by GEDA who will ensure that the expenditures of these funds are used as intended through careful monitoring.
- GEDA sent notices to all QC Beneficiaries whose QC contain this provision, and requested their support for GEDA's effort to ensure that the funds they contribute for the benefit of the local community are being used as intended. As expected, the QC beneficiaries were greatly appreciative of the due diligence to be extended on their behalf and all cash contributions for third party benefactors have been reverted to GEDA.
- GEDA then conducted a historical reconciliation for all cash contributions given to the third party benefactors and placed all funds in trust by GEDA in abeyance until documentation is submitted to support disbursement.

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Disposition of GEDA nonperforming assets. At various times over the years, GEDA had acquired real property through foreclosure of collateral pledged against GEDA under its three (3) lending programs. In the interest of transparency and accountability, GEDA found that it would be best served by retaining a firm with expertise in professional real estate broker services to facilitate the sale of these properties following standard real estate practices as set forth in the laws of Guam.

- An RFP for these services was initiated and a real estate broker was contracted to begin marketing GEDA's portfolio of real property. GEDA expects a successful sale of several of these parcels, with cash proceeds to be remitted back to their respective loan funds to be made available for lending.

Reconciliation of the Tax Credits granted to the lessor of the temporary JFK campus enacted under P. L. 30-37 and P. L. 30-196. To ensure that the tax credits granted under P. L. 30-37 and P. L. 30-196 were used as intended for as lease payments for the temporary JFK campus, GEDA worked closely with the Department of Revenue and Taxation to monitor draw downs of Tax Credits under this program. As a result of this collaboration, the tax credits approved by GEDA and taken by the lessor (Core Tech Intl.) were reconciled to the exact amounts authorized by the public laws for FY 2010 and are similarly expected for FY 2011.

FINANCIAL COMMENTS

The following table summarizes the statements of net assets (deficiency) and operations of Guam Economic Development Authority for 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 7,649,048	\$ 7,769,793	\$ 7,259,558
Long-term assets:			
Building, improvements and equipment, at cost, net	583,747	219,867	347,134
Deferred bond issuance costs	670,801	725,860	780,920
Deferred charges	62,500	49,306	903,350
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	<u>\$ 8,969,596</u>	<u>\$ 8,768,326</u>	<u>\$ 9,294,462</u>
Liabilities and Net Deficiency:			
Current liabilities:			
Current portion of long-term debt, net	\$ 1,600,000	\$ 1,485,000	\$ 1,380,000
Other current payables	1,004,052	927,460	1,623,963
Long-term liabilities:			
Long-term debt, net	29,759,262	29,959,790	30,689,368
Other long-term payables	<u>162,515</u>	<u>90,777</u>	<u>68,890</u>
Total liabilities	<u>32,525,829</u>	<u>32,463,027</u>	<u>33,762,221</u>
Net assets (deficiency):			
Invested in capital assets	583,747	219,867	347,134
Unrestricted	<u>(24,139,980)</u>	<u>(23,914,568)</u>	<u>(24,814,893)</u>
Net deficiency	<u>(23,556,233)</u>	<u>(23,694,701)</u>	<u>(24,467,759)</u>
	<u>\$ 8,969,596</u>	<u>\$ 8,768,326</u>	<u>\$ 9,294,462</u>

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	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues, Expenses and Changes in Net Assets:			
Revenue:			
Operating revenues	\$ 1,837,383	\$ 1,949,489	\$ 1,878,420
Tobacco Settlement revenue	2,518,458	2,962,973	2,788,041
Bond fees earned	559,594	304,566	-
(Provision for) recovery of Doubtful accounts receivable	_____ -	_____ (115)	_____ 20,038
Total revenue	<u>4,915,435</u>	<u>5,216,913</u>	<u>4,686,499</u>
Expenses:			
Operating expenses	(2,425,014)	(2,132,752)	(1,958,994)
Other income (expense), net	<u>(2,351,953)</u>	<u>(2,311,103)</u>	<u>(9,477,869)</u>
Increase (decrease) in net assets	138,468	773,058	(6,750,364)
Net deficiency at beginning of year	<u>(23,694,701)</u>	<u>(24,467,759)</u>	<u>(17,717,395)</u>
Net deficiency at end of year	\$ <u>(23,556,233)</u>	\$ <u>(23,694,701)</u>	\$ <u>(24,467,759)</u>

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in GEDA's report on the audit of financial statements, which is dated February 1, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be viewed at the Office of Public Accountability - Guam website at www.guamopa.org.

Operating Revenues

In FY10, GEDA recorded operating revenues of \$1,837,383, compared to \$1,949,489 in FY09. The year-to-year change of \$112,106 represents a decrease of 5.8%. GEDA generates its own revenues to sustain annual operations from two primary sources. The first is the rental income from Industrial Parks and the second is application and surveillance fees from QC beneficiaries. Bond fees are a third source, but are not a 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 decreased 23.3% from \$1,730,098 in FY09 to \$1,327,092 in FY10. The decrease is mainly attributed to the loss of revenue from the Port Authority of Guam.

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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. An increase of \$229,509 in QC revenues in FY10 is attributed to an additional QC under the Insurance Industry received during this period.

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 Financial Advisory Services, 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 83.7% from \$304,566 in FY09 to \$559,594 in FY10.

Assets

Land, building, improvements and equipment increased \$363,880 from \$219,867 in FY09 to \$583,747 in FY10. The increase is attributed to the purchase of two buildings in ET Calvo Park at a combined cost of approximately \$500,000, net of current year depreciation expenses. For additional information concerning capital assets, please refer to note 3 to the financial statements.

Deferred charges increased \$13,194 or 26.8% in FY10. The increase is mainly attributed to the application of charges through the bonds closed during the year.

Operating Expense

GEDA's operating expense in FY10 was \$2,425,014, an increase of 13.7% over FY09 of \$2,132,752.

Personnel Expenses

Salaries and benefits increased 16.5% or \$282,045 (including allocation to trust funds) in FY10, which is attributed to an increase in benefits, annual salary increments and salary adjustments.

Legal and Professional Services

Professional service expense increased \$57,499 or 20.2% from \$284,303 in FY09 to \$341,802 in FY10. This is mainly attributed to the Industrial Park Leases and GALC Leases.

Depreciation Expense

Depreciation expense decreased \$16,145 or 10.3% from \$156,911 in FY09 to \$140,766 in FY10.

Office Space and Equipment Rental

Office space and equipment rental decreased \$2,080 or 1.6% from \$130,431 in FY09 to \$128,351 in FY10.

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Travel

Travel expense decreased by \$45,729 or 30.5% from \$150,111 in FY09 to \$104,382 in FY10. Decrease is attributed to a cutback in off-island training. However, GEDA continued participation in trade and reverse-trade missions due to the increased military opportunities, as well as, attendance and/or hosting of conferences, forums, trainings and seminars related to economic development, financial management and the marketing of Guam as an investment destination.

Long-Term Debt

No additions to long-term debt occurred during the year ended September 30, 2010. For additional information concerning debt, please see note 4 to the financial statements.

FY2011 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.

Top initiatives for business and economic development include the following:

- **Healthcare.** 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.
- **Housing.** To further develop the construction of affordable housing and communities in order to enhance the quality of life for the people of Guam. The use of the developer incentives and planned developments will increase the housing inventory and shelter Guam's growing population.
- **Military Buildup.** Guam in its pursuit of economic development needs to leverage private, federal and public sector resources for the creation of employment and business expansion. There is a need to maintain close coordination and oversight for Guam's potential as a highly desirable investment location in light of the impending military buildup and the effects it will have on our island.
- **Environmental & Natural Resources.** The need to reduce the usage of energy, water and waste has prompted the need to look into Green Technology. The inclusion of solar, wind and hydro electricity options needs to be incorporated into the infrastructure plan as well as recycling initiatives to help preserve natural resources and to protect the environment.
- **Comprehensive Economic Development Strategy (CEDS).** Guam is required by the US Department of Commerce's Economic Development Administration (EDA) to prepare this report every five (5) years in order for Guam to receive millions of dollars of yearly planning funds and grants. GEDA is working with the Bureau of Stats & Planning to complete by June 2011.

Besides completing the financing projects mentioned previously, below are additional public finance projects that GEDA will be working on over the next year:

- **Department of Public Works.** GEDA continues to work with the DPW on issuing GARVEE (Grant Anticipation Revenue Vehicles) bonds to assist with the 2030 Guam Transportation Plan.

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- **Department of Land Management.** GEDA continues its work with the Department of Land Management to seek financing as authorized by Public Law 29-135, in an amount not to exceed Fifteen Million Seven Hundred Fifty Thousand Dollars (\$15,750,000) for the construction of a new Land Resources Public Facility and for the purchase of collateral equipment.
- **Government of Guam Refunding of 1997 Bonds.** As mandated by Public Law 30-228 GEDA is working on behalf of the Government of Guam to refinance the 1997 Tourist Attraction Fund Bonds for the purpose of constructing & equipping a Guam Museum (\$27MM) and the improvement of sites that benefit the Guam Tourism Industry (\$41.5MM). Bond closing is slated for April 2011.
- **Guam Power Authority.** GEDA will continue to work with the GPA in identifying financing options that will provide for new alternative energy efficient power plants.

GEDA will continue to actively attract new investors, both foreign and domestic, to Guam targeting new and emerging industries. GEDA will continue working with the military, the U.S. Small Business Administration, the Procurement Technical Assistance Center, and other small business advocates to ensure that local businesses obtain maximum opportunity to participate in military buildup contracts as both prime contractors and subcontractors.

A primary objective of GEDA is to ensure that the establishment of Joint Base Guam/Joint Region Marianas allows for maximum participation by local businesses, and shift focus to research and promotions activities to ensure local service companies prepare for service contract opportunities during the post-construction period.

With regards to program compliance, GEDA will continue its effort to restructure the QC Program. Recognizing that the program has been in existence since 1965 there are revisions to the existing QC program that were developed under the auspices of the QC Review Sub-committee for the 2007 Committee on Taxation that GEDA could pursue to ensure that benefits given are commensurate with the additional economic activity generated. GEDA believes that the proposed revisions to the QC law will make it evolve into a program based on criteria that are clearly understood and would balance the needs of potential investors with that of the island community.

Collection and Litigation loan account reconciliation. Many GEDA loan accounts classified as seriously delinquent (more than 90 days), under collection (120 days or more) or in litigation (court action filed) have been in active collection for over 10 – 15 years. GEDA will continue to conduct quality reviews of each account and pursue collection effort made by GEDA and a payment history for each of these.

With the anticipated growth that may occur over the next several years, GEDA will continue its efforts to meet its mission of fostering sustainable economic growth through its programs, services and key initiatives, GEDA will also continue improving upon internal processes and procedures, monitoring and compliance, and customer service.

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Statements of Net Assets (Deficiency)
September 30, 2010 and 2009

<u>ASSETS</u>	Divisional Information		2010	2009
	GEDA	TSA		
Current assets:				
Cash and cash equivalents	\$ 60,046	\$ 3,672,436	\$ 3,732,482	\$ 3,780,821
Investments	3,772,949	-	3,772,949	3,795,595
Due from trust funds administered by GEDA:				
Agricultural Development Fund	3,792	-	3,792	1,183
Guam Development Fund Act	36,027	-	36,027	2,146
Reimbursable expense	1,663	(1,663)	-	-
Other receivables, net of an allowance for doubtful receivables of \$369,384 in 2010 and 2009	97,248	-	97,248	175,360
Inventory	1,217	-	1,217	7,522
Prepaid expense	5,333	-	5,333	7,166
Total current assets	3,978,275	3,670,773	7,649,048	7,769,793
Deferred charges	62,500	-	62,500	49,306
Deferred bond issuance costs	-	670,801	670,801	725,860
Equity investment	3,500	-	3,500	3,500
Building, improvements and equipment, at cost, net	583,747	-	583,747	219,867
	\$ 4,628,022	\$ 4,341,574	\$ 8,969,596	\$ 8,768,326
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of bonds payable	\$ -	\$ 1,600,000	\$ 1,600,000	\$ 1,485,000
Accounts payable	176,980	-	176,980	132,575
Due to trust funds administered by GEDA:				
Microenterprise Development Program	30,132	-	30,132	30,132
Accrued liabilities	157,085	-	157,085	97,904
Interest payable	-	553,000	553,000	567,000
Deferred rental income	86,855	-	86,855	99,849
Total current liabilities	451,052	2,153,000	2,604,052	2,412,460
Non-current liabilities:				
Bonds payable, net of current portion and discount	-	29,759,262	29,759,262	29,959,790
DCRS sick leave liability	95,692	-	95,692	76,204
Deposits	66,823	-	66,823	14,573
Total non-current liabilities	162,515	29,759,262	29,921,777	30,050,567
Total liabilities	613,567	31,912,262	32,525,829	32,463,027
Commitments and contingencies				
Net assets (deficiency):				
Invested in capital assets	583,747	-	583,747	219,867
Unrestricted	3,430,708	(27,570,688)	(24,139,980)	(23,914,568)
Net assets (deficiency)	4,014,455	(27,570,688)	(23,556,233)	(23,694,701)
	\$ 4,628,022	\$ 4,341,574	\$ 8,969,596	\$ 8,768,326

See accompanying notes to consolidated financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2010 and 2009

	Divisional Information		2010	2009
	GEDA	TSA		
Revenues:				
Rental income	\$ 1,327,092	\$ -	\$ 1,327,092	\$ 1,730,098
Tobacco Settlement revenue	-	2,518,458	2,518,458	2,962,973
Qualifying certificate application, surveillance and other fees	432,291	-	432,291	202,782
Bond fees earned	559,594	-	559,594	304,566
Other	78,000	-	78,000	16,609
	<u>2,396,977</u>	<u>2,518,458</u>	<u>4,915,435</u>	<u>5,217,028</u>
Provision for doubtful accounts receivable	-	-	-	(115)
	<u>2,396,977</u>	<u>2,518,458</u>	<u>4,915,435</u>	<u>5,216,913</u>
Operating expenses:				
Salaries and benefits	1,597,571	-	1,597,571	1,291,962
Legal and professional services	304,026	37,776	341,802	284,303
Depreciation and amortization	140,766	-	140,766	156,911
Office space and equipment rent	128,351	-	128,351	130,431
Travel	99,003	5,379	104,382	150,111
Advertising and promotions	35,766	-	35,766	46,463
Utilities, telephone and communication	14,013	-	14,013	14,384
Supplies	10,325	-	10,325	8,832
Insurance	5,983	-	5,983	10,149
Repairs and maintenance	1,822	-	1,822	1,296
Miscellaneous	44,233	-	44,233	37,910
	<u>2,381,859</u>	<u>43,155</u>	<u>2,425,014</u>	<u>2,132,752</u>
Operating income	<u>15,118</u>	<u>2,475,303</u>	<u>2,490,421</u>	<u>3,084,161</u>
Other income (expense):				
Interest income (expense), net	484	(2,454,581)	(2,454,097)	(2,491,234)
Investment income	68,172	37	68,209	119,795
Net (decrease) increase in the fair value of investments	(28,372)	-	(28,372)	41,172
Other income, net	62,307	-	62,307	19,164
Other income (expense), net	<u>102,591</u>	<u>(2,454,544)</u>	<u>(2,351,953)</u>	<u>(2,311,103)</u>
Net increase in net assets	<u>117,709</u>	<u>20,759</u>	<u>138,468</u>	<u>773,058</u>
Net assets (deficiency) at beginning of year	<u>3,896,746</u>	<u>(27,591,447)</u>	<u>(23,694,701)</u>	<u>(24,467,759)</u>
Net assets (deficiency) at end of year	<u>\$ 4,014,455</u>	<u>\$ (27,570,688)</u>	<u>\$ (23,556,233)</u>	<u>\$ (23,694,701)</u>

See accompanying notes to consolidated financial statements.

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Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	Divisional Information		2010	2009
	GEDA	TSA		
Cash flows from operating activities:				
Cash received from customers	\$ 2,555,589	\$ 2,518,458	\$ 5,074,047	\$ 5,735,581
Cash paid to suppliers for goods and services	(527,209)	(75,409)	(602,618)	(706,626)
Cash paid to employees for services	(1,578,083)	-	(1,578,083)	(1,273,435)
Net cash provided by operating activities	<u>450,297</u>	<u>2,443,049</u>	<u>2,893,346</u>	<u>3,755,520</u>
Cash flows from investing activities:				
Interest and investment income	39,800	37	39,837	160,967
Rollover of interest into investment	(39,800)	(37)	(39,837)	(160,967)
Maturity of investment securities	62,446	37	62,483	2,017,888
Net cash provided by investing activities	<u>62,446</u>	<u>37</u>	<u>62,483</u>	<u>2,017,888</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(505,602)	-	(505,602)	(29,644)
Net cash used in capital and related financing activities	<u>(505,602)</u>	<u>-</u>	<u>(505,602)</u>	<u>(29,644)</u>
Cash flows from noncapital financing activities:				
Repayment of bond payable	-	(800,000)	(800,000)	(1,320,000)
Net interest received (paid) on deposit accounts, bond and notes payable	484	(1,699,050)	(1,698,566)	(1,763,752)
Net cash provided by (used in) noncapital financing activities	<u>484</u>	<u>(2,499,050)</u>	<u>(2,498,566)</u>	<u>(3,083,752)</u>
Net change in cash and cash equivalents	7,625	(55,964)	(48,339)	2,660,012
Cash and cash equivalents at beginning of year	52,421	3,728,400	3,780,821	1,120,809
Cash and cash equivalents at end of year	<u>\$ 60,046</u>	<u>\$ 3,672,436</u>	<u>\$ 3,732,482</u>	<u>\$ 3,780,821</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 15,118	\$ 2,475,303	\$ 2,490,421	\$ 3,084,161
Other income, net	62,307	-	62,307	19,164
Loss on disposal of property and equipment	956	-	956	-
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	140,766	-	140,766	156,911
Provision for doubtful accounts receivable	-	-	-	115
(Increase) decrease in assets:				
Due from trust funds administered by GEDA	(36,490)	-	(36,490)	62,709
Reimbursable expense	14,471	(14,471)	-	-
Other receivables	78,112	-	78,112	233,766
Inventory	6,305	-	6,305	832
Prepaid expenses	1,833	-	1,833	(4,566)
Deferred charges	(13,194)	-	(13,194)	854,044
Increase (decrease) in liabilities:				
Accounts payable	62,188	(17,783)	44,405	(643,208)
Due to trust funds administered by GEDA	-	-	-	(312)
Accrued liabilities	59,181	-	59,181	16,455
Deferred rental income	(12,994)	-	(12,994)	(46,438)
Deposits	52,250	-	52,250	3,360
DCRS sick leave liability	19,488	-	19,488	18,527
Net cash provided by operating activities	<u>\$ 450,297</u>	<u>\$ 2,443,049</u>	<u>\$ 2,893,346</u>	<u>\$ 3,755,520</u>

See accompanying notes to consolidated financial statements.

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Notes to Financial Statements
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(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 the Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF), the Music and Legends of Guam Fund (MLGF), the U.S. Base Realignment and Closure Committee (BRAC), Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), Aquacultural Training Fund (ATF) and Landowner's Recovery Fund (LRF) to accomplish certain of the stated purposes. The Guam Industry Promotions Fund (GIPF) and the Guam Education Fund (GEF) have also been created but their purposes have yet to be implemented.

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

Principles of Consolidation

The financial statements include the accounts of GEDA and its wholly-owned subsidiary, Guam Business Development Corporation (GBDC). GBDC was formed on October 18, 1988, for the purpose of acquiring and developing tourist-related property and protecting the various interests of GEDA and Funds administered by GEDA. All significant intercompany balances and transactions have been eliminated in consolidation.

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) and bond issuance fees, which are reported as operating revenues. Grants, 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.

Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost or market on a specific identification basis.

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Notes to Financial Statements
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(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

Most of the 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. GEDA allocates a percentage of payroll expense to each Fund based upon actual time personnel spend on the respective Fund. Additionally, GEDA allocates a percentage of rent expense to GDFa and ADF.

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, 2010 and 2009

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

Concentrations of Credit Risk, Continued

At September 30, 2010 and 2009, 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 receivable 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 2010, GEDA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GEDA.

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

New Accounting Standards, Continued

In December 2009, GASB issued 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 measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GEDA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GEDA.

(2) Cash and Investments

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.

Investments in debt securities are carried at cost which approximates market value. Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Cash on hand and due from banks	\$ 60,046	\$ 52,421
Money market accounts	<u>3,672,436</u>	<u>3,728,400</u>
Cash and cash equivalents	\$ <u>3,732,482</u>	\$ <u>3,780,821</u>
Total shares in mutual funds	\$ 2,193,707	\$ 1,623,782
U.S. Government agency securities	1,447,306	2,171,813
U.S. Government treasury securities	<u>131,936</u>	<u>-</u>
Investments	\$ <u>3,772,949</u>	\$ <u>3,795,595</u>

The deposits and investment policies of GEDA are governed by 5 GCA 21, *Investments and Deposits* 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.

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(2) Cash and Investments, Continued

A. Cash

GASB Statement No. 3 requires government entities to categorize deposits to give an indication of the level of credit risk assumed by the entity at year-end. The three categories are described below:

Category 1 Deposits that are federally insured or collateralized with securities held by GEDA or its agent in GEDA's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in GEDA's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in GEDA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2010 and 2009, the carrying amount of cash was \$60,046 and \$52,421, respectively, and the corresponding bank balances were \$129,181 and \$121,710, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$129,181 and \$121,710 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2010 and 2009, 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.

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. Custodial credit risk 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 investment or collateral securities that are in the possession of an outside party.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investment fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by GEDA or its agent in GEDA's name;

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(2) Cash and Investments, Continued

B. Investments, Continued

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in GEDA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GEDA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 retains and expands the element of custodial risk in GASB Statement No. 3.

As of September 30, 2010, GEDA's investments 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)	\$ 1,023,977	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	735,032	N/A	N/A
BlackRock Interm Govt Bond Inv C (BIGCX)	166,081	N/A	N/A
MFS Limited Maturity C (MQLCX)	121,227	N/A	N/A
Franklin Adjustable US Govt Secs C (FCSCX)	119,948	N/A	N/A
BlackRock Interm Govt Bond Inv A	27,442	N/A	N/A
Federal National Mortgage Association (FNMA) discount note	483,829	10/05/10	N/A
Federal Home Loan Mortgage Corporation (FHLMC) discount note	482,451	11/02/10	N/A
FNMA discount note	481,026	12/08/10	N/A
U.S. Government Treasury note (U.S. T note)	43,458	01/31/11	N/A
U.S. T note	43,684	02/15/12	N/A
U.S. T note	<u>44,794</u>	12/31/13	N/A
	<u>\$ 3,772,949</u>		

As of September 30, 2009, GEDA's investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
U.S. Government Treasury securities	\$ 1,545,351	N/A	N/A
Blackrock fixed income funds (CLDBX)	78,431	N/A	N/A
FHLMC discount note	725,956	10/05/09	N/A
FHLMC discount note	723,962	11/02/09	N/A
FNMA discount note	<u>721,895</u>	12/10/09	N/A
	<u>\$ 3,795,595</u>		

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(2) Cash and Investments, Continued

B. Investments, Continued

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, 2010 and 2009 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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, 2010, GEDA's investment in FHLMC and FNMA discount notes constituted 13% and 26% of its total investments, respectively. As of September 30, 2009, GEDA's investment in FHLMC and FNMA discount notes constituted 38% and 19% of its total investments, respectively.

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.

(3) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2010 and 2009 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2009</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2010</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	-	502,933	-	502,933
Furniture and equipment	613,011	2,669	-	615,680
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>38,834</u>	<u>-</u>	<u>(14,741)</u>	<u>24,093</u>
	2,033,419	505,602	(14,741)	2,524,280
Less accumulated depreciation and amortization	<u>(1,813,552)</u>	<u>(140,766)</u>	<u>13,785</u>	<u>(1,940,533)</u>
	\$ <u>219,867</u>	\$ <u>364,836</u>	\$ <u>(956)</u>	\$ <u>583,747</u>

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(3) Building, Improvements and Equipment, Continued

	<u>Beginning Balance October 1, 2008</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2009</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Furniture and equipment	583,367	29,644	-	613,011
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>38,834</u>	<u>-</u>	<u>-</u>	<u>38,834</u>
	2,003,775	29,644	-	2,033,419
Less accumulated depreciation and amortization	<u>(1,656,641)</u>	<u>(156,911)</u>	<u>-</u>	<u>(1,813,552)</u>
	\$ <u>347,134</u>	\$ <u>(127,267)</u>	\$ <u>-</u>	\$ <u>219,867</u>

(4) Long-Term Obligations

Bonds Payable

Bonds payable at September 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</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).	\$ 30,430,000	\$ 31,230,000
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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(4) Long-Term Obligations, Continued

Bonds Payable, Continued

	<u>2010</u>	<u>2009</u>
Total	\$ 47,203,618	\$ 48,003,618
Less current portion	<u>(1,600,000)</u>	<u>(1,485,000)</u>
	45,603,618	46,518,618
Less discount on Series B capital appreciation turbo term bonds	(12,638,598)	(12,922,617)
Less discount on issuance	(1,457,270)	(1,576,881)
Less deferred difference on defeasance of 2001 bonds	<u>(1,748,488)</u>	<u>(2,059,330)</u>
	<u>\$ 29,759,262</u>	<u>\$ 29,959,790</u>

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2010 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2011	\$ 1,600,000	\$ 1,603,566	\$ 3,203,566
2012	1,720,000	1,519,435	3,239,435
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 through 2020	8,300,000	4,541,507	12,841,507
2021 through 2025	7,975,000	2,489,977	10,464,977
2026 through 2030	14,025,268	242,578	14,267,846
2031 through 2034	<u>7,633,350</u>	<u>-</u>	<u>7,633,350</u>
	<u>\$ 47,203,618</u>	<u>\$ 14,385,678</u>	<u>\$ 61,589,296</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 bonds 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 \$2,499,050 and \$3,083,752 for the years ended September 30, 2010 and 2009, respectively, or approximately 99% and 100%, respectively, of pledged revenues for those years.

During the years ended September 30, 2010 and 2009, 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>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2010</u>	Due within <u>one year</u>
Bonds payable	\$ 48,003,618	\$ -	\$ (800,000)	\$ 47,203,618	\$ 1,600,000
Deferred amounts:					
Unamortized difference on bonds defeasance	(2,059,330)	-	310,842	(1,748,488)	-
Unamortized discount on bonds issued	(14,499,498)	-	403,630	(14,095,868)	-
	<u>31,444,790</u>	-	<u>(85,528)</u>	<u>31,359,262</u>	<u>1,600,000</u>
Other liabilities:					
DCRS sick leave liability	76,204	19,488	-	95,692	-
Deposits	<u>14,573</u>	<u>52,250</u>	-	<u>66,823</u>	-
	<u>90,777</u>	<u>71,738</u>	-	<u>162,515</u>	<u>1,600,000</u>
	<u>\$ 31,535,567</u>	<u>\$ 71,738</u>	<u>\$ (85,528)</u>	<u>\$ 31,521,777</u>	<u>\$ 1,600,000</u>

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(4) Long-Term Obligations, Continued

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2009</u>	Due within <u>one year</u>
Bonds payable	\$ 49,323,618	\$ -	\$ (1,320,000)	\$ 48,003,618	\$ 1,485,000
Deferred amounts:					
Unamortized difference on bonds defeasance	(2,370,172)	-	310,842	(2,059,330)	-
Unamortized discount on bonds issued	<u>(14,884,078)</u>	<u>-</u>	<u>384,580</u>	<u>(14,499,498)</u>	<u>-</u>
	<u>32,069,368</u>	<u>-</u>	<u>(624,578)</u>	<u>31,444,790</u>	<u>1,485,000</u>
Other liabilities:					
DCRS sick leave liability	57,677	18,527	-	76,204	-
Deposits	<u>11,213</u>	<u>3,360</u>	<u>-</u>	<u>14,573</u>	<u>-</u>
	<u>68,890</u>	<u>21,887</u>	<u>-</u>	<u>90,777</u>	<u>-</u>
	<u>\$ 32,138,258</u>	<u>\$ 21,887</u>	<u>\$ (624,578)</u>	<u>\$ 31,535,567</u>	<u>\$ 1,485,000</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.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2008, 2007, and 2006, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2010, 2009 and 2008, respectively, have been determined as follows:

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(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Normal costs (% of DB Plan payroll)	18.34%	17.36%	17.94%
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>8.84%</u>	<u>7.86%</u>	<u>8.44%</u>
Employer portion of normal costs (% of total payroll)	3.73%	3.70%	3.99%
Unfunded liability cost (% of total payroll)	<u>22.69%</u>	<u>19.68%</u>	<u>20.75%</u>
Government contribution as a % of total payroll	<u>26.42%</u>	<u>23.38%</u>	<u>24.74%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.04%</u>	<u>24.07%</u>	<u>24.07%</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, 2010, 2009 and 2008 were \$308,207, \$259,113 and \$216,269, 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, 2010 and 2009 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, 2010, 2009 and 2008 were \$41,593, \$39,511 and \$35,671, respectively.

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 \$95,692 and \$76,204 at September 30, 2010 and 2009, 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.

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(5) Employees' Retirement Plan, Continued

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, 2010, 2009 and 2008, actual contributions paid were \$33,064, \$34,840 and \$34,570, 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.

GEDA is party to a renewed 5-year operating lease for \$120,000 per annum, expiring April 1, 2011. 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 2010 and 2009 and expects future lease expense through April 1, 2011 to be \$0.

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

Years ending September 30:	
2011	\$ 830,600
2012	451,600
2013	408,700
2014	306,000
2015	87,100
2016 – 2020	25,000
2021 – 2025	25,000
2026 – 2030	25,000
2031 – 2035	25,000
2036 – 2040	25,000
2041 – 2045	25,000
2046 – 2050	25,000
2051 – 2055	25,000
2056 – 2060	25,000
2061 – 2063	15,400
	<u>\$ 2,324,400</u>

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
AND SUBSIDIARY**

(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2010 and 2009

(7) Lease Commitments

GEDA has an operating lease for office space expiring February 28, 2011. 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, 2010, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding for 2011 are \$90,074 and \$30,082, respectively.

Rent expense, net of GHC reimbursements for each of the years ended September 30, 2010 and 2009, was \$143,979 and \$144,279, respectively, of which \$35,456 and \$33,950, respectively, was allocated to trust funds administered by GEDA.

(8) Related Parties

At September 30, 2010 and 2009, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2010</u>	<u>2009</u>
Guam Development Fund Act (GDFA)	\$ 11,485,692	\$ 11,631,906
Agricultural Development Fund (ADF)	865,515	863,028
Microenterprise Development Program (MDP)	40,383	40,383
Guam Territorial Aquarium Foundation (GTAF)	20,560	20,377
Music and Legends of Guam Fund (MLGF)	11,387	11,387
U.S. Base Realignment and Closure Commission (BRAC)	-	-

Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), and the Local Arts Revolving Fund (LARF) have no assets, liabilities, or net assets as of September 30, 2010 and 2009 and had no activities during the years then ended.

(9) Contingencies

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.

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

Notes to Financial Statements
September 30, 2010 and 2009

(9) Contingencies, Continued

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

(10) Financial Advisory Services

GEDA has a five-year agreement (the Agreement) to receive financial advisory services for an annual fee of \$250,000, expiring in May 2013, with an option to renew additional terms up to five years. Additionally GEDA has also entered into a Memorandum of Understanding (MOU) with Guam Power Authority (GPA) to receive an annual fee of \$62,500 per annum during the duration of the Agreement. As of September 30, 2010 and 2009, payables under the Agreement were \$62,500 and \$49,306, respectively, and are included in accounts payable in the accompanying statements of net assets.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
AND SUBSIDIARY
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2010 and 2009

	2010	2009
Salaries and wages:		
Salaries	\$ 1,235,125	\$ 1,053,610
Benefits	758,105	657,575
Total salaries and wages	\$ 1,993,230	\$ 1,711,185
Employees at end of year	26	26

See accompanying independent auditors' report.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
AND SUBSIDIARY**

(A Component Unit of the Government of Guam)

Comparative Divisional Schedules of Net Assets (Deficiency)
September 30, 2010 and 2009

<u>ASSETS</u>	GEDA		TSA	
	2010	2009	2010	2009
Current assets:				
Cash and cash equivalents	\$ 60,046	\$ 52,421	\$ 3,672,436	\$ 3,728,400
Investments	3,772,949	3,795,595	-	-
Due from trust funds administered by GEDA:				
Agricultural Development Fund	3,792	1,183	-	-
Guam Development Fund Act	36,027	2,146	-	-
Reimbursable expense	1,663	16,134	(1,663)	(16,134)
Other receivables, net of an allowance for doubtful receivables of \$369,384 in 2010 and 2009	97,248	175,360	-	-
Inventory	1,217	7,522	-	-
Prepaid expense	5,333	7,166	-	-
Total current assets	3,978,275	4,057,527	3,670,773	3,712,266
Deferred charges	62,500	49,306	-	-
Deferred bond issuance costs	-	-	670,801	725,860
Equity investment	3,500	3,500	-	-
Building, improvements and equipment, at cost, net	583,747	219,867	-	-
	\$ 4,628,022	\$ 4,330,200	\$ 4,341,574	\$ 4,438,126
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of bonds payable	\$ -	\$ -	\$ 1,600,000	\$ 1,485,000
Accounts payable	176,980	114,792	-	17,783
Due to trust funds administered by GEDA:				
Microenterprise Development Program	30,132	30,132	-	-
Accrued liabilities	157,085	97,904	-	-
Interest payable	-	-	553,000	567,000
Deferred rental income	86,855	99,849	-	-
Total current liabilities	451,052	342,677	2,153,000	2,069,783
Non-current liabilities:				
Bonds payable, net of current portion and discount	-	-	29,759,262	29,959,790
DCRS sick leave liability	95,692	76,204	-	-
Deposits	66,823	14,573	-	-
Total non-current liabilities	162,515	90,777	29,759,262	29,959,790
Total liabilities	613,567	433,454	31,912,262	32,029,573
Net assets (deficiency):				
Invested in capital assets	583,747	219,867	-	-
Unrestricted	3,430,708	3,676,879	(27,570,688)	(27,591,447)
Net assets (deficiency)	4,014,455	3,896,746	(27,570,688)	(27,591,447)
	\$ 4,628,022	\$ 4,330,200	\$ 4,341,574	\$ 4,438,126

See accompanying independent auditors' report.

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

Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2010 and 2009

	GEDA		TSA	
	2010	2009	2010	2009
Revenues:				
Rental income	\$ 1,327,092	\$ 1,730,098	\$ -	\$ -
Tobacco Settlement revenue	-	-	2,518,458	2,962,973
Qualifying certificate application, surveillance and other fees	432,291	202,782	-	-
Bond fees earned	559,594	304,566	-	-
Other	78,000	16,609	-	-
	<u>2,396,977</u>	<u>2,254,055</u>	<u>2,518,458</u>	<u>2,962,973</u>
Provision for doubtful accounts receivable	-	(115)	-	-
	<u>2,396,977</u>	<u>2,253,940</u>	<u>2,518,458</u>	<u>2,962,973</u>
Operating expenses:				
Salaries and benefits	1,597,571	1,291,962	-	-
Legal and professional services	304,026	223,684	37,776	60,619
Depreciation and amortization	140,766	156,911	-	-
Office space and equipment rent	128,351	130,431	-	-
Travel	99,003	93,842	5,379	56,269
Advertising and promotions	35,766	46,463	-	-
Utilities, telephone and communication	14,013	14,384	-	-
Supplies	10,325	8,832	-	-
Insurance	5,983	10,149	-	-
Repairs and maintenance	1,822	1,296	-	-
Miscellaneous	44,233	37,910	-	-
	<u>2,381,859</u>	<u>2,015,864</u>	<u>43,155</u>	<u>116,888</u>
Operating income	<u>15,118</u>	<u>238,076</u>	<u>2,475,303</u>	<u>2,846,085</u>
Other income (expense):				
Interest income (expense), net	484	397	(2,454,581)	(2,491,631)
Investment income	68,172	57,245	37	62,550
Net (decrease) increase in the fair value of investments	(28,372)	41,172	-	-
Other income, net	62,307	19,164	-	-
Other income (expense), net	<u>102,591</u>	<u>117,978</u>	<u>(2,454,544)</u>	<u>(2,429,081)</u>
Net increase in net assets	<u>117,709</u>	<u>356,054</u>	<u>20,759</u>	<u>417,004</u>
Net assets (deficiency) at beginning of year	<u>3,896,746</u>	<u>3,540,692</u>	<u>(27,591,447)</u>	<u>(28,008,451)</u>
Net assets (deficiency) at end of year	<u>\$ 4,014,455</u>	<u>\$ 3,896,746</u>	<u>\$ (27,570,688)</u>	<u>\$ (27,591,447)</u>

See accompanying independent auditors' report.

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

Comparative Divisional Schedules of Cash Flows
Years Ended September 30, 2010 and 2009

	GEDA		TSA	
	2010	2009	2010	2009
Cash flows from operating activities:				
Cash received from customers	\$ 2,555,589	\$ 2,772,608	\$ 2,518,458	\$ 2,962,973
Cash paid to suppliers for goods and services	(527,209)	(623,655)	(75,409)	(82,971)
Cash paid to employees for services	(1,578,083)	(1,273,435)	-	-
Net cash provided by operating activities	<u>450,297</u>	<u>875,518</u>	<u>2,443,049</u>	<u>2,880,002</u>
Cash flows from investing activities:				
Interest and investment income	39,800	98,417	37	62,550
Rollover of interest into investment	(39,800)	(98,417)	(37)	(62,550)
(Purchase) maturity of investment securities	62,446	(852,548)	37	2,870,436
Net cash provided by investing activities	<u>62,446</u>	<u>(852,548)</u>	<u>37</u>	<u>2,870,436</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(505,602)	(29,644)	-	-
Net cash used in capital and related financing activities	<u>(505,602)</u>	<u>(29,644)</u>	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities:				
Repayment of bond payable	-	-	(800,000)	(1,320,000)
Net interest received (paid) on deposit accounts, bond and notes payable	484	397	(1,699,050)	(1,764,149)
Net cash provided by (used in) noncapital financing activities	<u>484</u>	<u>397</u>	<u>(2,499,050)</u>	<u>(3,084,149)</u>
Net change in cash and cash equivalents	7,625	(6,277)	(55,964)	2,666,289
Cash and cash equivalents at beginning of year	52,421	58,698	3,728,400	1,062,111
Cash and cash equivalents at end of year	<u>\$ 60,046</u>	<u>\$ 52,421</u>	<u>\$ 3,672,436</u>	<u>\$ 3,728,400</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 15,118	\$ 238,076	\$ 2,475,303	\$ 2,846,085
Other income, net	62,307	19,164	-	-
Loss on disposal of property and equipment	956	-	-	-
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	140,766	156,911	-	-
Provision for doubtful accounts receivable	-	115	-	-
(Increase) decrease in assets:				
Due from trust funds administered by GEDA	(36,490)	62,709	-	-
Reimbursable expense	14,471	(16,134)	(14,471)	16,134
Other receivables	78,112	233,766	-	-
Inventory	6,305	832	-	-
Prepaid expenses	1,833	(4,566)	-	-
Deferred charges	(13,194)	854,044	-	-
Increase (decrease) in liabilities:				
Accounts payable	62,188	(660,991)	(17,783)	17,783
Due to trust funds administered by GEDA	-	(312)	-	-
Accrued liabilities	59,181	16,455	-	-
Deferred rental income	(12,994)	(46,438)	-	-
Deposits	52,250	3,360	-	-
DCRS sick leave liability	19,488	18,527	-	-
Net cash provided by operating activities	<u>\$ 450,297</u>	<u>\$ 875,518</u>	<u>\$ 2,443,049</u>	<u>\$ 2,880,002</u>

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, 2010 AND 2009

Independent Auditors' Report

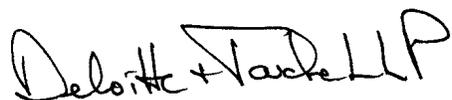
The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Microenterprise Development Program, the Guam Territorial Aquarium Foundation, the Music and Legends of Guam Fund, and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 2010 and 2009, 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, 2010 and 2009, 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 February 15, 2011, 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.



February 15, 2011

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

Statements of Fiduciary Net Assets
September 30, 2010 and 2009

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Cash on hand and in bank	\$ 71,704	\$ 6,576	\$ 15,004	\$ 6,565	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	2,036,193	1,987,420	243,179	277,176	-	-	-	-	-	-	-	-
Less allowance for doubtful receivables	(1,758,085)	(1,741,251)	(229,066)	(239,039)	-	-	-	-	-	-	-	-
Net notes and accrued interest receivable	278,108	246,169	14,113	38,137	-	-	-	-	-	-	-	-
Due from other funds:												
Guam Economic Development Authority	-	-	-	-	30,132	30,132	-	-	-	-	-	-
Guam Development Fund Act	-	-	-	-	10,251	10,251	-	-	-	-	-	-
Microenterprise Development Program	-	-	917	917	-	-	-	-	-	-	-	-
Investments	9,702,599	9,931,038	696,444	678,316	-	-	20,560	20,377	-	-	-	-
Other real estate:												
Land	648,195	648,195	139,000	136,720	-	-	-	-	-	-	-	-
Leasehold interest, net	784,605	798,724	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	2,280	-	-	-	-	-	-	-	-
Furniture and equipment, at cost, net	481	1,204	37	93	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	11,387	11,387	-	-
	<u>11,135,880</u>	<u>11,379,161</u>	<u>836,398</u>	<u>818,326</u>	<u>40,383</u>	<u>40,383</u>	<u>20,560</u>	<u>20,377</u>	<u>11,387</u>	<u>11,387</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 11,485,692</u>	<u>\$ 11,631,906</u>	<u>\$ 865,515</u>	<u>\$ 863,028</u>	<u>\$ 40,383</u>	<u>\$ 40,383</u>	<u>\$ 20,560</u>	<u>\$ 20,377</u>	<u>\$ 11,387</u>	<u>\$ 11,387</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES AND NET ASSETS</u>												
Liabilities:												
Accounts payable and accrued expenses	\$ 40,041	\$ 25,765	\$ 10,961	\$ 10,932	\$ (35)	\$ (35)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds:												
Guam Economic Development Authority	36,027	2,146	3,792	146	-	-	-	-	-	-	-	-
Microenterprise Development Program	10,251	10,251	-	-	-	-	-	-	-	-	-	-
Agricultural Development Program	-	-	-	-	917	917	-	-	-	-	-	-
Total liabilities	<u>86,319</u>	<u>38,162</u>	<u>14,753</u>	<u>11,078</u>	<u>882</u>	<u>882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contingencies												
Net assets held in trust	<u>11,399,373</u>	<u>11,593,744</u>	<u>850,762</u>	<u>851,950</u>	<u>39,501</u>	<u>39,501</u>	<u>20,560</u>	<u>20,377</u>	<u>11,387</u>	<u>11,387</u>	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 11,485,692</u>	<u>\$ 11,631,906</u>	<u>\$ 865,515</u>	<u>\$ 863,028</u>	<u>\$ 40,383</u>	<u>\$ 40,383</u>	<u>\$ 20,560</u>	<u>\$ 20,377</u>	<u>\$ 11,387</u>	<u>\$ 11,387</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)**

Statements of Changes in Fiduciary Net Assets
Years Ended September 30, 2010 and 2009

	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Additions:												
Interest from investment	\$ 145,508	\$ 188,255	\$ 10,470	\$ 12,870	\$ -	\$ -	\$ 369	\$ 377	\$ -	\$ -	\$ -	\$ -
Net (decrease) increase in the fair value of investments	(7,935)	82,206	(3,285)	8,314	-	-	(155)	245	-	-	-	-
Interest from loans	21,770	23,561	1,339	2,363	-	-	-	-	-	-	-	-
Other	157,257	140,713	-	-	-	-	-	-	-	-	-	-
Total additions	316,600	434,735	8,524	23,547	-	-	214	622	-	-	-	-
Deductions:												
Provision for (recovery of) doubtful notes and accrued interest	23,862	560,354	6,886	(4,060)	-	-	-	-	-	-	-	-
Salaries and benefits	393,990	407,171	1,669	11,763	-	289	-	-	-	-	-	-
Rent	41,966	39,331	-	711	-	-	-	-	-	-	-	-
Legal and professional services	36,111	11,855	69	205	-	-	-	-	-	-	-	-
Depreciation	14,841	16,085	56	56	-	-	-	-	-	-	-	-
Bank charges	7,399	11,446	1,032	975	-	-	-	-	-	-	-	-
Advertising and promotions	-	6,450	-	-	-	-	-	-	-	-	-	-
Travel	-	1,506	-	-	-	-	-	-	-	-	-	-
Miscellaneous	(7,198)	7,098	-	43	-	11	31	29	-	1,796	-	43
Total deductions	510,971	1,061,296	9,712	9,693	-	300	31	29	-	1,796	-	43
Net change in net assets	(194,371)	(626,561)	(1,188)	13,854	-	(300)	183	593	-	(1,796)	-	(43)
Net assets at beginning of year	11,593,744	12,220,305	851,950	838,096	39,501	39,801	20,377	19,784	11,387	13,183	-	43
Net assets at end of year	\$ 11,399,373	\$ 11,593,744	\$ 850,762	\$ 851,950	\$ 39,501	\$ 39,501	\$ 20,560	\$ 20,377	\$ 11,387	\$ 11,387	\$ -	\$ -

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, 2010 and 2009

(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), the Music and Legends of Guam Fund (MLGF), and the U.S. Base Realignment and Closure Committee (BRAC) 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.

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.

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) and the Local Arts Revolving Fund (LARF) which have no assets, liabilities or net assets as of September 30, 2010 and 2009 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:

**TRUST FUNDS ADMINISTERED BY THE
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Notes to Financial Statements
September 30, 2010 and 2009

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

Purpose, Continued

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 2010 and 2009 nor were there any policies outstanding at September 30, 2010 and 2009.

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 have been 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 have been 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 have been made by the Guam Legislature.

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 have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2010 and 2009.

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

Basis of Accounting

The Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF), the Music and Legends of Guam Fund (MLGF) and U.S. Base Realignment and Closure Committee (BRAC) are accounted for as Fiduciary Fund Type – Private Purpose Trust Funds and are component units of the Government of Guam.

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Notes to Financial Statements
September 30, 2010 and 2009

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

Basis of Accounting, Continued

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.

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 GDFA 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.

Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost or market.

Expenses

Most of the expenses of the Funds, 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.

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

Expenses, Continued

GEDA allocates a percentage of payroll expense to each Fund based upon actual time personnel spend on the respective Fund. Additionally, GEDA allocates a percentage of rent expense to GDFA in 2010 and GDFA and ADF in 2009.

New Accounting Standards

During fiscal year 2010, the Trust Funds implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Trust Funds.

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Notes to Financial Statements
September 30, 2010 and 2009

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

New Accounting Standards, Continued

In December 2009, GASB issued 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 measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 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 June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Trust Funds.

(2) Cash and Investments

Investments in debt securities are carried at cost which approximates market value. Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2010 and 2009 consist the following:

	<u>2010</u>	<u>2009</u>
Cash on hand and due from banks	\$ <u>86,708</u>	\$ <u>13,141</u>
Cash and cash equivalents	\$ <u>86,708</u>	\$ <u>13,141</u>
Total shares in mutual funds	\$ 6,058,274	\$ 7,356,725
U.S. Government agencies securities	3,996,969	3,273,006
U.S. Government treasury securities	<u>364,360</u>	<u>-</u>
Investments	\$ <u>10,419,603</u>	\$ <u>10,629,731</u>

The deposits and investment policies of GEDA are governed by 5 GCA 21, *Investments and Deposits*. 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.

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Notes to Financial Statements
September 30, 2010 and 2009

(2) Cash and Investments, Continued

A. Cash

GASB Statement No. 3 requires government entities to categorize deposits to give an indication of the level of credit risk assumed by the entity at year-end. The three categories are described below:

Category 1 Deposits that are federally insured or collateralized with securities held by GEDA or its agent in GEDA's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in GEDA's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in GEDA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2010 and 2009, the carrying amount of cash was \$86,308 and \$12,741, respectively, and the corresponding bank balances were \$86,308 and \$13,914, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). As the trust funds are administered by GEDA, cash balances of the trust funds, combined with the cash balances of GEDA, fall below the insurance limit of the FDIC at September 30, 2010 and 2009. 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

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investment fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by GEDA or its agent in GEDA's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in GEDA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GEDA's name.

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Notes to Financial Statements
September 30, 2010 and 2009

(2) Cash and Investments, Continued

B. Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 retains and expands the element of custodial risk in GASB Statement No. 3.

As of September 30, 2010, investments 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)	\$ 2,827,877	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	2,029,908	N/A	N/A
BlackRock Interm Govt Bond Inv C (BIGCX)	458,658	N/A	N/A
MFS Limited Maturity C (MQLCX)	334,788	N/A	N/A
Franklin Adjustable US Govt Secs C (FCSCX)	331,256	N/A	N/A
BlackRock Interm Govt Bond Inv A	75,787	N/A	N/A
Federal National Mortgage Association (FNMA) discount note	1,336,171	10/05/10	N/A
Federal Home Loan Mortgage Corporation (FHLMC) discount note	1,332,367	11/02/10	N/A
FNMA discount note	1,328,431	12/08/10	N/A
U.S. Government Treasury note (U.S. T note)	120,017	01/31/11	N/A
U.S. T note	120,639	02/15/12	N/A
U.S. T note	<u>123,704</u>	12/31/13	N/A
	<u>\$ 10,419,603</u>		

As of September 30, 2009, investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
U.S. Government Treasury securities	\$ 7,356,725	N/A	N/A
FHLMC discount note	1,094,044	10/05/09	N/A
FHLMC discount note	1,091,038	11/02/09	N/A
FNMA discount note	<u>1,087,924</u>	12/10/09	N/A
	<u>\$ 10,629,731</u>		

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.

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Notes to Financial Statements
September 30, 2010 and 2009

(2) Cash and Investments, Continued

B. Investments, Continued

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, 2010 and 2009 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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, 2010, GEDA's investment in FHLMC and FNMA discount notes constituted 13% and 26% of its total investments. As of September 30, 2009, GEDA's investment in FHLMC and FNMA discount notes constituted 21% and 10% of its total investments.

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.

(3) Other Real Estate, Land

G DFA and ADF have acquired certain land through foreclosure of loans. During the year ended September 30, 2008, G DFA discovered that certain recorded land has not been subdivided and as such, it is not readily marketable; as a result, G DFA provided a valuation allowance of \$22,500 for this property.

A summary of the changes in other real estate for 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 784,915	\$ 784,915
Additions	<u>2,280</u>	<u>-</u>
Balance at end of year	\$ <u>787,195</u>	\$ <u>784,915</u>

(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, 2010 and 2009, net of accumulated amortization of \$113,824 and \$99,705 as of September 30, 2010 and 2009, respectively.

(5) Contingencies

GEDA is involved in various litigation inherent in the operations of the Authority. 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 COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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 and subsidiary (GEDA), as of September 30, 2010, and for the year then ended, and have issued our report thereon dated February 15, 2011. 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

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.

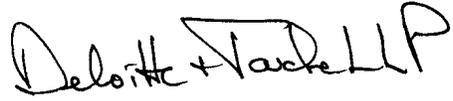
A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies,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

Our consideration of the 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 the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies 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 grants, 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 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, the Office of Public Accountability of 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

February 15, 2011