

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2001 AND 2000

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)

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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying consolidated balance sheets of the Guam Economic Development Authority (a public corporation) and subsidiaries, a component unit of the Government of Guam, as of September 30, 2001 and 2000, and the related consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Guam Economic Development Authority and subsidiaries at September 30, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 13 to the financial statements, the Authority changed its method of accounting for nonexchange transactions to conform to Government Accounting Standards Board Statement No. 33 and has restated the 2000 financial statements to reflect the change.

Our audits of the financial statements for the years ended September 30, 2001 and 2000 were made for the purpose of expressing our opinion on the financial statements taken as a whole. The accompanying schedule on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of Guam Economic Development Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated May 29, 2002, on our consideration of the Guam Economic Development Authority's and subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

May 29, 2002

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)
AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u> As restated (note 13)
Cash	\$ 279,427	\$ 101,783
Notes and accrued interest receivable thereon, net of an allowance for doubtful receivables of \$5,035 in 2001 and 2000	46,411	23,879
Due from other funds and governmental agencies:		
Guam Development Fund Act	-	13,162
Agricultural Development Fund	12,385	4,129
Landowner's Recovery Fund	383,653	425,232
U.S. Base Relocation and Closure Commission	-	23,837
Microenterprise Development Program	30,748	140,661
Housing and Urban Development Program	29,482	29,482
Other receivables (notes 7 and 8)	1,301,793	1,307,432
Inventory	57,311	53,869
Prepays and other assets	60,902	84,651
Investments:		
Stock (note 11)	3,500	3,500
Other (note 3)	55,027	212,851
Other real estate:		
Land (note 4)	425,164	425,164
Building, improvements and equipment, at cost, net (note 5)	<u>1,158,662</u>	<u>1,165,905</u>
	<u>\$ 3,844,465</u>	<u>\$ 4,015,537</u>

LIABILITIES AND DEFICIENCY

Liabilities:		
Notes payable to GDFA (note 10)	\$ 2,332,042	\$ 2,294,394
Accounts payable (note 7)	451,723	840,795
Due to other funds and governmental agencies:		
Guam Development Fund Act	284,703	4
Agricultural Expense Insurance Fund	7,659	7,659
Local Arts Revolving Fund	49,988	48,774
Music and Legends of Guam Fund	41,845	41,795
Guam Territorial Aquarium Foundation	107,549	107,549
Aquacultural Training Fund	31,907	31,907
U.S. Base Relocation and Closure Commission	1,442	202
Accrued liabilities	303,128	163,096
Accrued Retirement Fund contributions (note 6)	784,549	784,549
Deferred rental income	<u>215,064</u>	<u>219,113</u>
Total liabilities	<u>4,611,599</u>	<u>4,539,837</u>
Deficiency:		
Deficit:		
U.S. and other restricted funds (note 12)	648,114	978,920
Operations	<u>(1,415,248)</u>	<u>(1,503,220)</u>
Net deficiency	<u>(767,134)</u>	<u>(524,300)</u>
Commitment and contingency (notes 7, 8 and 10)	<u>\$ 3,844,465</u>	<u>\$ 4,015,537</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)
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Consolidated Statements of Operations and Deficit
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u> As restated (note 13)
Revenues:		
Rental income (note 7)	\$ 2,075,710	\$ 2,779,248
Qualifying certificate application and surveillance fees	296,995	272,279
Bond service fee	501,447	400,000
	<u>2,874,152</u>	<u>3,451,527</u>
Operating expenses:		
Salaries and benefits	1,446,071	1,118,195
Professional services	273,747	268,958
Rent (note 7)	221,908	783,494
Travel	198,368	121,712
Depreciation and amortization	106,670	132,698
Special projects	96,123	208,716
Advertising and promotions	93,515	130,695
Utilities, telephone and communication	42,867	30,207
Supplies	13,827	12,503
Insurance	10,699	4,527
Provision for doubtful notes and accrued interest receivable	90,812	158,487
Repairs and maintenance	5,417	5,431
Directors' fees	4,350	2,300
Grants	2,300	36,317
Miscellaneous	106,156	47,769
	<u>2,712,830</u>	<u>3,062,009</u>
Operating income	<u>161,322</u>	<u>389,518</u>
Other income (expense):		
Interest expense, net	(162,335)	(28,295)
Other, net	72,146	(258,228)
Gain (loss) on investments (note 11)	3,548	(4)
Gain on sale of fixed asset	13,291	-
Other expense, net	<u>(73,350)</u>	<u>(286,527)</u>
Net income before United States Government and other restricted funds	87,972	102,991
United States and other restricted funds (notes 13 and 14)	<u>(330,806)</u>	<u>2,215,863</u>
Net (loss) income	(242,834)	2,318,854
Deficit at beginning of year	<u>(524,300)</u>	<u>(2,843,154)</u>
Deficit at end of year	<u>\$ (767,134)</u>	<u>\$ (524,300)</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Operating income	\$ 161,322	\$ 389,518
Other income (loss), net	72,146	(258,228)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation and amortization	106,670	130,695
Gain on sale of fixed assets	(13,291)	-
(Increase) decrease in assets:		
Notes receivable	(22,532)	(12,493)
Due from other funds and governmental agencies	466,358	147,060
Other receivables	5,639	(759,870)
Inventory and other	(3,442)	(60,709)
Investments	(3,548)	-
Other assets	23,748	-
Increase (decrease) in liabilities:		
Notes payable to GDFA	37,648	203,031
Accounts payable	(389,072)	685,658
Due to other funds and governmental agencies	1,080	(340,927)
Accrued liabilities	140,032	(74,842)
Accrued Retirement Fund contributions	-	(57,826)
Deferred rental income	(4,049)	-
Net cash provided by (used for) operating activities	578,709	(8,933)
Cash flows from investing activities:		
Purchase of marketable investment securities	-	(8,444)
Purchase of other investments	-	(51,478)
Loss on investments	-	(4)
Transfer of marketable investment securities	161,374	-
Net cash provided by (used for) investing activities	161,374	(59,926)
Cash flows from related capital financing activities:		
Purchase of property and equipment	(101,298)	(14,810)
Proceeds from sale of fixed assets	32,000	-
Net cash (used for) provided by noncapital related financing activities	(69,298)	(14,810)
Cash flows from noncapital related financing activities:		
Contributions received	-	65,000
Interest expense, net	(162,335)	(28,295)
Contribution transferred	(330,806)	-
Net cash (used for) provided by noncapital related financing activities	(493,141)	36,705
Net increase (decrease) in cash	177,644	(46,964)
Cash at beginning of year	101,783	148,747
Cash at end of year	\$ 279,427	\$ 101,783

Supplemental disclosure of cash flow information:

Per Public Law 25-69, \$330,806 was transferred from the Chamorro Heritage Foundation to the Department of Chamorro Affairs.

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

To accomplish the stated purposes, GEDA is authorized to conduct research of, invest in, provide loans to, operate and provide technical assistance to industries and/or agricultural projects; issue revenue bonds; obtain Government of Guam land; purchase mortgages; and recommend to the Governor of Guam businesses qualifying for tax rebates and abatements. GEDA utilizes the Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Agricultural Expense Insurance Fund (AEIF), the Landowner's Recovery Fund (LRF), Microenterprise Development Program (MDP), Housing and Urban Development (HUD), the Local Arts Revolving Fund (LARF), the Guam Territorial Aquarium Foundation (GTAF), the Aquacultural Training Fund (ATF), the Music and Legends of Guam Fund (MLGF), and the U.S. Base Realignment and Closure Committee (BRAC) to accomplish certain of the stated purposes. The Guam Industry Promotions Fund (GIPF) and the Guam Education Fund (GEF) have also been created but their purposes have yet to be implemented.

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of GEDA and its wholly-owned subsidiaries, Guam Business Development Corporation (GBDC) and the Chamorro Heritage Foundation (CHF). GBDC was formed on October 18, 1988, for the purpose of acquiring and developing tourist-related property and protecting the various interests of GEDA and Funds administered by GEDA. CHF was formed on February 5, 1992, for the purpose of preserving, developing and enhancing the Chamorro culture and heritage of the indigenous people of the island of Guam. During fiscal year 2001, Public Law 25-69 transferred all of CHF's tangible assets to the Department of Chamorro Affairs, thus dissolving the Chamorro Heritage Foundation. All significant intercompany balances and transactions have been eliminated in consolidation.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

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

Basis of Accounting

The accompanying consolidated 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.

Notes and Accrued Interest Receivable

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

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 disclosures 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.

Investments

The investments of GEDA and subsidiaries are classified in the first of three credit risk categories as promulgated in Governmental Accounting Standards Board (GASB) Statement No. 3 as the securities held are insured or registered in the name of the governmental entity or held by the entity or by its agent in the entity's name. These credit risk categories are as follows:

1. Securities insured or registered in the name of the governmental entity or held by the entity or by its agent in the entity's name.
2. Securities uninsured and unregistered and held by the counterparty's trust department, or its agent in the entity's name.
3. Securities uninsured and unregistered and held by the counterparty, its trust department, or its agent, but not held in the entity's name.

In 2001 and 2000, GEDA's investments are stated at fair market value in accordance with Government Accounting Standards Board Statement No. 31, which also requires investment income, dividends and unrealized gains and losses to be included in earnings.

Investment in a 72% owned company is accounted for using the equity method.

Vacation and Sick Leave

Vacation of not more than 480 hours vests and is accrued each bi-weekly pay period in which an employee is in a pay status for the entire ten (10) days. Sick leave does not vest and is not accrued. The aggregate amount of the sick leave liability is not estimable.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

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

Depreciation and Amortization

Improvements and buildings are amortized on a straight-line basis over estimated useful lives of 22.5 to 30 years. Equipment and automobiles are depreciated on a straight-line basis over estimated useful lives of three to five years.

Inventories

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

Operating Expenses

Virtually all general and administrative expenses of the Funds administered by GEDA, other than legal expenses specifically related to the activities of a particular Fund, are borne by GEDA as part of its cost of administering the Funds.

GEDA allocates a percentage of payroll expense to each Fund based upon actual time personnel spend on the respective Fund.

Risk Management

GEDA purchases automobile insurance covering \$300,000 for general single limited liability, inclusive of \$3,000 per person medical. GEDA is self-insured against all other potential risks and losses. No losses in excess of insurable limits have been recognized in 2001 and 2000.

(2) Cash

At September 30, 2001 and 2000, GEDA has cash balances of \$278,927 and \$101,283, respectively, deposited in checking accounts. Of the total deposits, \$200,000 and \$100,000 in 2001 and 2000, respectively, are insured by the Federal Deposit Insurance Corporation. The remaining balances are not insured or collateralized.

(3) Investments

Other investments consist of money market funds and securities in Pacific Century Trust (PCT) and Merrill Lynch. At September 30, 2001 and 2000, investments are carried at market value.

(4) Other Real Estate

GEDA has acquired land carried at \$425,164 through loan foreclosure.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

(5) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Building	\$ 1,207,031	\$ 1,207,031
Other improvements	532,875	526,395
Equipment	596,596	442,797
Land improvements	129,642	129,642
Automobiles	<u>85,941</u>	<u>118,902</u>
	2,552,085	2,424,767
Less accumulated depreciation and amortization	<u>(1,393,423)</u>	<u>(1,258,862)</u>
	<u>\$ 1,158,662</u>	<u>\$ 1,165,905</u>

(6) Employees' Retirement Plan

Employees of GEDA hired before October 1, 1995 are members of the Government of Guam Employees' Retirement System, a defined benefit, contributory pension plan. The Plan is administered by the Government of Guam Retirement Fund, to which GEDA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of actuarial valuations performed as of September 30, 2000 and 1999, respectively, it has been determined that for the years ended September 30, 2001 and 2000, respectively, a minimum combined employer and employee contribution rate of 34.64% and 33.41% of covered payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory rates for employee and employer contributions were 9.5%, for the years ended September 30, 2001 and 2000. The effect of GEDA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.6% to effective rates of 16.34% and 15.30%, respectively, for the years ended September 30, 2001 and 2000.

The defined benefit plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 2000, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

On September 29, 1995, the Guam Legislature passed Public Law 23-43 which created the Defined Contribution Retirement System (DCRS). All employees of GEDA, hired after October 1, 1995, are members of the DCRS, a defined contribution, contributory pension plan. The Board of Trustees of the Government of Guam Retirement Fund is responsible for the administration of the DCRS. Investment management and plan administration services for the DCRS are performed by a private firm contracted by the Board of Trustees.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

(6) Employees' Retirement Plan, Continued

Contributions into the DCRS 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 annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay during fiscal year 2001 and 2000, respectively. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

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

The cost to GEDA for retirement contributions for the years ended September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Cash contributions	\$ 111,970	\$ 107,011
Accruals	<u>(15,522)</u>	<u>(23,042)</u>
	\$ <u>96,448</u>	\$ <u>83,969</u>

(7) 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.

In September 2000, GEDA agreed to terms with a lessee wherein previously unrecorded lease revenues of approximately \$1.1 million were recorded in settlement of three lease years. The lease is for ten years with future minimum rental set at \$237,800 for 2001 and \$96,000 for the next five years. The lease contains provisions for additional percentage rentals if revenues exceed a defined threshold in year 2001 and 2002. The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. At September 30, 2001, estimated lease expense payable has been recorded of approximately \$260,698. Lease expense for the years 2001 and 2000 was \$0. Future lease expense over the following six years is currently expected to be \$0. However, negotiations are ongoing and a definitive agreement has not been signed.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

(7) Rental Income, Continued

Future minimum rentals to be received under noncancelable subleases as of September 30, 2001, are as follows:

Years ending September 30:	
2002	\$ 1,101,225
2003	1,782,482
2004	1,732,303
2005	1,556,834
2006	1,495,072
Thereafter	<u>4,125,443</u>
	\$ <u>11,793,359</u>

(8) Commitment and Contingency

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

At September 30, 2001, \$45,639 was accrued as a receivable for bond related expenses. Payment of this accrual is dependent upon settlement of various bonds.

Collection of a receivable in the amount of \$168,424 at September 30, 2001, is contingent upon resolution of certain ongoing negotiations. No provision for this uncertainty has been made in the accompanying financial statements as management is of the opinion that this amount will ultimately be collectible.

(9) Related Parties

At September 30, 2001 and 2000, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2001</u>	<u>2000</u>
Guam Development Fund Act (GDFA)	\$ 13,646,062	\$ 13,630,725
Agricultural Development Fund (ADF)	1,793,415	2,132,037
Agricultural Expense Insurance Fund (AEIF)	7,659	7,659
Landowner's Recovery Fund (LRF)	10,611	10,611
Local Arts Revolving Fund (LARF)	50,441	51,460
Guam Territorial Aquarium Foundation (GTAF)	137,985	137,219
Agricultural Training Fund (ATF)	31,907	31,907
Music and Legends of Guam Fund (MLGF)	57,063	57,350
Base Realignment and Closure Commission (BRAC)	8,120	33,612
Housing Urban Development Fund (HUD)	445	445
Microenterprise Development Program (MDP)	107,602	217,435

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

(10) Notes Payable

The notes payable to GDFA, are summarized as follows:

Term loan, bears interest at 4.5%, payable in monthly installments of \$8,785, including interest, collateralized by real property with final payment due in 2019.	\$ 1,132,042
Line of credit, bears interest at 5%, principal and interest due in 2002, collateralized by a drydock.	<u>1,200,000</u>
	<u>\$ 2,332,042</u>

The annual principal payments for the five years subsequent to September 30, 2001, and thereafter are as follows:

2002	\$ 1,250,528
2003	57,762
2004	60,416
2005	63,191
2006	66,095
Thereafter	<u>834,050</u>
	<u>\$ 2,332,042</u>

GEDA's payment of the \$1,200,000 line of credit in 2002 is predicated upon the assumption of loan or sale of the drydock.

(11) Investment in Stock

During the year ended September 30, 1998, GEDA paid \$61,700 for shares (a 72% interest) of preferred stock in Heli-Guam, Inc. (HGI). This investment is carried using the equity method. As of September 30, 2001 and 2000, the carrying value of this investment has been adjusted for its prorata share of losses.

A summary of investment in stock at September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Bank of Guam	\$ 3,500	\$ 3,500
Heli-Guam, Inc	<u>-</u>	<u>-</u>
	<u>\$ 3,500</u>	<u>\$ 3,500</u>

A summary of gain (loss) on investment at September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Gain (loss) on investment securities	\$ <u>3,548</u>	\$ <u>(4)</u>

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2001 and 2000

(12) Other Restricted Funds

Other restricted funds are received under certain Qualifying Certificate agreements and GEDA uses those proceeds for purposes set forth in those agreements.

(13) Adoption of New Accounting Principle

Effective October 1, 2000, GEDA adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented; and accordingly, the statement of operations for 2000 has been restated to reflect U.S. and other restricted funds of \$2,215,863. Implementation of GASB No. 33 had no impact on the balance sheets and statements of cash flows.

(14) Restricted Funds Transfer

Per Public Law 25-69, other restricted funds in the amount of \$330,806 were transferred from the Chamorro Heritage Foundation to the Department of Chamorro Affairs during fiscal year 2001.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2001 AND 2000

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2001 and 2000

	2001	2000
Salaries and wages:		
Salaries	\$ 1,471,423	\$ 1,415,585
Benefits	595,507	556,540
Overtime pay	-	-
Total salaries and wages	\$ 2,066,930	\$ 1,972,125
Employees at end of year	38	35

See accompanying independent auditors' report.

Deloitte & Touche LLP
361 South Marine Drive
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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying balance sheets of the Guam Development Fund Act, the Agricultural Development Fund, the Agricultural Expense Insurance Fund, the Landowner's Recovery Fund, the Housing and Urban Development Fund, the Local Arts Revolving Fund, the Guam Territorial Aquarium Foundation, the Aquacultural Training Fund, the Music and Legends of Guam Fund, the Microenterprise Development Program and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 2001 and 2000, and the related statements of revenues, expenditures and changes in fund balances (deficits) for the years then ended. The Funds are administered by the Guam Economic Development Authority (a public corporation) which is a component unit of the Government of Guam. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2001 and 2000, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated May 29, 2002, on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

May 29, 2002

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Balance Sheets
September 30, 2001 and 2000

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Cash on hand and in bank (note 2)	\$ 75,499	\$ 98,286	\$ 62,237	\$ 18,437	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable thereon	11,645,717	11,958,546	998,748	986,984	-	-	-	-	177,402	204,667
Less allowance for doubtful receivables	<u>(3,748,931)</u>	<u>(3,395,103)</u>	<u>(224,567)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,436)</u>	<u>(73,285)</u>
Net notes and accrued interest receivable	<u>7,896,786</u>	<u>8,563,443</u>	<u>774,181</u>	<u>986,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,966</u>	<u>131,382</u>
Due from other funds:										
Guam Economic Development Authority	284,703	4	-	-	7,659	7,659	-	-	-	-
Guam Development Fund Act	-	-	-	-	-	-	10,611	10,611	317	-
Agricultural Development Fund	5,132	3,318	-	-	-	-	-	-	150	150
Local Arts Revolving Fund	8,704	8,703	-	-	-	-	-	-	-	-
Microenterprise Development Program	-	188	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	84,726
Investments (note 3)	4,901,351	4,514,337	617,236	790,189	-	-	-	-	-	-
Other real estate:										
Land (note 4)	433,375	433,375	-	-	-	-	-	-	-	-
Other assets (note 5)	<u>40,512</u>	<u>9,071</u>	<u>339,761</u>	<u>336,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,169</u>	<u>1,177</u>
	<u>5,673,777</u>	<u>4,968,996</u>	<u>956,997</u>	<u>1,126,616</u>	<u>7,659</u>	<u>7,659</u>	<u>10,611</u>	<u>10,611</u>	<u>1,636</u>	<u>86,053</u>
	<u>\$ 13,646,062</u>	<u>\$ 13,630,725</u>	<u>\$ 1,793,415</u>	<u>\$ 2,132,037</u>	<u>\$ 7,659</u>	<u>\$ 7,659</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 107,602</u>	<u>\$ 217,435</u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Balance Sheets, Continued
September 30, 2001 and 2000

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
LIABILITIES AND FUND EQUITY (DEFICIENCY)										
Liabilities:										
Accounts payable and accrued expenses	\$ 11,944	\$ 8,743	\$ 766	\$ 109	\$ -	\$ -	\$ -	\$ 62,165	\$ -	\$ -
Due to other funds:										
Guam Economic Development Authority	-	13,162	12,385	4,129	-	-	383,653	425,232	30,748	140,661
Guam Development Fund Act	-	-	5,132	3,318	-	-	-	-	-	188
Guam Territorial Aquarium Foundation	-	-	-	-	-	-	1,086	1,086	-	-
Landowner's Recovery Fund	10,611	10,611	-	-	-	-	-	-	-	-
Microenterprise Development Program	317	-	150	150	-	-	-	-	-	-
Total liabilities	<u>22,872</u>	<u>32,516</u>	<u>18,433</u>	<u>7,706</u>	<u>-</u>	<u>-</u>	<u>384,739</u>	<u>488,483</u>	<u>30,748</u>	<u>140,849</u>
Fund equity (deficiency):										
Contributions	6,992,443	6,992,443	1,796,000	1,796,000	75,000	75,000	1,168,672	1,043,672	-	-
Fund balances (deficits)	<u>6,630,747</u>	<u>6,605,766</u>	<u>(21,018)</u>	<u>328,331</u>	<u>(67,341)</u>	<u>(67,341)</u>	<u>(1,542,800)</u>	<u>(1,521,544)</u>	<u>76,854</u>	<u>76,586</u>
Total fund equity (deficiency)	<u>13,623,190</u>	<u>13,598,209</u>	<u>1,774,982</u>	<u>2,124,331</u>	<u>7,659</u>	<u>7,659</u>	<u>(374,128)</u>	<u>(477,872)</u>	<u>76,854</u>	<u>76,586</u>
Contingency (note 6)	<u>\$ 13,646,062</u>	<u>\$ 13,630,725</u>	<u>\$ 1,793,415</u>	<u>\$ 2,132,037</u>	<u>\$ 7,659</u>	<u>\$ 7,659</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 107,602</u>	<u>\$ 217,435</u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Balance Sheets
September 30, 2001 and 2000

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
ASSETS												
Cash on hand and in bank (note 2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 500
Notes and accrued interest receivable thereon	-	-	12,720	14,953	-	-	-	-	-	-	-	-
Less allowance for doubtful receivables	-	-	(12,267)	(12,267)	-	-	-	-	-	-	-	-
Net notes and accrued interest receivable	-	-	453	2,686	-	-	-	-	-	-	500	500
Government of Guam appropriations receivable	-	-	-	-	12,155	12,155	-	-	-	-	-	-
Due from other funds:												
Guam Economic Development Authority	-	-	49,988	48,774	107,549	107,549	31,907	31,907	41,845	41,795	1,442	22
Landowner's Recovery Fund	-	-	-	-	1,086	1,086	-	-	-	-	-	-
Other receivables	445	445	-	-	34	-	-	-	-	-	21	22,843
Investments (note 3)	-	-	-	-	17,161	16,429	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	15,218	15,555	-	-
Equipment, at cost less accumulated depreciation	-	-	-	-	-	-	-	-	-	-	6,157	10,247
	<u>445</u>	<u>445</u>	<u>49,988</u>	<u>48,774</u>	<u>137,985</u>	<u>137,219</u>	<u>31,907</u>	<u>31,907</u>	<u>57,063</u>	<u>57,350</u>	<u>7,620</u>	<u>33,112</u>
	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ 50,441</u>	<u>\$ 51,460</u>	<u>\$ 137,985</u>	<u>\$ 137,219</u>	<u>\$ 31,907</u>	<u>\$ 31,907</u>	<u>\$ 57,063</u>	<u>\$ 57,350</u>	<u>\$ 8,120</u>	<u>\$ 33,612</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)												
Liabilities:												
Account payable and accrued expenses	\$ 43,989	\$ 43,989	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,591	\$ 10,716
Due to other funds:												
Guam Economic Development Authority	29,482	29,482	-	-	-	-	-	-	-	-	-	23,837
Guam Development Fund Act	-	-	8,703	8,703	-	-	-	-	-	-	-	-
Total liabilities	<u>73,471</u>	<u>73,471</u>	<u>8,703</u>	<u>8,703</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,591</u>	<u>34,553</u>
Fund equity (deficiency)												
Contributions	-	-	100,000	100,000	524,368	524,368	54,217	54,217	75,900	75,900	-	-
Fund balances (deficits)	<u>(73,026)</u>	<u>(73,026)</u>	<u>(58,262)</u>	<u>(57,243)</u>	<u>(386,385)</u>	<u>(387,149)</u>	<u>(22,310)</u>	<u>(22,310)</u>	<u>(18,837)</u>	<u>(18,550)</u>	<u>(4,471)</u>	<u>(941)</u>
Net fund equity (deficiency)	<u>(73,026)</u>	<u>(73,026)</u>	<u>41,738</u>	<u>42,757</u>	<u>137,983</u>	<u>137,219</u>	<u>31,907</u>	<u>31,907</u>	<u>57,063</u>	<u>57,350</u>	<u>(4,471)</u>	<u>(941)</u>
	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ 50,441</u>	<u>\$ 51,460</u>	<u>\$ 137,985</u>	<u>\$ 137,219</u>	<u>\$ 31,907</u>	<u>\$ 31,907</u>	<u>\$ 57,063</u>	<u>\$ 57,350</u>	<u>\$ 8,120</u>	<u>\$ 33,612</u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Years Ended September 30, 2001 and 2000

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Revenues:										
Interest	\$ 750,177	\$ 815,338	\$ 110,393	\$ 72,872	\$ -	\$ -	\$ -	\$ -	\$ 12,964	\$ 15,175
Gain on investments	17,191	-	520	-	-	-	-	-	-	-
Other	-	5,147	900	5,313	-	-	-	-	-	65,098
Recovery of bad debts	584,690	462,815	-	131,571	-	-	-	-	-	-
Total revenues	<u>1,352,058</u>	<u>1,283,300</u>	<u>111,813</u>	<u>209,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,964</u>	<u>80,273</u>
Expenditures:										
Provision for doubtful notes and accrued interest	923,422	828	246,384	191	-	-	-	-	6,090	73,285
Salaries	336,912	280,548	191,643	166,676	-	-	-	-	6,163	58,781
Professional services	7,907	10,164	4,245	4,509	-	-	21,256	94,844	-	1,500
Rent	33,141	32,620	13,294	13,294	-	-	-	-	-	-
Bank charges	7,101	6,441	1,294	1,387	-	-	-	-	426	426
Depreciation	9,053	5,475	2,245	2,252	-	-	-	-	-	-
Travel	2,406	-	458	357	-	-	-	-	-	-
Promotions	568	-	-	-	-	-	-	-	-	6
Repair and maintenance	-	-	-	-	-	-	-	-	-	74
Supplies	-	-	-	-	-	-	-	-	-	50
Loss on investments	-	4,190	-	1,178	-	-	-	-	-	-
Miscellaneous	6,567	1,908	1,599	1,035	-	-	-	-	17	(27,038)
Total expenditures	<u>1,327,077</u>	<u>342,174</u>	<u>461,162</u>	<u>190,879</u>	<u>-</u>	<u>-</u>	<u>21,256</u>	<u>94,844</u>	<u>12,696</u>	<u>107,084</u>
Revenues (under) over expenditures	24,981	941,126	(349,349)	18,877	-	-	(21,256)	(94,844)	268	(26,811)
Fund balances (deficits) at beginning of year	<u>6,605,766</u>	<u>5,664,640</u>	<u>328,331</u>	<u>309,454</u>	<u>(67,341)</u>	<u>(67,341)</u>	<u>(1,521,544)</u>	<u>(1,426,700)</u>	<u>76,586</u>	<u>103,397</u>
Fund balances (deficits) at end of year	<u>\$ 6,630,747</u>	<u>\$ 6,605,766</u>	<u>\$ (21,018)</u>	<u>\$ 328,331</u>	<u>\$ (67,341)</u>	<u>\$ (67,341)</u>	<u>\$ (1,542,800)</u>	<u>\$ (1,521,544)</u>	<u>\$ 76,854</u>	<u>\$ 76,586</u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Years Ended September 30, 2001 and 2000

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Revenues:												
Net sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ -
Grant funds	-	-	-	-	-	-	-	-	-	-	22,426	126,881
Other	-	-	-	-	791	886	-	-	-	(9)	66,642	392,496
Total revenues	-	-	-	-	791	886	-	-	-	13	89,068	519,377
Expenditures:												
Special projects	-	-	-	-	-	-	-	-	-	-	-	16,000
Salaries and benefits	-	-	-	-	-	-	-	-	-	-	86,141	347,925
Travel	-	-	-	-	-	-	-	-	-	-	-	4,171
Professional services	-	-	1,019	-	-	-	-	-	-	-	-	117,104
Rent	-	-	-	-	-	-	-	-	-	-	-	1,161
Promotions	-	-	-	-	-	-	-	-	287	889	-	1,564
Repair and maintenance	-	-	-	-	-	-	-	-	-	-	-	316
Depreciation	-	-	-	-	-	-	-	-	-	-	4,090	5,834
Miscellaneous	-	-	-	-	27	24	-	-	-	-	2,367	51,441
Total expenditures	-	-	1,019	-	27	24	-	-	287	889	92,598	545,516
Revenues (under) over expenditures	-	-	(1,019)	-	764	862	-	-	(287)	(876)	(3,530)	(26,139)
(Deficits) fund balances at beginning of year	(73,026)	(73,026)	(57,243)	(57,243)	(387,149)	(388,011)	(22,310)	(22,310)	(18,550)	(17,674)	(941)	25,198
(Deficits) fund balances at end of year	<u>\$ (73,026)</u>	<u>\$ (73,026)</u>	<u>\$ (58,262)</u>	<u>\$ (57,243)</u>	<u>\$ (386,385)</u>	<u>\$ (387,149)</u>	<u>\$ (22,310)</u>	<u>\$ (22,310)</u>	<u>\$ (18,837)</u>	<u>\$ (18,550)</u>	<u>\$ (4,471)</u>	<u>\$ (941)</u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Notes to Financial Statements
September 30, 2001 and 2000

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Agricultural Expense Insurance Fund (AEIF), the Landowner's Recovery Fund (LRF), the Housing and Urban Development Fund (HUD), the Local Arts Revolving Fund (LARF), the Guam Territorial Aquarium Foundation (GTAF), the Aquacultural Training Fund (ATF), the Music and Legends of Guam Fund (MLGF), the U.S. Base Realignment and Closure Committee (BRAC), the Microenterprise Development Program (MPD), the Guam Industry Promotions Fund (GIPF) and the Guam Education Fund (GEF) 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 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 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.

AEIF - AEIF was created to insure or to reinsure insurers of farmers, livestock producers and commercial fishermen against losses due to natural disasters. The premiums are collected at rates sufficient to cover claims for losses and to provide a reasonable reserve against unforeseen losses. Initial funding was by an appropriation from the Government of Guam. There were no insurance policies issued in 2001 and 2000 nor were there any policies outstanding at September 30, 2001.

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

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

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

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

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Notes to Financial Statements
September 30, 2001 and 2000

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

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

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

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

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

GIPF - GIPF was created by Resolution No. 2000-20 to support promotion of the island on an annual basis. Funding to come from qualifying certificate beneficiary contributions.

GEF - GEF was created by Resolution No. 2000-20 to provide specific funding of extracurricular programs which collectively benefit all schools, or similarly, programs in which students from different schools participate.

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2001 and 2000.

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

Basis of Accounting

The trust funds account for assets under the terms of formal trust agreements. They are classified as expendable trust funds and are accounted for in essentially the same manner as governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)**

Notes to Financial Statements
September 30, 2001 and 2000

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

Cash

Cash includes cash on hand and cash on deposit in banks.

At September 30, 2001 and 2000, the Funds have cash balances of \$137,336 and \$116,481, respectively, deposited in checking accounts. Of the total deposits, \$100,000 each year is insured by the Federal Deposit Insurance Corporation. The remaining balances are not insured or collateralized.

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 disclosures 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.

Notes and Accrued Interest Receivable

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

Included in notes receivable for GDFA as of September 30, 2001 and 2000, are notes due from GEDA for \$2,332,042. The notes of \$1,132,042 and \$1,200,000 bear interest at 4.5% and 5%, respectively, and are due in 2019 and 2002, respectively.

The annual principal payments for the GEDA notes receivable for the five years subsequent to September 30, 2001, and thereafter are as follows:

2002	\$ 1,250,528
2003	57,762
2004	60,416
2005	63,191
2006	66,095
Thereafter	<u>834,050</u>
	\$ <u>2,332,042</u>

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

**TRUST FUNDS ADMINISTERED BY THE
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(A Public Corporation)**

Notes to Financial Statements
September 30, 2001 and 2000

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

Inventories

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

Investments

The investments of the Trust Funds administered by GEDA are classified in the first of three credit risk categories as promulgated in Governmental Accounting Standards Board (GASB), Statement No. 3, as the securities held are insured or registered in the name of the governmental entity or held by the entity or by its agent in the entity's name. These credit risk categories are as follows:

1. Securities insured or registered in the name of the governmental entity or held by the entity or by its agent in the entity's name.
2. Securities uninsured and unregistered and held by the counterparty's trust department, or its agent in the entity's name.
3. Securities uninsured and unregistered and held by the counterparty, its trust department, or its agent, but not held in the entity's name.

Expenditures

Virtually all expenditures of the Funds, other than legal expenditures specifically related to the activities of a particular fund, are borne by GEDA as part of its cost of administering the Funds.

Each Fund is charged a percentage of GEDA's payroll expense based upon actual time personnel spend on the respective Fund.

(2) Cash Deposits

Local legislation requires financial institutions to pledge securities to collateralize "deposits of public funds." Trust cash funds on deposit with financial institutions are not considered "deposits of public funds" under current law. Therefore, these institutions are not required to pledge securities to collateralize such deposits. Cash deposits are insured only to the statutory limits provided by agencies of the Federal Government and are uncollateralized.

(3) Investments

At October 1, 1996, GEDA adopted GASB Statement No. 31.

Investments consist of money market funds and securities in Pacific Century Trust (PCT). At September 30, 2001 and 2000, the investments are stated at market value of \$5,535,748 and \$5,320,955, respectively.

GDFA has \$311,200 in restricted investments at September 30, 2001 and 2000, respectively.

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Notes to Financial Statements
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(4) Other Real Estate

G DFA has acquired certain land through foreclosure of loans. These items are reflected at cost in other real estate.

(5) Other Assets

ADF has acquired leasehold interest in land through foreclosure of loans. Leasehold interests are reflected at cost in other assets.

(6) Contingency

At September 30, 2001 and 2000, G DFA was contingently liable as guarantor for loans in the amount of \$1,980,700, respectively, and any related collection costs. In accordance with Section 4 of the Guam Development Fund Act of 1968; G DFA is required to maintain reserves of not less than 25% of the loan guarantee.

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