

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

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

SEPTEMBER 30, 2013 AND 2012

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

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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Economic Development Authority (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Economic Development Authority as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended September 30, 2013, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 17 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental divisional information on pages 18 through 20, the supplemental schedule of salaries and wages on page 38 and the supplemental comparative divisional schedules on pages 39 through 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental divisional information, the schedule of salaries and wages and the supplemental comparative divisional schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, supplemental divisional information, the schedule of salaries and wages and the supplemental comparative divisional schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP
March 11, 2014

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

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.

FY2013 HIGHLIGHTS

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

SPECIAL COMMENDATIONS AND AWARDS

GEDA was also recognized with awards in two categories in the annual Government of Guam MagPro Awards. The MagPro Awards were established to acknowledge the hard working government workers, and agencies, which have gone above and beyond in providing services to the community.

Receiving the "Program of the Year" award in the Small Department/Agency category was GEDA's Real Property Division (RPD). The division oversees numerous multimillion dollar projects and programs, to include, managing three industrial parks: the E.T. Calvo Memorial Park, the Harmon Industrial Park, generating jobs and millions of dollars in revenue to the island. RPD is also actively engaged in a number of Memorandums of Understanding with the Guam Ancestral Lands Commission (GALC), managing Spanish Crown properties. The division also executed an MOU with the Chamorro Land Trust Commission (CLTC) for the property management services for commercial land leases. RPD is also charged with managing \$55 million in capital improvement projects funded through the 2011 Hotel Occupancy Tax Bond (HOT Bond). These projects include the renovation and restoration of cultural and historic sites throughout the island, and include the construction of the Guam Chamorro Education Facility.

GEDA's Compliance Division was also recognized with the Customer Service Team Excellence Award in the Small Department/ Agency category. This award speaks volumes of the professionalism of this team, which is considered the "enforcement arm" of the agency. The Compliance Division monitors each of the agency programs, to ensure compliance with all applicable laws, rules and regulations. This covers the Qualifying Certificate Program (QC), Guam Product Seal Program (GPS), and the collection of GEDA loans.

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:

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BUSINESS DEVELOPMENT & MARKETING DIVISION

Trade Missions/Seminars

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

- SelectUSA in Taiwan, November 2012
- Profit Mastery Workshop (co-sponsor), November 2012
- Hotel Investment Conference Asia Pacific (HICAP), March 2013
- Vietnam Trade Mission, March 2013
- Association of Film Commissioners International (AFCI), June 2013

Qualifying Certificates (QC)

GEDA has been working closely on major QC application with details as follows:

Guam Hardwood Construction Supply: Guam Hardwood submitted an application to assist in its expansion of their current operations as a construction retailer to include manufacturing of drywall, metal frames and hollow core doors with an investment of \$720,000. This application has been pending information from client and may be recommended for resubmission.

Lina' La: Application submitted for a business that includes a Chamorro Cultural Park, ancient Chamorro village, theme park, hiking and eco-tours, animal displays, ocean and beach activities, food and beverage, restaurant and bar, retail and concession activities, cultural demonstrations, cultural performances, dinner show and other cultural, adventure, entertainment and/or tourist activities. Total investment approximates \$27,750,000. This application has been pending information from client and may be recommended for resubmission.

Quantum Guam: Quantum intends to invest approximately \$89,500,000.00 towards the production of Renewable (Solar) Electricity Facility located on 150 acres in the municipality of Inarajan, Guam. They have since sold their business to another company. This application has been pending information from client and may be recommended for resubmission.

Guam Regional Medical Center (GRMC): Applicant will construct and operate a \$219,000,000 medical facility in Dededo, Guam, featuring an initial 130 beds, including extensive emergency, surgical, intensive care, neo-natal and other specialty medical services to the people of Guam and Micronesia. The GEDA Board has since approved the application (December 2014).

Core Tech Affordable Housing, QC Batch 13: Approval of the construction and the development of 72 units Summer Green affordable housing project on Tract # 12103-1A-1NEW-R2, Tamuning, (August 2013). Investment amounts to \$23,065,763.

Sports Tourism - UOG Sports Complex Tax Credit

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

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National Export Initiative - U.S. SBA State Trade and Export Program (STEP) 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.

GEDA received \$227K which funds were used to support export for 9 local small businesses at the following events:

- HOFEX 2013: 15th International Exhibition of Food & Drink, Hotel, Restaurant & Foodservice Equipment, Supplies & Services, Hong Kong, May 7-10th
- Japan Food & Machinery Expo June 11-14
- Major exhibitor at the HKTDC Food Expo 2013, August 2013
- Hosted the 3-day Guam Export Trade Show (GETS) and Export University Training, September 2013

GEDA is working with clients who continue to follow-up and develop business relations with clients met at recent trade shows.

Medical Education Development and Tourism

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

- GEDA is in receipt of a QC application from the Guam Regional Medical Center that seeks to open a private hospital on Guam. When completed and accredited, this venture could greatly assist in the promotion of Guam as a Medical Tourism destination.

High Technology Light Manufacturing

- GEDA is also working with a group interested in constructing a facility that will produce Energy Efficient Windows and other Energy Efficient products, which will significantly reduce the energy footprint thus making Affordable Housing less costly to maintain.

Green Technology Research, Development and Manufacturing

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

Film Industry – The Development of a Film Commission

On January 4, 2012, Governor Calvo signed into law P.L. 343-31 establishing the Guam Film Office within GEDA. GEDA has been mandated to develop and organize Guam's Film Industry overseeing all film, video and photographic projects and activities on Guam.

GEDA continues to meet with industry stakeholders on draft Rules and Regulations for the industry which will then evolve into the development of the industry.

Guam Product Seal

With the Governor's Executive Order 2012-11, the the administration and compliance of the Guam Product Seal was transferred to GEDA. GEDA held an education seminar on April 25, 2013 with 60 participates, including 20 Customs officers. GEDA is working with the Guam Product Seal Task Force to address issues specific to updates and clarification of the law as well as proposed program benefits.

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To date GEDA has issued 53 Guam Product Seal Permits and will seek grant funding for continued marketing and support of the program.

PUBLIC FINANCE DIVISION

Mandated to serve as the Central Financial Manager for the Government of Guam, GEDA assists with, coordinates and monitors Financial Advisory Services, Capital Financing, Debt Management and access to the Capital Markets. Accomplishments in FY2013 include the following:

Guam Power Authority Revenue Bonds, 2012 Series A (October 2012)

The Guam Power Authority successfully closed the \$340 million Revenue Bonds, Series 2012 A on October 18, 2012. The bonds was authorized to be issued pursuant to Chapter 8 of Title 12 of the Guam Code Annotated, and by Public Law Number 31-233 to refund the Authority's 1993 and 1999 Senior Bonds for savings. The refinancing lowered GPA's interest rates on its older bonds from above 5.15% to 4.39%. As required by law and the PUC, GPA filed a petition to provide rate relief for ratepayers at the end of October 2012. The interest rate savings benefited ratepayers thru 2034.

GPA's achieved investment grade rating from all three ratings agencies: Moody's assigned a "Baa3" investment grade rating, Standard & Poor's assigned a "BBB" investment grade rating, and Fitch Ratings assigned a "BBB-" investment grade, all with a "Stable" outlook.

Government of Guam Limited Obligation Business Privilege Tax Bonds, Series 2013C (February 2013)

Government of Guam successfully closed the \$22 million Government of Guam Business Privilege Tax Bonds, Series 2013 C on February 7, 2013. The Bonds were issued to refund the Government of Guam's General Obligation Bonds, 1993 Series A for savings. With the savings, the Government was able to avert a tuition increase at the University of Guam, and for village CIP projects.

Standard and Poor's assigned an "A" investment grade rating with a "Stable" outlook. Fitch Ratings assigned an "A-" investment grade rating with a "stable" outlook.

Guam Education Financing Foundation II, Inc. Certificate of Participation (Okkodo High School Expansion Project) (Qualified School Construction Bonds) (March 2013)

The Department of Education successfully closed \$22.8 million of Series 2013 A bonds on March 15, 2013. The expansion will occupy 4.2 acres for land and add approximately 65,000 square feet of space including classrooms, labs, a new dining room, a culinary teaching facility, all required furniture fixtures and equipment and expanded locker and showers. The project will also include resurfacing of the track, construction of a new field house for the athletic fields and improved traffic signalization at the entrance. Student capacity will increase from 1,200 to 2,000.

A.B. Won Pat Guam International Airport Authority General Revenue Bonds, 2013 Series A, B and C (September 2013)

The A.B. Won Pat Guam International Airport Authority successfully closed \$247.3 million of Series 2013 A B C on September 1, 2013. Bond proceeds were authorized to refund the Authority outstanding 2003 bonds for significant savings and to finance \$110 million of new capital improvements, and additions and extension to the Airport.

Standard and Poor's assigned a "BBB" investment grade rating with a "Stable" outlook. Moody's Investor Services assigned a "Baa2" investment grade rating with a "Stable" outlook.

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Bond Disclosure Services (2013)

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

- 2007 Guam Economic Development Authority Tobacco Settlement Asset-Backed Bonds – 2012 Bond Information Report, GEDA's FY 2012 audited financial statement;
- 2010 Certificate of Participation (John F. Kennedy High School Project) -, 2012 Bond Information Report, GovGuam FY012 audited financial statement;
- 2007 General Obligation Bonds – 2012 Bond Information Report, GovGuam FY2012 audited financial statement;
- 2009 General Obligation Bonds - 2012 Bond Information Report, GovGuam FY2012 audited financial statement;
- 2009 Limited Obligation (Section 30) Bonds - 2012 Bond Information Report;
- 2010 Certificate of Participation's (John F. Kennedy project) - 2012 Bond Information Report, GovGuam FY2012 audited financial statement;
- 2011 Government of Guam Hotel Occupancy Tax Revenue Bonds – 2012 Bond Information Report, GovGuam FY2012 audited financial statement;
- 2011, 2012, 2013 Government of Guam Business Privilege Tax Bonds - 2012 Bond Information Report.

Public School Financing – Guam Department of Education

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

- GDOE Capital Facilities Upgrade: PL 31-229 provides a mechanism for public school renovation. GEDA financing efforts are pending receipt of Guam DOE's direction on the RFP scope of services. The Governor's Educational Learning Task Force has reported that the GDOE facilities will require up to \$140M to address Capital Facility repairs and renovations with \$40M to come from ARRA grant funds.

Department of Land Management (DLM)

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

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

Department of Public Works GARVEE Bond

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

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

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

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With the passage of PL 31-229 and 32-63, GEDA, UOG, and GCC are working with the United States Department of Agriculture Rural Development (USDA) to secure the financing for the projects authorized.

- UOG Projects: \$ 21.7 M, \$1M Territorial Education Facilities Fund (TEFF) or other revenues for lease payment
- GCC Projects: \$ 6.0 M, \$0.3 M Territorial Education Facilities Fund (TEFF) or other revenues for lease payment

Port Authority of Guam (PAG)

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

Guam Legislature Building

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

Private Activity Bond Program

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

2014 carry-over volume cap in the amount of approximately \$249,967,710.00 will be available during the year for any of the designated types of bonds.

Currently, GEDA has two applicants namely:

- Micronesia Community Development Corporation (Ironwood Lada Senior Village)
- Guam Resource Recovery Partners (GRRP) (Guatali Sanitary Landfill / Future Waste-to-Energy Facility)

Guam Power Authority (GPA)

GEDA is assisting GPA in reviewing certain financing alternatives for addressing \$80M to \$90M in GPA's short term and long term funding needs. GPA is seeking financing for an island wide energy efficient streetlight project, to fund repairs and refurbishments to its Dededo and Cabras plants and funding to convert to Liquefied Natural Gas in order to meet emission standards in order to minimize the costs borne by the rate payers while at the same time meeting environmental compliance. Draft legislation is currently being prepared.

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The Commission on Consolidated Utilities recently approved a resolution for the power agency to borrow \$27.5 million to fund eight projects to be completed in the next five years. The majority of the projects are to address major maintenance work, like transmission upgrades and the ongoing Smart Grid Project.

In addition, GPA is looking at a major expense to retrofit the base load generators to Liquefied Natural Gas (LNG) and retire some of their less efficient diesel generators.

Guam Department of Corrections (DOC)

DOC has sought GEDA’s assistance for the financing of a new Adult Correction Facility (ACF). DOC is seeking funding for the design, land preparation, and constitution of a new ACF. The new facility will replace the current ACF to house both local and federal prisoners on island.

Bill No. 172-32 (COR) “An act to create a new Article 6 & 7 to Chapter 9, GCA relative to the construction and renovation of the Department of Corrections Adult Correctional Facility to ensure the safety of the People of Guam; which shall collectively be cited as “The Department of Corrections Construction Initiative Act of 2013” was introduced on August 21, 2013. This bill has been referred to the Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation, and Land.

LOANS

ADF, GDFA and SSBCI Loan Programs

During the year ending September 30, 2013, under the GDFA Loan program, GEDA approved and issued a loan to a small business in the contract services industry. GEDA also executed a loan restructure during this period to assist with a client’s cash flow and delinquent status. The amount for the direct loan was \$100,000 and \$5,000 for the restructure. There were no ADF loans given during this time.

GEDA Loan inquiries

GEDA’s Public Financial Services Division entertained around **40** Loan Inquires from October 2012 to September 2013.

| Month | ADF | GDFA | MICRO | SSBCI | Total |
|--------------|----------|-----------|----------|-----------|-----------|
| Jan. 2013 | 0 | 0 | 0 | 0 | 0 |
| Feb. 2013 | 0 | 0 | 0 | 0 | 0 |
| Mar. 2013 | 0 | 0 | 0 | 0 | 0 |
| Apr. 2013 | 0 | 1 | 0 | 1 | 2 |
| May. 2013 | 1 | 10 | 1 | 3 | 15 |
| Jun. 2013 | 1 | 8 | 1 | 3 | 13 |
| Jul. 2013 | 0 | 6 | 0 | 0 | 6 |
| Aug. 2013 | 0 | 0 | 0 | 0 | 0 |
| Sept. 2013 | 0 | 1 | 0 | 3 | 4 |
| Total | 2 | 26 | 2 | 10 | 40 |

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

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

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The Guam Loan Guarantee Program was initiated on August 3, 2012 with the Bank of Guam as the first participating lender. During the remainder of FY2012, Bank of Guam enrolled three (3) loans totaling about \$364,000 in principal and eleven (11) jobs were created or retained.

During FY 2013 there were significant gains made in the program. GEDA signed on two (2) additional participating lenders Community First Guam Federal Credit Union and Coast 360 Federal Credit Union. A total of nineteen (19) loans were enrolled under 17 new loan customers equating to \$4,048,100 in loans backed by SSBCI guarantees in the amount of \$3,011,075.

GEDA will continue to promote the program to all Guam financial institutions and raise awareness about the Guam SSBCI Program to Guam's entrepreneurs and small business community.

Highlights of the SSBCI Program:

- 163 jobs created
- Over \$4M in loans
- Over \$3M in Guarantees
- 19 loan Clients approved.
- 74% of guarantee loan funds approved in Q3 and Q4 of fiscal year 2013.

REAL PROPERTY

GEDA manages three industrial parks: the E.T. Calvo Memorial Park, the Harmon Industrial Park, generating an average of about 700 to 1000 jobs annually, \$41.0 million in payroll, over \$130.0 million in gross sales and over \$6.0 million in GRT. As the main source of GEDA's operating budget, the industrial parks generated approximately \$1.2 million in lease revenues for FY2012. In an effort to generate additional revenues for GEDA as a result of losing the Guam Shipyard Sublease in FY 2013, GEDA purchased certain improvements which are situated within the E.T. Calvo Memorial Park at a combined cost of \$500,000. As a result of this purchase, GEDA anticipates an increase in annual lease rents collected by some \$120,000, well above the previous lease arrangements whereby the Authority collected only \$68,000 per annum from these two subleases.

Leveraging GEDA's real property management program, GEDA engaged in a management Memorandum of Understanding with the Guam Ancestral Lands Commission (GALC), to manage leases on the Spanish Crown properties. For the period October 2007 to January 31, 2014, GEDA collected over \$3 million in ground lease rents and participation rents of which over \$2.62 million was remitted to GALC while the difference was retained by GEDA as provided for in the MOU. The Authority also executed an MOU with the Chamorro Land Trust Commission (CLTC) which was approved by the Governor on April 24, 2013 for general consultancy and property management services for commercial land leases which are expected to generate over \$300K in management fees for GEDA annually. GEDA is currently negotiating similar management agreements with other GovGuam agencies with land inventory that could generate lease revenues at fair market value rates.

Public Law 30-228 which authorized the use of over \$55 million of the proceeds from the 2011 Hotel Occupancy Tax Bond requires the construction of various capital improvement projects throughout the island. GEDA, through a Memorandum of Agreement with the Office of the Governor of Guam (OOGG), has established a Program Management Office (PMO) to oversee, coordinate and manage capital improvement projects and other programs assigned to the PMO by the OOGG. These projects and programs include, but are not limited to, the construction of the Guam Chamorro and Educational Facility better known as the Guam Museum, the restoration and renovation of the Plaza De Espana, mitigation of the flooding in Tumon along with the restoration or renovation of various historic sites,

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and public parks and facilities throughout the island. The establishment of the PMO at GEDA carries out the Office of the Governor's objective that such programs and projects are properly managed to ensure that public resources are utilized in an efficient, expeditious and effective manner to allow for the implementation of as many projects and programs as possible and to allow local businesses, residents and visitors to enjoy the economic and social benefits of these projects and programs.

COMPLIANCE DIVISION

The only way to ensure that we improve the public's confidence in public institutions is through the manner in which we manage its public programs and funds. It is the Compliance Division that plays an integral role in meeting that goal for the Guam Economic Development Authority ("GEDA").

Our Compliance Department consists of four professionals who collectively have over 50 years of private sector and government collections and compliance experience. Their responsibilities entail conducting ongoing monitoring, surveillance, and enforcement activities for GEDA's major programs. To see to this, they have put in place policies and procedures reasonably designed to achieve compliance with all the applicable laws, rules and regulations governing GEDA's Qualifying Certificate ("QC"), Guam Product Seal ("GPS"), and three loan programs.

We are pleased to highlight some key accomplishments during the past year that have resolved some long-standing issues and helped to improve the public's confidence in GEDA:

- **GEDA's Compliance Division inaugurated the enforcement provisions of the Guam Product Seal & Guam Labeling Law program after many years of inactivity while under the administration of other government entities.**

The Guam Product Seal Program ("GPS") is not new. It was enacted in 1986 under PL 18-82 and for many years since then had been administered by both the Departments of Commerce and the Department of Revenue & Taxation. It was amended in 2011 under PL 31-136 and PL 31-233. Thereafter the program was transferred to the administration of GEDA by Executive Order No. 2012-11 in August 2012. Since its enactment and prior to its transfer to GEDA, program activity mainly consisted of the issuance of GPS permits. Enforcement of any violations of the GPS law and its rules and regulations was largely investigative and only upon receipt of a complaint from the public.

Subsequent to the program's transfer to GEDA, the enforcement provisions of the GPS law have come under particular scrutiny by the GPS Task Force (created by PL 31-50); former and current GPS permit holders and the Guam Legislature. Thusly, under demanding timelines (3 weeks prior to a July 1, 2013 launch date) and high political expectations, the GEDA Compliance Division team worked with dedication and professionalism to prepare them to take on these additional enforcement responsibilities. First they needed to create written operating procedures and forms (inspection) relative to compliance and enforcement of the program since there were none in existence. They also conducted compliance training for its enforcement partners such as Guam Customs officers. Finally they met individually with key stakeholders such as major island retailers (Kmart, ABC Stores, DFS, and JP Super Store) and obtained their buy in and cooperation to act as secondary compliance monitors of the GPS law. As a result, GPS enforcement of the program, as committed by GEDA, was successfully launched on July 1, 2013 and thereafter; a number of violators of the GPS law were uncovered, fined and brought into compliance.

- **No OPA Audit findings (issues) related to Compliance Monitoring by GEDA of the QC program.**

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When Guam Office of Public Accountability (“OPA”) released its Program Audit of the QC Program in August 2013 it contained no significant findings relating to GEDA’s compliance monitoring of the beneficiaries of the QC Program. Their findings instead were (1) lack of a statistical database to determine benefits to Guam vs. tax revenues lost, (2) QC application and eligibility issues and, (3) lack of due diligence on the part of the Dept. of Revenue & Tax in processing QC rebates and abatements and (4.) found that the current QC law allows for more generous tax benefits for the insurance industry. The current Administration recognizes this and is looking at addressing this issue. All these findings were not related to compliance monitoring. In fact, although initially the audit’s primary assessment was to determine what if any compliance monitoring was being conducted by GEDA, it was later expanded to include the QC application and eligibility areas as well as the role of the Department of Revenue & Taxation in the process. We believe these outcomes were likely due to a lack of compliance findings.

We attribute the audits lack of compliance findings to our Compliance Team’s extensive knowledge of GEDA’s programs and procedures that gives them the ability to consistently define and conduct their work tasks and make their day-to-day activities efficient. In addition, internally within their division, they utilize a system of collaboratively addressing a compliance issue or situation and rather than just considering compliance issues from a technical perspective, the team also takes into account the concerns of the government, the client, and in broader terms as it relates to the overall goals of GEDA, and works to find mutually beneficial solutions to these issues within the parameters of the QC law.

COMMERCE AND ECONOMIC

GEDA established the CED Division in the mid-part of 2013 for the purpose of enhancing its ability to conduct general economic research and financial analysis. The primary mission of this unit is to respond to public inquiry concerning economic development initiatives for the territory of Guam, provide data collection for policy assessment, compile and disseminate investment related statistics and various metrics to gauge regional and local industry development, technical assistance and collateral research support as requested by government agencies and business entities. This encompasses a number functions, projects and programs initiated by the CED unit during the latter part of 2013 to include:

- Economic outlook for CY 2014 and 2015
- Revenue forecasting using the Prevailing Economic Variables (PEV) model
- Data repository and mining activities
- Comprehensive economic development planning
- Review and input on social and economic studies and reports for Guam
- Cost-benefit analysis of major economic projects (i.e., Guam Regional Medical City, military build-up initiative, HOT bond facilities, Qualifying Certificate program, etc.)
- U.S. Department of Commerce/EDA planning and CIP program
- Fiscal policy and stabilization assessment
- Input on proposed legislation on business and economic matters

The CED Division is in the process of expanding statistical reporting programs through literature and website networking with the objective of improving dissemination and access. The unit has also allocated time and resources to the task of integrated CIP planning and programming with the goal of developing necessary infrastructure capacity for Guam in light of the impending military build-up and its anticipated impact.

A major role currently undertaken by the CED unit involves oversight in the implementation of programs and projects that have favorable impact on job creation, tax revenue, gross domestic production and infrastructure capacity. As the coordinating entity for the Governor’s Economic Coordination Task Force and Fiscal Policy Committee through which CED is designated to provide economic and financial analysis and recommendation, GEDA is able to facilitate development programs that support its primary mission.

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FINANCIAL COMMENTS

The following table summarizes the statements of Net Position and operations of Guam Economic Development Authority for 2013, 2012 and 2011:

| | <u>2013</u> | <u>2012</u> (As Restated) | <u>2011</u> (As Restated) |
|--------------------------------------------------------|------------------------|------------------------------|------------------------------|
| Assets: | | | |
| Current assets | \$ 12,690,919 | \$ 12,213,884 | \$ 7,757,700 |
| Long-term assets: | | | |
| Building, improvements and equipment, at cost, net | 525,941 | 555,803 | 576,771 |
| Other assets | <u>3,500</u> | <u>3,500</u> | <u>3,500</u> |
| Total assets | <u>13,220,360</u> | <u>12,773,187</u> | <u>8,337,971</u> |
| Deferred Outflow of Resources: | | | |
| Bond defeasance cost, net | <u>815,962</u> | <u>1,126,804</u> | <u>1,437,646</u> |
| | \$ <u>14,036,322</u> | \$ <u>13,899,991</u> | \$ <u>9,775,617</u> |
| Liabilities and Net Position: | | | |
| Current liabilities: | | | |
| Current portion of long-term debt ,net | \$ 1,980,000 | \$ 1,850,000 | \$ 1,720,000 |
| Other current payables | 5,470,451 | 5,402,455 | 1,137,390 |
| Long-term liabilities: | | | |
| Long-term debt, net | 30,326,991 | 30,754,665 | 31,157,739 |
| Other long-term payable | <u>240,342</u> | <u>241,477</u> | <u>219,889</u> |
| Total liabilities | <u>38,017,784</u> | <u>38,248,597</u> | <u>34,235,018</u> |
| Net Position: | | | |
| Invested in capital assets | 525,941 | 555,803 | 576,771 |
| Unrestricted | <u>(24,507,403)</u> | <u>(24,904,409)</u> | <u>(25,036,172)</u> |
| Net position | <u>(23,981,462)</u> | <u>(24,348,606)</u> | <u>(24,459,401)</u> |
| | \$ <u>14,036,322</u> | \$ <u>13,899,991</u> | \$ <u>9,775,617</u> |
| Revenues, Expenses and Changes in Net Position: | | | |
| Revenue: | | | |
| Operating revenues | \$ 3,380,768 | \$ 2,677,516 | \$ 2,384,569 |
| Tobacco Settlement revenue | <u>2,386,117</u> | <u>2,385,822</u> | <u>2,341,023</u> |
| Total revenue | <u>5,766,885</u> | <u>5,063,338</u> | <u>4,725,592</u> |
| Expenses: | | | |
| Operating expenses | (3,118,345) | (2,718,851) | (2,714,278) |
| Other expense, net | <u>(2,281,396)</u> | <u>(2,233,692)</u> | <u>(2,243,681)</u> |
| Increase (decrease) in net position | 367,144 | 110,795 | (232,367) |
| Net position at beginning of year, as restated | <u>(23,348,606)</u> | <u>(24,459,401)</u> | <u>(24,227,034)</u> |
| Net position at end of year | \$ <u>(23,981,462)</u> | \$ <u>(23,348,606)</u> | \$ <u>(24,459,401)</u> |

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The restatement pertains to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Please refer to note 1 and note 13 of the accompanying financial statements for additional details concerning information on this restatement.

Operating Revenues

In FY13, GEDA recorded operating revenues of \$3,380,768, compared to \$2,677,516 in fiscal year 2012. The year-to-year change of \$703,252 represents an increase of 26.27%. GEDA generates its own revenues to sustain annual operations from three primary sources. The first is the rental income from Industrial Parks, the second is application and surveillance fees from QC beneficiaries and the third source is from the management of the GALC Lease properties under the current MOU. Bond fees and other federal and local grants additional sources of revenues, but may not represent recurring annual income.

Industrial Park

12 GCA Section 50103 authorizes GEDA to lease Government of Guam land to promote investments in entrepreneurial capital thereby increasing opportunity for employment in manufacturing, industrial, commercial, recreational, retail and service enterprises. GEDA maintains industrial parks under leases from the Government of Guam: the 18-acre Harmon Industrial Park, and the 26-acre E.T. Calvo Memorial Park, and the 15K-sq. meters Cabras Island.

Rental income decreased 2.66% from \$1,215,345 in FY12 to \$1,182,977 in FY13. This is due to the termination and a reduction of a lease.

Qualifying Certificate (Q.C.) Program

The Qualifying Certificate program is an economic incentive tool to entice investors into Guam. The program was created in early 1965 to foster the growth of the then fledgling tourism industry. The tax incentive program that offers corporate income tax and corporate dividends tax rebates and real property tax abatements has proven to be a successful tool in the development of the tourism industry and will now serve a critical role in supporting the growth of new and emerging industries. QC Revenues decreased \$27,210 or 6.35% from \$428,673 in FY12 to \$401,463 in FY13.

Bond Fees

GEDA's mandate establishes GEDA as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Division, which assists with, coordinates and monitors, Capital Financing Debt Management and the Capital Markets. GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. Bond fees increased 85.53% from \$747,400 in FY12 to \$1,386,626 in FY13.

Capital Assets

Land, building, improvements and equipment decreased \$29,862 from \$555,803 in FY12 to \$525,941 in FY13. The decrease is the net of equipment purchases and accumulated depreciation for the year. There were no significant capital transactions during the year. For additional information concerning capital assets, please refer to the notes to financial statements.

Long-term Debt

No additions to long-term debt occurred during the year ended September 30, 2013. For additional information concerning long-term debt, please refer to the notes to the financial statements.

Operating Expense

GEDA's operating expense in FY13 was \$3,118,345, an increase of 14.69% over FY12 of \$2,718,851.

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Personnel Expenses

Salaries and benefits (including allocation to trust funds) increased 10.95% or \$251,134 (including allocation to trust funds) in FY13, which is attributed to an increase in benefits, and additional staff to include the Deputy Administrator's position.

Legal and Professional Services

Legal and Professional service expense increased by \$36,185 or 13.04% from \$277,435 in FY12 to \$313,620 in FY13. This is mainly attributed to unexpected legal services required.

Depreciation Expense

Depreciation expense decreased \$3,664 or 9.32% from \$39,326 in FY12 to \$35,662 in FY13.

Office Space and Equipment Rental

Total office space and equipment rental (including allocation to trust funds) increase \$8,273 or 3.37% from \$245,847 in FY12 to \$254,120 in FY13. This is attributed to an increase in office space rental.

Travel

Travel expense increased by \$37,868 or 27.38% from \$138,289 in FY12 to \$176,157 in FY13. Increase is attributed to GEDA's continued participation in State Trade and Export Promotions (STEP), trade and reverse-trade missions, as well as, attendance and/or hosting of conferences, forums, seminars related to economic development and financial management, the marketing of Guam as an investment destination.

FY2014 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 a 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

Qualifying Certificate Program Update

The Legislature recognizes that the Qualifying Certificate program of the Guam Economic Development Authority (the Authority) was conceived as an economic incentive tool to entice investors into Guam. In use for over four (4) decades, it has had substantial positive impact upon the economic development of the territory, mainly in the tourist industry.

It is the goal of the Guam Visitors Bureau, under their Vision 2020, to build 1,600 new hotel rooms by 2020. GEDA is working with stakeholders to develop a program that will entice development in the immediate future, making this goal attainable.

Guam Product Seal Program

Marketing to visiting tourists. GEDA is working on a GPS education campaign to maximize the program potential by extending its reach to local residents buying for off-island families, to the tourists looking for authentic Guam made souvenirs and to the local manufacturer looking at the potential export opportunity.

We are seeking grant funding that will help fund a multi-language website that will be linked to the Guam Visitors Bureau and their network of travel agents. We will also use social media to highlight the program and a link to GVB's mobile shop guide showcasing the GPS brand and its vendors.

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U.S. SBA STEP Grant Awarded to GEDA

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

Legislative Activities

- PL 32-068: Made in Guam Incubator Program. This law creates a business incubator program at the Guam Airport for companies offering products that are made on Guam and which display the Guam Product Seal. GEDA has been working with Senator Limtiaco's office and the managers of GIAA to develop the program with a target launch date of March 2014.
- Bill 205: Export Tax Credit. This bill, initially drafted by GEDA, gives agriculture producers (produce and food products) and GPS holders an advantage for exporting by providing shippers with a tax credit/exemption to BPT when they offer preferred shipping rates or discounts of up to 100% off of the shipping bill for exports to foreign countries. This should more than level the playing field for our small businesses in the global marketplace. GEDA is working with the Legislature on a final bill version.

OTHER

- Development of GEDA's Contact Management Database
- Pursue EB-5 investment opportunities for immigrants investing in new US commercial enterprises that create direct/indirect employment for US workers.
- Work intently with GVB to pursue economic opportunities in the Russian Market with the implementation of Parole Authority which commenced in January 2012.
- Work with GVB in developing a strategy to establish a business development presence in China.
- Pursue International Economic Development Council (IEDC) professional certification for GEDA staff.
- Continue work with Take Care on the promotion of Medical Industry Business Opportunities and acquire additional institutional knowledge in the Insurance Industry.
- 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.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in GEDA's report on the audit of financial statements which is dated March 8, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2011 financial statements. A copy of that report can be obtained by contacting us at (671) 647-4332 or can be viewed at the Office of Public Accountability - Guam website at www.guamopa.org.

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

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Statements of Net Position
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| <u>ASSETS</u> | Divisional Information | | | 2012 (As Restated) | |
|----------------------------------------------------------------------------------------------|------------------------|--------------|--------------|-----------------------|---------------|
| | GEDA | SSBCI | TSA | 2013 | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,119,568 | \$ 1,424,841 | \$ 3,616,049 | \$ 6,160,458 | \$ 7,070,116 |
| Investments | 2,406,875 | 3,332,394 | - | 5,739,269 | 4,751,526 |
| Due from trust funds administered by GEDA: | | | | | |
| Agricultural Development Fund | - | - | - | - | 100 |
| Guam Development Fund Act | 22,591 | - | - | 22,591 | 14,459 |
| Reimbursable expense | 520,802 | (520,802) | - | - | - |
| Other receivables, net of an allowance for doubtful receivables of \$36,809 in 2013 and 2012 | 754,346 | - | - | 754,346 | 363,960 |
| Promotional supplies | 9,955 | - | - | 9,955 | 10,629 |
| Prepaid expenses | 4,300 | - | - | 4,300 | 3,094 |
| Total current assets | 4,838,437 | 4,236,433 | 3,616,049 | 12,690,919 | 12,213,884 |
| Equity investment | 3,500 | - | - | 3,500 | 3,500 |
| Building, improvements and equipment, at cost, net | 523,723 | 2,218 | - | 525,941 | 555,803 |
| Total assets | 5,365,660 | 4,238,651 | 3,616,049 | 13,220,360 | 12,773,187 |
| <u>DEFERRED OUTFLOW OF RESOURCES</u> | | | | | |
| Bond defeasance cost, net | - | - | 815,962 | 815,962 | 1,126,804 |
| | \$ 5,365,660 | \$ 4,238,651 | \$ 4,432,011 | \$ 14,036,322 | \$ 13,899,991 |
| <u>LIABILITIES AND NET POSITION</u> | | | | | |
| Current liabilities: | | | | | |
| Current portion of bonds payable | \$ - | \$ - | \$ 1,980,000 | \$ 1,980,000 | \$ 1,850,000 |
| Accounts payable | 452,666 | - | - | 452,666 | 352,386 |
| Due to trust funds administered by GEDA: | | | | | |
| Agricultural Development Fund | 2,180 | - | - | 2,180 | - |
| Accrued liabilities | 181,743 | (1,918) | (29,809) | 150,016 | 176,415 |
| Interest payable | - | - | 515,000 | 515,000 | 529,000 |
| Unearned grant revenues | - | 4,220,546 | - | 4,220,546 | 4,246,112 |
| Unearned rental income | 130,043 | - | - | 130,043 | 98,542 |
| Total current liabilities | 766,632 | 4,218,628 | 2,465,191 | 7,450,451 | 7,252,455 |
| Non-current liabilities: | | | | | |
| Bonds payable, net of current portion and discount | - | - | 30,326,991 | 30,326,991 | 30,754,665 |
| DCRS sick leave liability | 96,519 | - | - | 96,519 | 102,654 |
| Deposits | 11,610 | - | - | 11,610 | 11,610 |
| Deposits due to GALC | 132,213 | - | - | 132,213 | 127,213 |
| Total non-current liabilities | 240,342 | - | 30,326,991 | 30,567,333 | 30,996,142 |
| Total liabilities | 1,006,974 | 4,218,628 | 32,792,182 | 38,017,784 | 38,248,597 |
| Commitments and contingencies | | | | | |
| Net position: | | | | | |
| Net investment in capital assets | 523,723 | 2,218 | - | 525,941 | 555,803 |
| Unrestricted | 3,834,963 | 17,805 | (28,360,171) | (24,507,403) | (24,904,409) |
| Net position | 4,358,686 | 20,023 | (28,360,171) | (23,981,462) | (24,348,606) |
| | \$ 5,365,660 | \$ 4,238,651 | \$ 4,432,011 | \$ 14,036,322 | \$ 13,899,991 |

See accompanying notes to financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

| | Divisional Information | | | 2013 | 2012 (As Restated) |
|------------------------------------------------------------|------------------------|------------------|------------------------|------------------------|------------------------|
| | GEDA | SSBCI | TSA | | |
| Revenues: | | | | | |
| Rental income | \$ 1,182,977 | \$ - | \$ - | \$ 1,182,977 | \$ 1,215,345 |
| Tobacco Settlement revenue | - | - | 2,386,117 | 2,386,117 | 2,385,822 |
| Qualifying certificate application, surveillance and other | 401,463 | - | - | 401,463 | 428,673 |
| Bond fees earned | 1,386,626 | - | - | 1,386,626 | 747,400 |
| Grants revenue | 222,599 | 25,566 | - | 248,165 | 182,755 |
| GALC lease commission | 94,545 | - | - | 94,545 | 96,057 |
| Guarantee fees | - | 66,992 | - | 66,992 | 7,286 |
| | <u>3,288,210</u> | <u>92,558</u> | <u>2,386,117</u> | <u>5,766,885</u> | <u>5,063,338</u> |
| Operating expenses: | | | | | |
| Salaries and benefits | 2,100,889 | 65,067 | - | 2,165,956 | 1,949,068 |
| Legal and professional services | 284,636 | 1,122 | 27,862 | 313,620 | 277,435 |
| Office space and equipment rent | 206,110 | - | - | 206,110 | 211,547 |
| Travel | 152,493 | 23,664 | - | 176,157 | 138,289 |
| Advertising and promotions | 136,239 | - | - | 136,239 | 39,080 |
| Depreciation and amortization | 35,084 | 578 | - | 35,662 | 39,326 |
| Utilities, telephone and communication | 8,982 | - | - | 8,982 | 8,476 |
| Supplies | 6,334 | - | - | 6,334 | 9,915 |
| Insurance | 5,472 | - | - | 5,472 | 6,054 |
| Repairs and maintenance | 1,316 | - | - | 1,316 | 1,884 |
| Miscellaneous | 60,370 | 2,127 | - | 62,497 | 37,777 |
| | <u>2,997,925</u> | <u>92,558</u> | <u>27,862</u> | <u>3,118,345</u> | <u>2,718,851</u> |
| Operating income | <u>290,285</u> | <u>-</u> | <u>2,358,255</u> | <u>2,648,540</u> | <u>2,344,487</u> |
| Other income (expense): | | | | | |
| Interest income (expense), net | 900 | 3,361 | (2,354,293) | (2,350,032) | (2,357,843) |
| Investment income | 46,081 | 19,440 | - | 65,521 | 104,751 |
| Net decrease in the fair value of investments | (115,425) | (42,745) | - | (158,170) | (17,710) |
| Other income, net | 161,285 | - | - | 161,285 | 37,110 |
| Other income (expense), net | <u>92,841</u> | <u>(19,944)</u> | <u>(2,354,293)</u> | <u>(2,281,396)</u> | <u>(2,233,692)</u> |
| Change in net position | 383,126 | (19,944) | 3,962 | 367,144 | 110,795 |
| Net position at beginning of year, as restated | <u>3,975,560</u> | <u>39,967</u> | <u>(28,364,133)</u> | <u>(24,348,606)</u> | <u>(24,459,401)</u> |
| Net position at end of year | <u>\$ 4,358,686</u> | <u>\$ 20,023</u> | <u>\$ (28,360,171)</u> | <u>\$ (23,981,462)</u> | <u>\$ (24,348,606)</u> |

See accompanying notes to financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2013 and 2012

| | Divisional Information | | | 2013 | 2012 |
|---------------------------------------------------------------------------------------------------|------------------------|---------------------|---------------------|---------------------|---------------------|
| | GEDA | SSBCI | TSA | | |
| Cash flows from operating activities: | | | | | |
| Cash received on grants and contracts | \$ - | \$ 66,992 | \$ - | \$ 66,992 | \$ 4,352,842 |
| Cash received from customers | 2,593,639 | - | 2,386,117 | 4,979,756 | 4,890,538 |
| Cash paid to suppliers for goods and services | (756,128) | 468,202 | (59,333) | (347,259) | (726,317) |
| Cash paid to employees for services | (2,069,083) | (65,067) | - | (2,134,150) | (1,896,685) |
| Cash paid for retirement benefits | (37,941) | - | - | (37,941) | (30,795) |
| Net cash (used in) provided by operating activities | <u>(269,513)</u> | <u>470,127</u> | <u>2,326,784</u> | <u>2,527,398</u> | <u>6,589,583</u> |
| Cash flows from investing activities: | | | | | |
| Interest and investment income | 69,344 | 23,305 | - | 92,649 | 87,041 |
| Rollover of interest into investment | (69,344) | (23,305) | - | (92,649) | (87,041) |
| Maturity of investment securities | 1,277,199 | (2,357,591) | - | (1,080,392) | (847,340) |
| Net cash provided by (used in) investing activities | <u>1,277,199</u> | <u>(2,357,591)</u> | <u>-</u> | <u>(1,080,392)</u> | <u>(847,340)</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Purchase of property and equipment | (5,800) | - | - | (5,800) | (18,358) |
| Net cash used in capital and related financing activities | <u>(5,800)</u> | <u>-</u> | <u>-</u> | <u>(5,800)</u> | <u>(18,358)</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Repayment of bond payable | - | - | (770,000) | (770,000) | (720,000) |
| Net interest received (paid) on deposit accounts and bonds payable | 900 | 3,361 | (1,585,125) | (1,580,864) | (1,612,075) |
| Net cash provided by (used in) noncapital financing activities | <u>900</u> | <u>3,361</u> | <u>(2,355,125)</u> | <u>(2,350,864)</u> | <u>(2,332,075)</u> |
| Net change in cash and cash equivalents | 1,002,786 | (1,884,103) | (28,341) | (909,658) | 3,391,810 |
| Cash and cash equivalents at beginning of year | 116,782 | 3,308,944 | 3,644,390 | 7,070,116 | 3,678,306 |
| Cash and cash equivalents at end of year | <u>\$ 1,119,568</u> | <u>\$ 1,424,841</u> | <u>\$ 3,616,049</u> | <u>\$ 6,160,458</u> | <u>\$ 7,070,116</u> |
| Reconciliation of operating income to net cash provided by (used in) operating activities: | | | | | |
| Operating income | \$ 290,285 | \$ - | \$ 2,358,255 | \$ 2,648,540 | \$ 2,344,487 |
| Other income, net | 161,285 | - | - | 161,285 | 37,110 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 35,084 | 578 | - | 35,662 | 39,326 |
| (Increase) decrease in assets: | | | | | |
| Due from trust funds administered by GEDA | (8,032) | - | - | (8,032) | 19,259 |
| Reimbursable expense | (493,939) | 493,939 | - | - | 1,662 |
| Other receivables | (390,386) | - | - | (390,386) | (146,313) |
| Promotional supplies | 674 | - | - | 674 | 255 |
| Prepaid expenses | (4,300) | 3,094 | - | (1,206) | (3,094) |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable | 101,942 | (355) | - | 101,587 | 97,190 |
| Due to trust funds administered by GEDA | 2,180 | 355 | - | 2,535 | (2,475) |
| Accrued liabilities | 5,328 | (1,918) | (31,471) | (28,061) | (83,512) |
| Unearned grant revenue | - | (25,566) | - | (25,566) | 4,246,112 |
| Deferred rental income | 31,501 | - | - | 31,501 | 17,988 |
| Due to GALC | 5,000 | - | - | 5,000 | - |
| DCRS sick leave liability | (6,135) | - | - | (6,135) | 21,588 |
| Net cash (used in) provided by operating activities | <u>\$ (269,513)</u> | <u>\$ 470,127</u> | <u>\$ 2,326,784</u> | <u>\$ 2,527,398</u> | <u>\$ 6,589,583</u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

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

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

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.

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

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

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

Basis of Accounting

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

Estimates

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

Net Position

Net position represent the residual interest in GEDA's assets, deferred outflows of resources, after liabilities and deferred inflows of resources, are deducted and consist of two sections: invested in capital assets and unrestricted. Net position invested in capital assets includes capital assets, restricted and unrestricted, net of accumulated depreciation. All other net position is unrestricted.

Cash and Cash Equivalents

For the purpose of the statements of net position 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.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GEDA has determined the loss on defeasance of the Series 2001 A bonds qualifies for reporting in this category.

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

Bond Discounts

Bond discounts 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 liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and 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 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. Any unused leave over 320 hours shall be lost upon retirement. Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

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, 2013 and 2012, GEDA has cash deposits in bank accounts that exceed federal depository insurance limits. Additionally, GEDA has investments in mutual fund and U.S. Government agency or sponsored-agency securities that are not subject to insurance. GEDA has not experienced any losses in such accounts. Substantially all of GEDA's accounts receivables are due from companies and government agencies based in Guam. GEDA establishes an allowance for doubtful accounts based on management's evaluation of potential uncollectibility. Bad debts are written-off against the allowance on the specific identification method.

Reclassifications

Certain balances in the 2012 financial statements have been reclassified to conform to the 2013 presentation..

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

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

New Accounting Standards

During fiscal year 2013, GEDA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. The implementation resulted in required restatements of GEDA's financial statements as of October 1, 2011. The effect of the restatement was the elimination of the deferred bond issuance cost of \$560,683 and interest expense of \$55,059, which were recorded in the 2012 statement of net position and statement of revenues, expenses, and changes in net position, respectively (see note 13).

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

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

New Accounting Standards, Continued

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

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

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of GEDA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of GEDA.

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2013 and 2012 consist of the following:

| | <u>2013</u> | <u>2012</u> |
|----------------------------------------|---------------------|---------------------|
| Cash on hand and deposits in banks | \$ 2,544,409 | \$ 3,425,726 |
| Money market accounts | <u>3,616,049</u> | <u>3,644,390</u> |
| Cash and cash equivalents | \$ <u>6,160,458</u> | \$ <u>7,070,116</u> |
| | | |
| Total shares in mutual funds | \$ 3,332,393 | \$ 4,383,732 |
| Municipal bonds | 1,606,421 | - |
| Brokered certificates of deposit (CDs) | 726,707 | 315,149 |
| U.S. Government treasury securities | <u>73,748</u> | <u>52,645</u> |
| Investments | \$ <u>5,739,269</u> | \$ <u>4,751,526</u> |

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(2) Deposits and Investments, Continued

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

A. Deposits

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

At September 30, 2013 and 2012, the carrying amount of cash was \$2,544,409 and \$3,425,726, respectively, and the corresponding bank balances were \$2,597,551 and \$3,523,231, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$507,557 and \$348,674 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2013 and 2012, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

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

B. Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, municipal bonds and U.S Government securities at September 30, 2013 and 2012 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(2) Deposits and Investments

B. Investments, Continued

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, 2013, investments at fair value are as follows:

| | <u>Amount</u> | <u>Maturity</u> | <u>Moody's Rating</u> |
|---------------------------------------------------------|---------------------|-----------------|---------------------------|
| Shares in mutual funds invested in: | | | |
| Federated Ultra Short Bond Funds (FULAX) | \$ 3,332,393 | N/A | N/A |
| Municipal bonds: | | | |
| Arizona St CTFS Partn PFDG-Dept (040588B38) | 122,336 | 10/01/18 | A1 |
| Conway Ark Sch Dist (212597ZT8) | 96,311 | 02/01/19 | AA2 |
| Delaware Transn Auth Transn Sys Rev (246428XZ4) | 73,294 | 07/01/28 | AA2 |
| District Columbia Wtr & Swr Auth Pub (254845AL4) | 138,980 | 10/01/23 | AA2 |
| Forth Woth Tex Rfdg Impt (349425V51) | 118,176 | 03/01/20 | AA1 |
| Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89) | 102,529 | 11/01/21 | AA |
| Illinois Fin Auth Rev for Issues dtd (45203HJE3) | 86,223 | 08/15/25 | AA3 |
| Jefferson Cnty Ky Sch Dist Fin Corp (472904K83) | 100,852 | 01/01/17 | AA2 |
| Maryland St for Issues dated prior (574193EB0) | 119,031 | 03/15/21 | AAA |
| Maryland St Dept Transn Cons Transn (574204XR9) | 49,939 | 02/15/27 | AA1 |
| Massachusetts St Dev Fin Agy Rev For (57583UTT5) | 83,812 | 07/01/19 | A2 |
| Massachusetts St Health Edl Facs Auth (57586EQQ7) | 107,634 | 12/15/21 | AAA |
| Metropolitan Govt Nashville & Davidson (592030ZC7) | 102,644 | 05/15/20 | AA+ |
| Metropolitan Transn Auth N Y Rev for (59259YXH7) | 168,806 | 11/15/21 | A2 |
| New York N Y Cith Transitional Fin (64971MW81) | 59,861 | 11/01/26 | AA1 |
| Wisconsin St Gen Fd Annual Appropriation (977100BH8) | 75,993 | 05/01/17 | AA3 |
| Brokered CDs | 726,707 | N/A | N/A |
| US Government Treasury Note (U.S. T note) | 73,748 | 12/31/13 | AAA |
| | <u>\$ 5,739,269</u> | | |

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

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

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Notes to Financial Statements
September 30, 2013 and 2012

(2) Deposits and Investments

B. Investments, Continued

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

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

(3) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2013 and 2012 is as follows:

| | <u>Beginning Balance</u> <u>October 1, 2012</u> | <u>Transfers and</u> <u>Additions</u> | <u>Transfers and</u> <u>Deletions</u> | <u>Ending Balance</u> <u>September 30, 2013</u> |
|---------------------------------------------------|----------------------------------------------------|------------------------------------------|------------------------------------------|----------------------------------------------------|
| Leasehold improvements | \$ 792,537 | \$ - | \$ - | \$ 792,537 |
| Buildings | 546,603 | - | - | 546,603 |
| Furniture and equipment | 665,150 | 5,800 | (138,904) | 532,046 |
| Other improvements | 459,395 | - | (31,070) | 428,325 |
| Land improvements | 129,642 | - | - | 129,642 |
| Automobiles | <u>14,471</u> | <u>-</u> | <u>-</u> | <u>14,471</u> |
| | 2,607,798 | 5,800 | (169,974) | 2,443,624 |
| Less accumulated depreciation and amortization | <u>(2,051,995)</u> | <u>(35,662)</u> | <u>169,974</u> | <u>(1,917,683)</u> |
| | <u>\$ 555,803</u> | <u>\$ (29,862)</u> | <u>\$ -</u> | <u>\$ 525,941</u> |
| | <u>Beginning Balance</u> <u>October 1, 2011</u> | <u>Transfers and</u> <u>Additions</u> | <u>Transfers and</u> <u>Deletions</u> | <u>Ending Balance</u> <u>September 30, 2012</u> |
| Leasehold improvements | \$ 792,537 | \$ - | \$ - | \$ 792,537 |
| Buildings | 546,603 | - | - | 546,603 |
| Furniture and equipment | 646,792 | 18,358 | - | 665,150 |
| Other improvements | 459,395 | - | - | 459,395 |
| Land improvements | 129,642 | - | - | 129,642 |
| Automobiles | <u>24,093</u> | <u>-</u> | <u>(9,622)</u> | <u>14,471</u> |
| | 2,599,062 | 18,358 | (9,622) | 2,607,798 |
| Less accumulated depreciation and amortization | <u>(2,022,291)</u> | <u>(39,326)</u> | <u>9,622</u> | <u>(2,051,995)</u> |
| | <u>\$ 576,771</u> | <u>\$ (20,968)</u> | <u>\$ -</u> | <u>\$ 555,803</u> |

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(4) Long-Term Obligations

Bonds Payable

Bonds payable at September 30, 2013 and 2012 consist of the following:

| | <u>2013</u> | <u>2012</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <p>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).</p> | \$ 28,285,000 | \$ 29,055,000 |
| <p>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.</p> | <u>16,773,618</u> | <u>16,773,618</u> |
| <p>Total</p> | 45,058,618 | 45,828,618 |
| <p>Less current portion</p> | <u>(1,980,000)</u> | <u>(1,850,000)</u> |
| | 43,078,618 | 43,978,618 |
| <p>Less discount on Series B capital appreciation turbo term bonds</p> | (11,653,189) | (12,005,906) |
| <p>Less discount on issuance</p> | <u>(1,098,438)</u> | <u>(1,218,047)</u> |
| | \$ <u>30,326,991</u> | \$ <u>30,754,665</u> |

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Notes to Financial Statements
September 30, 2013 and 2012

(4) Long-Term Obligations, Continued

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2013 and thereafter are as follows:

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|----------------------------------|----------------------|---------------------|----------------------|
| 2014 | \$ 1,980,000 | \$ 1,331,879 | \$ 3,311,879 |
| 2015 | 2,120,000 | 1,227,732 | 3,347,732 |
| 2016 | 2,270,000 | 1,116,300 | 3,386,300 |
| 2017 | 2,430,000 | 996,380 | 3,426,380 |
| 2018 | 1,115,000 | 885,891 | 2,000,891 |
| 2019 through 2023 | 6,935,000 | 3,299,625 | 10,234,625 |
| 2024 through 2028 | 10,299,588 | 975,867 | 11,275,455 |
| 2029 through 2033 | 14,543,733 | - | 14,543,733 |
| 2034 | <u>3,365,297</u> | <u>-</u> | <u>3,365,297</u> |
| | <u>\$ 45,058,618</u> | <u>\$ 9,833,674</u> | <u>\$ 54,892,292</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 of the Series 2001 bonds and is presented as a deferred outflow of resources in the accompanying statements of net position.

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.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(4) Long-Term Obligations, Continued

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 bond principal and interest. The debt service for the bonds was \$2,355,125 and \$2,343,056 for the years ended September 30, 2013 and 2012, respectively, or approximately 98% and 99%, respectively, of pledged revenues for those years.

During the years ended September 30, 2013 and 2012, the following changes occurred in liabilities reported as part of GEDA's long-term liabilities in the statements of net position:

| | Balance October 1, <u>2012</u> | <u>Additions</u> | <u>Reductions</u> | Balance September 30, <u>2013</u> | Due within <u>one year</u> |
|-----------------------------------------|--------------------------------------|------------------|---------------------|-----------------------------------------|-------------------------------|
| Bonds payable | \$ 45,828,618 | \$ - | \$ (770,000) | \$ 45,058,618 | \$ 1,980,000 |
| Deferred amount: | | | | | |
| Unamortized discount on bonds issued | (13,223,953) | - | 472,326 | (12,751,627) | - |
| | <u>32,604,665</u> | - | (297,674) | <u>32,306,991</u> | <u>1,980,000</u> |
| Other liabilities: | | | | | |
| DCRS sick leave liability | 102,654 | - | (6,135) | 96,519 | - |
| Deposits due to GALC | 127,213 | 10,000 | (5,000) | 132,213 | - |
| Deposits | <u>11,610</u> | - | - | <u>11,610</u> | - |
| | <u>241,477</u> | <u>10,000</u> | <u>(11,135)</u> | <u>240,342</u> | - |
| | <u>\$ 32,846,142</u> | <u>\$ 10,000</u> | <u>\$ (308,809)</u> | <u>\$ 32,547,333</u> | <u>\$ 1,980,000</u> |
| | | | | | |
| | Balance October 1, <u>2011</u> | <u>Additions</u> | <u>Reductions</u> | Balance September 30, <u>2012</u> | Due within <u>one year</u> |
| Bonds payable | \$ 46,548,618 | \$ - | \$ (720,000) | \$ 45,828,618 | \$ 1,850,000 |
| Deferred amount: | | | | | |
| Unamortized discount on bonds issued | (13,670,879) | - | 446,926 | (13,223,953) | - |
| | <u>32,877,739</u> | - | (273,074) | <u>32,604,665</u> | <u>1,850,000</u> |
| Other liabilities: | | | | | |
| DCRS sick leave liability | 81,066 | 21,588 | - | 102,654 | - |
| Deposits | <u>138,823</u> | - | - | <u>138,823</u> | - |
| | <u>219,889</u> | <u>21,588</u> | - | <u>241,477</u> | - |
| | <u>\$ 33,097,628</u> | <u>\$ 21,588</u> | <u>\$ (273,074)</u> | <u>\$ 32,846,142</u> | <u>\$ 1,850,000</u> |

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(5) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

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

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

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined as follows:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------------------------------------|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll) | 17.52% | 17.07% | 17.00% |
| Employee contributions (DB Plan employees) | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |
| Employer portion of normal costs (% of DB Plan payroll) | <u>8.02%</u> | <u>7.57%</u> | <u>7.50%</u> |
| Employer portion of normal costs (% of total payroll) | 3.00% | 3.03% | 3.03% |
| Unfunded liability cost (% of total payroll) | <u>24.33%</u> | <u>23.75%</u> | <u>21.75%</u> |
| Government contribution as a % of total payroll | <u>27.33%</u> | <u>26.78%</u> | <u>24.78%</u> |
| Statutory contribution rates as a % of DB Plan payroll: | | | |
| Employer | <u>30.09%</u> | <u>28.30%</u> | <u>27.46%</u> |
| Employee | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |

GEDA's contributions to the DB Plan for the years ended September 30, 2013, 2012 and 2011 were \$196,666, \$176,392 and \$195,272, respectively, which were equal to the required contributions for the respective year ended.

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Notes to Financial Statements
September 30, 2013 and 2012

(5) Employees' Retirement Plan, Continued

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, 2013 and 2012 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, 2013, 2012 and 2011 were \$307,202, \$277,864 and \$234,273, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$256,059, \$228,743 and \$191,551 were contributed toward the unfunded liability of the DB Plan at September 30, 2013, 2012 and 2011, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDA has accrued an estimated liability of \$96,519 and \$102,654 at September 30, 2013 and 2012, 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, 2013, 2012 and 2011, actual contributions paid were \$37,941, \$30,795 and \$31,084, respectively.

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Notes to Financial Statements
September 30, 2013 and 2012

(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.

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

| Years ending September 30: | |
|----------------------------|-------------------------|
| 2014 | \$ 996,300 |
| 2015 | 773,600 |
| 2016 | 500,800 |
| 2017 | 332,800 |
| 2018 | 169,800 |
| 2019 – 2023 | 404,200 |
| 2024 – 2028 | 25,000 |
| 2029 – 2033 | 25,000 |
| 2034 – 2038 | 25,000 |
| 2039 – 2043 | 25,000 |
| 2044 – 2048 | 25,000 |
| 2049 – 2053 | 25,000 |
| 2054 – 2058 | 25,000 |
| 2059 – 2062 | <u>20,400</u> |
| | \$ <u>3,372,900</u> |

(7) Lease Commitments

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

Rent expense, net of GHC reimbursements for the years ended September 30, 2013 and 2012, was \$234,200 and \$224,967, respectively, of which \$44,545 and \$31,090, respectively, was allocated to trust funds administered by GEDA.

(8) Related Parties

At September 30, 2013 and 2012, the following trust funds were administered by GEDA:

| <u>Fund</u> | <u>Total Assets</u> | |
|-------------------------------------|---------------------|---------------|
| | <u>2013</u> | <u>2012</u> |
| Guam Development Fund Act (GDFA) | \$ 11,593,855 | \$ 11,472,831 |
| Agricultural Development Fund (ADF) | 940,368 | 968,921 |

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

Notes to Financial Statements
September 30, 2013 and 2012

(9) Contingencies

Tobacco Settlement Bonds Reserve Fund Agreement

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

Claims and Litigation

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

(10) SSBCI

On October 4, 2011, Guam received initial SSBCI program funding of \$4,345,556, approximating 33% of total funding. 80% of the amount must be obligated before the next tranche of funding can be received. Additionally, the Agreement allows certain direct and indirect costs for administering the program at 5% of initial funding and 3% of subsequent funding. During the years ended September 30, 2013 and 2012, GEDA had incurred administrative costs of \$92,558 and \$67,987, respectively.

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

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

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2013 and 2012

(10) SSBCI, Continued

As of September 30, 2013, two Lenders have enrolled twenty-two loans totaling \$4,412,396 in the program and remitted \$88,248 in guarantee fees to GEDA; additionally, \$3,284,297 of the total of total deposits and investments of \$4,784,431 with these lenders is restricted under the Agreement.

At September 30, 2013, loans under the guaranty program had total outstanding balances of \$2,005,132. GEDA has not provided for any potential losses.

(11) State Trade and Export Promotions (STEP)

During the years ended September 30, 2013 and 2012, GEDA was awarded the STEP grant in the amount of \$227,445 and \$135,927, respectively, from the U.S. Small Business Administration (SBA) authorized by the Small Business Jobs Act of 2010. The STEP grant is designed to increase the number of small businesses that are exporting and to increase the value of exports for existing small businesses. As of September 30, 2013 and 2012, GEDA has incurred \$212,791 and \$114,768, respectively, of grant expenditures, of which \$133,516 and \$3,417 was reimbursed during the respective years and \$190,627 and \$111,351 was recorded in "other receivables" in the accompanying statements of net position as of September 30, 2013 and 2012, respectively.

(12) Government of Guam Mitigation Program for Business Interruption

On March 30, 2011, Public Law 31-13 authorized GEDA to develop, implement and administer the Government of Guam Mitigation Program for Business Interruption, (the Program), which provides financial relief to businesses adversely affected by government projects, including, but not limited to road construction. The Program provides financial assistance through grants and loans to small and mid-sized businesses. As of September 30, 2013 and 2012, GEDA has provided \$0 and \$24,000 in grants, respectively. GEDA has not provided loans under the Program as of September 30, 2013 and 2012.

(13) Restatement

As discussed more fully in note 1, GEDA implemented GASB Statements No. 63 and No. 65 during the year ended September 30, 2013. The impact GEDA's net position as of October 1, 2011 and results of operations for the year ended September 30, 2012, is as follows:

| | |
|-----------------------------------------------------------------------------------------|------------------------|
| Net position as of September 30, 2011, as originally reported | \$ (23,843,659) |
| Reversal of deferred bond issuance cost | (560,683) |
| Reversal of amortization of deferred bond issuance cost | <u>(55,059)</u> |
| Net position as of September 30, 2011, as restated | \$ <u>(24,459,401)</u> |
| | |
| Change in net position for the year ended September 30, 2012, as originally reported | \$ 55,736 |
| Reversal of amortization of deferred bond issuance cost | <u>55,059</u> |
| Change in net position for the year ended September 30, 2012, as restated | \$ <u>110,795</u> |

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2013 AND 2012

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

**Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension (Unaudited)**

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for GovGuam's Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|-----------------------------|---------------------------------|-----------------------------------------|------------------------|-----------------|--------------------|--------------------------------------|
| October 1, 2007 | \$ - | \$ 2,135,000 | \$ 2,135,000 | 0.0% | \$ 904,590 | 236.0% |
| October 1, 2009 | \$ - | \$ 1,665,295 * | \$ 1,665,295 * | 0.0% | \$ 1,235,125 | 134.8% |
| October 1, 2011 | \$ - | \$ 1,877,000 | \$ 1,877,000 | 0.0% | \$ 1,375,250 | 136.5% |

* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is only for the Authority's active employees. It does not include the actuarial accrued liability for the Authority's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--------------------------|---------------------|---------------------|
| Salaries and wages: | | |
| Salaries | \$ 1,513,390 | \$ 1,375,250 |
| Benefits | <u>1,031,303</u> | <u>918,309</u> |
| Total salaries and wages | <u>\$ 2,544,693</u> | <u>\$ 2,293,559</u> |
| | | |
| Employees at end of year | 33 | 30 |

See accompanying independent auditors' report.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Comparative Divisional Schedules of Net Position
September 30, 2013 and 2012

| ASSETS | GEDA | | SSBCI | | TSA | |
|----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|-----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 (As Restated) |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 1,119,568 | \$ 116,782 | \$ 1,424,841 | \$ 3,308,944 | \$ 3,616,049 | \$ 3,644,390 |
| Investments | 2,406,875 | 3,753,418 | 3,332,394 | 998,108 | - | - |
| Due from trust funds administered by GEDA: | | | | | | |
| Agricultural Development Fund | - | 100 | - | - | - | - |
| Guam Development Fund Act | 22,591 | 14,459 | - | - | - | - |
| Reimbursable expense | 520,802 | 26,863 | (520,802) | (26,863) | - | - |
| Other receivables, net | 754,346 | 363,960 | - | - | - | - |
| Promotional supplies | 9,955 | 10,629 | - | - | - | - |
| Prepaid expense | 4,300 | - | - | 3,094 | - | - |
| Total current assets | 4,838,437 | 4,286,211 | 4,236,433 | 4,283,283 | 3,616,049 | 3,644,390 |
| Equity investment | 3,500 | 3,500 | - | - | - | - |
| Building, improvements and equipment, at cost, net | 523,723 | 553,007 | 2,218 | 2,796 | - | - |
| Total assets | 5,365,660 | 4,842,718 | 4,238,651 | 4,286,079 | 3,616,049 | 3,644,390 |
| <u>DEFERRED OUTFLOW OF RESOURCES</u> | | | | | | |
| Bond defeasance cost, net | - | - | - | - | 815,962 | 1,126,804 |
| | \$ 5,365,660 | \$ 4,842,718 | \$ 4,238,651 | \$ 4,286,079 | \$ 4,432,011 | \$ 4,771,194 |
| <u>LIABILITIES AND NET POSITION</u> | | | | | | |
| Current liabilities: | | | | | | |
| Current portion of bonds payable | \$ - | \$ - | \$ - | \$ - | \$ 1,980,000 | \$ 1,850,000 |
| Accounts payable | 452,666 | 350,724 | - | - | - | 1,662 |
| Due to trust funds administered by GEDA: | | | | | | |
| Agricultural Development Fund | 2,180 | - | - | - | - | - |
| Accrued liabilities | 181,743 | 176,415 | (1,918) | - | (29,809) | - |
| Interest payable | - | - | - | - | 515,000 | 529,000 |
| Unearned grant revenues | - | - | 4,220,546 | 4,246,112 | - | - |
| Unearned rental income | 130,043 | 98,542 | - | - | - | - |
| Total current liabilities | 766,632 | 625,681 | 4,218,628 | 4,246,112 | 2,465,191 | 2,380,662 |
| Non-current liabilities: | | | | | | |
| Bonds payable, net of current portion and discount | - | - | - | - | 30,326,991 | 30,754,665 |
| DCRS sick leave liability | 96,519 | 102,654 | - | - | - | - |
| Deposits | 11,610 | 11,610 | - | - | - | - |
| Deposits due to GALC | 132,213 | 127,213 | - | - | - | - |
| Total non-current liabilities | 240,342 | 241,477 | - | - | 30,326,991 | 30,754,665 |
| Total liabilities | 1,006,974 | 867,158 | 4,218,628 | 4,246,112 | 32,792,182 | 33,135,327 |
| Net position: | | | | | | |
| Net investment in capital assets | 523,723 | 553,007 | 2,218 | 2,796 | - | - |
| Unrestricted | 3,834,963 | 3,422,553 | 17,805 | 37,171 | (28,360,171) | (28,364,133) |
| Net position | 4,358,686 | 3,975,560 | 20,023 | 39,967 | (28,360,171) | (28,364,133) |
| | \$ 5,365,660 | \$ 4,842,718 | \$ 4,238,651 | \$ 4,286,079 | \$ 4,432,011 | \$ 4,771,194 |

See accompanying independent auditors' report.

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

Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

| | GEDA | | SSBCI | | TSA | |
|------------------------------------------------------------|--------------|--------------|-----------|-----------|-----------------|-----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 (As Restated) |
| Revenues: | | | | | | |
| Rental income | \$ 1,182,977 | \$ 1,215,345 | \$ - | \$ - | \$ - | \$ - |
| Tobacco Settlement revenue | - | - | - | - | 2,386,117 | 2,385,822 |
| Qualifying certificate application, surveillance and other | 401,463 | 428,673 | - | - | - | - |
| Bond fees earned | 1,386,626 | 747,400 | - | - | - | - |
| Grants revenue | 222,599 | 114,768 | 25,566 | 67,987 | - | - |
| GALC lease commission | 94,545 | 96,057 | - | - | - | - |
| Guarantee fees | - | - | 66,992 | 7,286 | - | - |
| | 3,288,210 | 2,602,243 | 92,558 | 75,273 | 2,386,117 | 2,385,822 |
| Operating expenses: | | | | | | |
| Salaries and benefits | 2,100,889 | 1,894,285 | 65,067 | 54,783 | - | - |
| Legal and professional services | 284,636 | 222,637 | 1,122 | 1,673 | 27,862 | 53,125 |
| Office space and equipment rent | 206,110 | 211,547 | - | - | - | - |
| Travel | 152,493 | 127,243 | 23,664 | 5,504 | - | 5,542 |
| Advertising and promotions | 136,239 | 39,020 | - | 60 | - | - |
| Depreciation and amortization | 35,084 | 39,233 | 578 | 93 | - | - |
| Utilities, telephone and communication | 8,982 | 8,476 | - | - | - | - |
| Supplies | 6,334 | 9,915 | - | - | - | - |
| Insurance | 5,472 | 6,054 | - | - | - | - |
| Repairs and maintenance | 1,316 | 1,884 | - | - | - | - |
| Miscellaneous | 60,370 | 37,159 | 2,127 | 618 | - | - |
| | 2,997,925 | 2,597,453 | 92,558 | 62,731 | 27,862 | 58,667 |
| Operating income | 290,285 | 4,790 | - | 12,542 | 2,358,255 | 2,327,155 |
| Other income (expense): | | | | | | |
| Interest income (expense), net | 900 | 647 | 3,361 | 10,334 | (2,354,293) | (2,368,824) |
| Investment income | 46,081 | 104,751 | 19,440 | - | - | - |
| Net (decrease) increase in the fair value of investments | (115,425) | (34,801) | (42,745) | 17,091 | - | - |
| Other income, net | 161,285 | 37,110 | - | - | - | - |
| Other income (expense), net | 92,841 | 107,707 | (19,944) | 27,425 | (2,354,293) | (2,368,824) |
| Change in net position | 383,126 | 112,497 | (19,944) | 39,967 | 3,962 | (41,669) |
| Net position at beginning of year, as restated | 3,975,560 | 3,863,063 | 39,967 | - | (28,364,133) | (28,322,464) |
| Net position at end of year, as restated | \$ 4,358,686 | \$ 3,975,560 | \$ 20,023 | \$ 39,967 | \$ (28,360,171) | \$ (28,364,133) |

See accompanying independent auditors' report.

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

Comparative Divisional Schedules of Cash Flows
Years Ended September 30, 2013 and 2012

| | GEDA | | SSBCI | | TSA | |
|----------------------------------------------------------------------------------------------------------|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Cash flows from operating activities: | | | | | | |
| Cash received on grants and contracts | \$ - | \$ - | \$ 66,992 | \$ 4,352,842 | \$ - | \$ - |
| Cash received from customers | 2,593,639 | 2,504,716 | - | - | 2,386,117 | 2,385,822 |
| Cash paid to suppliers for goods and services | (756,128) | (652,122) | 468,202 | (15,528) | (59,333) | (58,667) |
| Cash paid to employees for services | (2,069,083) | (1,841,902) | (65,067) | (54,783) | - | - |
| Cash paid for retiree benefits | (37,941) | (30,795) | - | - | - | - |
| Net cash (used in) provided by operating activities | <u>(269,513)</u> | <u>(20,103)</u> | <u>470,127</u> | <u>4,282,531</u> | <u>2,326,784</u> | <u>2,327,155</u> |
| Cash flows from investing activities: | | | | | | |
| Interest and investment income | 69,344 | 69,950 | 23,305 | 17,091 | - | - |
| Rollover of interest into investment | (69,344) | (69,950) | (23,305) | (17,091) | - | - |
| Maturity (purchase) of investment securities | 1,277,199 | 133,677 | (2,357,591) | (981,017) | - | - |
| Net cash provided by (used in) investing activities | <u>1,277,199</u> | <u>133,677</u> | <u>(2,357,591)</u> | <u>(981,017)</u> | <u>-</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchase of property and equipment | (5,800) | (15,469) | - | (2,889) | - | - |
| Net cash used in capital and related financing activities | <u>(5,800)</u> | <u>(15,469)</u> | <u>-</u> | <u>(2,889)</u> | <u>-</u> | <u>-</u> |
| Cash flows from noncapital financing activities: | | | | | | |
| Repayment of bond payable | - | - | - | - | (770,000) | (720,000) |
| Net interest received (paid) on deposit accounts and bonds payable | 900 | 647 | 3,361 | 10,334 | (1,585,125) | (1,623,056) |
| Net cash provided by (used in) noncapital financing activities | <u>900</u> | <u>647</u> | <u>3,361</u> | <u>10,334</u> | <u>(2,355,125)</u> | <u>(2,343,056)</u> |
| Net change in cash and cash equivalents | 1,002,786 | 98,752 | (1,884,103) | 3,308,959 | (28,341) | (15,901) |
| Cash and cash equivalents at beginning of year | 116,782 | 18,030 | 3,308,944 | (15) | 3,644,390 | 3,660,291 |
| Cash and cash equivalents at end of year | <u>\$ 1,119,568</u> | <u>\$ 116,782</u> | <u>\$ 1,424,841</u> | <u>\$ 3,308,944</u> | <u>\$ 3,616,049</u> | <u>\$ 3,644,390</u> |
| Reconciliation of operating income to net cash (used in) provided by operating activities: | | | | | | |
| Operating income | \$ 290,285 | \$ 4,790 | \$ - | \$ 12,542 | \$ 2,358,255 | \$ 2,327,155 |
| Other income, net | 161,285 | 37,110 | - | - | - | - |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | | | | | |
| Depreciation and amortization | 35,084 | 39,233 | 578 | 93 | - | - |
| (Increase) decrease in assets and deferred outflows of resources: | | | | | | |
| Due from trust funds administered by GEDA | (8,032) | 19,259 | - | - | - | - |
| Reimbursable expense | (493,939) | 5,886 | 493,939 | (4,224) | - | - |
| Other receivables | (390,386) | (177,770) | - | 31,457 | - | - |
| Promotional supplies | 674 | 255 | - | - | - | - |
| Prepaid expenses | (4,300) | - | 3,094 | (3,094) | - | - |
| Increase (decrease) in liabilities and deferred inflows of resources: | | | | | | |
| Accounts payable | 101,942 | 97,190 | (355) | - | - | - |
| Due to trust funds administered by GEDA | 2,180 | (2,120) | 355 | (355) | - | - |
| Accrued liabilities | 5,328 | (83,512) | (1,918) | - | (31,471) | - |
| Unearned grant revenue | - | - | (25,566) | 4,246,112 | - | - |
| Unearned rental income | 31,501 | 17,988 | - | - | - | - |
| Due to GALC | 5,000 | - | - | - | - | - |
| DCRS sick leave liability | (6,135) | 21,588 | - | - | - | - |
| Net cash (used in) provided by operating activities | <u>\$ (269,513)</u> | <u>\$ (20,103)</u> | <u>\$ 470,127</u> | <u>\$ 4,282,531</u> | <u>\$ 2,326,784</u> | <u>\$ 2,327,155</u> |

See accompanying independent auditors' report.

Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

Report on Financial Statements

We have audited the accompanying statements of fiduciary net position of the Guam Development Fund Act and the Agricultural Development Fund (the Funds) as of September 30, 2013 and 2012, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements. The Funds are administered by the Guam Economic Development Authority (the Authority) which is a component unit of the Government of Guam.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Development Fund Act and the Agricultural Development Fund as of September 30, 2013 and 2012, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended September 30, 2013, the Funds have implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the Funds' internal control over financial reporting and on 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 opinions on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Deloitte & Touche LLP
March 11, 2014

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

Statements of Fiduciary Net Position
September 30, 2013 and 2012

| <u>ASSETS</u> | Guam Development Fund Act | | Agricultural Development Fund | |
|-------------------------------------------|------------------------------|-------------------|-------------------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Cash on hand and in bank | \$ 691,085 | \$ 191,795 | \$ 201,552 | \$ 20,490 |
| Investments | 9,148,367 | 9,404,498 | 719,647 | 920,775 |
| Notes and accrued interest receivable | 700,858 | 2,203,617 | 41,269 | 53,212 |
| Less allowance for doubtful receivables | (332,058) | (1,650,969) | (27,167) | (27,543) |
| Net notes and accrued interest receivable | 368,800 | 552,648 | 14,102 | 25,669 |
| Due from other funds: | | | | |
| Guam Economic Development Authority | - | - | 2,180 | - |
| Guam Development Fund Act | - | - | 2,887 | 1,987 |
| Other real estate: | | | | |
| Land | 548,571 | 548,571 | - | - |
| Leasehold interest, net | 742,249 | 756,368 | - | - |
| Other receivables | 94,783 | 18,951 | - | - |
| | 1,385,603 | 1,323,890 | 5,067 | 1,987 |
| Total assets | \$ 11,593,855 | \$ 11,472,831 | \$ 940,368 | \$ 968,921 |
| <u>LIABILITIES AND NET POSITION</u> | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 76,501 | \$ 54,334 | \$ 10,973 | \$ 10,973 |
| Due to other funds: | | | | |
| Guam Economic Development Authority | 22,591 | 14,459 | - | 100 |
| Agricultural Development Program | 2,887 | 1,987 | - | - |
| Total liabilities | 101,979 | 70,780 | 10,973 | 11,073 |
| Commitments and Contingencies | | | | |
| Net position held in trust | 11,491,876 | 11,402,051 | 929,395 | 957,848 |
| Total liabilities and net position | \$ 11,593,855 | \$ 11,472,831 | \$ 940,368 | \$ 968,921 |

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 Position
Years Ended September 30, 2013 and 2012

| | Guam Development Fund Act | | Agricultural Development Fund | |
|--------------------------------------------------------------------|---------------------------------|----------------------|-------------------------------------|-------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| Additions: | | | | |
| Investment income, net | \$ 451,530 | \$ 117,765 | \$ (20,114) | \$ 1,504 |
| Interest from loans | 24,753 | 27,623 | 1,063 | 1,264 |
| (Loss) gain on sale or real estate owned, net | - | (4,737) | - | 76,336 |
| Other | 167,761 | 153,835 | (2,356) | 201 |
| Total additions | <u>644,044</u> | <u>294,486</u> | <u>(21,407)</u> | <u>79,305</u> |
| Deductions: | | | | |
| (Recovery of) provision for doubtful notes and accrued interest | (3,339) | (156,560) | (376) | (22,146) |
| Salaries and benefits | 378,617 | 344,491 | 120 | - |
| Rent | 48,010 | 34,300 | - | - |
| Legal and professional services | 40,339 | 11,236 | - | - |
| Depreciation | 14,119 | 14,119 | - | - |
| Bank charges | 68,696 | 4,027 | 7,302 | 1,280 |
| Travel | 3,091 | 7,055 | - | - |
| Miscellaneous | 4,686 | 4,420 | - | - |
| Total deductions | <u>554,219</u> | <u>263,088</u> | <u>7,046</u> | <u>(20,866)</u> |
| Net change in net position | 89,825 | 31,398 | (28,453) | 100,171 |
| Net position at beginning of year | <u>11,402,051</u> | <u>11,370,653</u> | <u>957,848</u> | <u>857,677</u> |
| Net position at end of year | <u>\$ 11,491,876</u> | <u>\$ 11,402,051</u> | <u>\$ 929,395</u> | <u>\$ 957,848</u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF) 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.

Additionally, GEDA administered the Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF), and the Music and Legends of Guam Fund (MLGF), the Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), the Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF), the U.S. Base Realignment and Closure Committee (BRAC) which have no assets, liabilities or net position as of September 30, 2013 and 2012 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements.

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

Basis of Accounting

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

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

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

Estimates

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

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

Notes to Financial Statements
September 30, 2013 and 2012

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

Cash

For the purpose of the statements of net position, 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 and long-term loans are secured by real property.

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

Allowance for Doubtful Receivables

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

Expenses

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

New Accounting Standards

During fiscal year 2013, the Trust Funds implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

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

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. The implementation of these statements did not have a material effect on the accompanying financial statements

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

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

**TRUST FUNDS ADMINISTERED BY THE
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Notes to Financial Statements
September 30, 2013 and 2012

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

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Trust Funds.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Trust Funds.

Reclassifications

Certain balances in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2013 and 2012 consist the following:

| | <u>2013</u> | <u>2012</u> |
|----------------------------------------|---------------------|----------------------|
| Cash on hand and deposits in banks | \$ <u>892,637</u> | \$ <u>212,285</u> |
| Cash and cash equivalents | \$ <u>892,637</u> | \$ <u>212,285</u> |
| Total shares in mutual funds | \$ 1,207,350 | \$ 9,526,039 |
| Exchange-traded & closed-end funds | 5,559,857 | - |
| Municipal bonds | 1,987,511 | - |
| Brokered Certificates of Deposit (CDs) | 1,022,053 | 684,834 |
| U.S. Government treasury securities | <u>91,243</u> | <u>114,400</u> |
| Investments | \$ <u>9,868,014</u> | \$ <u>10,325,273</u> |

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Deposits and Investments, Continued

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

A. Deposits

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

At September 30, 2013 and 2012, the carrying amount of cash was \$892,637 and \$212,285, respectively, and the corresponding bank balances were \$893,354 and \$211,884, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). Cash balances of \$317,726 and \$175,132 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2013 and 2012, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

B. Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, exchange-traded and closed-end funds, municipal bonds and U.S. Government securities at September 30, 2013 and 2012 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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

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

**TRUST FUNDS ADMINISTERED BY THE
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Notes to Financial Statements
September 30, 2013 and 2012

(2) Deposits and Investments, Continued

As of September 30, 2013, investments at fair value are as follows:

| | <u>Amount</u> | <u>Maturity</u> | <u>Moody's Rating</u> |
|--------------------------------------------------------------------------------|---------------------|-----------------|---------------------------|
| Shares in mutual funds invested in: | | | |
| Calamos Market Neutral, Income (CMNIX) | \$ 573,219 | N/A | N/A |
| Guggenheim Managed Futures Strategy H Fund (RYMFX) | 131,994 | N/A | N/A |
| Invesco Treasurer's Series Trust Premier Portfolio Institutional Class (IPPXX) | 502,137 | N/A | N/A |
| Exchange-traded & closed-end funds: | | | |
| ISHARES JP Morgan EM Bond ETF (EMB) | 136,503 | N/A | N/A |
| ISHARES N Amer Nat Res ETF (IGE) | 402,880 | N/A | N/A |
| ISHARES Russell 1000 GRW ETF (IWF) | 748,296 | N/A | N/A |
| ISHARES Russell 1000 Value ETF (IWD) | 603,400 | N/A | N/A |
| ISHARES Russel 2000 Grwth ETF (IWO) | 173,408 | N/A | N/A |
| ISHARES Russell 2000 Value ETF (IWN) | 103,736 | N/A | N/A |
| ISHARES Russell Midcap G ETF (IWP) | 204,649 | N/A | N/A |
| ISHARES Russell Midcap V ETF (IWS) | 135,525 | N/A | N/A |
| SPDR Barclays Capital Hihg Yie (JNK) | 134,238 | N/A | N/A |
| SPDR Barclays Capital Internat (BWX) | 136,936 | N/A | N/A |
| Vanguard FTSE Developed Mkts E (VEA) | 788,790 | N/A | N/A |
| Vanguard FTSE Emerging Markets (VWO) | 267,740 | N/A | N/A |
| Vanguard Reit ETF (VNQ) | 66,008 | N/A | N/A |
| Vanguard Short Term Bnd (BSV) | 977,299 | N/A | N/A |
| Vanguard Total Bond Market (BND) | 577,968 | N/A | N/A |
| ISHARES Cohen&Steers Reit ETF (ICF) | 102,481 | N/A | N/A |
| Municipal bonds: | | | |
| Arizona St CTFS Partn PFDG-Dept (040588B38) | 151,358 | 10/01/18 | A1 |
| Conway Ark Sch Dist (212597ZT8) | 119,159 | 02/01/19 | AA2 |
| Delaware Transn Auth Transn Sys Rev (246428XZ4) | 90,682 | 07/01/28 | AA2 |
| District Columbia Wtr & Swr Auth Pub (254845AL4) | 171,950 | 10/01/23 | AA2 |
| Forth Woth Tex Rfdg Impt (349425V51) | 146,211 | 03/01/20 | AA1 |
| Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89) | 126,851 | 11/01/21 | AA |
| Illinois Fin Auth Rev for Issues dtd (45203HJE3) | 106,678 | 08/15/25 | AA3 |
| Jefferson Cnty Ky Sch Dist Fin Corp (472904K83) | 124,776 | 01/01/17 | AA2 |
| Maryland St for Issues dated prior (574193EB0) | 147,268 | 03/15/21 | AAA |
| Maryland St Dept Transn Cons Transn (574204XR9) | 61,787 | 02/15/27 | AA1 |
| Massachusetts St Dev Fin Agy Rev For (57583UTT5) | 103,695 | 07/01/19 | A2 |
| Massachusetts St Health Edl Facs Auth (57586EQQ7) | 133,168 | 12/15/21 | AAA |
| Metropolitan Govt Nashville & Davidson (592030ZC7) | 126,994 | 05/15/20 | AA+ |
| Metropolitan Transn Auth N Y Rev for (59259YXH7) | 208,851 | 11/15/21 | A2 |
| New York N Y Cith Transitional Fin (64971MW81) | 74,062 | 11/01/26 | AA1 |
| Wisconsin St Gen Fd Annual Appropriation (977100BH8) | 94,021 | 05/01/17 | AA3 |
| Brokered CDs | 1,022,053 | N/A | N/A |
| US Government Treasury Note (U.S. T note) | <u>91,243</u> | 12/31/13 | AAA |
| | <u>\$ 9,868,014</u> | | |

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Deposits and Investments, Continued

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

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

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

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

(3) Other Real Estate, Land

G DFA and ADF have acquired certain land through loan foreclosure.

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

(4) Other Real Estate, Leasehold Interest

G DFA and ADF have acquired leasehold interests in land through loan foreclosure. Leasehold interests are reflected at cost of \$1,231,600 (net of a valuation allowance of \$333,171) as of September 30, 2013 and 2012, net of accumulated amortization of \$156,180 and \$142,061 at September 30, 2013 and 2012, respectively.

(5) Commitments

GEDA has approved undisbursed G DFA loans totaling \$83,510 and \$76,621 as of September 30, 2013 and 2012.

(6) Contingencies

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

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

The Board of Directors
Guam Economic Development Authority:

We have audited, in accordance with the 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, the financial statements of the Guam Economic Development Authority (GEDA), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GEDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GEDA's internal control. Accordingly, we do not express an opinion on the effectiveness of GEDA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, a material weakness may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

March 11, 2014

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

The Board of Directors
Guam Economic Development Authority:

We have audited, in accordance with the 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, the financial statements of the Guam Development Fund Act and the Agricultural Development Fund, administered by the Guam Economic Development Authority (GEDA), which comprise the respective statements of fiduciary net position as of September 30, 2013 and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon March 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the GEDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GEDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the GEDA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, a material weakness may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

March 11, 2014