

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

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

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**SEPTEMBER 30, 2007 AND 2006**

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

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Years Ended September 30, 2007 and 2006

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## Independent Auditors' Report

The Board of Directors  
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of net assets (deficiency) of the Guam Economic Development and Commerce Authority (the Authority) (a public corporation) and subsidiary, a component unit of the Government of Guam, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

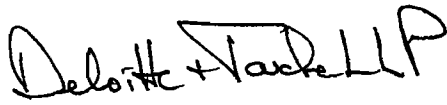
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Economic Development and Commerce Authority and subsidiary at September 30, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of the management of the Guam Economic Development and Commerce Authority. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental divisional information on pages 11 through 13 and the data on page 30 is presented for the purpose of additional analysis rather than to present the financial position and changes in net assets (deficiency) of the individual divisions. This additional information is the responsibility of the Authority's management. Such information has been subjected to the tests and other auditing procedures applied in our audit of the basic financial statements of Guam Economic Development and Commerce Authority and subsidiary for the year ended September 30, 2007. In our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2008, on our consideration of the Guam Economic Development and Commerce Authority's and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

January 21, 2008

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Management's Discussion and Analysis  
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**Preface**

The mission of the Guam Economic Development & Commerce Authority, *Aturidat Inadilanton Ikunumihan yan Kumetsion Guahan*, 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), GEDCA 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 tax incentives, financial assistance, real property management, and public finance.

**FY2007 Highlights**

During the second quarter of 2007, a change in leadership occurred with the resignation of Andy Jordanou as Acting Administrator. Acting Deputy Administrator at that time, Anthony Blaz, was appointed Acting Administrator, and Christina Garcia, manager of GEDCA's Financial Services division for the past 2 years, was selected as Acting Deputy Administrator. With the change in leadership just about midway into the fiscal year, GEDCA's new leaders worked vigorously to make the transition seamless, especially in light of the critical issues directly impacting the island's economy, particularly the pending military expansion.

In fiscal year 2007, GEDCA continued to provide staff support to the Governor's Civilian/Military Task Force created by Executive Order 2007-10. The agency's Real Property Division continues to compile statistics concerning the award of military contracts and to keep track of increases in military functions, personnel and activities.

**Legislatively mandated Reporting Requirements**

As per Public Law 28-150 and 29-19, all GovGuam agencies are required to report on a monthly basis to the Speaker of the 29th Guam Legislature, their staffing patterns and revenue/expenditure report as of the previous month's end in electronic/manual format and post to their agency website. Public Law 29-02 changed the reporting requirements from monthly to quarterly. GEDCA continues to comply with this requirement.

**Financial Services Division**

\$60 Million School Lease to build 4 new schools and renovate 1 existing school

- GEDCA facilitated the closing of the Governor's \$60.0 million municipal leaseback program for the construction of 4 new schools and the conversion of an elementary school to a middle school (October 2006).
- The Liguán Terrace Elementary School, Astumbo Middle School and Ukudu High School are scheduled to open for the Fall 2008 school year.

Government of Guam \$6.0 MM Line of Credit

- GEDCA assisted the Governor in executing a \$6.0 MM Line of Credit (LOC) with the Bank of Guam to cover current operational expenses. The LOC matured with the payment from Section 30 revenues received on October 1, 2007.

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**Rating Agency Action**

- As a result of the GIAA and GEDCA rating agency presentations held in San Francisco on September 19-22, 2006, Standard & Poor's raised the GIAA's bond rating from BBB- to BBB with a stable outlook (October 16, 2006).
- On April 12, 2007, Standard & Poor's Ratings Services revised the Guam Power Authority's revenue debt to "BB+ Stable" from negative based on GPA's improved operational and fiscal performance over the past two years.
- Guam's General Obligations bonds affirmed its "B" rating by Standard & Poor's Rating Services on June 20, 2007, and removed its Credit Watch alert placed on the Government of Guam on March 9, 2007. The Credit Watch action was based on the Government's disclosure that it had to borrow \$6 million from a local bank to meet its Guam Public School System payroll obligation for that pay period.
- Guam International Airport Authority Series 2003 General Revenue Bonds were upgraded to Baa2 from Baa3 with a stable outlook by Moody's Investors Service on July 18, 2007.

**Regional Distribution Initiative**

On Sept. 7, 2006 Bureau of Stats & Plans received a formal notice that United States Economic Development Authority (USEDA) awarded the Government of Guam a \$200,000 grant to conduct a market analysis study related to the establishment of the Regional Distribution Center (RDC). Bureau of Statistics and Plan (BOSP) will handle the administration of the grant while GEDCA will handle project management. These funds were used to commission a study on the transportation and logistics costs of using a Guam RDC in comparison to other methods of sending cargo from Asia to the United States.

**Marketing & Promotions**

- GEDCA's marketing staff along with 50 private and public sector delegates attended the Department of the Interior's 2006 Business Opportunities Conference held Nov. 13 -14, 2006, in Honolulu, Hi. GEDCA management presented during the general session and participated as a panelist for "Tax & Trade Incentive for Doing Business in the Islands."
- A \$2,000 sponsorship was received from the Guam Realtor's Association for the GEDCA investor CD Brochure. As part of this sponsorship, the GRA logo and contact information will be prominently displayed on the CD jacket cover.
- The new GEDCA Website [www.investguam.com](http://www.investguam.com) was launched June 8, 2007.

**Federal Grants:**

- Real Property Division (RPD) has obtained approval from the Office of Economic Adjustment, Department of Defense of a \$218K 100% federally funded grant to hire a consultant to study issues and opportunities associated with increases in military presence. The grant was increased to \$499,591 (100% federal) given the importance of the military buildup program. The consultant hired under the federal grant completed all deliverables including an assessment of the Government of Guam's ability to accommodate planned military expansion.
- Guam Environmental Protection Agency's (GEPA) federal grant application was approved by the federal EPA. This grant includes a request to conduct Phase I Environmental Assessments of various GEDCA-managed properties. Work on this project should soon be initiated by GEPA, as GEDCA has provided all necessary information.
- RPD obtained a \$50K grant from the U. S. Department of Agriculture, under its Rural Development Program to prepare a feasibility study for the creation of an additional industrial park. The consultant completed the work, including an appraisal of the Polaris Point property and the absorption rate for industrial land uses. All requirements under the grant have been met.

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In its role as financial adviser to the Government of Guam, GEDCA successfully delivered the Government of Guam General Obligation 2007 Series A Bonds, through the refunding of the Government of Guam 1993 General Obligation Bonds. Net proceeds of \$69.3 Million provided the Government funds to pay for capital expenses and capital improvement projects for the Guam Public School System, Guam Memorial Hospital, University of Guam, past due income tax refunds, COLA class settlement and other items authorized by the Fiscal Year 2008 Budget Law. Part of GEDCA's bond issuance fees, one of the limited sources of revenue for the autonomous agency, was reallocated to fund the special election to fill the vacancy in the 29<sup>th</sup> Guam Legislature from the untimely death of the Honorable Antonio Unpingco.

Clearing numerous hurdles in the financing approved by Public Law 29-19, GEDCA was able to move forward with the Tobacco Securitization Bond. In an effort to realize cost savings on issuance expenses, the bond pricing was held in Los Angeles immediately followed by the bond closing held in San Francisco. This was done in lieu of New York and Guam respectively, minimizing expenses to this bond. Pricing was held on December 5 and closing took place on December 12th. Use of proceeds authorized by the public law include: (1) \$2.0 MM for radiation therapy for cancer treatment provided through MIP and (2) \$6.0 MM to the DPHSS for the renovation of the Southern Health Center.

The \$115.0 MM GovGuam Deficit Bond financing also authorized by PL 29-19 is scheduled for the first half of 2008, upon finalization of a repayment plan and a comprehensive deficit elimination plan. This financing will help to address both the short and long term commitments of the government and its current deficit. The proceeds for the bonds will pay for the following General Fund expenses: (1) \$92.0 MM to fund Cost of Living Adjustment (COLA) class settlement; (2) \$12.0 MM for 2006 and prior years' individual and corporate tax refunds; and (3) \$11.0 MM to fund Health Care Capital Improvement Projects at the Guam Memorial Hospital.

### **FY2008 Strategic Initiatives**

Maximizing and enhancing Guam's positioning, in light of the pending military expansion, requires a reassessment of the island's strengths and weaknesses in today's global market. Part of this undertaking has been a work-in-process, as Public Law 29-19 placed a temporary moratorium on GEDCA's Qualifying Certificate, with the exception of the captive insurance industry. This comprehensive review and assessment is being conducted by a subcommittee of the Legislative Tax Review Committee, comprised of public and private officials representing the various sectors of Guam's business community.

With a review and report by the Tax Review Commission (TRC) due to the Legislature by May 31, 2008, with expiration of the moratorium to occur 60 days following, the QC Review Committee has been meeting regularly to meet the timeline. Chaired by GEDCA's Administrator and facilitated by GEDCA's Industry Development & Marketing division, this group is tasked to evaluate and assess the Government's only incentive tool created to attract new investments into the island. This report will provide the framework to which the Legislature will restructure the Qualifying Certificate program, a key factor in the development of Guam's economic mainstay of tourism, over the past two decades.

During the reassessment of GEDCA's QC program, the agency's Compliance section, charged with monitoring its programs, is well underway to improving its efficiency. The Compliance section is working to develop standard operating procedures to enhance its monitoring efforts. Part of the new processes set in place will be the close collaboration with the compliance section of the Department of

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Revenue & Taxation in monitoring existing QC holders and tax credit applicants. This will include monthly review meetings between GEDCA and Rev&Tax compliance sections. In addition, both agencies will conduct a briefing session for all current Qualifying Certificate beneficiaries, to provide an overview of compliance reporting requirements and tracking of benefits.

As part of the agency's efforts to develop small businesses, the backbone of Guam's economy, GEDCA will partner with the University of Guam, School of Business and Public Administration's Pacific Center for Economic Initiatives (PCEI) to develop and implement a community outreach program to foster small business development at the village level; to help produce local economic research and planning data to ensure opportunities for local small businesses in the mass military buildup; to explore economic development activities in new industries; and to identify new and emerging industries that would be viable and sustainable. The agency and the PCEI will also collaborate with the Guam's Chamber of Commerce, Small Business Working Committee. In addition, GEDCA has partnered with the federal Small Business Administration to coordinate working sessions to aid local businesses in responding to and being awarded federal requests for proposals for construction projects and other services.

Reassessment and repositioning are also in-line for GEDCA's communication tools. To replace its dated investment video, GEDCA will produce a promotional video showcasing "Guam's Sense of Place." With the pending military expansion, there is an overwhelming concern that Guam's culture and heritage would be lost. This video production will focus on educating and showcasing the island's rich heritage, history and quality of life. The focus will be on what makes Guam unique from any other jurisdiction. It will be developed to appeal to a broad audience, to educate and preserve the island community's sense of place as it moves toward an unprecedented military expansion over the next several years. This will also be done in partnership with community organizations with similar objectives so that resources are maximized.

The GEDCA newsletter, another of the agency's communication tools, will be revamped to specifically target local stakeholders, keeping them apprised of the agency's efforts, particularly in the areas dealing with the military expansion, the Loan Programs, the Real Property Development programs, and a status report highlighting the Qualifying Certificate program's benefits to the community in terms of increasing employment, tax revenues generated, and other contributions made towards the improvement of the quality of life on Guam. Launched in 2007, GEDCA's website will also be optimized and enhanced by creating portals specifically targeting the agency's two primary target audiences: local stakeholders and potential investors. Current information and user-friendly links will be available to assist local and foreign entrepreneurs and organizations interested in doing business on Guam.

In its internal efforts to optimize GEDCA's limited human resources, the agency will conduct an internal assessment and inventory of department functions and staff skills and responsibilities. GEDCA will also work to finalize its personnel rules and regulations for adoption by its Board of Directors. Other administrative initiatives to maximize efficiency and realize costs savings, include the establishment of a centralized depository and tracking process for all legal proceedings engaged by the agency's legal counsels. This will ensure proper management and coordination of all legal work.

Overall, GEDCA's initiatives are based on improving upon its product offerings and services, both as an agency tasked to foster economic development and showcasing Guam as a viable investment destination. The next few years will yield rapid changes for the island with an anticipated economic expansion of double digit growth that ultimately must be sustainable beyond the period of military build up, while maintaining Guam's sense of place, unique in its history, heritage and traditions.



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**FINANCIAL COMMENTS**

The following table summarizes the statements of net assets (deficiency) and operations of Guam Economic Development and Commerce Authority for 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 8,964,267	\$ 8,178,042	\$ 7,455,305
Long-term assets:			
Land	-	-	176,174
Building, improvements and equipment, at cost, net	546,788	723,991	1,333,916
Other assets	474,769	540,527	606,285
	<u>\$ 9,985,824</u>	<u>\$ 9,442,560</u>	<u>\$ 9,571,680</u>
Liabilities and Net Deficiency:			
Current liabilities:			
Current portion of long-term debt, net	\$ 2,142,921	\$ 897,921	\$ 587,310
Other current payables	2,207,699	2,141,514	2,389,785
Long-term liabilities:			
Long-term debt, net	23,300,746	24,382,103	24,781,652
Other long-term payable	459,259	393,979	325,939
Total liabilities	<u>28,110,625</u>	<u>27,815,517</u>	<u>28,084,686</u>
Net assets (deficiency):			
Invested in capital assets	546,788	723,991	914,090
Unrestricted	<u>(18,671,589)</u>	<u>(19,096,948)</u>	<u>(19,427,096)</u>
Net deficiency	<u>(18,124,801)</u>	<u>(18,372,957)</u>	<u>(18,513,006)</u>
	<u>\$ 9,985,824</u>	<u>\$ 9,442,560</u>	<u>9,571,680</u>

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	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues, Expenses and Changes in Net Assets:			
Revenue:			
Operating revenues	\$ 1,820,934	\$ 1,868,424	\$ 1,925,455
Tobacco Settlement revenue	1,343,390	1,283,456	1,382,787
(Provision) recovery of doubtful accounts receivable	(3,691)	89,669	-
Total revenue	<u>3,160,633</u>	<u>3,241,549</u>	<u>3,308,242</u>
Expenses:			
Operating expenses	(1,988,101)	(1,816,504)	(1,910,076)
Other income (expense), net	<u>(924,376)</u>	<u>(1,284,996)</u>	<u>(1,819,763)</u>
Increase (decrease) in net assets	248,156	140,049	(421,597)
Net deficiency at beginning of year	<u>(18,372,957)</u>	<u>(18,513,006)</u>	<u>(18,091,409)</u>
Net deficiency at end of year	<u>\$ (18,124,801)</u>	<u>\$ (18,372,957)</u>	<u>\$ (18,513,006)</u>

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in GEDCA's report on the audit of financial statements, which is dated January 31, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the Office of the Public Auditor's website at [www.guamopa.com](http://www.guamopa.com).

**2001 GEDCA Tobacco Settlement Asset Backed Bonds**

As authorized by Public Law 23-04, (the "Tobacco Trust and Endowment Fund Legislation"), Trust and endowment funds were established and funded from the proceeds of the 2001 GEDCA Tobacco Settlement Asset Backed Bonds to supplement health care and higher education on Guam.

GEDCA, on behalf of the Government of Guam, was assigned the rights to all tobacco receipts to ensure compliance with all contractual duties to the bondholders and to maintain the tax-exempt status of the Bonds. It was understood that the debt was truly a Government of Guam debt. GEDCA, acting as the pass through conduit per P.L. 23-04, was strictly the facilitator of the bonds.

**Operating Revenues**

In fiscal year 2007, GEDCA recorded operating revenues of \$1,820,934, compared to \$1,868,424 in fiscal year 2006. The year-to-year change of \$47,490 represents a decline of 2.542%. GEDCA generates its own revenues to sustain annual operations from two primary sources. The first is the rental income from Industrial Parks and the second is application and surveillance fees from QC beneficiaries. Bond fees are a third source, but are not a recurring annual income.

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**Industrial Park**

12 GCA Section 50103 authorizes GEDCA 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. GEDCA maintains industrial parks under leases from the Government of Guam: the 18-acre Harmon Industrial Park, the 26-acre E.T. Calvo Memorial Park, and the 32-acre Cabras Industrial Park. A fourth industrial park is operated under a lease with the U.S. Navy for ship repair and other industrial services.

Rental income decreased 1.851% from \$1,698,784 in FY06 to \$1,667,914 in FY07. The decrease was due to the expiration of the Tyco lease in April 2007. Part of the loss in rental income was mitigated by the increase in the lease of one tenant whose lease was renegotiated to fair market rental value.

**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 is proving to be just as effective in the growth and support of currently emerging industries. It is a proven enticement for investment that otherwise may not have happened, but for the program. A \$16,920 or 9.974% decrease in QC revenues occurred in FY07.

**Bond Fees**

GEDCA's mandate establishes the Authority as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Division, which assists with, coordinates and monitors Financial Advisory Services, Capital Financing Debt Management and the Capital Markets. GEDCA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula.

**Assets**

Land, building, improvements and equipment decreased \$177,203 or 24.48% in FY07. The decrease is attributed to current period depreciation expense of \$202,710 offset by acquisitions of \$25,507, which is mainly due to an upgrade of the MIP fund accounting system. Please refer to footnote 3 for additional information concerning fixed assets.

**Bonds Payable**

Total bonds payable, net of discount, increased \$163,643 in FY07. The increase is due to discount accretion of \$493,643 offset by a Turbo Redemption principal payment of \$330,000. The Tobacco Bonds were subsequently refinanced in December 2007. Please refer to footnote 9 for additional discussion.

**Operating Expenses**

The Authority's operating expenses in FY07 of \$1,991,792 (which includes the provision of doubtful accounts of \$3,691) increased 15.344% over FY06 of \$1,726,835 (which includes the recovery of doubtful accounts of \$89,669).

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**Personnel Expense**

Salaries and benefits increased 10.102% or \$134,405 (including allocation to trust funds) in FY07, which is attributable to an increase in benefits by 12.591%.

**Legal and Professional Services**

Professional service expense decreased \$6,504 or 1.804% from \$360,596 in FY06 to \$354,092 in FY07.

**Depreciation Expense**

Depreciation expense decreased \$2,479 or 1.208% from \$205,189 in FY06 to \$202,710 in FY'07.

**Office Space and Equipment Rental**

Office space and equipment rental increased by \$6,698 or 5.286% from \$126,719 in FY06 to \$133,417 in FY07. This was due to an increase in copier usage costs.

**Travel Expense**

Travel expense increased by \$24,926 from \$9,666 in FY06 to \$34,592 in FY07. Increase is attributed to active participation in business and promotional meetings related to island business and increased military opportunities.

**Miscellaneous Expense**

The increase in miscellaneous expenses, from \$20,381 to \$30,602, is mainly attributed to training and development.

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Statements of Net Assets (Deficiency)  
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<u>ASSETS</u>	<u>Divisional Information</u>		<u>2007</u>	<u>2006</u>
	<u>GEDCA</u>	<u>TSA</u>		
Current assets:				
Cash and cash equivalents	\$ 107,675	\$ 1,998,004	\$ 2,105,679	\$ 1,895,805
Investments	2,596,183	2,556,489	5,152,672	4,882,302
Current portion of notes and accrued interest receivable	115	-	115	115
Due from trust funds administered by GEDCA:				
Agricultural Development Fund	1,776	-	1,776	798
Guam Development Fund Act	29,619	-	29,619	25,130
Other receivables, net of an allowance for doubtful receivables of \$389,422 in 2007 and \$385,731 in 2006	383,511	-	383,511	433,276
Inventory	3,929	-	3,929	6,367
Prepaid expense	-	-	-	204
Deferred charges	1,286,966	-	1,286,966	934,045
Total current assets	4,409,774	4,554,493	8,964,267	8,178,042
Deferred bond issuance costs	-	471,269	471,269	537,027
Investments:				
Stock	3,500	-	3,500	3,500
Building, improvements and equipment, at cost, net	546,788	-	546,788	723,991
	\$ 4,960,062	\$ 5,025,762	\$ 9,985,824	\$ 9,442,560
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ 327,921	\$ -	\$ 327,921	\$ 327,921
Current portion of bonds payable	-	1,815,000	1,815,000	570,000
Accounts payable	1,136,029	-	1,136,029	1,175,175
Due to trust funds administered by GEDCA:				
Microenterprise Development Program	44,490	-	44,490	62,812
U.S. Base Relocation and Closure Commission	22	-	22	22
Accrued liabilities	573,642	-	573,642	429,311
Interest payable	-	311,000	311,000	340,000
Deferred rental income	142,516	-	142,516	134,194
Total current liabilities	2,224,620	2,126,000	4,350,620	3,039,435
Non-current liabilities:				
Bonds payable, net of current portion and discount	-	23,300,746	23,300,746	24,382,103
Accrued Retirement Fund contributions	407,406	-	407,406	358,603
DCRS sick leave liability	43,753	-	43,753	28,532
Deposits	8,100	-	8,100	6,844
Total non-current liabilities	459,259	23,300,746	23,760,005	24,776,082
Total liabilities	2,683,879	25,426,746	28,110,625	27,815,517
Commitments and contingencies				
Net assets (deficiency):				
Invested in capital assets	546,788	-	546,788	723,991
Unrestricted	1,729,395	(20,400,984)	(18,671,589)	(19,096,948)
Net assets (deficiency)	2,276,183	(20,400,984)	(18,124,801)	(18,372,957)
	\$ 4,960,062	\$ 5,025,762	\$ 9,985,824	\$ 9,442,560

See accompanying notes to consolidated financial statements.

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Years Ended September 30, 2007 and 2006

	Divisional Information		2007	2006
	GEDCA	TSA		
<b>Revenues:</b>				
Rental income	\$ 1,667,914	\$ -	\$ 1,667,914	\$ 1,698,784
Tobacco Settlement revenue	-	1,343,390	1,343,390	1,283,456
Qualifying certificate application and surveillance fees	152,720	-	152,720	169,640
Other	300	-	300	-
	<u>1,820,934</u>	<u>1,343,390</u>	<u>3,164,324</u>	<u>3,151,880</u>
(Provision) recovery of doubtful accounts receivable	(3,691)	-	(3,691)	89,669
	<u>1,817,243</u>	<u>1,343,390</u>	<u>3,160,633</u>	<u>3,241,549</u>
<b>Operating expenses:</b>				
Salaries and benefits	1,175,901	-	1,175,901	1,025,989
Legal and professional services	329,092	25,000	354,092	360,596
Depreciation and amortization	202,710	-	202,710	205,189
Office space and equipment rent	133,417	-	133,417	126,719
Travel	34,592	-	34,592	9,666
Advertising and promotions	22,676	-	22,676	30,799
Utilities, telephone and communication	15,947	-	15,947	17,507
Insurance	9,982	-	9,982	9,613
Supplies	7,095	-	7,095	6,308
Repairs and maintenance	1,087	-	1,087	3,737
Miscellaneous	30,602	-	30,602	20,381
	<u>1,963,101</u>	<u>25,000</u>	<u>1,988,101</u>	<u>1,816,504</u>
Operating (loss) income	(145,858)	1,318,390	1,172,532	1,425,045
<b>Other income (expense):</b>				
Interest expense, net	310	(1,399,870)	(1,399,560)	(1,507,053)
Investment income	-	203,091	203,091	178,385
Gain on investments	138,189	-	138,189	37,451
Typhoon recovery, net	92,478	-	92,478	-
Other income, net	41,426	-	41,426	15,475
Loss on transfer of property	-	-	-	(9,254)
Other (expense) income, net	272,403	(1,196,779)	(924,376)	(1,284,996)
Net increase in net assets	126,545	121,611	248,156	140,049
Net assets (deficiency) at beginning of year	2,149,638	(20,522,595)	(18,372,957)	(18,513,006)
Net assets (deficiency) at end of year	<u>\$ 2,276,183</u>	<u>\$ (20,400,984)</u>	<u>\$ (18,124,801)</u>	<u>\$ (18,372,957)</u>

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

	Divisional Information		2007	2006
	GEDCA	TSA		
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 1,920,490	\$ 1,343,390	\$ 3,263,880	\$ 3,956,356
Cash paid to suppliers for goods and services	(763,373)	(25,000)	(788,373)	(421,536)
Cash paid to employees for services	(1,111,877)	-	(1,111,877)	(890,651)
Net cash provided by operating activities	<u>45,240</u>	<u>1,318,390</u>	<u>1,363,630</u>	<u>2,644,169</u>
<b>Cash flows from investing activities:</b>				
Interest and investment income	138,189	203,091	341,280	215,836
Rollover of interest into investment	(138,189)	-	(138,189)	(37,451)
Purchase of investment securities	(15,918)	(116,263)	(132,181)	(1,475,985)
Net cash (used in) provided by investing activities	<u>(15,918)</u>	<u>86,828</u>	<u>70,910</u>	<u>(1,297,600)</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchase of property and equipment	(25,507)	-	(25,507)	(15,090)
Net cash used in capital and related financing activities	<u>(25,507)</u>	<u>-</u>	<u>(25,507)</u>	<u>(15,090)</u>
<b>Cash flows from noncapital financing activities:</b>				
Repayment of bond payable	-	(330,000)	(330,000)	-
Net interest received (paid) on deposit accounts, bond and notes payable	310	(869,469)	(869,159)	(947,652)
Net cash provided by (used in) noncapital financing activities	<u>310</u>	<u>(1,199,469)</u>	<u>(1,199,159)</u>	<u>(947,652)</u>
Net change in cash and cash equivalents	4,125	205,749	209,874	383,827
Cash and cash equivalents at beginning of year	103,550	1,792,255	1,895,805	1,511,978
Cash and cash equivalents at end of year	<u>\$ 107,675</u>	<u>\$ 1,998,004</u>	<u>\$ 2,105,679</u>	<u>\$ 1,895,805</u>
<b>Reconciliation of operating (loss) income to net cash provided by operating activities:</b>				
Operating (loss) income	\$ (145,858)	\$ 1,318,390	\$ 1,172,532	\$ 1,425,045
Typhoon recovery, net	92,478	-	92,478	-
Other income, net	41,426	-	41,426	15,475
<b>Adjustments to reconcile operating (loss) income to net cash provided by operating activities:</b>				
Depreciation and amortization	202,710	-	202,710	205,189
Provision (recovery) of doubtful accounts receivable	3,691	-	3,691	(89,669)
<b>(Increase) decrease in assets:</b>				
Due from trust funds administered by GEDCA	(5,467)	-	(5,467)	17,124
Other receivables	46,074	-	46,074	858,058
Inventory	2,438	-	2,438	7,942
Prepaid expenses	204	-	204	124,454
Deferred charges	(352,921)	-	(352,921)	(4,081)
<b>Increase (decrease) in liabilities:</b>				
Accounts payable	(39,146)	-	(39,146)	(219,765)
Due to trust funds administered by GEDCA	(18,322)	-	(18,322)	12,740
Accrued liabilities	144,331	-	144,331	192,674
Deferred rental income	8,322	-	8,322	30,943
Deposits	1,256	-	1,256	-
Accrued Retirement Fund contributions	48,803	-	48,803	67,298
DCRS sick leave liability	15,221	-	15,221	742
Net cash provided by operating activities	<u>\$ 45,240</u>	<u>\$ 1,318,390</u>	<u>\$ 1,363,630</u>	<u>\$ 2,644,169</u>
<b>Supplemental disclosure of non-cash transactions</b>				
Non-cash decrease in notes payable to GDFA and accrued interest payable through transfer of assets	\$ -	\$ -	\$ -	\$ 596,000
Non-cash decrease in other receivables and accounts payable due to direct payment made by lessee	-	-	-	260,698
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,698</u>

See accompanying notes to consolidated financial statements.

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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Economic Development and Commerce Authority (GEDCA) 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. Public Law No. 26-76 reenacted any reference in any law to the Guam Economic Development Authority (GEDA) to mean and be read as the Guam Economic Development and Commerce Authority (GEDCA). Enabling legislation set forth several specific purposes for the establishment of GEDCA 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, GEDCA 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. GEDCA 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 governmental entity created by public law, GEDCA is not subject to taxes and is a component unit of the Government of Guam.

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

In 1998, the U.S tobacco industry reached an agreement with state governments releasing the tobacco companies from present and future smoking-related claims that had been or potentially could be, filed by the states. A Master Settlement Agreement was reached in 1998 and Guam became one of the beneficiaries of the settlement amounts received as a result of this agreement. GEDCA created the Tobacco Settlement Authority to issue debt and to obtain the rights to all or a portion of the settling governments' future tobacco settlement resources.



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

New Accounting Standards

During fiscal year 2007, GEDCA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The implementation of this Statement did not have a material effect on the accompanying 2007 financial statements.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GEDCA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GEDCA.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GEDCA.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this Statement will have a material effect on the financial statements of GEDCA.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GEDCA.

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

**Principles of Consolidation**

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

**Basis of Accounting**

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

**Estimates**

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

**Net Assets**

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

**Cash and Cash Equivalents**

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

**Notes and Accrued Interest Receivable**

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

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

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. GEDCA generally capitalizes items with values \$500 or more and with useful lives extending beyond one year.

Bond Discounts and Issuance Costs

Bond discounts and debt issuance costs associated with the 2001 series bonds are being amortized over the lives of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts in connection with the Capital Appreciation Bonds (which, together with term bonds make up the 2001 series bonds), originally at \$2,782,541 upon issuance, are being amortized using the straight-line method through November 15, 2007, at which time the bonds convert to regular term bonds and incur semi-annual interest payments through maturity. Bonds payable are reported net of bond discounts whereas debt issuance costs are reported as deferred bond issuance costs.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Accumulation of annual leave credits was limited to 480 hours at fiscal year end. All such annual leave credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Up to 100 hours of annual leave earned in excess of 320 hours as of February 28, 2003, shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

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. GEDCA has accrued an estimated liability of \$43,753 and \$28,532 as of September 30, 2007 and 2006, respectively, for potential future sick leave payments as a result of this law. The actual liability that ultimately results may be significantly different than estimated.

Inventories

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

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

Operating Expenses

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

Risk Management

GEDCA purchases automobile insurance covering \$300,000 for general single limited liability, inclusive of \$3,000 per person medical. GEDCA also purchases commercial liability insurance against fire and typhoon damages to its leasehold improvements and contents. GEDCA 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 GEDCA to concentrations of credit risk consist principally of cash demand deposits and accounts receivable.

At September 30, 2007 and 2006, GEDCA has cash deposits in bank accounts that exceed federal depository insurance limits. GEDCA has not experienced any losses in such accounts.

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

(2) Cash and Investments

The bond indenture for the 2001 Series A and B Tobacco settlement bonds require the establishment of special funds to be held and administered by the trustees.

Investments in debt securities are carried at cost which approximates market value. Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Cash on hand and due from banks	\$ 107,675	\$ 103,550
Money market accounts	<u>1,998,004</u>	<u>1,792,255</u>
Cash and cash equivalents	\$ <u>2,105,679</u>	\$ <u>1,895,805</u>

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Notes to Financial Statements  
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(2) Cash and Investments, Continued

	<u>2007</u>	<u>2006</u>
Shares in mutual funds	\$ 1,513,628	\$ 2,442,076
Federal Home Loan Mortgage Corporation (FHLMC) discount note	2,556,489	2,440,226
Federal Home Loan Mortgage Corporation (FHLMC) discount note	359,403	-
Federal Home Loan Bank (FHLB) discount note	357,966	-
Federal Home Loan Bank (FHLB) discount note	<u>365,186</u>	<u>-</u>
Investments	\$ <u>5,152,672</u>	\$ <u>4,882,302</u>

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

A. Cash

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

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

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

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

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GEDCA'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. GEDCA does not have a deposit policy for custodial credit risk.

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Notes to Financial Statements  
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(2) Cash and Investments, Continued

A. Cash, Continued

At September 30, 2007 and 2006, the carrying amount of balances in banks was \$107,675 and \$103,550, respectively, and the corresponding bank balances were \$339,287 and \$263,025, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$162,626 and \$176,274 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2007 and 2006, respectively. GEDCA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

Cash and cash equivalents held by TSA are restricted for bond services and are invested in money market accounts and are held and administered by TSA's trustees in accordance with the bond indentures. Accordingly, these balances are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of the failure of the counterparty to the transaction, GEDCA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

B. Investments

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

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

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

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

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

As of September 30, 2007 and 2006, GEDCA's investments are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>
Shares in mutual funds	\$ 1,513,628	N/A	\$ 2,442,076	N/A
FHLMC discount note	2,556,489	11/01/07	2,440,226	11/07/06
FHLMC discount note	359,403	10/01/07	-	-
FHLB discount note	357,966	11/02/07	-	-
FHLB discount note	365,186	12/02/07	-	-

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(2) Cash and Investments, Continued

B. Investments, Continued

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDCA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDCA's investment in a FHLMC discount note of \$2,556,489 and \$2,440,226 at September 30, 2007 and 2006, respectively, is held and registered in the name of U.S. Bank as Co-Trustee for the 2001 Series A and B Tobacco Settlement Bond. GEDCA's investment in other FHLMC and FHLB discount notes and in shares of mutual funds is registered in GEDCA's name and is held by an investment manager for GEDCA.

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 GEDCA. As of September 30, 2007 and 2006, GEDCA's investment in FHLMC discount notes constituted 57% and 50% of its total investments, respectively. As of September 30, 2007, GEDCA's investment in FHLB discount notes constituted 14% of its total investments.

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

(3) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2007 and 2006 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2006</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2007</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Equipment	549,645	25,507	-	575,152
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>73,685</u>	<u>-</u>	<u>(34,851)</u>	<u>38,834</u>
	2,004,904	25,507	(34,851)	1,995,560
Less accumulated depreciation and amortization	<u>(1,280,913)</u>	<u>(202,710)</u>	<u>34,851</u>	<u>(1,448,772)</u>
	<u>\$ 723,991</u>	<u>\$ (177,203)</u>	<u>\$ -</u>	<u>\$ 546,788</u>

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**(3) Building, Improvements and Equipment, Continued**

	Beginning Balance <u>October 1, 2005</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2006</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Equipment	544,559	5,086	-	549,645
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>63,681</u>	<u>10,004</u>	<u>-</u>	<u>73,685</u>
	1,989,814	15,090	-	2,004,904
Less accumulated depreciation and amortization	<u>(1,075,724)</u>	<u>(205,189)</u>	<u>-</u>	<u>(1,280,913)</u>
	<u>\$ 914,090</u>	<u>\$ (190,099)</u>	<u>\$ -</u>	<u>\$ 723,991</u>

**(4) Employees' Retirement Plan**

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, and for several limited periods after December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise, they remained under the old plan.

The Defined Benefit Plan (DB Plan) and the DCRS are administered by the Government of Guam Retirement Fund, to which the Authority 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, 2005, 2004 and 2003, contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Normal costs (% of DB Plan payroll)	18.21%	17.83%	18.30%
Unfunded liability costs (% of total payroll)	<u>20.66%</u>	<u>21.36%</u>	<u>19.93%</u>
	38.87%	39.19%	38.23%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as a % of DB Plan payroll	<u>29.37%</u>	<u>29.69%</u>	<u>28.73%</u>
Government contribution as a % of total payroll	<u>27.48%</u>	<u>28.21%</u>	<u>24.89%</u>

Statutory contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, were as follows.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Employer contributions	22.94%	21.81%	20.81%
Employee contributions	9.50%	9.50%	9.50%



**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
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Notes to Financial Statements  
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**(4) Employees' Retirement Plan, Continued**

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	<u>2005</u> <u>Actuarial Valuation</u>	<u>2004</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.0%
Payroll increases	3.5%	3.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuation performed as of September 30, 2005 and 2004, 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. If the actuarial valuations were performed for GEDCA as a separate sponsor, the accrued unfunded liability at September 30, 2007 and 2006 may be materially different than that recorded in the accompanying financial statements.

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 investment account within the DCRS. Employees are afforded the opportunity to select from different investment options available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base 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 who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement expense (including allocations to the trust funds administered by GEDCA) for the years ended September 30, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash contributions and accruals	\$ 220,785	\$ 212,157	\$ 209,996
Increase in accrued unfunded liability to the retirement fund	<u>48,803</u>	<u>67,298</u>	<u>121,639</u>
	<u>\$ 269,588</u>	<u>\$ 279,455</u>	<u>\$ 331,635</u>

The Government of Guam Retirement Fund issues annual financial reports that include its financial statements and required supplementary information. Reports may be obtained by writing to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

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. The Authority has accrued an estimated liability of \$43,753 and \$28,532 at September 30, 2007 and 2006, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

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**(5) Rental Income**

GEDCA leases industrial parks from the Government of Guam for an annual rent of \$1 with terms expiring in 2068. GEDCA subleases space to various tenants under agreements that call for advance rental payments of one month's to one year's rent. GEDCA 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 2001, GEDCA agreed to a ten year term with a lessee 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 set in 2002. The lease was renewed in April 2006 for an additional 5-year term at \$120,000 per annum. The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. However, negotiations are ongoing and a definitive agreement has not been finalized. At September 30, 2005, estimated lease expense payable has been recorded of approximately \$260,698, which was directly paid by the lessee during the year ended September 30, 2006. GEDCA did not record any lease expense for 2007 and 2006 and expects that future lease expense over the following five years will be \$0.

Future minimum rentals to be received under noncancelable subleases as of September 30, 2007, are as follows:

Years ending September 30:	
2008	\$ 1,138,488
2009	1,102,971
2010	926,938
2011	487,796
2012	158,272
2013 – 2017	376,178
2018 – 2022	165,940
2023 – 2027	165,940
2028 – 2032	165,940
2033 – 2037	165,940
2038 – 2042	165,940
2043 – 2047	165,940
2048 – 2052	165,940
2053 – 2057	165,940
2058 – 2062	<u>165,940</u>
	<b>\$ <u>5,684,103</u></b>

**(6) Lease Commitments**

GEDCA has an operating lease for office space expiring February 28, 2011. Concurrently, GEDCA and Guam Housing Corporation (GHC), a Government of Guam agency, entered into a Memorandum of Understanding (MOU) in which GEDCA charges GHC for use of a portion of the office space.

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Notes to Financial Statements  
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**(6) Lease Commitments, Continued**

At September 30, 2007, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding are as follows:

Years ending September 30:	<u>Lease Agreement</u>	<u>GHC MOU</u>
2008	\$ 216,177	\$ 72,198
2009	216,177	72,198
2010	216,177	72,198
2011	<u>90,074</u>	<u>30,082</u>
	<u>\$ 738,605</u>	<u>\$ 246,676</u>

Rent expense, net of GHC reimbursements for the years ended September 30, 2007 and 2006, was \$143,979 and \$144,344, respectively, of which \$31,244 and \$40,186, respectively, was allocated to GDFA, ADF and MDP.

**(7) Contingencies**

GEDCA is in legal dispute with two former employees who are seeking reinstatement of employment and back-wages. GEDCA management is of the opinion that resolution of this matter will not have a material impact on the accompanying financial statements.

Additionally, GEDCA 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.

**(8) Related Parties**

At September 30, 2007 and 2006, the following trust funds were administered by GEDCA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2007</u>	<u>2006</u>
Guam Development Fund Act (GDFA)	\$ 12,557,246	\$ 12,394,381
Agricultural Development Fund (ADF)	832,880	816,707
Landowner's Recovery Fund (LRF)	-	-
Microenterprise Development Program (MDP)	44,741	63,988
Housing and Urban Development Fund (HUD)	-	445
Local Arts Revolving Fund (LARF)	-	-
Guam Territorial Aquarium Foundation (GTAF)	19,124	18,204
Music and Legends of Guam Fund (MLGF)	14,530	14,673
U.S. Base Realignment and Closure Commission (BRAC)	43	43

Agricultural Expense Insurance Fund (AEIF) and Aquacultural Training Fund (ATF) have no assets, liabilities, or net assets as of September 30, 2007 and 2006 and had no activities during the years then ended.

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Notes to Financial Statements  
September 30, 2007 and 2006

(9) Long-Term Obligations

Notes Payable to G DFA

	<u>2007</u>	<u>2006</u>
Term loan, originally payable in monthly installments of \$8,785, including interest at 4.5%	\$ 327,921	\$ 327,921
Less current portion	<u>(327,921)</u>	<u>(327,921)</u>
	\$ <u>-</u>	\$ <u>-</u>

During the year ended September 30, 2006, GEDCA entered into an agreement with G DFA where certain real properties were deeded to G DFA in partial satisfaction the loan. No other principal or interest payments were made during the years ended September 30, 2007 and 2006. GEDCA and G DFA have not reached an agreement as to repayment of the remaining loan balance and therefore the balance is presented as a current liability in the accompanying financial statements. Additionally, no interest has been accrued by GEDCA or G DFA during the years ended September 2007 and 2006.

Bonds Payable

	<u>2007</u>	<u>2006</u>
Tobacco settlement bonds, 2001 Series A (original issue of \$11,982,980 with a maturity par value of \$13,270,000), varying interest rates at 5% - 5.4% per annum, payable semiannually in May and November, principal fund payments due in varying annual installments commencing with a payment of \$580,000 in May 2002 and increasing to \$2,175,000 in May 2012. These bonds are payable solely from and secured by certain revenues. The bonds have been issued for deposit to trust and endowment funds.	\$ 10,590,000	\$ 10,920,000
Tobacco settlement bonds, 2001 Series B (original issue of \$13,494,479 with a maturity par value of \$14,990,000) varying interest rates at 5.2% - 5.5% per annum, payable semiannually in May and November, principal fund payments due in varying annual installments commencing with a payment of \$175,000 in May 2012 and increasing to \$3,615,000 in May 2017. These bonds are payable solely from and secured by certain revenues. The bonds have been issued for deposit to trust and endowment funds.	<u>14,990,000</u>	<u>14,990,000</u>
Less discount on bond issuance	<u>25,580,000</u> <u>(464,254)</u>	<u>25,910,000</u> <u>(957,897)</u>
Bond payable, net of discount on bond issuance	25,115,746	24,952,103
Less current portion	<u>(1,815,000)</u>	<u>(570,000)</u>
Bonds payable, net of current portion	\$ <u>23,300,746</u>	\$ <u>24,382,103</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(9) Long-Term Obligations, Continued

The annual payments on series 2001 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2007 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2008	\$ 1,815,000	\$ 1,087,343	\$ 2,902,343
2009	1,895,000	1,253,590	3,148,590
2010	2,040,000	1,154,760	3,194,760
2011	2,190,000	1,047,360	3,237,360
2012	2,350,000	931,613	3,281,613
2013 through 2017	<u>15,290,000</u>	<u>2,571,185</u>	<u>17,861,185</u>
	<u>\$ 25,580,000</u>	<u>\$ 8,045,851</u>	<u>\$ 33,625,851</u>

In December 2007, GEDCA issued Tobacco Settlement Asset-Backed Bonds, Series 2007 totaling \$36,982,077 (total maturity value of \$115,455,000 through June 1, 2057). Proceeds were used to refund the 2001 Series A and B bonds and approximately \$8,300,000 was transferred to the Government of Guam General Fund. The accompanying financial statements do not reflect the effect of this subsequent event.

During the years ended September 30, 2007 and 2006, the following changes occurred in liabilities reported as part of GEDCA's long-term liabilities in the statements of net assets:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due within one year
Bonds payable	\$ 25,910,000	\$ -	\$ (330,000)	\$ 25,580,000	\$ 1,815,000
Notes payable	<u>327,921</u>	<u>-</u>	<u>-</u>	<u>327,921</u>	<u>327,921</u>
	26,237,921	-	(330,000)	25,907,921	2,142,921
Deferred amounts:					
Unamortized discount on bonds issued	<u>(957,897)</u>	<u>-</u>	<u>493,643</u>	<u>(464,254)</u>	<u>-</u>
	<u>25,280,024</u>	<u>-</u>	<u>163,643</u>	<u>25,443,667</u>	<u>2,142,921</u>
Other liabilities:					
Unfunded pension	358,603	48,803	-	407,406	-
DCRS sick leave liability	28,532	15,221	-	43,753	-
Deposits	<u>6,844</u>	<u>1,256</u>	<u>-</u>	<u>8,100</u>	<u>-</u>
	<u>393,979</u>	<u>65,280</u>	<u>-</u>	<u>459,259</u>	<u>-</u>
	<u>\$ 25,674,003</u>	<u>\$ 65,280</u>	<u>\$ 163,643</u>	<u>\$ 25,902,926</u>	<u>\$ 2,142,921</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

**(9) Long-Term Obligations, Continued**

	Balance October 1, <u>2005</u>	Additions	Reductions	Balance September 30, <u>2006</u>	Due within <u>one year</u>
Bonds payable	\$ 25,910,000	\$ -	\$ -	\$ 25,910,000	\$ 570,000
Notes payable	<u>910,502</u>	-	<u>(582,581)</u>	<u>327,921</u>	<u>327,921</u>
	26,820,502	-	(582,581)	26,237,921	897,921
Deferred amounts:					
Unamortized discount on bonds issued	<u>(1,451,540)</u>	-	<u>493,643</u>	<u>(957,897)</u>	-
	<u>25,368,962</u>	-	<u>(88,938)</u>	<u>25,280,024</u>	<u>897,921</u>
Other liabilities:					
Unfunded pension	291,305	67,298	-	358,603	-
DCRS sick leave liability	27,790	742	-	28,532	-
Deposits	<u>6,844</u>	-	-	<u>6,844</u>	-
	<u>325,939</u>	<u>68,040</u>	-	<u>393,979</u>	-
	<u>\$ 25,694,901</u>	<u>\$ 68,040</u>	<u>\$ (88,938)</u>	<u>\$ 25,674,003</u>	<u>\$ 897,921</u>

**(10) Investment in Stock**

During the year ended September 30, 1998, GEDCA paid \$61,700 for shares (a 72% interest) of preferred stock in Heli-Guam, Inc. (HGI). This investment is carried at \$0 using the equity method. A summary of investment in stock at September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Bank of Guam	\$ 3,500	\$ 3,500
Heli-Guam, Inc	<u>-</u>	<u>-</u>
	<u>\$ 3,500</u>	<u>\$ 3,500</u>

**(11) Typhoon Recovery**

On December 8, 2002, Supertyphoon Pongsona struck Guam, with destructive winds of approximately 180 miles per hour. The Authority sustained typhoon damages and received FEMA and landlord assistance. Restoration and replacement of leasehold improvements and contents has been completed as of September 30, 2005. As of September 30, 2005, GEDCA incurred \$1,236,379 relating to restoration and replacement of leasehold improvements and contents, of which \$1,205,362 was capitalized as fixed assets. Of these costs, \$703,985 was reimbursed by FEMA in fiscal year 2005 and \$181,104 was reimbursed in 2006. During the year ended September 30, 2007, GEDCA received additional assistance of \$92,478 from FEMA relating to cost overruns that were not originally budgeted or approved. Due to the uncertainty of ultimate recovery, a receivable for this amount was not recorded as of September 30, 2006. As a result, income of \$92,478 was recorded in the accompanying 2007 financial statements. Furthermore, GEDCA received landlord and GHC contributions totaling \$150,000. Total cost of restoration to GEDCA was \$108,812.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(12) Financial Advisory Services

GEDCA entered into a financial advisory agreement (the Agreement) to receive debt issuance and related services. The Agreement calls for an annual fee of \$500,000, payable quarterly, plus actual expenses incurred. GEDCA has also entered into a Memorandum of Understanding (MOU) with Guam Power Authority (GPA) to receive an annual fee of \$85,000 from GPA. As of September 30, 2007 and 2006, balances related to these agreements are as follows:

	<u>2007</u>	<u>2006</u>
Receivable from GIAA	\$ -	\$ 100,000
Receivable from GPA	85,000	-
Payable under the Agreement	\$ <u>1,047,320</u>	\$ <u>1,159,399</u>

The aggregate differential as of September 30, 2007 has been allocated to ongoing bond projects that are expected to be finalized in the year ended September 30, 2008, and consequently, any uncollected costs have been recorded as deferred charges in the accompanying statement of net assets. Collection of the deferred charges is contingent upon final realization of future planned bond issuances.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
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Schedule 1  
Schedule of Salaries and Wages (Including Trust Funds)  
Years Ended September 30, 2007 and 2006

	2007	2006
Salaries and wages:		
Salaries	\$ 875,734	\$ 807,208
Benefits	589,097	523,218
Total salaries and wages	\$ 1,464,831	\$ 1,330,426
Employees at end of year	23	24

See accompanying independent auditors' report.



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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2007 AND 2006**

## Independent Auditors' Report

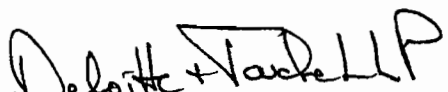
The Board of Directors  
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Landowner's Recovery Fund, the Microenterprise Development Program, the Housing and Urban Development Fund, the Local Arts Revolving Fund, the Guam Territorial Aquarium Foundation, the Music and Legends of Guam Fund and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 2007 and 2006, and the related statements of changes in fiduciary net assets for the years then ended. The Funds are administered by the Guam Economic Development and Commerce Authority (the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2007 and 2006, and the changes in their net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated January 21, 2008, on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
January 21, 2008

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

Statements of Fiduciary Net Assets  
September 30, 2007 and 2006

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2007	2006	2007	2006	2007	2006	2007	2006
Cash on hand and in bank	\$ 10,542	\$ 48,066	\$ 23,979	\$ 4,265	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	5,703,063	7,348,776	607,837	637,163	-	-	47,744	48,272
Less allowance for doubtful receivables	(4,444,587)	(4,255,061)	(514,624)	(508,817)	-	-	(47,744)	(47,347)
Net notes and accrued interest receivable	1,258,476	3,093,715	93,213	128,346	-	-	-	925
Due from other funds:								
Guam Economic Development and Commerce Authority	-	-	-	-	-	-	44,490	62,812
Guam Development Fund Act	-	-	-	-	-	-	251	251
Microenterprise Development Program	-	-	917	420	-	-	-	-
Agricultural Development Program	-	3	-	-	-	-	-	-
Investments	8,983,677	5,822,309	629,954	599,796	-	-	-	-
Other real estate:								
Land	648,195	823,870	83,000	83,000	-	-	-	-
Improvements	-	419,826	-	-	-	-	-	-
Leasehold interest, net	826,961	841,080	-	-	-	-	-	-
Other receivables	20,589	(9,006)	-	-	-	-	-	-
Furniture and equipment, at cost, net	8,806	14,512	491	853	-	-	-	-
Other assets	-	6	1,326	27	-	-	-	-
	<u>10,488,228</u>	<u>7,912,600</u>	<u>715,688</u>	<u>684,096</u>	<u>-</u>	<u>-</u>	<u>44,741</u>	<u>63,063</u>
Restricted assets:								
Investments	800,000	1,340,000	-	-	-	-	-	-
Total assets	<u>\$ 12,557,246</u>	<u>\$ 12,394,381</u>	<u>\$ 832,880</u>	<u>\$ 816,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,741</u>	<u>\$ 63,988</u>

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Assets, Continued  
September 30, 2007 and 2006

	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2007	2006	2007	2006	2007	2006	2007	2006
<b><u>LIABILITIES AND NET ASSETS</u></b>								
<b>Liabilities:</b>								
Accounts payable and accrued expenses	\$ 166,819	\$ 125,568	\$ 11,114	\$ 11,884	\$ -	\$ -	\$ 70	\$ 242
<b>Due to other funds:</b>								
Guam Economic Development and Commerce Authority	29,619	25,130	1,776	798	-	-	-	-
Microenterprise Development Program	251	251	-	-	-	-	-	-
Guam Development Fund Act	-	-	-	3	-	-	-	-
Agricultural Development Program	-	-	-	-	-	-	917	420
<b>Total liabilities</b>	<b>196,689</b>	<b>150,949</b>	<b>12,890</b>	<b>12,685</b>	<b>-</b>	<b>-</b>	<b>987</b>	<b>662</b>
<b>Contingencies</b>								
Net assets held in trust	12,360,557	12,243,432	819,990	804,022	-	-	43,754	63,326
<b>Total liabilities and net assets</b>	<b>\$ 12,557,246</b>	<b>\$ 12,394,381</b>	<b>\$ 832,880</b>	<b>\$ 816,707</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,741</b>	<b>\$ 63,988</b>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE  
GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
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Statements of Fiduciary Net Assets  
September 30, 2007 and 2006

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	<b>ASSETS</b>									
Due from Guam Economic Development and Commerce Authority	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22	\$ 22
Other receivables		445	-	-	-	-	-	-	21	21
Investments	-	-	-	-	19,124	18,204	-	-	-	-
Inventories	-	-	-	-	-	-	14,530	14,673	-	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 445</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,124</b>	<b>\$ 18,204</b>	<b>\$ 14,530</b>	<b>\$ 14,673</b>	<b>\$ 43</b>	<b>\$ 43</b>
<b>NET ASSETS</b>										
Net assets held in trust	-	445	-	-	19,124	18,204	14,530	14,673	43	43
<b>Total net assets</b>	<b>\$ -</b>	<b>\$ 445</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,124</b>	<b>\$ 18,204</b>	<b>\$ 14,530</b>	<b>\$ 14,673</b>	<b>\$ 43</b>	<b>\$ 43</b>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets  
Years Ended September 30, 2007 and 2006

	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Additions:</b>								
Interest	\$ 471,540	\$ 442,777	\$ 33,781	\$ 34,947	-	-	2	\$ 415
Net increase (decrease) in the fair value of investments	35,201	(3,271)	3,384	148	-	-	-	-
Net gain on sale of real property owned	46,999	2,662	-	-	-	-	-	-
Other	165,567	145,506	844	575	-	-	39	442
<b>Total additions</b>	<b>719,307</b>	<b>587,674</b>	<b>38,009</b>	<b>35,670</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>857</b>
<b>Deductions:</b>								
Salaries and benefits	259,243	276,859	13,091	27,578	-	-	16,596	-
Provision for doubtful notes and accrued interest	188,534	268,712	5,807	8,488	-	-	397	-
Legal and professional services	63,885	62,183	388	1,047	-	-	531	-
Rent	33,081	37,499	1,408	2,687	-	-	2,089	-
Provision for property valuation allowance	22,500	158,660	-	333,171	-	-	-	-
Depreciation	19,825	17,183	363	1,016	-	-	-	-
Bank charges	11,867	9,890	883	874	-	-	-	-
Miscellaneous	3,247	(16,695)	101	42	-	9,525	-	-
<b>Total deductions</b>	<b>602,182</b>	<b>814,291</b>	<b>22,041</b>	<b>374,903</b>	<b>-</b>	<b>9,525</b>	<b>19,613</b>	<b>-</b>
<b>Net change in net assets</b>	<b>117,125</b>	<b>(226,617)</b>	<b>15,968</b>	<b>(339,233)</b>	<b>-</b>	<b>(9,525)</b>	<b>(19,572)</b>	<b>857</b>
<b>Net assets at beginning of year</b>	<b>12,243,432</b>	<b>12,470,049</b>	<b>804,022</b>	<b>1,143,255</b>	<b>-</b>	<b>9,525</b>	<b>63,326</b>	<b>62,469</b>
<b>Net assets at end of year</b>	<b>\$ 12,360,557</b>	<b>\$ 12,243,432</b>	<b>\$ 819,990</b>	<b>\$ 804,022</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,754</b>	<b>\$ 63,326</b>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets (Deficiency)  
Years Ended September 30, 2007 and 2006

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Additions:									
Other	\$ -	\$ -	\$ -	\$ 8,703	\$ 920	\$ 522	\$ -	\$ -	\$ -	\$ -
Total additions	-	-	-	8,703	920	522	-	-	-	-
Deductions										
Miscellaneous	445	-	-	-	-	1,086	143	27	-	-
Total deductions	445	-	-	-	-	1,086	143	27	-	-
Net change in net assets (deficiency)	(445)	-	-	8,703	920	(564)	(143)	(27)	-	-
Net assets (deficiency) at beginning of year	445	445	-	(8,703)	18,204	18,768	14,673	14,700	43	43
Net assets at end of year	\$ -	\$ 445	\$ -	\$ -	\$ 19,124	\$ 18,204	\$ 14,530	\$ 14,673	\$ 43	\$ 43

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Landowner's Recovery Fund (LRF), the Microenterprise Development Program (MDP), the Housing and Urban Development Fund (HUD), the Local Arts Revolving Fund (LARF), the Guam Territorial Aquarium Foundation (GTAF), the Music and Legends of Guam Fund (MLGF) and the U.S. Base Realignment and Closure Committee (BRAC), are administered by the Guam Economic Development and Commerce Authority (GEDCA). GEDCA 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 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.

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.

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.

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

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.

MLGF - MLGF was created to satisfy any financial obligations of GEDCA 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.



**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2007 and 2006

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

Additionally, GEDCA administered the Agricultural Expense Insurance Fund (AEIF) and the Aquacultural Training Fund (ATF) which have no assets, liabilities or net assets as of September 30, 2007 and 2006 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements. The specific purpose of each fund is as follows:

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 2007 and 2006 nor were there any policies outstanding at September 30, 2007 and 2006.

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.

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 GEDCA. 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, 2007 and 2006.

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

Basis of Accounting

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

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

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

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2007 and 2006

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

Estimates

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

Cash and Cash Equivalents

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

Notes and Accrued Interest Receivable

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

Included in notes receivable for GDFA as of September 30, 2007 and 2006, is a note due from GEDCA for \$327,921. During the year ended September 30, 2006, GDFA entered into an agreement with GEDCA where certain real properties were deeded to GDFA for a partial satisfaction of the note. Properties received were valued at \$596,000 where \$596,000 was applied to the outstanding loan and accrued interest and \$5,000 was applied to fees relating to the agreement.

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

Allowance for Doubtful Receivables

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

Inventories

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

Expenses

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

Each Fund is charged a percentage of GEDCA's payroll expense based upon actual time personnel spend on the respective Fund. Additionally, GEDCA allocates a percentage of rent expense to GDFA and ADF.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2007 and 2006

**(2) Cash and Investments**

Investments in debt securities are carried at cost which approximates market value. Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2007 and 2006 consist the following:

	<u>2007</u>	<u>2006</u>
Cash on hand and due from banks	\$ <u>34,521</u>	\$ <u>52,331</u>
Cash and cash equivalents	\$ <u>34,521</u>	\$ <u>52,331</u>
Shares in mutual funds	\$ 5,958,000	\$ 7,780,309
Federal Home Loan Mortgage Corporation (FHLMC) discount note	1,485,597	-
Federal Home Loan Bank (FHLB) discount note	1,479,654	-
Federal Home Loan Bank (FHLB) discount note	<u>1,509,504</u>	<u>-</u>
Investments	\$ <u>10,432,755</u>	\$ <u>7,780,309</u>

The deposits and investment policies of GEDCA are governed by 5 GCA 21, *Investments and Deposits*. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificate 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. Cash**

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

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

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

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

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GEDCA'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. GEDCA does not have a deposit policy for custodial credit risk.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2007 and 2006

(2) Cash and Investments, Continued

A. Cash, Continued

At September 30, 2007 and 2006, the carrying amount of balances due from banks was \$34,521 and \$51,931, respectively, and the corresponding bank balances were \$35,110 and \$52,301, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. As the trust funds are administered by GEDCA, cash balances of the trust funds, combining with the cash balances of GEDCA, exceed the insurance limit of the Federal Deposit Insurance Corporation (FDIC) at September 30, 2007 and 2006. GEDCA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

B. Investments

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

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

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

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

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

As of September 30, 2007 and 2006, investments are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>
Shares in mutual funds	\$ 5,958,000	N/A	\$ 7,780,309	N/A
FHLMC discount note	1,485,597	10/01/07	-	-
FHLB discount note	1,479,654	11/02/07	-	-
FHLB discount note	1,509,504	12/02/07	-	-

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.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2007 and 2006

(2) Cash and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDCA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDCA's investment in other FHLMC and FHLB discount notes and in shares of mutual funds is registered in GEDCA's name and is held by an investment manager for GEDCA.

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 GEDCA. As of September 30, 2007, GEDCA's investment in FHLB and FHLMC discount notes constituted 29% and 14% of its total investments, respectively. There was no concentration of credit risk for investments as of September 30, 2006.

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

(3) Other Real Estate, Land

GDFFA and ADF have acquired certain land through foreclosure of loans. During the year ended September 30, 2007, GDFFA discovered that a recorded land has not been subdivided and as such, it is not readily marketable; as a result, GDFFA provided a valuation allowance of \$22,500 for this property. During the year ended September 30, 2006, GDFFA performed market valuation analyses and accordingly provided valuation allowance of \$158,660 for two parcels that are actively marketed for sale.

A summary of the changes in other real estate for 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 906,870	\$ 995,155
Additions	-	395,818
Sales	<u>(153,175)</u>	<u>(325,443)</u>
	753,695	1,065,530
Provision for losses	<u>(22,500)</u>	<u>(158,660)</u>
Balance at end of year	\$ <u>731,195</u>	\$ <u>906,870</u>

(4) Other Real Estate, Leasehold Interest

GDFFA and ADF have acquired leasehold interest in land through foreclosure of loans. Leasehold interests are reflected at cost of \$1,231,600 (net of a valuation allowance of \$333,171) as of September 30, 2007 and 2006, net of accumulated amortization of \$71,468 and \$57,349 at September 30, 2007 and 2006, respectively. During the year ended September 30, 2006, ADF performed market valuation analyses and accordingly, provided a valuation allowance of \$333,171 for one leasehold interest.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2007 and 2006

**(5) Contingencies**

At September 30, 2006, GDFA was contingently liable as guarantor for a loan in the amount of \$540,000 and any related collection costs. No guaranty was outstanding as of September 30, 2007. In accordance with Section 4 of the Guam Development Fund Act of 1968; GDFA is required to maintain reserves of not less than 25% of the loan guarantee. Investments internally restricted for this purpose amounted to \$800,000 and \$1,340,000 at September 30, 2007 and 2006, respectively.

On October 21, 2004, GEDCA entered into a pledge and security agreement with a financial institution to essentially guarantee the repayment of a loan to Guam Motion Pictures Company (GMPC) to a maximum amount of \$800,000. GMPC was incorporated in Guam for the sole purpose of producing a motion picture entitled *Max Havoc: Curse of the Dragon*. The loan called for interest-only payments through June 2006, at which time the principal became due. Repayment of the loan was contingent upon the successful distribution of the final production. Additionally, GEDCA obtained a UCC-1 security agreement over GMPC's assets, as well as a continuing guaranty from GMPC's president. In accordance with the agreement, \$800,000 was transferred from the GDFA loan fund investment account to an interest-bearing money market account with the financial institution as collateral. GEDCA provided for the likely loss of the cash collateral in the full amount as of September 30, 2005. During the year ended September 30, 2006, GMPC defaulted on the loan and the cash collateral was called upon for debt repayment. GEDCA is currently in litigation with GMPC and the guarantor; however, the ultimate recovery, if any, is not determinable.

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Guam Economic Development and Commerce Authority:

We have audited the financial statements of the Guam Economic Development and Commerce Authority and subsidiary (GEDCA), as of September 30, 2007, and for the year then ended, and have issued our report thereon dated January 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GEDCA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the GEDCA's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the GEDCA's internal control.

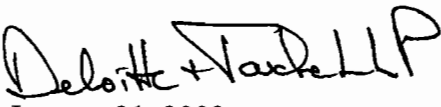
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

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

We noted certain matters that we reported to management of GEDCA in a separate letter dated January 21, 2008.

This report is intended for the information of the Board of Directors and management of GEDCA, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
January 21, 2008