

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

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

SEPTEMBER 30, 2008 AND 2007

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

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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying statements of net assets (deficiency) of the Guam Economic Development Authority and subsidiary (the Authority), a component unit of the Government of Guam, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

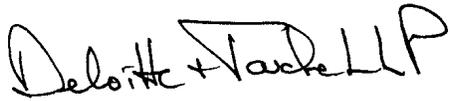
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Economic Development Authority and subsidiary at September 30, 2008 and 2007, 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* (GASB). This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental divisional information on pages 11 through 14, the supplemental data on page 31 and the supplemental comparative divisional schedules on pages 33 through 36 are presented for the purpose of additional analysis and not required parts of the basic financial statements. This additional information is the responsibility of the Authority's management. Such information has been subjected to audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

April 13, 2009

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Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

Preface

The mission of the Guam Economic Development Authority, Aturidat Inadilanton Ikunumihan 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), GEDA has broad responsibility for the centralized direction, control and supervision of an integrated plan for the economic development of Guam through its programs and offerings, which include public financial services, incentive programs, real property management, and financial assistance.

FY2008 Highlights

With the passage of Public Law 29-113, the Government of Guam FY 2009 budget, the *Guam Economic Development and Commerce Authority (GEDCA)* was renamed back to *Guam Economic Development Authority (GEDA)* as the original intent of assuming responsibilities of the defunct Guam Department of Commerce in 2002 was never realized [repealed and reenacted §50101(a)]. The law further clarified the public non-profit status of GEDA to assist in the implementation of programs for the economic development of the island [amended §50103(a)].

Financial Services

Mandated to serve as the Central Financial Manager for the Government of Guam, through its Public Finance Department, GEDA assists with, coordinates and monitors Financial Advisory Services, Capital Financing, Debt Management and the Capital Markets. Accomplishments in the last year include the following:

- Assisted in the issuance of the 2007 General Obligation Bonds as authorized by Public Law 29-19 (November 2007) which refinanced a portion of the 1993 bonds and secured approximately \$69.3MM in new money bond proceeds to fund \$40MM of Government of Guam operational costs and \$29.3MM for capital improvement projects at the Guam Public School System ("GPSS"), the University of Guam ("UOG") and the Guam Memorial Hospital Authority ("GMHA").
- Facilitated the issuance of the 2007 Tobacco Bonds (December 2007) as authorized by Public Law 29-19 (November 2007) which refinanced the 2001 Tobacco Bonds and provided \$8.0MM for new capital projects at the GMHA and the Department of Public Health and Social Services ("DPHSS") Southern Regional Center.
- Assisted the Legislature and the Administration in securing a \$13.8MM loan with the Bank of Guam on behalf of the Government of Guam to cover the past due streetlight costs to the Guam Power Authority ("GPA") (June 2008). This 4-year term loan was secured with Section 30 funds.
- Assisted in the development of legislation and amending bond documents in identifying an additional \$7.5MM in a Lease Financing proceeds for the Guam Public School System schools constructed under the original 2006 Leaseback financing. Proceeds used to fund off-site infrastructure improvements, furnishing, equipment and athletic lighting for the two new elementary schools, one middle school and one high school (November 2008).
- Participated with the Administration's Fiscal Team on developing the Government of Guam's 2008 Fiscal Recovery Plan presented to S&P in October 2008. Subsequently the overall bond rating of the government was upgraded from "B" to "B+".
- Worked with GPA on further improving their financial status resulting in an S&P bond upgrade from "BB+" to "BBB-" (December 2008)

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During the year, GEDA facilitated the bond financing process for the Refinancing of the 1993 General Obligation Bonds (October 2007) and the 2001 Tobacco Bonds (December 2007). Unfortunately the authorized GovGuam \$246MM Deficit Financing has not been secured as the market collapse has prevented access to investors who are now investing solely in high grade municipal bonds ("A" to "AAA" category).

Bond Market Update

GEDA stressed that the municipal market has not been immune from the global financial crisis. The lack of market access since the 3rd Quarter 2008 has severely limited Government of Guam's funding opportunity for approved financial projects.

In September 2008, the primary municipal market declined due to the financial industry's woes, municipal bond insurer downgrades and massive bond fund outflows. Despite the Government of Guam's credit rating upgrade to "B+" from "B", the Government was unable to sell its General Obligation bonds in December 2008 due to waning market conditions. Interest rates and credit spreads between investment and non-investment grade continue to remain elevated, resulting in tremendously high borrowing costs for lower-grade issues. No non-investment grade credits accessed the market during the 4th Quarter 2008.

During the first few months of 2009, the municipal market showed signs of improvement; however it has been dominated by highly rated General Obligation bonds and essential service revenue bonds. Very few non-investment grade credits have been able to access the market since the year began, as more than 90% of all issuers entering the market were rated in the "A" category or above. Since January 2009, the "AAA" Municipal Market Data yield curve has fallen approximately 100 basis points and large transactions have been brought to market for issuers including the State of California and State of Wisconsin. Municipal bond funds have experienced consecutive weeks of inflows compared to the sell offs experienced in late 2008. In addition, the trading relationship between municipals and Treasuries has returned to levels that are closer to normal. Although the market for low- to non-investment grade credits is still unsteady, there have been signs of positive movement in the last few weeks.

Qualifying Certificate Moratorium

Due to concerns with the QC program, the Legislature included in Public Law 29-19, a moratorium on the issuance of QC's from October 2007 through July 31, 2008, with the exception of the captive insurance industry. The purpose of the moratorium was to conduct an extensive review of the existing program relative to present economic realities, and to clarify and strengthen some of the existing provisions of the current program.

The QC Review Sub-Committee finalized their report and submitted such to the Guam Legislature. The moratorium was subsequently lifted as scheduled. As chair of the QC Review Sub-committee comprised of private and public sector representatives, GEDA established a Memorandum of Understanding with the University of Guam, Pacific Center for Economic Initiatives to collaborate and assist in the development of a network to generate and produce on a timely basis current economic data and business

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resources. Through this collaboration, Dr. Claret Ruane, faculty member under the UOG School of Business & Public Administration, developed an Economic Impact Model to be used in evaluating applications under the Qualifying Certificate Program, with a report on "Analyzing the Economic/Fiscal Impact of the Qualifying Certificate Program." The model is being tested by the Programs & Compliance division. In addition, GEDA's Industry Development division also completed a section-by-section review of the current QC law and made proposed changes to strengthen the program. All of these were submitted to the Tax Review Commission led by Senator Ben Pangelinan under the Mina 'Bente Nuebe na Liheslaturan Guahan.'

GEDA's Program's & Compliance division, the monitoring arm of the QC program had completed a comprehensive audit and review of the authorized tax credit programs, namely the Guam Raceway and the Guam Soccer Facility. GEDA's compliance team collaborated directly with the Dept. of Revenue & Taxation's compliance arm to reconcile all tax credit programs and verification of all authorized recipients.

Real Property Management

GEDA, through its Real Property division, manages three industrial parks, the E.T. Calvo, Harmon, and Cabras Industrial Parks and Guam Shipyard. The main source of GEDA's operating budget, the industrial parks generate approximately \$1.6MM annually. In terms of economic development, the parks generate about 700 to 1000 jobs, \$21MM in payroll, \$55-70MM in gross sales, \$2M in GRT.

Leveraging the Authority's real property management program, GEDA engaged in a management Memorandum of Understanding with the Guam Ancestral Lands Commission, to lease Spanish Crown properties. For the period October 2007 to December 4, 2008, GEDA collected \$113,818.80 in ground lease rents (no participation rent received yet) of which \$97,542.72 was remitted to GALC while \$16,276.08 was retained by GEDA as provided for in the MOU.

As part of GEDA's role in supporting Governor Camacho's Civilian Military Task Force, the Authority helped to secure grants for the following:

- \$1.5M for A/E of the Port Authority of Guam's new wharf
- \$50K for an industrial park feasibility study
- \$67K for a storm water management plan
- \$8K for an environmental assessment at Polaris Point
- \$400K for a Procurement Technical Assistance Center
- \$4.6M in military buildup planning grants under Governor's Office

Marketing & Promotions:

- The GEDA Administrator led a trade mission at the invitation of the Philippine Association of Service Exporters ("PASEP") regarding the military buildup and the construction labor needs of Guam during their general membership meeting held on October 19, 2007.
- Following this event, GEDA was invited again to make a presentation to the Philippine Franchise Association ("PFA") at their General Membership Meeting of over 100 members in attendance (May 22, 2008).

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- On January 29-31, 2008, GEDA, in collaboration with the Pacific Islands Small Business Development Center (PISBDC) and the Guam Small Business Administration (SBA) organized a seminar entitled "Preparing a Winning Contract" focusing on federal contracts procurement for the benefit of the local small business community.
- GEDA Management participated with the Governor in the Guam-New Zealand Trade Mission, July 3 – 9, 2008. A visit with the Prime Minister Helen Clark noted great interest in the preservation and promotion of both island cultures through exchange programs, opportunities in tourism and technical assistance in the exploration of alternative energy for Guam, particularly in the study of geothermal energy.

FINANCIAL COMMENTS

The following table summarizes the statements of net assets (deficiency) and operations of Guam Economic Development Authority for 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 7,259,558	\$ 7,677,301	\$ 7,243,997
Long-term assets:			
Building, improvements and equipment, at cost, net	347,134	546,788	723,991
Deferred bond issuance costs	780,920	471,269	537,027
Deferred charges	903,350	1,286,966	934,045
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	<u>\$ 9,294,462</u>	<u>\$ 9,985,824</u>	<u>\$ 9,442,560</u>
Liabilities and Net Deficiency:			
Current liabilities:			
Current portion of long-term debt, net	\$ 1,380,000	\$ 2,142,921	\$ 897,921
Other current payables	1,623,963	2,207,699	2,141,514
Long-term liabilities:			
Long-term debt, net	30,689,368	23,300,746	24,382,103
Other long-term payable	<u>530,555</u>	<u>459,259</u>	<u>393,979</u>
Total liabilities	<u>34,223,886</u>	<u>28,110,625</u>	<u>27,815,517</u>
Net assets (deficiency):			
Invested in capital assets	347,134	546,788	723,991
Unrestricted	<u>(25,276,558)</u>	<u>(18,671,589)</u>	<u>(19,096,948)</u>
Net deficiency	<u>(24,949,424)</u>	<u>(18,124,801)</u>	<u>(18,372,957)</u>
	<u>\$ 9,294,462</u>	<u>\$ 9,985,824</u>	<u>\$ 9,442,560</u>

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	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues, Expenses and Changes in Net Assets:			
Revenue:			
Operating revenues	\$ 1,878,420	\$ 1,820,934	\$ 1,868,424
Tobacco Settlement revenue	2,788,041	1,343,390	1,283,456
Recovery of (provision for) Doubtful accounts receivable	<u>20,038</u>	<u>(3,691)</u>	<u>89,669</u>
Total revenue	<u>4,686,499</u>	<u>3,160,633</u>	<u>3,241,549</u>
Expenses:			
Operating expenses	(2,013,253)	(1,988,101)	(1,816,504)
Other income (expense), net	<u>(9,477,869)</u>	<u>(924,376)</u>	<u>(1,284,996)</u>
Increase (decrease) in net assets	(6,804,623)	248,156	140,049
Net deficiency at beginning of year	(18,124,801)	(18,372,957)	(18,513,006)
Net deficiency at end of year	\$ <u>(24,929,424)</u>	\$ <u>(18,124,801)</u>	\$ <u>(18,372,957)</u>

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in GEDCA's report on the audit of financial statements, which is dated January 21, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be viewed at the Office of the Public Auditor's website at www.guamopa.com

2001 GEDA 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 GEDA Tobacco Settlement Asset Backed Bonds to supplement health care and higher education on Guam.

GEDA, 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. GEDA, acting as the pass through conduit per P.L. 23-04, was strictly the facilitator of the bonds.

The 2001 bonds were subsequently refinanced in December 2007 and as authorized by Public Law 29-19 to provide new bond proceeds for new capital projects at the GMHA and DPHSS Southern Regional Center.

Operating Revenues

In fiscal year 2008, GEDA recorded operating revenues of \$1,878,420, compared to \$1,820,934 in fiscal year 2007. The year-to-year change of \$57,486 represents an increase of 3.2%. GEDA generates its own revenues to sustain annual operations from two primary sources. The first is the rental income from Industrial Parks and the second is application and surveillance fees from QC beneficiaries. Bond fees are a third source, but are not a recurring annual income.

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Industrial Park

12 GCA Section 50103 authorizes GEDA to lease Government of Guam land to promote investments in entrepreneurial capital thereby increasing opportunity for employment in manufacturing, industrial, commercial, recreational, retail and service enterprises. GEDA maintains industrial parks under leases from the Government of Guam: the 18-acre Harmon Industrial Park, 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 1.3% from \$1,667,914 in FY07 to \$1,648,994 in FY08. The change was due to a decrease of Shell Dock activity in which reduced GEDA's share of rent from the Port Authority of Guam ("PAG").

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 \$69,046 or 31.13% increase in QC revenues accrued in FY08.

Bond Fees

GEDA'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. GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula.

Assets

Land, building, improvements and equipment decreased \$199,654 or 36.51% in FY08. The decrease is attributed to current period depreciation expense of \$207,871 offset by acquisitions of \$8,217, which is mainly due to a hard drive replacement of the telephone system.

Bonds Payable

The Tobacco Bonds were subsequently refinanced in December 2007 as authorized by Section 81113 of Chapter 81 of Division 2 of Title 12, Guam Code Annotated. The proceeds derived from GEDA's Tobacco Settlement Asset-Backed Bonds, Series 2007 were established with the Bank of Guam on December 13, 2007 and funded in the amounts provided below. These funds are readily available for use in accordance with the Legislation detailed in points 1 and 2 below.

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<u>Purpose</u>	<u>Proceeds Deposited</u>
1. Southern Regional Health Center Public Health and Social Services to fund the renovation and capital improvement needs of the Southern Regional Health Center.	\$6,258,847
2. Guam Memorial Hospital For radiation therapy for cancer treatment provided through the Medically Indigent Program (MIP). The Guam Memorial Hospital Authority <i>shall</i> enter into a contract <i>or</i> a public-private partnership agreement for the operation of a Radiation Therapy Machine. Said contract <i>or</i> public-private partnership agreement <i>shall</i> provide for the care of indigent patients under the Medically Indigent Program (MIP) and Medicaid Program and <i>shall</i> require that invoices for cancer treatment be paid within sixty (60) days after receipt.	\$2,086,431
Total	\$8,345,278

Operating Expense

The Authority's operating expense in FY08 was \$1,993,215 (which includes the reversal of provision for doubtful accounts of \$20,038), an increase of .071% over FY07 of \$1,991,792 (which includes a provision for doubtful accounts of \$3,691).

Personnel Expenses

Salaries and benefits increased 4.77% or \$69,874 (including allocation to trust funds) in FY08, which is attributed to an increase in benefits of 6.96% or \$41,018 and an increase in staff.

Legal and Professional Services

Professional service expense decreased \$132,749 or 37.489% from \$354,092 in FY07 to \$221,343 in FY08.

Depreciation Expense

Depreciation expense increased \$5,161 or 2.546% from \$202,710 in FY07 to \$207,871 in FY08.

Office Space and Equipment Rental

Office space and equipment rental increased by \$3,645 or 2.732% from \$133,417 in FY07 to \$137,062 in FY08.

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Travel

Travel expense increased by \$1,291 from \$34,592 in FY07 to \$35,883 in FY08. 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 \$30,602 to \$36,935, is mainly attributed to training and development.

Capital Assets and Debt Administration

Nominal investments in capital assets occurred during fiscal year 2008. For additional information on capital assets, please see Note 3 to the financial statements.

Changes in debt have been discussed above. For additional information concerning debt, please refer to Note 9 to the financial statements.

FY2009 Initiatives and Economic Outlook

- Realignment of current organizational structure from a service perspective to ensure that services and programs respond to the current needs and challenges of today's business environment.
- Part of the realignment will include re-branding the Authority's corporate image. A new logo and positioning for GEDA and Guam promotions will be developed.
- GEDA will engage in a Small Business Community Outreach program in collaboration with the Small Business Development Center (SBDC) and the Guam Procurement Technical Assistance Center (PTAC) to foster local small business development promoting the Authority's financial assistance program; SBDC's technical assistance programs and services; and PTAC's counseling and technical assistance services.
- GEDA will open and host the second of two satellite offices for the PTAC, to assist Guam's local small business community to engage in federal contracting opportunities.
- GEDA's Program & Compliance division will conduct a comprehensive review of the current Qualifying Certificate program beneficiaries.
- GEDA will establish and engage in cooperatives and partnerships with organizations within the Government of Guam as well as within the private sector, that share similar objectives, to leverage resources for the promotion of opportunities and initiatives in line with developing Guam's economy.
- To further efforts in the diversification of the island's economy, GEDA will conduct targeted trade missions, as well as participate in designated industry conferences and promotions.
- GEDA will assist the Bureau of Planning in the development of the 2009 Comprehensive Economic Development Strategy (CEDS) Plan.

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Statements of Net Assets (Deficiency)
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<u>ASSETS</u>	Divisional Information		2008	2007
	GEDA	TSA		
Current assets:				
Cash and cash equivalents	\$ 58,698	\$ 1,062,111	\$ 1,120,809	\$ 2,105,679
Investments	2,844,630	2,807,886	5,652,516	5,152,672
Notes and accrued interest receivable	115	-	115	115
Due from trust funds administered by GEDCA:				
Agricultural Development Fund	42,034	-	42,034	1,776
Guam Development Fund Act	24,004	-	24,004	29,619
Other receivables, net of an allowance for doubtful receivables of \$369,384 in 2008 and \$389,422 in 2007	409,126	-	409,126	383,511
Inventory	8,354	-	8,354	3,929
Prepaid expense	2,600	-	2,600	-
Total current assets	3,389,561	3,869,997	7,259,558	7,677,301
Deferred charges	903,350	-	903,350	1,286,966
Deferred bond issuance costs	-	780,920	780,920	471,269
Equity investment	3,500	-	3,500	3,500
Building, improvements and equipment, at cost, net	347,134	-	347,134	546,788
	\$ 4,643,545	\$ 4,650,917	\$ 9,294,462	\$ 9,985,824
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ -	\$ -	\$ -	\$ 327,921
Current portion of bonds payable	-	1,380,000	1,380,000	1,815,000
Accounts payable	775,783	-	775,783	1,136,029
Due to trust funds administered by GEDCA:				
Microenterprise Development Program	30,422	-	30,422	44,490
U.S. Base Relocation and Closure Commission	22	-	22	22
Accrued liabilities	81,449	-	81,449	573,642
Interest payable	-	590,000	590,000	311,000
Deferred rental income	146,287	-	146,287	142,516
Total current liabilities	1,033,963	1,970,000	3,003,963	4,350,620
Non-current liabilities:				
Bonds payable, net of current portion and discount	-	30,689,368	30,689,368	23,300,746
Accrued Retirement Fund contributions	461,665	-	461,665	407,406
DCRS sick leave liability	57,677	-	57,677	43,753
Deposits	11,213	-	11,213	8,100
Total non-current liabilities	530,555	30,689,368	31,219,923	23,760,005
Total liabilities	1,564,518	32,659,368	34,223,886	28,110,625
Commitments and contingencies				
Net assets (deficiency):				
Invested in capital assets	347,134	-	347,134	546,788
Unrestricted	2,731,893	(28,008,451)	(25,276,558)	(18,671,589)
Net assets (deficiency)	3,079,027	(28,008,451)	(24,929,424)	(18,124,801)
	\$ 4,643,545	\$ 4,650,917	\$ 9,294,462	\$ 9,985,824

See accompanying notes to consolidated financial statements.

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	Divisional Information		2008	2007
	GEDA	TSA		
Revenues:				
Rental income	\$ 1,648,994	\$ -	\$ 1,648,994	\$ 1,667,914
Tobacco Settlement revenue	-	2,788,041	2,788,041	1,343,390
Qualifying certificate application and surveillance fees	221,766	-	221,766	152,720
Other	7,660	-	7,660	300
	<u>1,878,420</u>	<u>2,788,041</u>	<u>4,666,461</u>	<u>3,164,324</u>
Recovery of (provision for) doubtful accounts receivable	20,038	-	20,038	(3,691)
	<u>1,898,458</u>	<u>2,788,041</u>	<u>4,686,499</u>	<u>3,160,633</u>
Operating expenses:				
Salaries and benefits	1,292,245	-	1,292,245	1,175,901
Legal and professional services	208,452	12,891	221,343	354,092
Depreciation and amortization	207,871	-	207,871	202,710
Office space and equipment rent	137,062	-	137,062	133,417
Travel	35,883	-	35,883	34,592
Advertising and promotions	48,184	-	48,184	22,676
Utilities, telephone and communication	15,650	-	15,650	15,947
Insurance	8,408	-	8,408	9,982
Supplies	8,020	-	8,020	7,095
Repairs and maintenance	1,652	-	1,652	1,087
Miscellaneous	36,935	-	36,935	30,602
	<u>2,000,362</u>	<u>12,891</u>	<u>2,013,253</u>	<u>1,988,101</u>
Operating (loss) income	<u>(101,904)</u>	<u>2,775,150</u>	<u>2,673,246</u>	<u>1,172,532</u>
Other income (expense):				
Interest expense, net	368	(2,213,713)	(2,213,345)	(1,399,560)
Investment income	-	176,374	176,374	203,091
Gain on investments	88,150	-	88,150	138,189
Typhoon recovery, net	-	-	-	92,478
Other income, net	37,459	-	37,459	41,426
Reversal of contingent losses	450,850	-	450,850	-
Transfer from Guam Development Fund Act	327,921	-	327,921	-
Transfer to Government of Guam custodial account	-	(8,345,278)	(8,345,278)	-
Other (expense) income, net	<u>904,748</u>	<u>(10,382,617)</u>	<u>(9,477,869)</u>	<u>(924,376)</u>
Net increase (decrease) in net assets	802,844	(7,607,467)	(6,804,623)	248,156
Net assets (deficiency) at beginning of year	<u>2,276,183</u>	<u>(20,400,984)</u>	<u>(18,124,801)</u>	<u>(18,372,957)</u>
Net assets (deficiency) at end of year	<u>\$ 3,079,027</u>	<u>\$ (28,008,451)</u>	<u>\$ (24,929,424)</u>	<u>\$ (18,124,801)</u>

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	Divisional Information		2008	2007
	GEDA	TSA		
Cash flows from operating activities:				
Cash received from customers	\$ 1,943,461	\$ 2,788,041	\$ 4,731,502	\$ 3,263,880
Cash paid to suppliers for goods and services	(577,078)	(12,891)	(589,969)	(788,373)
Cash paid to employees for services	(1,247,214)	-	(1,247,214)	(1,111,877)
Net cash provided by operating activities	<u>119,169</u>	<u>2,775,150</u>	<u>2,894,319</u>	<u>1,363,630</u>
Cash flows from investing activities:				
Interest and investment income	88,150	176,374	264,524	341,280
Rollover of interest into investment	(88,150)	-	(88,150)	(138,189)
Purchase of investment securities	(160,297)	(251,397)	(411,694)	(132,181)
Net cash (used in) provided by investing activities	<u>(160,297)</u>	<u>(75,023)</u>	<u>(235,320)</u>	<u>70,910</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(8,217)	-	(8,217)	(25,507)
Net cash used in capital and related financing activities	<u>(8,217)</u>	<u>-</u>	<u>(8,217)</u>	<u>(25,507)</u>
Cash flows from noncapital financing activities:				
Repayment of bond payable	-	(1,565,000)	(1,565,000)	(330,000)
Net interest received (paid) on deposit accounts, bond and notes payable	368	(1,276,980)	(1,276,612)	(869,159)
Bond refinancing	-	(794,040)	(794,040)	-
Net cash provided by (used in) noncapital financing activities	<u>368</u>	<u>(3,636,020)</u>	<u>(3,635,652)</u>	<u>(1,199,159)</u>
Net change in cash and cash equivalents	(48,977)	(935,893)	(984,870)	209,874
Cash and cash equivalents at beginning of year	107,675	1,998,004	2,105,679	1,895,805
Cash and cash equivalents at end of year	<u>\$ 58,698</u>	<u>\$ 1,062,111</u>	<u>\$ 1,120,809</u>	<u>\$ 2,105,679</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	\$ (101,904)	\$ 2,775,150	\$ 2,673,246	\$ 1,172,532
Typhoon recovery, net	-	-	-	92,478
Other income, net	37,459	-	37,459	41,426
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	207,871	-	207,871	202,710
(Recovery) provision of doubtful accounts receivable	(20,038)	-	(20,038)	3,691
(Increase) decrease in assets:				
Due from trust funds administered by GEDA	(34,643)	-	(34,643)	(5,467)
Other receivables	(5,577)	-	(5,577)	46,074
Inventory	(4,425)	-	(4,425)	2,438
Prepaid expenses	(2,600)	-	(2,600)	204
Deferred charges	383,616	-	383,616	(352,921)
Increase (decrease) in liabilities:				
Accounts payable	(360,246)	-	(360,246)	(39,146)
Due to trust funds administered by GEDA	(14,068)	-	(14,068)	(18,322)
Accrued liabilities	(41,343)	-	(41,343)	144,331
Deferred rental income	3,771	-	3,771	8,322
Deposits	3,113	-	3,113	1,256
Accrued Retirement Fund contributions	54,259	-	54,259	48,803
DCRS sick leave liability	13,924	-	13,924	15,221
Net cash provided by operating activities	<u>\$ 119,169</u>	<u>\$ 2,775,150</u>	<u>\$ 2,894,319</u>	<u>\$ 1,363,630</u>

See accompanying notes to consolidated financial statements.

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Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	Divisional Information		2008	2007
	GEDA	TSA		
Supplemental disclosure of non-cash transactions				
Non-cash decrease in notes payable to GDFA	\$ 327,921	\$ -	\$ 327,921	\$ -

On December 13, 2007, TSA defeased the 2001 Tobacco Settlement Bonds and issued the 2007 Tobacco Settlement Bonds. The Proceeds from the 2007 bonds were deposited into trust accounts controlled by the co-trustee of the 2007 bonds, into an escrow account controlled by the escrow agent to continue servicing the 2001 bonds, and into a custodial account controlled by the custodian and the Government of Guam for specified capital improvement projects:

Increase (decrease) in assets:	
Deferred bond issuance cost of series 2007 bonds	\$ 826,801
Unamortized deferred bond issuance cost of series 2001 bonds	(460,308)
 (Increase) decrease in liabilities:	
Tobacco Settlement Bonds:	
Series 2001 bonds	25,040,000
Series 2007 bonds	(50,348,619)
Discount on issuance of series 2007 bonds	15,162,709
Deferred difference on defeasing series 2001 bonds	2,628,344
Unamortized discounts of series 2001 bonds	(400,165)
 Decrease in net assets:	
Transfer out to Government of Guam custodial account	8,345,278
Cash flows from bond refinancing	\$ 794,040

See accompanying notes to consolidated financial statements.

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Notes to Financial Statements
September 30, 2008 and 2007

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Economic Development Authority (GEDA) was created by Public Law 8-80 on August 21, 1965, to assist in the implementation of an integrated program for the economic development of Guam. 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). In October 2008, Public Law No. 29-113 reenacted any reference in any law back to Guam Economic Development Authority. Enabling legislation set forth several specific purposes for the establishment of GEDA to include:

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

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

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

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

In 1998, the U.S tobacco industry reached an agreement with state governments releasing the tobacco companies from present and future smoking-related claims that had been or potentially could be, filed by the states. A Master Settlement Agreement (MSA) was reached in 1998 and Guam became one of the beneficiaries of the settlement amounts received as a result of this agreement. Pursuant to the *Guam Economic Development Authority Tobacco Settlement Revenue Bond Act*, as amended by Public Law 29-19, Guam has irrevocably assigned to GEDA all of its right, title and interest in amounts payable after April 10, 2001 to Guam under the MSA. GEDA therefore created the Tobacco Settlement Authority (TSA) to receive future tobacco settlement resources, to obtain debt and to service such debt.

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

Principles of Consolidation

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

Basis of Accounting

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

Estimates

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

Net Assets

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

Cash and Cash Equivalents

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

Notes and Accrued Interest Receivable

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

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Notes to Financial Statements
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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. GEDA 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 and 2007 series bonds are being amortized over the weighted average lives of the bonds using the straight-line method, which approximates the effective interest method.

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.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, up to 100 hours of excess annual leave existing at February 28, 2003 may be credited to sick leave and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

Operating Expenses

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

Risk Management

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

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

Concentrations of Credit Risk

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

At September 30, 2008 and 2007, GEDA has cash deposits in bank accounts that exceed federal depository insurance limits. GEDA has not experienced any losses in such accounts.

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

New Accounting Standards

During fiscal year 2008, GEDA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment 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 Government of Guam has determined that implementation of GASB Statement No 45 does not have a material effect on its financial statements or on the financial statements of its component units.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

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 GEDA.

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 GEDA.

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

New Accounting Standards, Continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GEDA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. 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 GEDA.

Reclassifications

Certain account balances in the 2007 financial statements have been reclassified to correspond with the 2008 presentation.

(2) Cash and Investments

The bond indenture for the 2007 and 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, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Cash on hand and due from banks	\$ 58,698	\$ 107,675
Money market accounts	<u>1,062,111</u>	<u>1,998,004</u>
Cash and cash equivalents	\$ <u>1,120,809</u>	\$ <u>2,105,679</u>
Shares in mutual funds invested in U.S. Government		
Treasury securities	\$ 1,730,136	\$ 1,513,628
General Electric Capital Services, Inc. (GECS)		
Commercial paper	2,807,886	-
Federal Home Loan Bank (FHLB)		
discount notes	1,114,494	723,152
Federal Home Loan Mortgage Corporation (FHLMC) discount notes	<u>-</u>	<u>2,915,892</u>
Investments	\$ <u>5,652,516</u>	\$ <u>5,152,672</u>

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Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, Continued

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

A. Cash

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

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

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

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

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GEDA's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GEDA does not have a deposit policy for custodial credit risk.

At September 30, 2008 and 2007, the carrying amount of balances in banks was \$58,698 and \$107,675, respectively, and the corresponding bank balances were \$120,214 and \$339,287, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$120,214 and \$162,626 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2008 and 2007, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

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Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, Continued

A. Cash, Continued

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

B. Investments

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

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

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

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

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, 2008, GEDA's investments are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody' Rating</u>
Shares in mutual funds invested in			
U.S. Government Treasury securities	\$ 1,730,136	N/A	N/A
GECS commercial paper	2,807,886	12/01/08	P-1
FHLB discount note	372,342	10/10/08	N/A
FHLB discount note	371,560	11/10/08	N/A
FHLB discount note	<u>370,592</u>	12/09/08	N/A
	<u>\$ 5,652,516</u>		

As of September 30, 2007, GEDA's investments are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody' Rating</u>
Shares in mutual funds invested in			
U.S. Government Treasury securities	\$ 1,513,628	N/A	N/A
FHLMC discount note	2,556,489	11/01/07	N/A
FHLMC discount note	359,403	10/01/07	N/A
FHLB discount note	357,966	11/02/07	N/A
FHLB discount note	<u>365,186</u>	12/02/07	N/A
	<u>\$ 5,152,672</u>		

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Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, Continued

B. Investments, Continued

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in GECS commercial paper of \$2,807,886 and FHLMC discount note \$2,556,489 at September 30, 2008 and 2007, respectively, is held and registered in the name of U.S. Bank as Co-Trustee for the 2007 series A and B and 2001 Series A and B Tobacco Settlement Bonds, respectively. GEDA's investment in other FHLMC and FHLB discount notes and in shares of mutual funds is registered in GEDA's name and is held by two investment managers for GEDA.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDA. As of September 30, 2008, GEDA's investment in a GECS commercial paper and FHLB discount notes constituted 50% and 20% of its total investments, respectively. As of September 30, 2007, GEDA's investment in FHLMC discount notes and FHLB discount notes constituted 57% and 14% of its total investments, respectively.

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

(3) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2008 and 2007 is as follows:

	Beginning Balance <u>October 1, 2007</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2008</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Equipment	575,152	8,217	-	583,369
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>38,834</u>	<u>-</u>	<u>-</u>	<u>38,834</u>
	1,995,560	8,217	-	2,003,777
Less accumulated depreciation and amortization	(1,448,772)	(207,871)	<u>-</u>	(1,656,643)
	\$ <u>546,788</u>	\$ <u>(194,654)</u>	\$ <u>-</u>	\$ <u>347,134</u>

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(3) Building, Improvements and Equipment, Continued

	<u>Beginning Balance October 1, 2006</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance 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>

(4) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

The GovGuam Defined Benefit (DB) Plan is a single-employer defined benefit contributory pension plan administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of qualifying payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. All new employees whose employment commences on or after October 1, 1995, are required to participate in the new Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2006, 2005, and 2004, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined as follows:

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(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.94%	18.21%	17.83%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.44%</u>	<u>8.71%</u>	<u>8.33%</u>
Employer portion of normal costs (% of total payroll)	3.99%	4.26%	4.64%
Unfunded liability cost (% of total payroll)	<u>20.75%</u>	<u>20.66%</u>	<u>21.36%</u>
Government contribution as a % of total payroll	<u>24.74%</u>	<u>24.92%</u>	<u>26.00%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GEDA's required and actual contributions for the years ended September 30, 2008, 2007 and 2006 (including DCRS plan contributions) were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Required contributions	\$ <u>306,199</u>	\$ <u>269,588</u>	\$ <u>255,926</u>
Actual contributions	\$ <u>251,940</u>	\$ <u>220,785</u>	\$ <u>188,628</u>

Annual Pension Cost and Net Pension Obligation:

GEDA's annual pension cost and net pension obligation to the DB Plan for the year ended September 30, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 274,841	\$ 273,384	\$ 253,386
Interest on Net Pension Obligation	28,518	25,102	20,391
Adjustment to Annual Required Contribution	<u>(32,831)</u>	<u>(61,017)</u>	<u>(45,956)</u>
Annual pension cost	270,528	237,469	227,821
Contributions made	<u>(216,269)</u>	<u>(188,666)</u>	<u>(160,523)</u>
Increase in Net Pension Obligation	54,259	48,803	67,298
Net Pension Obligation beginning of year	<u>407,406</u>	<u>358,603</u>	<u>291,305</u>
Net Pension Obligation end of year	\$ <u>461,665</u>	\$ <u>407,406</u>	\$ <u>358,603</u>

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(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

The Annual Required Contribution for the years ended September 30, 2008, 2007 and 2006 was determined as part of the September 30, 2006, 2005 and 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The assumptions did not include cost-of-living adjustments, which have been funded by GEDA when granted through annual legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of total payroll through May 1, 2031. The remaining amortization period at September 30, 2008 was 22.58 years.

The actuarial valuations performed as of September 30, 2006, 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 valuation were performed for GEDA as a separate sponsor, the accrued unfunded liability for September 30, 2008 and 2007 may be materially different than that recorded in the accompanying financial statements.

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions into the DCRS plan for the years ended September 30, 2008 and 2007 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDA has accrued an estimated liability of \$57,677 and \$43,753 at September 30, 2008 and 2007, 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

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

GEDA is party to a renewed 5-year operating lease for \$120,000 per annum, expiring April 1, 2011. The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. However, negotiations are ongoing and a definitive agreement has not been finalized. Estimated lease expense payable under a previous term of approximately \$260,698 was directly paid by the lessee in 2006. GEDA did not record any lease expense for 2008 and 2007 and expects future lease expense through April 1, 2011 to be \$0.

Future minimum rentals to be received under noncancelable subleases as of September 30, 2008, are as follows:

Years ending September 30:	
2009	\$ 1,166,200
2010	975,500
2011	574,100
2012	200,100
2013	110,300
2014 – 2018	140,100
2019 – 2023	25,000
2024 – 2028	25,000
2029 – 2033	25,000
2034 – 2038	25,000
2039 – 2043	25,000
2044 – 2048	25,000
2049 – 2053	25,000
2054 – 2058	25,000
2059 – 2062	<u>20,400</u>
	<u>\$ 3,386,700</u>

(6) Lease Commitments

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

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(6) Lease Commitments, Continued

At September 30, 2008, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding are as follows:

	<u>Lease Agreement</u>	<u>GHC MOU</u>
Years ending September 30:		
2009	\$ 216,177	\$ 72,198
2010	216,177	72,198
2011	<u>90,074</u>	<u>30,082</u>
	<u>\$ 522,428</u>	<u>\$ 174,478</u>

Rent expense, net of GHC reimbursements for each of the years ended September 30, 2008 and 2007, was \$143,979, of which \$24,908 and \$31,244, respectively, was allocated to GDFA, ADF and MDP.

(7) Contingencies

GEDA was in legal dispute with two former employees who were seeking reinstatement of employment and back-wages. During the year ended September 30, 2008, the case was resolved in GEDA's favor and accordingly, a total income of \$597,273 (of which \$146,423 was allocated to GDFA) was realized.

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

(8) Related Parties

At September 30, 2008 and 2007, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2008</u>	<u>2007</u>
Guam Development Fund Act (GDFA)	\$ 12,275,709	\$ 12,557,246
Agricultural Development Fund (ADF)	891,148	832,880
Microenterprise Development Program (MDP)	40,718	44,741
Guam Territorial Aquarium Foundation (GTAF)	19,784	19,124
Music and Legends of Guam Fund (MLGF)	13,183	14,530
U.S. Base Realignment and Closure Commission (BRAC)	43	43
Housing and Urban Development Fund (HUD)	-	-

Agricultural Expense Insurance Fund (AEIF), Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF) and Guam Territorial Aquarium Foundation (GTAF) have no assets, liabilities, or net assets as of September 30, 2008 and 2007 and had no activities during the years then ended.

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(9) Long-Term Obligations

Note payable to GDFA

The loan payable to GDFA represents a term loan with original monthly payment of \$8,785 with interest at 4.5% per annum. During the year ended September 30, 2006, GEDA entered into an agreement with GDFA where certain real properties were deeded to GDFA in partial satisfaction the loan and interest accrual ceased. During the year ended September 30, 2008, GEDA and GDFA reached an agreement to resolve the loan with no additional consideration.

Bonds Payable

Bonds payable at September 30, 2008 consist of the following:

Tobacco settlement bonds, 2007 Series A current interest turbo term bonds, original principal amounts of \$17,505,000 and \$16,070,000, with interest rates at 5.25% and 5.625% per annum, respectively, payable semiannually on June 1 and December 1 (“Distribution Date”), principal payments due in varying annual installments commencing with a payment of \$1,025,000 on June 1, 2008 and increasing to \$3,840,000 on June 1, 2026. The Series A bonds are primarily secured by Tobacco Settlement Revenue (TSR) and Guam’s right to be paid the TSR under the MSA (which was irrevocably assigned to GEDA as discussed in note 1). \$ 32,550,000

Tobacco settlement bonds, 2007 Series B capital appreciation turbo term bonds, original principal amount of \$3,407,077. Interest on the Series B bonds is not paid currently, but is compounded based on an imputed interest rate of 7.25% on each Distribution Date to become part of the accreted value until the maturity date or earlier redemptions. The bonds bear an original maturity value of \$115,455,000 with final maturity date of June 1, 2057. The projected turbo redemption date, however, is June 1, 2034 with a total projected principal amount of \$16,773,618. Under the Turbo Redemption assumption, principal payments are due in varying annual installments commencing with a payment of \$917,533 on June 1, 2008 and increasing to \$1,191,488 on June 1, 2034. The Series B bonds are also secured by TSR with the Series A bonds; however, they are subordinate to the Series 2007A Bonds. 16,773,618

Less current portion 49,323,618
(1,380,000)

Less discount on Series B capital appreciation turbo term bonds 47,943,618
Less discount on issuance (13,187,586)
Less deferred difference on defeasance of 2001 bonds (1,696,492)
(2,370,172)

\$ 30,689,368

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(9) Long-Term Obligations, Continued

Bonds Payable, Continued

Bonds payable at September 30, 2007 consist of the following:

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

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. 14,990,000

25,580,000

Less current portion (1,815,000)

23,765,000

Less discount on bond issuance (464,254)

\$ 23,300,746

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2008 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2009	\$ 1,380,000	\$ 1,738,622	\$ 3,118,622
2010	1,485,000	1,681,725	3,166,725
2011	1,600,000	1,603,566	3,203,566
2012	1,720,000	1,519,435	3,239,435
2013	1,850,000	1,429,004	3,279,004
2014 through 2018	9,915,000	5,558,180	15,473,180
2019 through 2023	6,935,000	3,299,625	10,234,625
2024 through 2028	12,642,014	975,865	13,617,879
2029 through 2033	10,605,117	-	10,605,117
2034	<u>1,191,487</u>	<u>-</u>	<u>1,191,487</u>
	\$ <u>49,323,618</u>	\$ <u>17,806,022</u>	\$ <u>67,129,640</u>

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(9) Long-Term Obligations, Continued

Bonds Payable, Continued

On December 13, 2007, GEDA issued \$36,982,077 (original principal) in Series 2007 Tobacco Settlement Bonds. Net proceeds were \$35,478,149 (\$34,359,109 of original principal after issuance discount, underwriter discount and other issuance costs, plus an additional \$794,040 from the Series 2001 funds plus \$325,000 received in connection with the termination of Series 2001 Reserve Fund Agreement). Of this amount, \$8,345,278 was transferred into a custodial account for the benefit of the Government of Guam. The remaining \$27,132,871 was deposited in an irrevocable trust with an escrow agent to provide for the future service of the Series 2001 bonds through May 15, 2016. Except to the extent of any excess which is to be released upon termination (when all transfers and payments required are satisfied), GEDA has no interest in the funds or investments held in the escrow fund and as a result, the Series 2001 bonds indenture was satisfied and discharged. Additionally, the transaction meets the requirement of an in-substance defeasance and as a result, the Series 2001 bonds and the related funds held by the escrow agent have been removed from the accompanying 2008 financial statements.

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

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

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

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

As discussed in the above section, all Tobacco Settlement Revenue and interest earned in trust funds have been pledged to repay the Series 2007 and 2001 bonds principal and interest. The debt service for the 2007 and 2001 series bonds were \$2,841,980 and \$1,199,469 for the years ended September 30, 2008 and 2007, respectively, or approximately 96% and 78%, respectively, of pledged revenues for those years.

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(9) Long-Term Obligations, Continued

During the years ended September 30, 2008 and 2007, the following changes occurred in liabilities reported as part of GEDA's long-term liabilities in the statements of net assets:

	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2008</u>	Due within <u>one year</u>
Bonds payable	\$ 25,580,000	\$ 50,348,618	\$ (26,605,000)	\$ 49,323,618	\$ 1,380,000
Notes payable	<u>327,921</u>	<u>-</u>	<u>(327,921)</u>	<u>-</u>	<u>-</u>
	25,907,921	50,348,618	(26,932,921)	49,323,618	1,380,000
Deferred amounts:					
Unamortized difference on bonds defeasance	-	(2,628,344)	258,172	(2,370,172)	-
Unamortized discount on bonds issued	<u>(464,254)</u>	<u>(15,162,709)</u>	<u>742,885</u>	<u>(14,884,078)</u>	<u>-</u>
	<u>25,443,667</u>	<u>32,557,565</u>	<u>(25,931,864)</u>	<u>32,069,368</u>	<u>1,380,000</u>
Other liabilities:					
Unfunded pension	407,406	54,259	-	461,665	-
DCRS sick leave liability	43,753	13,924	-	57,677	-
Deposits	<u>8,100</u>	<u>3,113</u>	<u>-</u>	<u>11,213</u>	<u>-</u>
	<u>459,259</u>	<u>71,296</u>	<u>-</u>	<u>530,555</u>	<u>-</u>
	<u>\$ 25,902,926</u>	<u>\$ 32,628,861</u>	<u>\$ (25,931,864)</u>	<u>\$ 32,599,923</u>	<u>\$ 1,380,000</u>
	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2007</u>	Due within <u>one year</u>
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>

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(10) Investment in Stock

During the year ended September 30, 1998, GEDA paid \$61,700 for shares (a 72% interest) of preferred stock in Heli-Guam, Inc. (HGI). This investment is carried at \$0 using the equity method. A summary of investment in stock at September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</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. During the year ended September 30, 2007, GEDA 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.

(12) Financial Advisory Services

GEDA entered into a financial advisory agreement (the Agreement) to receive financial advisory services; the Agreement called for an annual fee of \$500,000, payable quarterly, plus actual expenses incurred. In February 2009, GEDA entered into a new agreement with the same party, which calls for an annual fee of \$250,000. GEDA 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, 2008 and 2007, balances related to these agreements are as follows:

	<u>2008</u>	<u>2007</u>
Receivable from GPA	\$ 170,000	\$ 85,000
Payable under the Agreement	\$ <u>745,390</u>	\$ <u>1,047,320</u>

The aggregate differential as of September 30, 2008 has been allocated to ongoing bond projects that are expected to be finalized after 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.

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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2008 and 2007

	2008	2007
Salaries and wages:		
Salaries	\$ 904,590	\$ 875,734
Benefits	630,115	589,097
Total salaries and wages	\$ 1,534,705	\$ 1,464,831
Employees at end of year	25	23

See accompanying independent auditors' report.

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Comparative Divisional Schedules of Net Assets (Deficiency)
September 30, 2008 and 2007

<u>ASSETS</u>	GEDA		TSA	
	2008	2007	2008	2007
Current assets:				
Cash and cash equivalents	\$ 58,698	\$ 107,675	\$ 1,062,111	\$ 1,998,004
Investments	2,844,630	2,596,183	2,807,886	2,556,489
Notes and accrued interest receivable	115	115	-	-
Due from trust funds administered by GEDCA:				
Agricultural Development Fund	42,034	1,776	-	-
Guam Development Fund Act	24,004	29,619	-	-
Other receivables, net of an allowance for doubtful receivables of \$369,384 in 2008 and \$389,422 in 2007	409,126	383,511	-	-
Inventory	8,354	3,929	-	-
Prepaid expense	2,600	-	-	-
Total current assets	3,389,561	3,122,808	3,869,997	4,554,493
Deferred charges	903,350	1,286,966	-	-
Deferred bond issuance costs	-	-	780,920	471,269
Equity investment	3,500	3,500	-	-
Building, improvements and equipment, at cost, net	347,134	546,788	-	-
	\$ 4,643,545	\$ 4,960,062	\$ 4,650,917	\$ 5,025,762
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ -	\$ 327,921	\$ -	\$ -
Current portion of bonds payable	-	-	1,380,000	1,815,000
Accounts payable	775,783	1,136,029	-	-
Due to trust funds administered by GEDCA:				
Microenterprise Development Program	30,422	44,490	-	-
U.S. Base Relocation and Closure Commission	22	22	-	-
Accrued liabilities	81,449	573,642	-	-
Interest payable	-	-	590,000	311,000
Deferred rental income	146,287	142,516	-	-
Total current liabilities	1,033,963	2,224,620	1,970,000	2,126,000
Non-current liabilities:				
Bonds payable, net of current portion and discount	-	-	30,689,368	23,300,746
Accrued Retirement Fund contributions	461,665	407,406	-	-
DCRS sick leave liability	57,677	43,753	-	-
Deposits	11,213	8,100	-	-
Total non-current liabilities	530,555	459,259	30,689,368	23,300,746
Total liabilities	1,564,518	2,683,879	32,659,368	25,426,746
Commitments and contingencies				
Net assets (deficiency):				
Invested in capital assets	347,134	546,788	-	-
Unrestricted	2,731,893	1,729,395	(28,008,451)	(20,400,984)
Net assets (deficiency)	3,079,027	2,276,183	(28,008,451)	(20,400,984)
	\$ 4,643,545	\$ 4,960,062	\$ 4,650,917	\$ 5,025,762

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
AND SUBSIDIARY**

(A Component Unit of the Government of Guam)

Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2008 and 2007

	GEDA		TSA	
	2008	2007	2008	2007
Revenues:				
Rental income	\$ 1,648,994	\$ 1,667,914	\$ -	\$ -
Tobacco Settlement revenue	-	-	2,788,041	1,343,390
Qualifying certificate application and surveillance fees	221,766	152,720	-	-
Other	7,660	300	-	-
	<u>1,878,420</u>	<u>1,820,934</u>	<u>2,788,041</u>	<u>1,343,390</u>
Recovery of (provision for) doubtful accounts receivable	20,038	(3,691)	-	-
	<u>1,898,458</u>	<u>1,817,243</u>	<u>2,788,041</u>	<u>1,343,390</u>
Operating expenses:				
Salaries and benefits	1,292,245	1,175,901	-	-
Legal and professional services	208,452	329,092	12,891	25,000
Depreciation and amortization	207,871	202,710	-	-
Office space and equipment rent	137,062	133,417	-	-
Travel	35,883	34,592	-	-
Advertising and promotions	48,184	22,676	-	-
Utilities, telephone and communication	15,650	15,947	-	-
Insurance	8,408	9,982	-	-
Supplies	8,020	7,095	-	-
Repairs and maintenance	1,652	1,087	-	-
Miscellaneous	36,935	30,602	-	-
	<u>2,000,362</u>	<u>1,963,101</u>	<u>12,891</u>	<u>25,000</u>
Operating (loss) income	<u>(101,904)</u>	<u>(145,858)</u>	<u>2,775,150</u>	<u>1,318,390</u>
Other income (expense):				
Interest expense, net	368	310	(2,213,713)	(1,399,870)
Investment income	-	-	176,374	203,091
Gain on investments	88,150	138,189	-	-
Typhoon recovery, net	-	92,478	-	-
Other income, net	37,459	41,426	-	-
Reversal of contingent losses	450,850	-	-	-
Transfer from Guam Development Fund Act	327,921	-	-	-
Transfer to Government of Guam custodial account	-	-	(8,345,278)	-
Other (expense) income, net	<u>904,748</u>	<u>272,403</u>	<u>(10,382,617)</u>	<u>(1,196,779)</u>
Net increase (decrease) in net assets	802,844	126,545	(7,607,467)	121,611
Net assets (deficiency) at beginning of year	<u>2,276,183</u>	<u>2,149,638</u>	<u>(20,400,984)</u>	<u>(20,522,595)</u>
Net assets (deficiency) at end of year	<u>\$ 3,079,027</u>	<u>\$ 2,276,183</u>	<u>\$ (28,008,451)</u>	<u>\$ (20,400,984)</u>

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
AND SUBSIDIARY**

(A Component Unit of the Government of Guam)

Comparative Divisional Schedules of Cash Flows
Years Ended September 30, 2008 and 2007

	GEDA		TSA	
	2008	2007	2008	2007
Cash flows from operating activities:				
Cash received from customers	\$ 1,943,461	\$ 1,920,490	\$ 2,788,041	\$ 1,343,390
Cash paid to suppliers for goods and services	(577,078)	(763,373)	(12,891)	(25,000)
Cash paid to employees for services	(1,247,214)	(1,111,877)	-	-
Net cash provided by operating activities	<u>119,169</u>	<u>45,240</u>	<u>2,775,150</u>	<u>1,318,390</u>
Cash flows from investing activities:				
Interest and investment income	88,150	138,189	176,374	203,091
Rollover of interest into investment	(88,150)	(138,189)	-	-
Purchase of investment securities	(160,297)	(15,918)	(251,397)	(116,263)
Net cash (used in) provided by investing activities	<u>(160,297)</u>	<u>(15,918)</u>	<u>(75,023)</u>	<u>86,828</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(8,217)	(25,507)	-	-
Net cash used in capital and related financing activities	<u>(8,217)</u>	<u>(25,507)</u>	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities:				
Repayment of bond payable	-	-	(1,565,000)	(330,000)
Net interest received (paid) on deposit accounts, bond and notes payable	368	310	(1,276,980)	(869,469)
Bond refinancing	-	-	(794,040)	-
Net cash provided by (used in) noncapital financing activities	<u>368</u>	<u>310</u>	<u>(3,636,020)</u>	<u>(1,199,469)</u>
Net change in cash and cash equivalents	(48,977)	4,125	(935,893)	205,749
Cash and cash equivalents at beginning of year	<u>107,675</u>	<u>103,550</u>	<u>1,998,004</u>	<u>1,792,255</u>
Cash and cash equivalents at end of year	<u>\$ 58,698</u>	<u>\$ 107,675</u>	<u>\$ 1,062,111</u>	<u>\$ 1,998,004</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	\$ (101,904)	\$ (145,858)	\$ 2,775,150	\$ 1,318,390
Typhoon recovery, net	-	92,478	-	-
Other income, net	37,459	41,426	-	-
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	207,871	202,710	-	-
(Recovery) provision of doubtful accounts receivable	(20,038)	3,691	-	-
(Increase) decrease in assets:				
Due from trust funds administered by GEDA	(34,643)	(5,467)	-	-
Other receivables	(5,577)	46,074	-	-
Inventory	(4,425)	2,438	-	-
Prepaid expenses	(2,600)	204	-	-
Deferred charges	383,616	(352,921)	-	-
Increase (decrease) in liabilities:				
Accounts payable	(360,246)	(39,146)	-	-
Due to trust funds administered by GEDA	(14,068)	(18,322)	-	-
Accrued liabilities	(41,343)	144,331	-	-
Deferred rental income	3,771	8,322	-	-
Deposits	3,113	1,256	-	-
Accrued Retirement Fund contributions	54,259	48,803	-	-
DCRS sick leave liability	13,924	15,221	-	-
Net cash provided by operating activities	<u>\$ 119,169</u>	<u>\$ 45,240</u>	<u>\$ 2,775,150</u>	<u>\$ 1,318,390</u>

See accompanying notes to consolidated financial statements.

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2008 AND 2007

Independent Auditors' Report

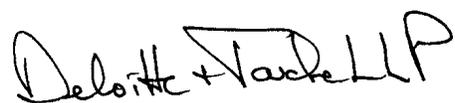
The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Microenterprise Development Program, the Guam Territorial Aquarium Foundation, the Music and Legends of Guam Fund, the U.S. Base Realignment and Closure Committee and the Housing and Urban Development Fund (the Funds) as of September 30, 2008 and 2007, and the related statements of changes in fiduciary net assets for the years then ended. The Funds are administered by the Guam Economic Development Authority (the Authority) which is a component unit of the Government of Guam. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2008 and 2007, and the changes in their net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2009, on our consideration of the Funds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



April 13, 2009

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

Statements of Fiduciary Net Assets
September 30, 2008 and 2007

ASSETS	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee		Housing and Urban Development Fund	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Cash on hand and in bank	\$ 32,966	\$ 10,542	\$ 1,308	\$ 23,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	5,395,380	5,703,063	580,180	607,837	47,966	47,744	-	-	-	-	-	-	-	-
Less allowance for doubtful receivables	(4,601,526)	(4,444,587)	(515,238)	(514,624)	(47,966)	(47,744)	-	-	-	-	-	-	-	-
Net notes and accrued interest receivable	793,854	1,258,476	64,942	93,213	-	-	-	-	-	-	-	-	-	-
Due from other funds:														
Guam Economic Development Authority	-	-	-	-	30,422	44,490	-	-	-	-	22	22	-	-
Guam Development Fund Act	-	-	-	-	10,251	251	-	-	-	-	-	-	-	-
Microenterprise Development Program	-	-	917	917	-	-	-	-	-	-	-	-	-	-
Investments	9,984,682	9,783,677	687,113	629,954	-	-	19,784	19,124	-	-	-	-	-	-
Other real estate:														
Land	648,195	648,195	136,720	83,000	-	-	-	-	-	-	-	-	-	-
Leasehold interest, net	812,843	826,961	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	20,589	-	1,326	45	-	-	-	-	-	21	21	-	-
Furniture and equipment, at cost, net	3,169	8,806	148	491	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	13,183	14,530	-	-	-	-
	11,448,889	11,288,228	824,898	715,688	40,718	44,741	19,784	19,124	13,183	14,530	43	43	-	-
Total assets	\$ 12,275,709	\$ 12,557,246	\$ 891,148	\$ 832,880	\$ 40,718	\$ 44,741	\$ 19,784	\$ 19,124	\$ 13,183	\$ 14,530	\$ 43	\$ 43	\$ -	\$ -
LIABILITIES AND NET ASSETS														
Liabilities:														
Accounts payable and accrued expenses	\$ 21,149	\$ 166,819	\$ 11,018	\$ 11,114	\$ -	\$ 70	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds:														
Guam Economic Development Authority	24,004	29,619	42,034	1,776	-	-	-	-	-	-	-	-	-	-
Microenterprise Development Program	10,251	251	-	-	-	-	-	-	-	-	-	-	-	-
Guam Development Fund Act	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural Development Program	-	-	-	-	917	917	-	-	-	-	-	-	-	-
Total liabilities	55,404	196,689	53,052	12,890	917	987	-	-	-	-	-	-	-	-
Contingencies														
Net assets held in trust	12,220,305	12,360,557	838,096	819,990	39,801	43,754	19,784	19,124	13,183	14,530	43	43	-	-
Total liabilities and net assets	\$ 12,275,709	\$ 12,557,246	\$ 891,148	\$ 832,880	\$ 40,718	\$ 44,741	\$ 19,784	\$ 19,124	\$ 13,183	\$ 14,530	\$ 43	\$ 43	\$ -	\$ -

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets
Years Ended September 30, 2008 and 2007

	Guam Development Fund Act		Agricultural Development Fund		Microenterprise Development Program		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee		Housing and Urban Development Fund	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Additions:														
Interest from investment	\$ 348,913	\$ 393,786	\$ 23,348	\$ 29,025	\$ -	\$ -	\$ 729	\$ 920	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest from loans	21,104	77,754	3,539	4,756	-	2	-	-	-	-	-	-	-	-
Net increase (decrease) in the fair value of investments	(21,443)	35,201	(1,575)	3,384	-	-	(43)	-	-	-	-	-	-	-
Net gain on sale of real property owned	-	46,999	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of contingent losses	146,423	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	150,439	165,567	2	844	-	39	-	-	-	-	-	-	-	-
Total additions	645,436	719,307	25,314	38,009	-	41	686	920	-	-	-	-	-	-
Deductions:														
Transfer to Guam Economic Development Authority	329,550	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries and benefits	236,385	259,243	2,813	13,091	3,262	16,596	-	-	-	-	-	-	-	-
Provision for doubtful notes and accrued interest	147,448	188,534	258	5,807	222	397	-	-	-	-	-	-	-	-
Legal and professional services	7,454	63,885	2,490	388	86	531	-	-	-	-	-	-	-	-
Rent	28,080	33,081	265	1,408	348	2,089	-	-	-	-	-	-	-	-
Provision for property valuation allowance	-	22,500	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	19,755	19,825	343	363	-	-	-	-	-	-	-	-	-	-
Bank charges	13,686	11,867	920	883	-	-	26	-	-	-	-	-	-	-
Miscellaneous	3,330	3,247	119	101	35	-	-	-	1,347	143	-	-	-	445
Total deductions	785,688	602,182	7,208	22,041	3,953	19,613	26	-	1,347	143	-	-	-	445
Net change in net assets	(140,252)	117,125	18,106	15,968	(3,953)	(19,572)	660	920	(1,347)	(143)	-	-	-	(445)
Net assets at beginning of year	12,360,557	12,243,432	819,990	804,022	43,754	63,326	19,124	18,204	14,530	14,673	43	43	-	445
Net assets at end of year	\$ 12,220,305	\$ 12,360,557	\$ 838,096	\$ 819,990	\$ 39,801	\$ 43,754	\$ 19,784	\$ 19,124	\$ 13,183	\$ 14,530	\$ 43	\$ 43	\$ -	\$ -

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2008 and 2007

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

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

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

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

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

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

Additionally, GEDA administered the Agricultural Expense Insurance Fund (AEIF), the Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF) and the Local Arts Revolving Fund (LARF) which have no assets, liabilities or net assets as of September 30, 2008 and 2007 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements. The specific purpose of each fund is as follows:

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Purpose, Continued

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 2008 and 2007 nor were there any policies outstanding at September 30, 2008 and 2007.

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

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

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

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2008 and 2007.

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

Basis of Accounting

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

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Basis of Accounting, Continued

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

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

Estimates

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

Cash 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 is a \$327,921 note due from GEDA. During the year ended September 30, 2006, GDFA entered into an agreement with GEDA where certain real properties were deeded to GDFA in partial satisfaction the loan and interest accrual ceased. During the year ended September 30, 2008, GDFA and GEDA reached an agreement to resolve the loan with no additional consideration.

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

Allowance for Doubtful Receivables

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

Inventories

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

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Expenses

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

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

New Accounting Standards

During fiscal year 2008, GEDA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment 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 Government of Guam has determined that implementation of GASB Statement No 45 does not have a material effect on its financial statements or on the financial statements of its component units.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

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 the Trust Funds.

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 the Trust Funds.

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

Notes to Financial Statements
September 30, 2008 and 2007

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

New Accounting Standards, Continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Trust Funds.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. 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 the Trust Funds.

Reclassifications

Certain account balances in the 2007 financial statements have been reclassified to correspond with the 2008 presentation.

(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, 2008 and 2007 consist the following:

	<u>2008</u>	<u>2007</u>
Cash on hand and due from banks	\$ <u>34,274</u>	\$ <u>34,521</u>
Cash and cash equivalents	\$ <u>34,274</u>	\$ <u>34,521</u>
Shares in mutual funds invested in U.S. Government Treasury securities	\$ 6,388,925	\$ 5,958,000
Federal Home Loan Bank (FHLB) discount note	4,302,654	2,989,158
Federal Home Loan Mortgage Corporation (FHLMC) discount note	-	<u>1,485,597</u>
Investments	\$ <u>10,691,579</u>	\$ <u>10,432,755</u>

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

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

Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, Continued

A. Cash, Continued

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

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

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

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

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GEDA's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GEDA does not have a deposit policy for custodial credit risk.

At September 30, 2008 and 2007, the carrying amount of balances due from banks was \$34,274 and \$34,521, respectively, and the corresponding bank balances were \$34,274 and \$35,110, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). As the trust funds are administered by GEDA, cash balances of the trust funds, combining with the cash balances of GEDA, exceed the insurance limit of the FDIC at September 30, 2008 and 2007. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

B. Investments

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

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

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

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

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

Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, Continued

B. Investments, Continued

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

As of September 30, 2008 and 2007, investments are as follows:

	2008		2007	
	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>
Shares in mutual funds invested in				
U.S. Government Treasury				
Treasury securities	\$ 6,388,925	N/A	\$ 5,958,000	N/A
FHLB discount note	1,437,476	10/10/08	1,479,654	11/02/07
FHLB discount note	1,434,458	11/10/08	1,509,504	12/02/07
FHLB discount note	1,430,720	12/09/08	-	10/01/07
FHLMC discount note	-	-	<u>1,485,597</u>	10/01/07
	<u>\$ 10,691,579</u>		<u>\$ 10,432,755</u>	

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDA. As of September 30, 2008, GEDA's investment in FHLB discount notes constituted 40% of its total investments. As of September 30, 2007, GEDA's investment in FHLB and FHLMC discount notes constituted 29% and 14% of its total investments, respectively.

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

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

Notes to Financial Statements
September 30, 2008 and 2007

(3) Other Real Estate, Land

G DFA and ADF have acquired certain land through foreclosure of loans. During the year ended September 30, 2007, G DFA discovered that certain recorded land has not been subdivided and as such, it is not readily marketable; as a result, G DFA provided a valuation allowance of \$22,500 for this property.

A summary of the changes in other real estate for 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 731,195	\$ 906,870
Additions	53,720	-
Sales	<u>-</u>	<u>(153,175)</u>
	784,915	753,695
Provision for losses	<u>-</u>	<u>(22,500)</u>
Balance at end of year	\$ <u>784,915</u>	\$ <u>731,195</u>

(4) Other Real Estate, Leasehold Interest

G DFA and ADF have acquired leasehold interests in land through foreclosure of loans. Leasehold interests are reflected at cost of \$1,231,600 (net of a valuation allowance of \$333,171) as of September 30, 2008 and 2007, net of accumulated amortization of \$85,586 and \$71,468 at September 30, 2008 and 2007, respectively.

(5) Contingencies

G DFA did not have any outstanding guaranties as of September 30, 2008 and 2007.

On October 21, 2004, GEDA 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, GEDA 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 G DFA loan fund investment account to an interest-bearing money market account with the financial institution as collateral. GEDA 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. GEDA is currently in litigation with GMPC and the guarantor; however, the ultimate recovery, if any, is not determinable.

GEDA was in legal dispute with two former employees who were seeking reinstatement of employment and back-wages. During the year ended September 30, 2008, the case was resolved in GEDA's favor and accordingly, income of \$597,273 (of which \$146,423 was allocated to G DFA) was realized.

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

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

The Board of Directors
Guam Economic Development Authority:

We have audited the financial statements of the Guam Economic Development Authority and subsidiary (GEDA), as of September 30, 2008, and for the year then ended, and have issued our report thereon dated April 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 GEDA'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 GEDA's financial statements that is more than inconsequential will not be prevented or detected by GEDA's internal control.

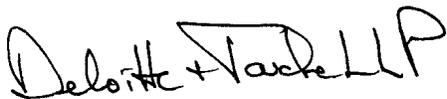
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by GEDA's internal control.

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 GEDA'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*.

This report is intended for the information of the Board of Directors and management of GEDA, 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. However, this report is a matter of public records.

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

April 13, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

The Board of Directors
Guam Economic Development Authority

Compliance

We have audited the compliance of Guam Economic Development Authority (GEDA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. GEDA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 53). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of GEDA's management. Our responsibility is to express an opinion on GEDA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GPA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GEDA's compliance with those requirements.

In our opinion, GEDA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2008.

Internal Control Over Compliance

The management of GEDA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GEDA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GEDA's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

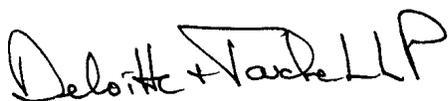
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of GEDA as of and for the year ended September 30, 2008, and have issued our report thereon dated April 13, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by OMB Circular A-133. The accompanying schedule is not a required part of the basic financial statements. This schedule is the responsibility of the management of GEDA. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Board of Directors and management of GEDA, 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.

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

April 13, 2009

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA Number</u>	<u>Receivable balance September 30, 2007</u>	<u>FY 2008 Expenditures</u>	<u>FY 2008 Cash Receipts</u>	<u>Receivable balance September 30, 2008</u>
Department of Defense/ Growth Management Planning Assistance	12.613	\$ 27,263	\$ 550,788	\$ 578,051	\$ -
Total Federal Awards		<u>\$ 27,263</u>	<u>\$ 550,788</u>	<u>\$ 578,051</u>	<u>\$ -</u>

Note: The grant was received in a pass-through capacity from the Office of the Governor of Guam.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No significant deficiencies in internal control over financial reporting were identified.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. GEDA's major program was as follows:

<u>Name of Federal Program</u>	<u>Federal/LSC CFDA Number</u>
Growth Management Planning Assistance	12.613

8. GEDA did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

No items are reportable.

Part III - Federal Award Findings and Questioned Cost Section

No items are reportable.