

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

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

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**SEPTEMBER 30, 2011 AND 2010**

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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## **Independent Auditors' Report**

The Board of Directors  
Guam Economic Development Authority:

We have audited the accompanying consolidated 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, 2011 and 2010, and the related consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Guam Economic Development Authority and subsidiary at September 30, 2011 and 2010, 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 17 is not a required part of the basic consolidated 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 consolidated financial statements taken as a whole. The supplemental divisional information on pages 18 through 20, the supplemental data on page 38 and the supplemental comparative divisional schedules on pages 39 through 41 are presented for the purpose of additional analysis and are not required parts of the basic consolidated 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 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2012, 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.

Deloitte & Touche LLP

February 23, 2012

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Management's Discussion and Analysis  
Year Ended September 30, 2011

## **PREFACE**

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

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

## **FY2011 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:

## **BUSINESS DEVELOPMENT & MARKETING DIVISION**

### **Trade Missions/Seminars**

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

- Guam Investment Conference, Honolulu, Hawaii, February 23, 2011
- Austrade – March 1-5, 2011
- Taiwan Construction Mission II – March 20-22, 2011
- National Governor's Association Conference on Clean Energy and Pre-Policy Institute Workshop - April 4-6, 2011
- American Health Insurance Policy Conference – June 15-17, 2011
- Pacific Island Private Sector Organization – June 20 – 22, 2011, GEDA was asked to speak at the 5<sup>th</sup> annual General Membership and Business Seminar in Fiji; topics included Investment Opportunities on Guam and Business and Labor Opportunities on Guam.
- Japan Trade Mission September 26-30, 2011
- FRANCHISE ASIA September 19-25, 2011 - GEDA attended this event and helped to secure Store Specialists Inc. venture into Guam with the opening of their Gap, Beauty Bar and Aerosols stores.

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**Qualifying Certificates (QC)**

There were limited activities in the QC program during the year. A QC recipient's request to transfer ownership was approved by the GEDA Board and signed by Governor Calvo. Additionally, another requested change was approved by the GEDA Board and is undergoing review by the Attorney General's office. Lastly, a new application was submitted which is currently with the applicant for information update.

**Investor Inquiries/Web Site Activity**

GEDA's Investor Desk entertained over **126** Investor Inquires from October 2010 – September 2011

	<b>Loans</b>	<b>QC</b>	<b>Total</b>
October 2010	0	11	11
November 2010	0	10	10
December 2010	0	8	8
January 2011	0	7	7
February 2011	0	10	10
March 2011	1	20	21
April 2011	0	10	10
May 2011	0	5	5
June 2011	1	11	12
July 2011	0	9	9
August 2011	1	12	13
September 2011	1	9	10
<b>Total</b>	<b>4</b>	<b>122</b>	<b>126</b>

GEDA's Web Site had **1,422,707** hits from October 2010 – September 2011.

	<b>Unique visitors</b>	<b>Number of visits</b>	<b>Pages</b>	<b>Hits</b>	<b>Bandwidth (in GB)</b>
October 2010	2,219	3,233	13,903	117,437	3.54
November 2010	2,129	2,968	13,088	106,955	3.39
December 2010	2,240	3,066	11,785	99,912	2.42
January 2011	2,614	3,366	14,288	116,565	2.62
February 2011	4,695	5,888	18,304	120,320	3.86
March 2011	2,316	3,616	17,092	125,186	3.94
April 2011	2,163	3,189	15,853	116,809	2.98
May 2011	2,177	3,241	18,227	123,076	3.55
June 2011	1,873	2,879	16,162	111,303	3.71
July 2011	1,920	3,114	17,490	119,256	3.71
August 2011	2,105	3,320	19,587	136,506	4.23
September 2011	2,273	3,585	16,390	129,382	3.95
<b>Total</b>	<b>28,724</b>	<b>41,465</b>	<b>192,169</b>	<b>1,422,707</b>	<b>41.9</b>

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**Sports Tourism - UOG Sports Complex Tax Credit January 26, 2011**

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

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

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

In pursuit of President Obama's NEI, GEDA applied for the STEP grant and in September 2011, was awarded the amount of \$135,927 to assist in the promotion of local companies in becoming engaged in exporting. This is a year one award of a three-year SBA program. GEDA has sent letters of invitation to prospective members of the STEP Grant Committee, which will serve as an advisory body for the Grant.

**Establishing a Department of Commerce District Export Council on Guam**

In conjunction with the NEI, a desire to open a U.S. Department of Commerce (USDOC) Trade Office on Guam has been discussed between Governor Calvo and senior representatives from the U.S. Department of Commerce. GEDA was recently notified that the UOG SBDC would in fact pursue a District Export Council specifically for Guam, which will greatly aid in our efforts towards self-promotion and export activities.

**Medical Education Development and Tourism**

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

GEDA embarked upon a partnership with Take Care to assist in providing GEDA with exposure and experience in the Medical field through funding AHIP conference travel and registration along with MGMA conference sponsorship with the intent of building a base of knowledge within GEDA in order to assist the fostering of expanded medical services and employment in the medical industry.

**High Technology Light Manufacturing**

While Guam faces stiff competition within the Pacific Basin in accessing affordable labor and materials necessary to establish and maintain profitable production and manufacturing facilities, niche areas do exist which allow for the local production of goods needed in the construction industry that can be produced locally and whose cost is comparable or below prices for the same items sourced abroad. GEDA has been approached several times of late with just this type of private venture during the prospective company's vetting process. A good example of successful light manufacturing is the current production of typhoon shutters, the manufacturing of locally produced doors and windows and the recent investment in a steel rebar forming company. Another venture being embarked upon is the production of steel framing for use in the installation of drywall for construction and renovation projects.

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**Green Technology Research, Development and Manufacturing**

GEDA is working to market Guam as a destination for the Research, Development and Manufacturing of Green Technologies. The need to reduce the usage of energy, water and waste has prompted the need to look into Green Technology. Projects like Ocean Thermal Energy Conversion, Solar Power and the use of environmentally responsible building materials are ways that promote energy reduction and the depletion of our limited natural resources. Promoting the research, development and manufacturing of Green Technology on island would not only reduce consumer costs for energy but may provide a regional export out of Guam.

GEDA will attend a National Governor's Association Conference on Clean Energy at which time Best Practices will be provided to attendee's in an effort to spur this effort on Guam.

**Film Industry – The Development of a Film Commission**

GEDA assisted Senator Tina Muna-Barnes and film industry representatives in drafting Bill 343-31, which would establish the Guam Film Office within GEDA.

**GEDA Promotional Video**

The video is near completion with final edits to include multi-language translations.

**Agriculture Industry**

To further develop Guam's Agriculture Industry through organization and expansion of current resources and the introduction of new technology, GEDA has been working with the Guam Farmer's Cooperative on their plans for a new facility in Dededo. Additionally, GEDA has been working to locate a permanent location for the USDA Heat Treatment facility, which will allow for agricultural products to be inspected and treated prior to exporting. This facility is a key component of the STEP Grant program as it applies to agriculture.

**Guam Comprehensive Economic Development Strategy (CEDS)**

In February of 2011 Governor Calvo tasked GEDA, Bureau of Statistics and Plans and the University of Guam to complete a Comprehensive Economic Development Strategy. Governor Calvo formed a strategy committee to review the CEDS for final review prior to submitting to U.S. Economic Development Administration.

**PUBLIC FINANCE**

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 FY2011 include the following:

**Guam Waterworks Authority (GWA) \$156.4 M bond financing (November 2010)**

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 November 23, 2010, GEDA and the GWA closed on a \$156.3 million bond financing at parity to the 2005 GWA Bond. Proceeds are to assist in GWA's Moratorium Project list and other GWA Master Plan Projects.

**Guam Memorial Hospital Authority Loan (February 2011)**

Pursuant to Public Laws 30-200 and 30-235, GEDA and Guam Memorial Hospital Authority successfully secured a loan with the Bank of Guam in the amount of \$12 M to finance past due vendor payments. The loan is secured by a pledge and assignment of revenues from the Healthy Futures Funds,

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GMHA's Pharmaceutical Fund, Medical Services Revenues, and Full Faith and Credit of the Government of Guam.

**Government of Guam Hotel Occupancy Tax (HOT) Revenue Bonds (April 2011)**

Government of Guam successfully closed the \$90 million Government of Guam Hotel Occupancy Tax Revenue Bonds in April 2011. The 2011 Bonds were issued to:

- acquire, construct and/or equip a new Guam Museum and certain other projects that benefit Guam's tourism industry
- refund the outstanding Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A
- fund capitalized interest for a portion of the 2011 Bonds to and including November 1, 2011
- fund the Bond Reserve Fund and
- pay the costs of issuance of the 2011 Bonds

Standard and Poor's rated the transaction a BBB+ investment grade rating with a stable outlook. Senior Underwriter Ramirez & Co., Inc. and co-managing underwriter Piper Jaffrey & Co., with Pacific Public Finance Group LLC as financial advisor, managed the transaction.

The Government of Guam, as facilitated through GEDA, heavily marketed the bonds to investors, participating in an investor internet road show and one-on-one investor calls. The bonds were fully subscribed within 30 minutes, with a final true interest cost of 6.43% percent overall.

**Standard & Poor's (S&P) Review of GovGuam's General Obligation (April 2011)**

Standard & Poor's conducted a review of the Government of Guam's General Obligation bonds (GO bonds) and the Government of Guam's 2010 A Certificate of Participation (John F. Kennedy High School Project) in light of the implementation of their new rating criteria. S&P affirmed the GO rating at "B+/Stable Outlook" and the COP's rating at "B/Stable."

The report praised Governor Calvo several times. S&P specifically cited the following:

*"The government, under the administration of Governor Eddie Calvo, has put fiscal discipline at the forefront, with key fiscal policy objectives of deficit elimination, cost containment, and revenue generation. Governor Calvo's first executive order directed all department heads to identify and recommend cost-cutting measures, identify revenue enhancements. Also noteworthy, the Governor, early in his term, rescinded a previous executive order for across-the-board pay increases, known as the Hay Study, in an attempt to improve fiscal stability."*

S&P attributed its Stable Outlook to "Guam's increased political willingness under Governor Calvo to establish a long-term plan to improve its financial position, including addressing its history of annual budget imbalances and its significant long-term liabilities."

The rating agency also mentioned concerns about Guam's "very large general fund deficit position, long-term liabilities, and operating cash flow pressures."

**Introduction to Municipal Bonds Seminar (May 2011)**

GEDA's former Financial Advisor, and Bond Counsel conducted an *Introduction to Municipal Bonds Seminar* at the GEDA Conference Room on May 2, 2011. Participants included members from Bureau of Statistics & Plans, Department of Administration, Guam Power Authority, Guam Waterworks Authority, Guam State Clearing House, Guam Legislative staff, GEDA Board of Directors, Guam Visitors Bureau and the Guam Housing Corporation.

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**Guam Power Authority (July 2011)**

An Investment Agreement in connection with the investment of funds held in the Construction and Capitalized Interest Funds relating to the GPA's 2010 Series A Bonds closed on June 30, 2011.

- The Investment Agreement dated as of June 30, 2011 by and among Natixis Funding Corp., a New York corporation, U.S. Bank National Association, as successor co-trustee for the Bonds and the Guam Power Authority.
- GPA's funds will be earning the following:
  - Project / CapI Fund – 0.862%
  - Reserve Fund – 1.772%

**Bond Disclosure Services (August 2011)**

With the release of its Financial Advisor, GEDA is now filing the required bond disclosure documents on the Municipal Securities Rulemaking Boards' Electronic Municipal Market Access (EMMA) system website, the official site for Bond statements and trade data for the Municipal Market. Reports have been filed for the following bonds:

- 2007 General Obligation Bonds – 2010 Bond Information Report, GovGuam FY2010 audited financials & FY2011 Budget Act;
- 2009 General Obligation Bonds - 2010 Bond Information Report, GovGuam FY2010 audited financials & FY2011 Budget Act;
- 2001 Limited Obligation Highway Bonds – 2010 Bond Information Report, Territorial Highway Funds 2010 audited Financials
- 2009 Limited Obligation (Section 30) Bonds - 2010 Bond Information Report
- 2010 Certificate Of Participation's (John F. Kennedy project) - 2010 Bond Information Report, GovGuam FY2010 audited financials & FY2011 Budget Act.
- 2010 Guam Power Authority – Event Filing – Standard and Poor's Ratings Services downgrade of Guam Power Authority's bond insurers, Assured Guaranty Municipal Corp,

**BOND MARKET UPDATE**

2011 was characterized by uncertainty over concerns about global and national stability as well as media attention directed towards State and local municipal issuers. Hundreds of billions of dollars worth of municipal defaults were projected by some, but did not materialize. The first half of 2011 started off very slow, with total market issuance at just 56% of 2010 levels. The slow performance is attributed to the deluge of issuance occurring in the 4<sup>th</sup> quarter of 2010 in anticipation of the expiration of the American Recovery and Reinvestment Act financing vehicles. Global uncertainty drove investors towards the higher credit quality of municipals, pushing yields lower throughout the year creating many refunding opportunities, particularly in the second half of 2011. The second half of 2011 saw \$172 billion of issuance – low by 2010 standards, but still an improvement over the first six months of the year. Overall, 2011 ended with a total municipal volume at 67% of 2010's record level. Despite volatility, yields continue to drift lower, ending the year at near lowest point in history.

Volatility was the theme for the year, both in the financial markets in general and in the municipal market. The range for 30-year Municipal Market Data ("MMD") in 2011 was at 164 basis points (bps), compared to 118 bps for 2010 and 127 bps for 2009. Given this range, 30-Year MMD, 2011 was the 2<sup>nd</sup> most volatile year since 2000. This is a reflection of the market's reaction to world financial events in particular the European bailout rumors, Standard and Poor's (S&P) downgrade of the US credit from AAA to AA (August 2011) and the financial regulatory debates, which included the proposed limitation of the tax-exempt for municipal bonds. The 30-Year MMD decreased 110 bps and 30-Year Treasury yields decreased 150 bps in 2011.

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In 2011, issuer's once again opted largely to sell fixed rate tax-exempt bonds since the Build American Bonds program was not renewed past 2010. 31% of issuance was for refunding, with 52% issued for new-money. Guam was able to take advantage of this low rate and new investor interest with the Hotel Occupancy Tax Revenue Bonds issued in April 2011.

In 2011, Guam's GO credit rating and Certificates of Participation (John F. Kennedy High School Project) were reviewed with S&P's new credit rating criteria. S&P affirmed both ratings at B+ and B, respectively, with a stable outlook.

## **LOANS**

### **Guam Development Fund Act (GDFA) Direct/Micro Loans**

During the year, GEDA approved and issued 9 loans to small businesses, mainly in the retail, services and agricultural industries, under the GDFA Direct/Micro Loan program. These loans range from \$10,000 to \$100,000 individually with an aggregate total of \$308,500.

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

GEDA created Rules and Regulations for the Government of Guam Mitigation Program for Business Interruption, a program established by Bill 36-31, now Public Law 31-13, as a means to assist businesses located in the Barrigada Tri-Intersection area. Grants in amounts up to \$12,000 and Loans up to \$100,000 are available to small and mid-size businesses adversely impacted by government projects, such as road construction, so as to ensure their continued existence and minimize interruption to local commerce.

To date, GEDA has received 3 grant applications. GEDA will continue to promote this program to all applicable businesses.

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

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010. On October 8, 2010, the U. S. Department of the Treasury announced funding allocations of which Guam was allocated \$13,168,350 to create \$131,683,500 in new lending and up to 3,000 jobs.

On October 4, 2011, Governor Eddie Baza Calvo received approval of the \$13,168,350 U.S. Treasury funding that translates into \$131 million in loans to small businesses looking to expand. GEDA is now working with banks to provide loans to small businesses on Guam who may not have had the collateral or the credit to obtain a loan.

GEDA has visited with several banks and credit unions to present the different programs approved by the U. S. Treasury. Several Small Businesses have shown interest and are referred to their banks to take advantage of the SSBCI funds. Follow-ups with the banks are conducted on a daily basis.

GEDA will continue to promote the program to all Guam financial institutions with a goal to push out all loan proceeds within two (2) years.

### **Outreach Programs**

- Launched at Barrigada Mayor's Office, March, 2011
- Second held at the Dededo Mayor's Office, November 2011
- The next quarterly outreach meeting is scheduled for February or March 2012

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**REAL PROPERTY**

GEDA manages three industrial parks, the E.T. Calvo Memorial Park, the Harmon Industrial Park, and the Guam Shipyard generating an average of about 700 to 1000 jobs annually, \$41.0 million in payroll, over \$130.0 million in gross sales and \$6.7 million in GRT. As the main source of GEDA's operating budget, the industrial parks generated approximately \$1.4 million in lease revenues for FY2010 and FY2011. In an effort to generate additional revenues for the Authority 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 with the Guam Ancestral Lands Commission (GALC), to manage leases on Spanish Crown properties. For the period October 2007 to September 23, 2011, GEDA collected over \$1.2 million in ground lease rents and participation rents of which \$1,064,465 was remitted to GALC while \$180,200 was retained by GEDA as provided for in the MOU. GEDA is currently looking into similar management agreements with other GovGuam agencies with land inventory that could generate lease revenues at fair market value rates.

In supporting small business initiatives, GEDA obtained a commitment by the Navy to secure up to \$1 billion in small business contracts over the next 5 years. Navy awarded a \$400 million HubZone Multiple Award Construction Contracts (MACC); a \$100 million Small Disadvantaged Business MACC; and a \$500 million Small Business MACC to many local businesses. 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](http://www.fbo.gov)) and the Department of Defense website ([www.dod.gov](http://www.dod.gov)) and while GEDA continues to maintain a database of federal contracts, each of source websites have 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, and even foreign countries increasing the difficulty of developing a thorough database. Indefinite Delivery/Indefinite Quantity (IDIQ) and 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](http://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 data base reports "transactions" which are distinct from "contracts" as used in this report. One contract may have multiple transactions. The bulk of these transactions are

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“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 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.

GEDA is evaluating local business prospects for post-construction contracting to ensure that Guam's services contractors will benefit from the Military build up. The report provides 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 accomplishes this objective by analyzing 77 categories of products and 26 categories of services procured by the U. S. military in Japan and Okinawa. The report concluded that an estimated \$400 million per year in additional work could be expected post buildup. 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.

**FINANCIAL COMMENTS**

The following table summarizes the statements of net assets (deficiency) and operations of Guam Economic Development Authority for 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 7,757,700	\$ 7,649,048	\$ 7,769,793
Long-term assets:			
Building, improvements and equipment, at cost, net	576,771	583,747	219,867
Deferred bond issuance costs	615,742	670,801	725,860
Deferred charges	-	62,500	49,306
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	<u>\$ 8,953,713</u>	<u>\$ 8,969,596</u>	<u>\$ 8,768,326</u>

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	<u>2011</u>	<u>2010</u>	<u>2009</u>
Liabilities and Net Deficiency:			
Current liabilities:			
Current portion of long-term debt ,net	\$ 1,720,000	\$ 1,600,000	\$ 1,485,000
Other current payables	1,137,390	1,004,052	927,460
Long-term liabilities:			
Long-term debt, net	29,720,093	29,759,262	29,959,790
Other long-term payable	<u>219,889</u>	<u>162,515</u>	<u>90,777</u>
Total liabilities	<u>32,797,372</u>	<u>32,525,829</u>	<u>32,463,027</u>
Net assets (deficiency):			
Invested in capital assets	576,771	583,747	219,867
Unrestricted	<u>(24,420,430)</u>	<u>(24,139,980)</u>	<u>(23,914,568)</u>
Net deficiency	<u>(23,843,659)</u>	<u>(23,556,233)</u>	<u>(23,694,701)</u>
	<u>\$ 8,953,713</u>	<u>\$ 8,969,596</u>	<u>\$ 8,768,326</u>
Revenues, Expenses and Changes in Net Assets:			
Revenue:			
Operating revenues	\$ 1,804,048	\$ 1,837,383	\$ 1,949,489
Tobacco Settlement revenue	2,341,023	2,518,458	2,962,973
Bond fees earned	549,064	559,594	304,566
(Provision for) doubtful accounts receivable	<u>-</u>	<u>-</u>	<u>(115)</u>
Total revenue	<u>4,694,135</u>	<u>4,915,435</u>	<u>5,216,913</u>
Expenses:			
Operating expenses	(2,714,278)	(2,425,014)	(2,132,752)
Other income (expense), net	<u>(2,267,283)</u>	<u>(2,351,953)</u>	<u>(2,311,103)</u>
Increase (decrease) in net assets	(287,426)	138,468	773,058
Net deficiency at beginning of year	<u>(23,556,233)</u>	<u>(23,694,701)</u>	<u>(24,467,759)</u>
Net deficiency at end of year	<u>\$ (23,843,659)</u>	<u>\$ (23,556,233)</u>	<u>\$ (23,694,701)</u>

**Operating Revenues**

In FY11, GEDA recorded operating revenues of \$1,804,048, compared to \$1,837,383 in fiscal year 2010. The year-to-year change of \$33,335 represents a decrease of 1.8 %. GEDA generates its own revenues to sustain annual operations from three primary sources. The first is the rental income from Industrial Parks, the second is application and surveillance fees from QC beneficiaries and the third source is from the management of the GALC Lease properties under the current MOU. Bond fees are a fourth source, but are not a recurring annual income.

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***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 9.0% from \$1,327,092 in FY10 to \$1,207,979 in FY11. The decrease is mainly attributed to the loss of revenue from the Port Authority of Guam (PAG).

***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. There was an increase of \$66,890 in QC revenues in FY11.

***Bond Fees***

GEDA's mandate establishes GEDA as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Division, which assists with, coordinates and monitors, Capital Financing Debt Management and the Capital Markets. GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. Bond Fees decreased 1.9% from \$559,594 in FY10 to \$549,064 in FY11.

**Operating Expense**

GEDA's operating expense in FY11 was \$2,714,278, an increase of 11.9% over FY10 of \$2,425,014.

***Personnel Expenses***

Salaries and benefits (including allocation to trust funds) increased 12.0% or \$239,310 in FY11, which is attributed to an increase in benefits, annual salary increments and salary adjustments.

***Legal and Professional Services***

Professional service expense decreased \$68,268 or 20.0% from \$341,802 in FY10 to \$273,534 in FY11. This is mainly attributed to the termination of a professional consulting agreement.

***Depreciation Expense***

Depreciation expense decreased \$59,008 or 41.9% from \$140,766 in FY10 to \$81,758 in FY11.

***Office Space and Equipment Rental***

Office space and equipment rental increased \$47,877 or 37.3% from \$128,351 in FY10 to \$176,228 in FY11. This is attributed to an increase in office space rental.

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***Travel***

Travel expense decreased by \$27,705 or 26.5% from \$104,382 in FY10 to \$76,677 in FY11. The 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.

**Capital Assets**

Land, building, improvements and equipment decreased by \$6,976 from \$583,747 in FY10 to \$576,771 in FY11. The decrease is the net of equipment purchases and accumulated depreciation for the year. For additional information concerning capital assets, please refer to note 3 to the financial statements.

**Long-term Debt**

No additions to long-term debt occurred during the year ended September 30, 2011. For additional information concerning debt, please refer to note 4 to the financial statements.

**FY2012 INITIATIVES AND ECONOMIC OUTLOOK**

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

**BUSINESS DEVELOPMENT & MARKETING**

**U.S. SBA STEP Grant Awarded to GEDA**

In FY2012 GEDA will create a Guam State Export Committee to establish a list of potential businesses that can benefit from the STEP grant and also fulfill the grant requirements.

**Film Industry – The Development of a Film Commission**

GEDA will organize an Advisory Council to create the Rules, Regulations and Fees for the Guam Film Office per Public Law 31-159.

**Guam Comprehensive Economic Development Strategy (CEDS)**

GEDA and the Bureau of Statistics and Plans submitted the CEDS to Governor Calvo for approval and submission to U.S. Economic Development Administration (USEDA). Once approved by USEDAD, Guam will have access to apply for grants and other types of funding opportunities with USEDAD.

**Other Activities**

- Pursue EB-5 investment opportunities for immigrants investing in new US commercial enterprises that create direct/indirect employment for US workers.
- Work intently with GVB to pursue economic opportunities in the Russian Market with the implementation of Parole Authority beginning January 15, 2012.
- Work with GVB in developing a strategy to establish a business development presence in China.
- Work on a GEDA Buy Local Campaign.
- Pursue Higher Education Student Exchange program, which will benefit our local workforce and serves as a economic development tool.

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- Pursue International Economic Development Council (IEDC) professional certification for GEDA staff.
- Continue work with Take Care on the promotion of Medical Industry Business Opportunities and acquire additional institutional knowledge in the Insurance Industry.
- Support the Administration's effort to embark upon Economic Trade Missions in Okinawa, Taiwan and Korea.
- Continue to respond to off-island inquires via the Internet Investor Desk and GEDA's Website.
- Continue to provide assistance to the Governor's Affordable Housing Coordinating Council.
- Continue to sit on the Guam Chamber of Commerce Small Business Committee.
- Continue to work with the Guam Farmer's Cooperative on the realization of a new Farmers Co-op Facility and Slaughterhouse.
- Continue to finalize the Grow Guam QC, already approved by the GEDA Board and currently undergoing review by the Attorney General's Office.

## **PUBLIC FINANCE**

### **Guam Highway Bond 2001 Refunding (October 2011)**

Pursuant to Section 4.01 of the Guam Highway Bond Indenture, dated as of April 1, 2001 (the "Indenture"), the Government had opted to redeem all of the remaining outstanding Bonds, which Bonds are to be redeemed from moneys currently on deposit in the Bond Fund and Bond Reserve Fund by August 30, 2011. The defeasance was completed in October 2011.

### **Arbitrage Rebate Compliance Services RFP (October 2011)**

GEDA issued RFP 11-013 for Arbitrage Rebate Compliance Service for the Government of Guam's Hotel Occupancy Tax Revenue 2011 A Bond, Guam Power Authority 2010 Bonds and Guam Waterworks Authority 2010 Bonds on September 16, 2011 and closed on October 3, 2011. Evaluations were conducted on October 25, 2011 and were approved by GEDA's Board of Directors on October 31, 2011.

BLX Group LLC was awarded to provide arbitrage rebate services in order to comply with federal tax laws relating to rebate of arbitrage earnings on GovGuam's tax-exempt bond issues listed above.

### **Government of Guam – Business Privilege Tax Bonds, Series 2011 (December 2011)**

Pursuant to Public Law 31-76 the Government of Guam successfully closed a \$235,000,000 Government of Guam Business Privilege Tax Bonds, Series 2011A on Thursday, December 1, 2011.

The 2011A Bonds will be used for the following purposes:

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

Standard and Poor's rated the transaction an A investment grade rating with a stable outlook and Fitch Rating rated the transaction an A- with a stable outlook. Senior Underwriter Barclays Capital and co-managing underwriters Citigroup Global Markets Inc. and Piper Jaffrey & Co., worked on the deal with Orrick, Herrington & Sutcliffe LLP, GovGuam's bond counsel.

Governor Calvo, GEDA and the financing team heavily marketed the bonds to investors, participating in an investor internet road show and one-on-one investor meetings. The bond's final rate, or true interest cost was 4.94% percent overall.

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**Public School Financing – Guam Department of Education**

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

As part of the Governor's Educational Learning Task Force, GEDA will be researching creative financing options to fund improvements in light of GovGuam's limited debt borrowing capacity.

**Affordable Housing**

Governor Calvo, through the Governor's Executive Order 2011-12, has appointed GEDA to the Affordable Housing Coordinating Council to assist in the development and enhancement of Affordable Housing programs to meet the affordable housing needs of the community and aid in improving the quality of life for the citizens of Guam.

GEDA will actively promote affordable housing through its Private Activity Bonds in which developers will be able to access tax exempt financing when developing affordable housing projects.

**Department of Land Management (DLM) Land Resources Building Financing**

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

It is anticipated that the Land Resources Building Public Facility will house the newly consolidated Department of Land Management and Hagåtña Restoration and Redevelopment Authority. The site will be situated along West O'Brien Drive, between Father Duenas Avenue and Padre' Palomo Street.

GEDA awarded the contract to the Bank of Guam who is now working on obtaining a USDA Guarantee for this financing. The USDA Guarantee was accepted and approved by the Guam State Clearing House on June 14, 2011 and submitted to the Bank of Guam June 20, 2011.

This financing is on hold pending a legislative authorization to increase the Government of Guam's debt ceiling capacity.

**Guam Anticipated Revenue Vehicle (GARVEE) Bond Financing**

The transportation financing or series of financings will be issued in connection with the 2030 Guam Transportation Plan. Financing is focused on a Grant Anticipation Revenue Vehicles (GARVEE) Bond to be securitized with annual Federal Highway Grant funds.

GEDA is working closely with DPW and the Office of the Governor to finalize and introduce legislation by the 2<sup>nd</sup> quarter of FY2012.

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

Public Law 30-201 authorizes the funding for the construction of the UOG Student Services Center and the Annex Building for the School of Engineering and for the extension of the GCC Gregorio G. Perez Crime Lab Building and for the renovation and hardening of GCC Buildings 100 and 200.

- UOG and GCC are authorized to enter into financing program with United States Department of Agriculture (USDA) in a sum not to exceed \$40.5 million.
  - \$34.5 M – UOG
  - \$6.0 M – GCC

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- Facilities are to be secured by a pledge of \$1.3M annually of Liquid Fuel Tax, for a term not to exceed forty (40) years.

This financing is on hold pending a legislative authorization to increase the Government of Guam's debt ceiling capacity. Given the uncertainty of such authorization, GEDA and UOG are reviewing other financing options to include the possibility of a lease financing.

**Guam International Airport Authority (GIAA) Energy Efficiency Financing**

GEDA has received a request to assist in the financing of up to \$11.9 M to fund vitally needed upgrades to its facilities to realize energy efficiency in its facilities. The GIAA is working with its consultants in managing the project to ensure that the savings in energy costs will cover debt service. GIAA's RFP is ready to be issued pending GIAA's legal opinion that legislative authorization is not required for this financing.

**Private Activity Bond (PAB) Financing**

Private Activity Bond's (PAB) are Guam's tax-exempt bonding authority creating a lower cost, long-term source of capital under the Federal Tax Act of 1986. The federal government allocates \$32 billion per year to states and territories on a per capital basis. Guam has \$269,190,932 in carry-forward volume cap available for private activity bonds, which includes 2009 through 2011 allocations.

GEDA will utilize PAB's to promote development in the following areas:

- Qualified Mortgage Bonds - Issued to provide mortgage financing for single family residential property
- Mortgage Credit Certificate - Issued by a government agency prior to the financing of a mortgage with a bank. Certificates can only be issued to first-time home buyers for their primary residence whose maximum annual income may not exceed certain limits
- Qualified Redevelopment Bonds - Issued for infrastructure projects that do not qualify for Government bonds. Typically issued for projects that involve special district financing such as tax incremental financing.
- Qualified Residential Rental Projects - applies during the *qualified project period*, in which 10% of the residential units in the project are occupied and ends on the date on which no tax-exempt PAB's issued with respect to the project is outstanding.
- Qualified Enterprise Zone Facilities - Issued by a qualified business to finance the cost of commercial, retail or similar facility used by the borrower. The borrower must be an "Enterprise zone" business.
- Exempt Facility Bonds - Issued to acquire land and construct new facilities, expand/renovate existing facilities or purchase new equipment. Qualified facilities are those that create tangible products and have a strong job creation/retention component.

**Contacting GEDA's Financial Management**

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

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in GEDA's report on the audit of financial statements which is dated February 15, 2011. That Discussion and Analysis explains in more detail major factors impacting the 2010 financial statements. A copy of that report can be obtained by contacting us at (671) 647-4332 or can be viewed at the Office of Public Accountability - Guam website at [www.guamopa.org](http://www.guamopa.org).

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Consolidated Statements of Net Assets (Deficiency)  
September 30, 2011 and 2010

<u>ASSETS</u>	<u>Divisional Information</u>			2011	2010
	<u>GEDA</u>	<u>SSBCI</u>	<u>TSA</u>		
Current assets:					
Cash and cash equivalents	\$ 18,030	\$ (15)	\$ 3,660,291	\$ 3,678,306	\$ 3,732,482
Investments	3,817,145	-	-	3,817,145	3,772,949
Due from trust funds administered by GEDA:					
Agricultural Development Fund	-	-	-	-	3,792
Guam Development Fund Act	33,718	-	-	33,718	36,027
Reimbursable expense	32,749	(31,087)	(1,662)	-	-
Other receivables, net of an allowance for doubtful receivables of \$115,434 in 2011 and \$369,384 in 2010	186,190	31,457	-	217,647	97,248
Promotional supplies	10,884	-	-	10,884	1,217
Prepaid expense	-	-	-	-	5,333
Total current assets	<u>4,098,716</u>	<u>355</u>	<u>3,658,629</u>	<u>7,757,700</u>	<u>7,649,048</u>
Deferred charges	-	-	-	-	62,500
Deferred bond issuance costs	-	-	615,742	615,742	670,801
Equity investment	3,500	-	-	3,500	3,500
Building, improvements and equipment, at cost, net	576,771	-	-	576,771	583,747
	<u>\$ 4,678,987</u>	<u>\$ 355</u>	<u>\$ 4,274,371</u>	<u>\$ 8,953,713</u>	<u>\$ 8,969,596</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>					
Current liabilities:					
Current portion of bonds payable	\$ -	\$ -	\$ 1,720,000	\$ 1,720,000	\$ 1,600,000
Accounts payable	253,534	-	-	253,534	176,980
Due to trust funds administered by GEDA:					
Guam Development Fund Act	-	355	-	355	-
Agricultural Development Fund	2,020	-	-	2,020	-
Microenterprise Development Program	-	-	-	-	30,132
Accrued liabilities	259,927	-	-	259,927	157,085
Interest payable	-	-	541,000	541,000	553,000
Deferred rental income	80,554	-	-	80,554	86,855
Total current liabilities	<u>596,035</u>	<u>355</u>	<u>2,261,000</u>	<u>2,857,390</u>	<u>2,604,052</u>
Non-current liabilities:					
Bonds payable, net of current portion and discount	-	-	29,720,093	29,720,093	29,759,262
DCRS sick leave liability	81,066	-	-	81,066	95,692
Deposits	138,823	-	-	138,823	66,823
Total non-current liabilities	<u>219,889</u>	<u>-</u>	<u>29,720,093</u>	<u>29,939,982</u>	<u>29,921,777</u>
Total liabilities	<u>815,924</u>	<u>355</u>	<u>31,981,093</u>	<u>32,797,372</u>	<u>32,525,829</u>
Commitments and contingencies					
Net assets (deficiency):					
Invested in capital assets	576,771	-	-	576,771	583,747
Unrestricted	3,286,292	-	(27,706,722)	(24,420,430)	(24,139,980)
Net assets (deficiency)	<u>3,863,063</u>	<u>-</u>	<u>(27,706,722)</u>	<u>(23,843,659)</u>	<u>(23,556,233)</u>
	<u>\$ 4,678,987</u>	<u>\$ 355</u>	<u>\$ 4,274,371</u>	<u>\$ 8,953,713</u>	<u>\$ 8,969,596</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)  
Years Ended September 30, 2011 and 2010

	Divisional Information			2011	2010
	GEDA	SSBCI	TSA		
<b>Revenues:</b>					
Rental income	\$ 1,207,979	\$ -	\$ -	\$ 1,207,979	\$ 1,327,092
Tobacco Settlement revenue	-	-	2,341,023	2,341,023	2,518,458
Qualifying certificate application, surveillance and other	499,181	-	-	499,181	432,291
Bond fees earned	549,064	-	-	549,064	559,594
GALC lease commission	96,888	-	-	96,888	78,000
	<u>2,353,112</u>	<u>-</u>	<u>2,341,023</u>	<u>4,694,135</u>	<u>4,915,435</u>
<b>Operating expenses:</b>					
Salaries and benefits	1,986,212	28,020	-	2,014,232	1,597,571
Legal and professional services	236,450	3,422	33,662	273,534	341,802
Office space and equipment rent	176,228	-	-	176,228	128,351
Travel	69,485	-	7,192	76,677	104,382
Depreciation and amortization	81,758	-	-	81,758	140,766
Advertising and promotions	39,193	-	-	39,193	35,766
Utilities, telephone and communication	14,277	-	-	14,277	14,013
Insurance	7,962	-	-	7,962	5,983
Supplies	6,653	-	-	6,653	10,325
Repairs and maintenance	2,110	-	-	2,110	1,822
Miscellaneous	21,639	15	-	21,654	44,233
	<u>2,641,967</u>	<u>31,457</u>	<u>40,854</u>	<u>2,714,278</u>	<u>2,425,014</u>
Operating (loss) income	<u>(288,855)</u>	<u>(31,457)</u>	<u>2,300,169</u>	<u>1,979,857</u>	<u>2,490,421</u>
<b>Other income (expense):</b>					
Interest income (expense), net	426	-	(2,436,203)	(2,435,777)	(2,454,097)
Investment income	120,870	-	-	120,870	68,209
Net decrease in the fair value of investments	(98,802)	-	-	(98,802)	(28,372)
Other income, net	114,969	31,457	-	146,426	62,307
Other income (expense), net	<u>137,463</u>	<u>31,457</u>	<u>(2,436,203)</u>	<u>(2,267,283)</u>	<u>(2,351,953)</u>
Net (decreases) increase in net assets	<u>(151,392)</u>	<u>-</u>	<u>(136,034)</u>	<u>(287,426)</u>	<u>138,468</u>
Net assets (deficiency) at beginning of year	<u>4,014,455</u>	<u>-</u>	<u>(27,570,688)</u>	<u>(23,556,233)</u>	<u>(23,694,701)</u>
Net assets (deficiency) at end of year	<u>\$ 3,863,063</u>	<u>\$ -</u>	<u>\$ (27,706,722)</u>	<u>\$ (23,843,659)</u>	<u>\$ (23,556,233)</u>

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Consolidated Statements of Cash Flows  
Years Ended September 30, 2011 and 2010

	Divisional Information			2011	2010
	GEDA	SSBCI	TSA		
Cash flows from operating activities:					
Cash received from customers	\$ 2,421,873	\$ -	\$ 2,341,023	\$ 4,762,896	\$ 5,074,047
Cash paid to suppliers for goods and services	(366,567)	(15)	(40,855)	(407,437)	(602,618)
Cash paid to employees for services	(1,947,140)	-	-	(1,947,140)	(1,522,405)
Cash paid for retirement benefits	(53,698)	-	-	(53,698)	(55,678)
Net cash provided by (used in) operating activities	<u>54,468</u>	<u>(15)</u>	<u>2,300,168</u>	<u>2,354,621</u>	<u>2,893,346</u>
Cash flows from investing activities:					
Interest and investment income	22,068	-	-	22,068	39,837
Rollover of interest into investment	(22,068)	-	-	(22,068)	(39,837)
Maturity of investment securities	(22,128)	-	-	(22,128)	62,483
Net cash (used in) provided by investing activities	<u>(22,128)</u>	<u>-</u>	<u>-</u>	<u>(22,128)</u>	<u>62,483</u>
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(74,782)	-	-	(74,782)	(505,602)
Net cash used in capital and related financing activities	<u>(74,782)</u>	<u>-</u>	<u>-</u>	<u>(74,782)</u>	<u>(505,602)</u>
Cash flows from noncapital financing activities:					
Repayment of bond payable	-	-	(655,000)	(655,000)	(800,000)
Net interest received (paid) on deposit accounts and bonds payable	426	-	(1,657,313)	(1,656,887)	(1,698,566)
Net cash provided by (used in) noncapital financing activities	<u>426</u>	<u>-</u>	<u>(2,312,313)</u>	<u>(2,311,887)</u>	<u>(2,498,566)</u>
Net change in cash and cash equivalents	(42,016)	(15)	(2,312,313)	(54,176)	(48,339)
Cash and cash equivalents at beginning of year	60,046	-	3,672,436	3,732,482	3,780,821
Cash and cash equivalents at end of year	<u>\$ 18,030</u>	<u>\$ (15)</u>	<u>\$ 1,360,123</u>	<u>\$ 3,678,306</u>	<u>\$ 3,732,482</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating (loss) income	\$ (288,855)	\$ (31,457)	\$ 2,300,169	\$ 1,979,857	\$ 2,490,421
Other income, net	114,969	31,457	-	146,426	62,307
Loss on disposal of property and equipment	-	-	-	-	956
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	81,758	-	-	81,758	140,766
(Increase) decrease in assets:					
Due from trust funds administered by GEDA	6,101	-	-	6,101	(36,490)
Reimbursable expense	(31,086)	31,087	(1)	-	-
Other receivables	(88,942)	(31,457)	-	(120,399)	78,112
Promotional supplies	(9,667)	-	-	(9,667)	6,305
Prepaid expenses	5,333	-	-	5,333	1,833
Deferred charges	62,500	-	-	62,500	(13,194)
Increase (decrease) in liabilities:					
Accounts payable	76,554	-	-	76,554	44,405
Due to trust funds administered by GEDA	(28,112)	355	-	(27,757)	-
Accrued liabilities	102,842	-	-	102,842	59,181
Deferred rental income	(6,301)	-	-	(6,301)	(12,994)
Deposits	72,000	-	-	72,000	52,250
DCRS sick leave liability	(14,626)	-	-	(14,626)	19,488
Net cash provided by (used in) operating activities	<u>\$ 54,468</u>	<u>\$ (15)</u>	<u>\$ 2,300,168</u>	<u>\$ 2,354,621</u>	<u>\$ 2,893,346</u>

See accompanying notes to consolidated 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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(1) Purpose and Summary of Significant Accounting Policies, Continued

Purpose, Continued

In 2011, the Government of Guam applied to receive an allocation of the total \$1.5 billion funds available under the State Small Business Credit Initiative (SSBCI) Job Act of 2010. The funds are to support the fifty states and territories for use in programs designed to increase access to credit for small businesses. In June 2011, GEDA entered into a Memorandum of Agreement (MOA) with the Office of the Governor of Guam. In the MOA, GEDA was delegated the primary responsibility of administering Guam's SSBCI's program. On September 30, 2011, the Government of Guam and the United States Department of the Treasury entered into an "Allocation Agreement" in which Guam was approved to receive a total of \$13,168,380. The Allocation Agreement expires on March 31, 2017. On October 4, 2011, Guam received the initial funding of \$4,345,556, approximately 33% of the total funding. 80% of the amount must be obligated before the next tranche of funding can be received. Additionally, the Agreement allows certain direct and indirect costs for administering the program at 5% of initial funding and 3% of subsequent funding. At September 30, 2011, GEDA had incurred administrative costs of \$31,457.

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) lease commissions 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.

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

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.

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.

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

Operating Expenses

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

Risk Management

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

Concentrations of Credit Risk

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

At September 30, 2011 and 2010, 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 2011, GEDA implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

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

New Accounting Standards, Continued

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

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

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

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

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

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

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective 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.

(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, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand and due from banks	\$ 18,015	\$ 60,046
Money market accounts	<u>3,660,291</u>	<u>3,672,436</u>
Cash and cash equivalents	\$ <u>3,678,306</u>	\$ <u>3,732,482</u>
Total shares in mutual funds	\$ 3,239,264	\$ 2,193,707
U.S. Government agency securities	488,632	1,447,306
U.S. Government treasury securities	<u>89,249</u>	<u>131,936</u>
Investments	\$ <u>3,817,145</u>	\$ <u>3,772,949</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.

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:

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(2) Cash and Investments, Continued

A. Cash, Continued

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, 2011 and 2010, the carrying amount of cash was \$18,015 and \$60,046, respectively, and the corresponding bank balances were \$70,117 and \$129,181, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$70,117 and \$129,181 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2011 and 2010, 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;

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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(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, 2011, 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)	\$ 1,846,569	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	900,457	N/A	N/A
BlackRock Interim Govt Bond Inv C (BIGCX)	193,056	N/A	N/A
Franklin Adjustable US Govt Secs C (FCSCX)	136,867	N/A	N/A
MFS Limited Maturity C (MQLCX)	136,863	N/A	N/A
BlackRock Interim Govt Bond Inv A	25,452	N/A	N/A
Federal Home Loan Mortgage Corporation (FHLMC) discount note	485,632	10/06/11	N/A
U.S. Government Treasury note (U.S. T note)	43,777	02/15/12	N/A
U.S. T note	<u>45,472</u>	12/31/13	N/A
	<u>\$ 3,817,145</u>		

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)	\$ 1,023,977	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	735,032	N/A	N/A
BlackRock Interim 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 Interim 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>		

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Notes to Consolidated Financial Statements  
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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, 2011 and 2010 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, 2011, GEDA's investment in FHLMC discount notes constituted 13% of its total investments. As of September 30, 2010, GEDA's investment in FHLMC and FNMA discount notes constituted 13% and 26% 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, 2011 and 2010 is as follows:

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

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(3) Building, Improvements and Equipment, Continued

	Beginning Balance <u>October 1, 2009</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <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>

(4) Long-Term Obligations

Bonds Payable

Bonds payable at September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Tobacco settlement bonds, 2007 Series A current interest turbo term bonds, original principal amounts of \$17,505,000 and \$16,070,000, with interest rates at 5.25% and 5.625% per annum, respectively, payable semiannually on June 1 and December 1 ("Distribution Date"), principal payments due in varying annual installments commencing with a payment of \$1,025,000 on June 1, 2008 and increasing to \$3,840,000 on June 1, 2026. The Series A bonds are primarily secured by Tobacco Settlement Revenue (TSR) and Guam's right to be paid the TSR under the MSA (which was irrevocably assigned to GEDA as discussed in note 1).	29,775,000	\$ 30,430,000
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>2011</u>	<u>2010</u>
Total	46,548,618	\$ 47,203,618
Less current portion	<u>(1,720,000)</u>	<u>(1,600,000)</u>
	44,828,618	45,603,618
Less discount on Series B capital appreciation turbo term bonds	<u>(12,333,221)</u>	<u>(12,638,598)</u>
Less discount on issuance	<u>(1,337,658)</u>	<u>(1,457,270)</u>
Less deferred difference on defeasance of 2001 bonds	<u>(1,437,646)</u>	<u>(1,748,488)</u>
	<u>\$ 29,720,093</u>	<u>\$ 29,759,262</u>

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2011 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
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	2,270,000	1,116,300	3,386,300
2017 through 2021	7,410,000	4,090,434	11,500,434
2022 through 2026	11,352,533	2,067,328	13,419,861
2027 through 2031	12,334,175	-	12,334,175
2032 through 2034	<u>5,511,910</u>	<u>-</u>	<u>5,511,910</u>
	<u>\$ 46,548,618</u>	<u>\$ 12,782,112</u>	<u>\$ 59,330,730</u>

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

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

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(4) Long-Term Obligations, Continued

Bonds Payable, Continued

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

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

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

As discussed in the above section, all Tobacco Settlement Revenue and interest earned in trust funds have been pledged to repay the bonds principal and interest. The debt service for the bonds was \$2,499,050 and \$3,083,752 for the years ended September 30, 2011 and 2010, respectively, or approximately 99% and 100%, respectively, of pledged revenues for those years.

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

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(4) Long-Term Obligations, Continued

	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>

(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](http://www.ggrf.com).

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(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

*Funding Policy:*

As a result of actuarial valuations performed as of September 30, 2009, 2008, and 2007, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2011, 2010 and 2009, respectively, have been determined as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal costs (% of DB Plan payroll)	17.00%	18.34%	17.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.50%</u>	<u>8.84%</u>	<u>7.86%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.73%	3.70%
Unfunded liability cost (% of total payroll)	<u>21.75%</u>	<u>22.69%</u>	<u>19.68%</u>
Government contribution as a % of total payroll	<u>24.78%</u>	<u>26.42%</u>	<u>23.38%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.46%</u>	<u>26.04%</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, 2011, 2010 and 2009 were \$195,272, \$133,407 and \$99,488, 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, 2011 and 2010 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, 2011, 2010 and 2009 were \$234,273, \$216,393, and \$199,136, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$191,551, \$174,800 and \$159,625 were contributed toward the unfunded liability of the DB Plan at September 30, 2011, 2010 and 2009, respectively

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(5) Employees' Retirement Plan, Continued

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDA has accrued an estimated liability of \$81,066 and \$95,692 at September 30, 2011 and 2010, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated. During the years ended September 30, 2011, 2010 and 2009, actual contributions paid were \$31,084, \$33,064 and \$34,840, respectively.

(6) Rental Income

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

The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. However, negotiations are ongoing and a definitive agreement has not been finalized. Estimated lease expense payable under a previous term of approximately \$260,698 was directly paid by the lessee in 2006. GEDA did not record any lease expense for 2011 and 2010.

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

Years ending September 30:	
2012	\$ 845,900
2013	552,300
2014	449,600
2015	257,400
2016	140,400
2017 – 2021	625,800
2022 – 2026	25,000
2027 – 2031	25,000

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(6) Rental Income, Continued

2032 – 2036	25,000
2037 – 2041	25,000
2042 – 2046	25,000
2047 – 2051	25,000
2052 – 2056	25,000
2057 – 2061	<u>25,000</u>

\$ 3,071,400

(7) Lease Commitments

GEDA has an operating lease for office space expiring February 29, 2012. 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, 2011, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding for 2011 are \$134,384 and \$44,881, respectively.

Rent expense, net of GHC reimbursements for each of the years ended September 30, 2011 and 2010, was \$185,295 and \$143,979, respectively, of which \$25,608 and \$44,881, respectively, was allocated to trust funds administered by GEDA.

(8) Related Parties

At September 30, 2011 and 2010, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2011</u>	<u>2010</u>
Guam Development Fund Act (GDFA)	\$ 11,443,130	\$ 11,485,692
Agricultural Development Fund (ADF)	868,650	865,515
Microenterprise Development Program (MDP)	-	40,383
Guam Territorial Aquarium Foundation (GTAF)	-	20,560
Music and Legends of Guam Fund (MLGF)	-	11,387

Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF) and the U.S. Base Realignment and Closure Committee (BRAC) have no assets, liabilities, or net assets as of September 30, 2011 and 2010 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,

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(9) Contingencies, Continued

LBSF failed to deliver new Qualified Securities under the Agreement on the next scheduled delivery date of December 1, 2008, and, as a result, Co-Trustee U.S. Bank National Association declared an event of default under the Agreement and invested the amount on deposit in the Reserve Fund in short-term securities as required under the Agreement. On September 22, 2009, GEDA filed claims with the United States Bankruptcy Court against LBSF and LBHI, each for approximately \$1.8 million, as the estimated replacement market value of the Reserve Fund Agreement. Such replacement value represents the present value of the difference between the guaranteed rate and the market interest rate over the remaining term of the Agreement, i.e. through June 1, 2047. If the termination claim is not favorably resolved, GEDA's earnings from the investment of the Reserve Fund could be lower than originally expected, but no loss of principal has occurred or would occur. These events are not expected to have an adverse impact on the timely repayment of the Series 2007 Tobacco Settlement Bonds.

Additionally, GEDA is involved in various litigation 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 had 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. The agreement was terminated during the year ended September 30, 2011.

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Schedule 1  
Schedule of Salaries and Wages (Including Trust Funds)  
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries and wages:		
Salaries	\$ 1,354,660	\$ 1,235,125
Benefits	<u>877,880</u>	<u>758,105</u>
Total salaries and wages	<u>\$ 2,232,540</u>	<u>\$ 1,993,230</u>
Employees at end of year	27	26

See accompanying independent auditors' report.

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Comparative Divisional Schedules of Net Assets (Deficiency)  
September 30, 2011 and 2010

<u>ASSETS</u>	GEDA		SSBCI	TSA	
	2011	2010	2011	2011	2010
Current assets:					
Cash and cash equivalents	\$ 18,030	\$ 60,046	\$ (15)	\$ 3,660,291	\$ 3,672,436
Investments	3,817,145	3,772,949	-	-	-
Due from trust funds administered by GEDA:					
Agricultural Development Fund	-	3,792	-	-	-
Guam Development Fund Act	33,718	36,027	-	-	-
Reimbursable expense	32,749	1,663	(31,087)	(1,662)	(1,663)
Other receivables, net	186,190	97,248	31,457	-	-
Promotional supplies	10,884	1,217	-	-	-
Prepaid expense	-	5,333	-	-	-
Total current assets	4,098,716	3,978,275	355	3,658,629	3,670,773
Deferred charges	-	62,500	-	-	-
Deferred bond issuance costs	-	-	-	615,742	670,801
Equity investment	3,500	3,500	-	-	-
Building, improvements and equipment, at cost, net	576,771	583,747	-	-	-
	\$ 4,678,987	\$ 4,628,022	\$ 355	\$ 4,274,371	\$ 4,341,574
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>					
Current liabilities:					
Current portion of bonds payable	\$ -	\$ -	\$ -	\$ 1,720,000	\$ 1,600,000
Accounts payable	253,534	176,980	-	-	-
Due to trust funds administered by GEDA:					
Guam Development Fund Act	-	-	355	-	-
Agricultural Development Fund	2,020	-	-	-	-
Microenterprise Development Program	-	30,132	-	-	-
Accrued liabilities	259,927	157,085	-	-	-
Interest payable	-	-	-	541,000	553,000
Deferred rental income	80,554	86,855	-	-	-
Total current liabilities	596,035	451,052	355	2,261,000	2,153,000
Non-current liabilities:					
Bonds payable, net of current portion and discount	-	-	-	29,720,093	29,759,262
DCRS sick leave liability	81,066	95,692	-	-	-
Deposits	138,823	66,823	-	-	-
Total non-current liabilities	219,889	162,515	-	29,720,093	29,759,262
Total liabilities	815,924	613,567	355	31,981,093	31,912,262
Net assets (deficiency):					
Invested in capital assets	576,771	583,747	-	-	-
Unrestricted	3,286,292	3,430,708	-	(27,706,722)	(27,570,688)
Net assets (deficiency)	3,863,063	4,014,455	-	(27,706,722)	(27,570,688)
	\$ 4,678,987	\$ 4,628,022	\$ 355	\$ 4,274,371	\$ 4,341,574

See accompanying independent auditors' report.

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Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Assets (Deficiency)  
Years Ended September 30, 2011 and 2010

	GEDA		SSBCI	TSA	
	2011	2010	2011	2011	2010
<b>Revenues:</b>					
Rental income	\$ 1,207,979	\$ 1,327,092	\$ -	\$ -	-
Tobacco Settlement revenue	-	-	-	2,341,023	2,518,458
Qualifying certificate application, surveillance and other	499,181	432,291	-	-	-
Bond fees earned	549,064	559,594	-	-	-
GALC lease commission	96,888	78,000	-	-	-
	<u>2,353,112</u>	<u>2,396,977</u>	<u>-</u>	<u>2,341,023</u>	<u>2,518,458</u>
<b>Operating expenses:</b>					
Salaries and benefits	1,986,212	1,597,571	28,020	-	-
Legal and professional services	236,450	304,026	3,422	33,662	37,776
Office space and equipment rent	176,228	128,351	-	-	-
Travel	69,485	99,003	-	7,192	5,379
Depreciation and amortization	81,758	140,766	-	-	-
Advertising and promotions	39,193	35,766	-	-	-
Utilities, telephone and communication	14,277	14,013	-	-	-
Insurance	6,653	5,983	-	-	-
Supplies	7,962	10,325	-	-	-
Repairs and maintenance	2,110	1,822	-	-	-
Miscellaneous	21,639	44,233	15	-	-
	<u>2,641,967</u>	<u>2,381,859</u>	<u>31,457</u>	<u>40,854</u>	<u>43,155</u>
Operating (loss) income	<u>(288,855)</u>	<u>15,118</u>	<u>(31,457)</u>	<u>2,300,169</u>	<u>2,475,303</u>
<b>Other income (expense):</b>					
Interest income (expense), net	426	484	-	(2,436,203)	(2,454,581)
Investment income	120,870	68,172	-	-	37
Net decrease in the fair value of investments	(98,802)	(28,372)	-	-	-
Other income, net	114,969	62,307	31,457	-	-
	<u>137,463</u>	<u>102,591</u>	<u>31,457</u>	<u>(2,436,203)</u>	<u>(2,454,544)</u>
Other income (expense), net	<u>137,463</u>	<u>102,591</u>	<u>31,457</u>	<u>(2,436,203)</u>	<u>(2,454,544)</u>
Net (decrease) increase in net assets	<u>(151,392)</u>	<u>117,709</u>	<u>-</u>	<u>(136,034)</u>	<u>20,759</u>
Net assets (deficiency) at beginning of year	<u>4,014,455</u>	<u>3,896,746</u>	<u>-</u>	<u>(27,570,688)</u>	<u>(27,591,447)</u>
Net assets (deficiency) at end of year	<u>\$ 3,863,063</u>	<u>\$ 4,014,455</u>	<u>\$ -</u>	<u>\$ (27,706,722)</u>	<u>\$ (27,570,688)</u>

See accompanying independent auditors' report.

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Comparative Divisional Schedules of Cash Flows  
Years Ended September 30, 2011 and 2010

	GEDA		SSBCI		TSA	
	2011	2010	2011	2011	2010	
Cash flows from operating activities:						
Cash received from customers	\$ 2,421,873	\$ 2,555,589	\$ -	\$ 2,341,023	\$ 2,518,458	
Cash paid to suppliers for goods and services	(366,567)	(527,209)	(15)	(40,855)	(75,409)	
Cash paid to employees for services	(1,947,140)	(1,522,405)	-	-	-	
Cash paid for retiree benefits	(53,698)	(55,678)	-	-	-	
Net cash provided by (used in) operating activities	<u>54,468</u>	<u>450,297</u>	<u>(15)</u>	<u>2,300,168</u>	<u>2,443,049</u>	
Cash flows from investing activities:						
Interest and investment income	22,068	39,800	-	-	37	
Rollover of interest into investment	(22,068)	(39,800)	-	-	(37)	
(Purchase) maturity of investment securities	(22,128)	62,446	-	-	37	
Net cash (used in) provided by investing activities	<u>(22,128)</u>	<u>62,446</u>	<u>-</u>	<u>-</u>	<u>37</u>	
Cash flows from capital and related financing activities:						
Purchase of property and equipment	(74,782)	(505,602)	-	-	-	
Net cash used in capital and related financing activities	<u>(74,782)</u>	<u>(505,602)</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Cash flows from noncapital financing activities:						
Repayment of bond payable	-	-	-	(655,000)	(800,000)	
Net interest received (paid) on deposit accounts and bonds payable	426	484	-	(1,657,313)	(1,699,050)	
Net cash provided by (used in) noncapital financing activities	<u>426</u>	<u>484</u>	<u>-</u>	<u>(2,312,313)</u>	<u>(2,499,050)</u>	
Net change in cash and cash equivalents	(42,016)	7,625	(15)	(12,145)	(55,964)	
Cash and cash equivalents at beginning of year	60,046	52,421	-	3,672,436	3,728,400	
Cash and cash equivalents at end of year	<u>\$ 18,030</u>	<u>\$ 60,046</u>	<u>\$ (15)</u>	<u>\$ 3,660,291</u>	<u>\$ 3,672,436</u>	
Reconciliation of operating income to net cash provided by operating activities:						
Operating (loss) income	\$ (288,855)	\$ 15,118	\$ (31,457)	\$ 2,300,169	\$ 2,475,303	
Other income, net	114,969	62,307	31,457	-	-	
Loss on disposal of property and equipment	-	956	-	-	-	
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	81,758	140,766	-	-	-	
(Increase) decrease in assets:						
Due from trust funds administered by GEDA	6,101	(36,490)	-	-	-	
Reimbursable expense	(31,086)	14,471	31,087	(1)	(14,471)	
Other receivables	(88,942)	78,112	(31,457)	-	-	
Promotional supplies	(9,667)	6,305	-	-	-	
Prepaid expenses	5,333	1,833	-	-	-	
Deferred charges	62,500	(13,194)	-	-	-	
Increase (decrease) in liabilities:						
Accounts payable	76,554	62,188	-	-	(17,783)	
Due to trust funds administered by GEDA	(28,112)	-	355	-	-	
Accrued liabilities	102,842	59,181	-	-	-	
Deferred rental income	(6,301)	(12,994)	-	-	-	
Deposits	72,000	52,250	-	-	-	
DCRS sick leave liability	(14,626)	19,488	-	-	-	
Net cash provided by (used in) operating activities	<u>\$ 54,468</u>	<u>\$ 450,297</u>	<u>\$ (15)</u>	<u>\$ 2,300,168</u>	<u>\$ 2,443,049</u>	

See accompanying independent auditors' report.

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2011 AND 2010**

## 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, and the Music and Legends of Guam Fund (the Funds) as of September 30, 2011 and 2010, 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, 2011 and 2010, 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 23, 2012, 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.

*Deloitte & Touche LLP*

February 23, 2012

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

Statements of Fiduciary Net Assets  
September 30, 2011 and 2010

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Cash on hand and in bank	\$ 4,072	\$ 71,704	\$ 4,245	\$ 15,004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	2,257,256	2,036,193	226,716	243,179	-	-	-	-	-	-
Less allowance for doubtful receivables	(1,816,608)	(1,758,085)	(219,456)	(229,066)	-	-	-	-	-	-
Net notes and accrued interest receivable	<u>440,648</u>	<u>278,108</u>	<u>7,260</u>	<u>14,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Due from other funds:										
Guam Economic Development Authority	-	-	2,020	-	-	30,132	-	-	-	-
State Small Business Credit Initiative	355	-	-	-	-	-	-	-	-	-
Guam Development Fund Act	-	-	975	-	-	10,251	-	-	-	-
Microenterprise Development Program	-	-	-	917	-	-	-	-	-	-
Investments	9,602,373	9,702,599	798,150	696,444	-	-	-	20,560	-	-
Other real estate:										
Land	625,195	648,195	56,000	139,000	-	-	-	-	-	-
Leasehold interest, net	770,487	784,605	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
Furniture and equipment, at cost, net	-	481	-	37	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	11,387
	<u>10,998,410</u>	<u>11,135,880</u>	<u>857,145</u>	<u>836,398</u>	<u>-</u>	<u>40,383</u>	<u>-</u>	<u>20,560</u>	<u>-</u>	<u>11,387</u>
Total assets	<u>\$ 11,443,130</u>	<u>\$ 11,485,692</u>	<u>\$ 868,650</u>	<u>\$ 865,515</u>	<u>\$ -</u>	<u>\$ 40,383</u>	<u>\$ -</u>	<u>\$ 20,560</u>	<u>\$ -</u>	<u>\$ 11,387</u>
<u>LIABILITIES AND NET ASSETS</u>										
Liabilities:										
Accounts payable and accrued expenses	\$ 37,784	\$ 40,041	\$ 10,973	\$ 10,961	\$ -	\$ (35)	\$ -	\$ -	\$ -	\$ -
Due to other funds:										
Guam Economic Development Authority	33,718	36,027	-	3,792	-	-	-	-	-	-
Microenterprise Development Program	-	10,251	-	-	-	-	-	-	-	-
Agricultural Development Program	975	-	-	-	-	917	-	-	-	-
Total liabilities	<u>72,477</u>	<u>86,319</u>	<u>10,973</u>	<u>14,753</u>	<u>-</u>	<u>882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contingencies										
Net assets held in trust	<u>11,370,653</u>	<u>11,399,373</u>	<u>857,677</u>	<u>850,762</u>	<u>-</u>	<u>39,501</u>	<u>-</u>	<u>20,560</u>	<u>-</u>	<u>11,387</u>
Total liabilities and net assets	<u>\$ 11,443,130</u>	<u>\$ 11,485,692</u>	<u>\$ 868,650</u>	<u>\$ 865,515</u>	<u>\$ -</u>	<u>\$ 40,383</u>	<u>\$ -</u>	<u>\$ 20,560</u>	<u>\$ -</u>	<u>\$ 11,387</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, 2011 and 2010

	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>Additions:</b>										
Interest from investment	\$ 80,517	\$ 145,508	\$ 1,861	\$ 10,470	\$ -	\$ -	\$ -	\$ 369	\$ -	\$ -
Net decrease in the fair value of investments	(37,085)	(7,935)	(106)	(3,285)	-	-	-	(155)	-	-
Interest from loans	20,926	21,770	463	1,339	-	-	-	-	-	-
Gain on sale or real estate owned, net	82,854	-	-	-	-	-	-	-	-	-
Other	163,991	157,257	-	-	-	-	-	-	-	-
<b>Total additions</b>	<b>311,203</b>	<b>316,600</b>	<b>2,218</b>	<b>8,524</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>214</b>	<b>-</b>	<b>-</b>
<b>Deductions:</b>										
Provision for (recovery of) doubtful notes and accrued interest	64,369	23,862	(9,610)	6,886	-	-	-	-	-	-
Salaries and benefits	218,308	393,990	-	1,669	-	-	-	-	-	-
Rent	28,198	41,966	-	-	-	-	-	-	-	-
Legal and professional services	5,953	36,111	2,731	69	-	-	-	-	-	-
Depreciation	14,601	14,841	37	56	-	-	-	-	-	-
Bank charges	8,255	7,399	1,130	1,032	-	-	-	-	-	-
Travel	6,786	-	-	-	-	-	-	-	-	-
Miscellaneous	(6,547)	(7,198)	1,015	-	39,501	-	20,560	31	11,387	-
<b>Total deductions</b>	<b>339,923</b>	<b>510,971</b>	<b>(4,697)</b>	<b>9,712</b>	<b>39,501</b>	<b>-</b>	<b>20,560</b>	<b>31</b>	<b>11,387</b>	<b>-</b>
Net change in net assets	(28,720)	(194,371)	6,915	(1,188)	(39,501)	-	(20,560)	183	(11,387)	-
Net assets at beginning of year	11,399,373	11,593,744	850,762	851,950	39,501	39,501	20,560	20,377	11,387	11,387
Net assets at end of year	\$ 11,370,653	\$ 11,399,373	\$ 857,677	\$ 850,762	\$ -	\$ 39,501	\$ -	\$ 20,560	\$ -	\$ 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, 2011 and 2010

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

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

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

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

Additionally, GEDA administered the Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), the Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF) and, the U.S. Base Realignment and Closure Committee (BRAC) which have no assets, liabilities or net assets as of September 30, 2011 and 2010 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements. The specific purpose of each fund is as follows:

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

AEIF - AEIF was created to insure or to reinsure insurers of farmers, livestock producers and commercial fishermen against losses due to natural disasters. The premiums are collected at rates sufficient to cover claims for losses and to provide a reasonable reserve against unforeseen losses. Initial funding was by an appropriation from the Government of Guam. There were no insurance policies issued in 2011 and 2010 nor were there any policies outstanding at September 30, 2011 and 2010.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2011 and 2010

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

Purpose, Continued

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

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

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2011 and 2010.

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

Basis of Accounting

GDFA, ADF, MDP, GTAF, and MLGF are accounted for as Fiduciary Fund Type – Private Purpose Trust Funds and are component units of the Government of Guam.

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

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

**TRUST FUNDS ADMINISTERED BY THE  
GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2011 and 2010

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

Estimates

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

Cash

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

Notes and Accrued Interest Receivable

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

It is the policy of 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.

Expenses

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

New Accounting Standards

During fiscal year 2011, the Trust Funds implemented the following pronouncements:

- GASB 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.

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Notes to Financial Statements  
September 30, 2011 and 2010

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

New Accounting Standards, Continued

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- 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 implementation of these pronouncements did not have a material effect on the accompanying financial statements.

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

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

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

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2011 and 2010

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

New Accounting Standards, Continued

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

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective 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 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, 2011 and 2010 consist the following:

	<u>2011</u>	<u>2010</u>
Cash on hand and due from banks	\$ <u>8,317</u>	\$ <u>86,708</u>
Cash and cash equivalents	\$ <u>8,317</u>	\$ <u>86,708</u>
Total shares in mutual funds	\$ 8,825,979	\$ 6,058,274
U.S. Government agencies securities	1,331,368	3,996,969
U.S. Government treasury securities	<u>243,176</u>	<u>364,360</u>
Investments	\$ <u>10,400,523</u>	\$ <u>10,419,603</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.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2011 and 2010

(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, 2011 and 2010, the carrying amount of cash was \$8,317 and \$86,308, respectively, and the corresponding bank balances were \$43,017 and \$86,308, 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, 2011 and 2010. 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.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2011 and 2010

(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, 2011, 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)	\$ 5,031,322	N/A	N/A
Pacific Capital US Govt Securities Cash Assets Trust (USCXX)	2,453,462	N/A	N/A
BlackRock Interm Govt Bond Inv C (BIGCX)	526,016	N/A	N/A
Franklin Adjustable US Govt Secs C (FCSCX)	372,919	N/A	N/A
MFS Limited Maturity C (MQLCX)	372,909	N/A	N/A
BlackRock Interm Govt Bond Inv A	69,350	N/A	N/A
Federal Home Loan Mortgage Corporation (FHLMC) discount note	1,331,368	11/06/11	N/A
U.S. Government Treasury note (U.S. T note)	119,279	02/15/12	N/A
U.S. T note	<u>123,898</u>	12/31/13	N/A
	<u>\$ 10,400,523</u>		

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>		

**TRUST FUNDS ADMINISTERED BY THE  
GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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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, 2011 and 2010 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, 2011, GEDA's investment in FHLMC discount notes constituted 13% of its total investments. As of September 30, 2010, GEDA's investment in FHLMC and FNMA discount notes constituted 13% and 26% 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 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 787,195	\$ 784,915
(Sales) additions	<u>(106,000)</u>	<u>2,280</u>
Balance at end of year	\$ <u>681,195</u>	\$ <u>787,195</u>

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

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Notes to Financial Statements  
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(4) Other Real Estate, Leasehold Interest

GDFA 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, 2011 and 2010, net of accumulated amortization of \$127,942 and \$113,824 at September 30, 2011 and 2010, 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.