

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

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

SEPTEMBER 30, 2006 AND 2005

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

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Independent Auditors' Report

The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of net assets (deficiency) of the Guam Economic Development and Commerce Authority (the Authority) (a public corporation) and subsidiary, a component unit of the Government of Guam, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

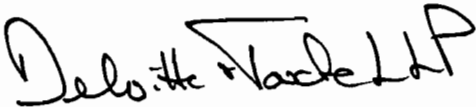
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Economic Development and Commerce Authority and subsidiary at September 30, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental divisional information on pages 11 through 13 and the data on page 29 is presented for the purpose of additional analysis rather than to present the financial position and changes in net assets (deficiency) of the individual divisions. This additional information is the responsibility of the Authority's management. Such information has been subjected to the tests and other auditing procedures applied in our audit of the basic financial statements of Guam Economic Development and Commerce Authority and subsidiary for the year ended September 30, 2006. In our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007, on our consideration of the Guam Economic Development and Commerce Authority's and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized and cursive, with a large, sweeping initial letter 'D'.

January 31, 2007

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Management's Discussion and Analysis
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Guam Economic Development & Commerce Authority (GEDCA), a public corporation (12GCA Chapter 50), was created by enabling legislation on August 21, 1965, under Public Law 8-80 and amended by Public Law 26-76 to include the Department of Commerce. Under PL 8-80, the Authority has been given rather broad responsibility to the centralized direction, control and supervision of an integrated plan for the economic development of Guam. GEDCA's mission is to develop a sound and sustainable economy through innovative programs that preserve and promote local culture, economic opportunities and quality of life. In 2006, GEDCA's Acting Administrator is the Chairman of the Civilian Military Task Force Economic Development subcommittee.

INDUSTRY DEVELOPMENT DIVISION (ID)

Industry Initiatives - Our economy is only made stronger through diversification, and all opportunities to expand our current industries and create new industries on Guam should be pursued aggressively. GEDCA has actively marketed certain industries and is also working to secure funding to conduct feasibility studies identifying, validating and pursuing additional regional hub opportunities or industries identified. Some of these in various stages of development are:

- ❑ Development of a Regional Distribution Center in Guam - a transportation sector to complement Guam's existing tourism and military sectors
- ❑ Marketing Guam as a venue of choice for commercial arbitration cases & location to hold continuing legal education for ex-pat US attorneys wishing to maintain their US bar certification
- ❑ Developing Guam as a Regional Recycling Center
- ❑ Creating the infrastructure to support a Captive Insurance, Reinsurance & Insurance Industry in Guam
- ❑ Developing Guam as a Regional Education Certification & Standards venue
- ❑ Creating the infrastructure to support a Film Industry in Guam
- ❑ Developing Guam as Regional Software Support Center
- ❑ Creating the infrastructure to attract the retirement community development for Military and Asian markets.

Primary Initiatives:

1. Regional Distribution Center (RDC) - identified as having the greatest potential and may serve as the driver for the creation of a third major industry in Guam.

- ❑ GEDCA/Guam Customs met with United States Customs Border Patrol in Washington DC February 22 -25, 2006 to provide overview of cargo pre-clearance request. Guam field visit by US customs in October. Formal discussions on issues with technical staff to commence in early 2007 in San Francisco, CA.
- ❑ GEDCA met with DHL Senior Project Managers for Corporate Real Estate on February 21, 2006 at Riverside Express Logistics facility regarding RDC concept.
- ❑ Grant application for \$120,000 in technical assistance funding approved by Dept of Interior on February 7, 2006. RFP for professional consultant services to develop & implement Customs cargo pre-clearance pilot program awarded June 2, 2006.
- ❑ Grant proposal for \$200,000 submitted through Bureau of Stats to US Dept of Commerce, Economic Development Administration to fund a study on the transportation and logistical costs of using a Guam RDC in comparison to other methods of sending cargo from Asia to the US awarded on September 2006.

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2. **"Kottura" a culturally based economic zone** - Hagatna Redevelopment Reuse Authority (HRRRA) formally adopted KOTTURA concept as a Redevelopment plan for Phase IV implementation, however HRRRA needs additional funding to complete master plan. GEDCA became a partner in the Guam Museum Task Force relating to Hagatna project.
3. **Marketing/Image management** - The department manages the Authority's local and international marketing and promotions (conceptual, design, writing, editing and pre-production) and has revamped its marketing strategy through updates to and development of the following marketing tools:
 - ❑ Web Site - received 8 responses to RFP issued late January 2006 for website design and maintenance. Awarded March 16, 2006 to local website design company Icon Corporation. Final launch for new website expected in February 2007.
 - ❑ Quarterly newsletter converted to an on-line and hard copy News bulletin. 1st issue February 2006
 - ❑ Fact sheets and forms updated and design and layout revised - to effectively promote the "GUAM, USA - Your Business Smart Destination" brand image in a cross section of industry and country markets.
 - ❑ Investor CD Brochure upgraded - to provide a more comprehensive source of information

Substantial Cost Savings have been achieved through in-house leveraging and skills cultivation - in-house production of investor CD, program "fact sheets", newsletter, booth, table top and banner graphics. In addition, effective private sector and NGO networking (industry specific, etc.) has resulted in cost savings for GEDCA with regards to promotional exhibits due to private sector sponsorships of various exhibitor expenses such as exhibitor registration, booth construction costs, and booth transportation expense.

REAL PROPERTY DIVISION (RPD)

- **GEDCA Industrial Parks Program** - the Real Property Division (RPD) is responsible for the development and management of GEDCA's Industrial Park Program which consists of twenty six (26) individual property leases on 177 acres of developed lands in order to generate new jobs, revenue and increased economic opportunities. The program has generated average annual employment of 1,000 jobs, average annual payroll of over \$20 million, average annual gross sales of \$70 million, and annual gross receipts tax paid of almost \$2 million.
- **Federal Grants** - In FY06, RPD staff secured over \$200K in federal grants to support various economic development initiatives, job skills assessment for Base Realignment and Closure (BRAC), environmental assessments at industrial parks, creation of a new industrial park and is closing out over \$1 Million in previously awarded grants.
- **Real Estate Development** - GEDCA recently entered into a Memorandum of Understanding (MOU) with the Guam Ancestral Land Use Commission (GALC) which allows GEDCA to manage over 600 acres of Trust Lands at the Harmon Cliff line, Commissary Junction and Polaris Point. Under this agreement, most revenues generated from development agreements with private developers will be remitted by GEDCA to GALC for the benefit of Trust beneficiaries with remaining revenues to be used by GEDCA to continue its economic development initiatives.

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- **Military Growth** - The Real Property Division at GEDCA continues to compile statistical data concerning the award of military contracts and to keep track of increases in military functions, personnel and activities, quality of life issues, guard and reservist, and other information that will assist the Government of Guam in its strategic planning to accommodate the proposed expansion of military presence on Guam. In April 2006, the Authority in collaboration with other GovGuam agencies developed an Infrastructure Improvement Forecast (IIF) which illustrates that \$2.6 billion is needed to improve infrastructure quality to accommodate both the expected civilian and military growth.

FINANCIAL SERVICES DIVISION (FSD)

The Financial Services Division was established through a merger of two divisions, the Financial Assistance Division and the Public Finance Division. The division maintains dual departmental functions acting as a small business lender responsible for commercial lending and also acts as the facilitating arm for all public finance issues for the Government of Guam and its autonomous agencies.

PUBLIC FINANCE

GEDCA's role as the Central Financial Manager for the Government of Guam is facilitated through the Public Finance Department. The Department participates in organized committees formulated to address the financial needs of a particular entity of the Government of Guam, or the Government of Guam in its entirety. These duties include financial planning, formulation of cost effective strategies, and the review and finalization of necessary documents for public finance issues. Key activities for the year include:

Guam Waterworks Authority (GWA) Water and Wastewater System Revenue Bonds, Series 2005

GEDCA assisted in the inaugural bond issuance of GWA to fund capital improvements. The result of the strong management team of Consolidated Committee on Utilities (CCU) and GWA, coupled with the efforts of the finance team led by GEDCA, secured a historically low borrowing cost of 5.68% (December 2005).

Bond Bank Initiative

GEDCA continues work with the US Environmental Protection Agency and the DOI's office of Insular Affairs on a proposal to create a territories-wide bond bank to address critical, long-term financial needs. (on-going)

Guam Judiciary Refinancing and Forensic Lab Construction

GEDCA assisted the Judicial Council of Guam, in financing up to \$11,000,000 for the design, construction and purchase of collateral equipment for a forensic crime lab, to be constructed on the premises of the Guam Community College in Mangilao, and to refinance their existing note held by the USDA. (September 2006)

Guam International Airport Authority (GIAA) Financial Advisory Work

GIAA and GEDCA, with the assistance of our financial advisors, prepared a comprehensive credit presentation on the GIAA with a goal of upgrading the GIAA's bond rating. Rating Agency meetings were held in San Francisco on September 19-22, 2006. On October 16, 2006, Standard & Poor's raised the agency's rating from BBB- to BBB with a stable outlook.

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Guam Power Authority

Financial Assistance provided to Guam Power Authority (GPA) to finalize the extension of GPA's Tax-Exempt Commercial Paper program to November 2007 with the Cathay Bank, successor liquidity facility provider. (October 2006)

GEDCA and GPA finalized an agreement to finance \$10,000,000 to be used towards the purchase of GPA's Transportation Equipment and to cover GPA's funding requirements on FEMA projects.

GUAM Public School System

GEDCA assisted in the \$60 Million Guam Public School System Lease Financing with The Guam Education Financing Foundation. The \$6.1MM annual payment source will come from a portion of the annual Compact Impact funds received over the next 20 years. The project consists of two elementary schools, one middle school, one high school and the conversion of an elementary school to a middle school.

Excess Bond Proceeds re-programming efforts

GEDCA Public Finance team identified approximately \$1.031 Million in excess funds in the 1997 Infrastructure Bond Fund account from the overpayment of principal and interest. BBMR eventually transferred amount to the Guam Visitors Bureau to cover shortfalls in budget appropriations.

LOANS

Loan Service Goal Statement

The Authority will continue to provide financing opportunities to help develop small businesses in Agriculture, Manufacturing, Tourism and vitally needed facilities, including Service Support and Home-based business.

Lending Programs

Lending Program Caps and Guaranty Loan Program were modified to maximize and maintain fund levels for the Authority. The following are the lending caps approved by the GEDCA Board of Directors.

- (1) The Agriculture Development Fund (ADF) - with a maximum lending cap set at \$25,000 per project.
- (2) The Guam Development Fund Act (GDFA) - with a direct loan at a maximum lending cap at \$75,000 per project.
- (3) The GDFA Guaranty Loan program - with a maximum lending cap at the lower of \$150,000 or 75% of loan amount per project. Regulated institutions on Guam, including commercial banks, savings and loan associations, commercial finance companies, or other licensed lenders on Guam are all qualified to participate with GEDCA to provide financing for business with tangible assets.
- (4) The Micro Loan Program (MLP) - with a maximum lending cap at \$10,000 per project (modified business plan with 3 year projections, subject to adequate collateral, establish acceptable credit history and a personal guaranty).

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COMPLIANCE & INTERNAL AUDIT (CIA)

Over \$200,000 was recovered this year from troubled loans. The increase was attributed to an \$80,000 payment and increase in monthly payments from \$1,500 to \$8,000 made on a loan that significantly reduced the loan balance from \$208K to \$107K. Over \$100K in loan payoffs also contributed to the increase in recovery. By the end of FY06, the CIA Division had secured a commitment to pay off a \$150,000 loan in which the loan fund recovered over \$50,000 in accrued interest. The loan fund also recovered over \$38,000 for legal fees incurred in a lawsuit.

CIA sold three properties acquired through foreclosure proceedings providing an additional \$344,000 for future lending.

The loan fund's sole performing asset acquired through foreclosure received approximately \$155K in annual leasehold income. Annual escalations are included in the lease agreement.

GEDCA's reputation as a commercial lender continues to improve not only with its excellent outreach programs, but also as an institution willing to protect the integrity of its loan programs with effective and efficient collection efforts demonstrated. To save costs, GEDCA conducted its auctions, bids, and asset searches in-house, which provided a cost savings to the Authority.

HUMAN RESOURCES DIVISION (HRD)

GEDCA recognizes the importance of ongoing training, retraining, and professional development for all personnel. The Human Resources objective is to make the most effective and economical use of employee resources to accomplish GEDCA's goals and to assist employees in accomplishing personal goals.

In fiscal year 2006 GEDCA personnel attended various orientations, workshops, trainings and supervisory trainings. This provided GEDCA personnel with the knowledge to enhance their on-the-job skills.

INFORMATION TECHNOLOGY (IT)

The Government of Guam Web Site Law was passed to provide government accountability and transparency to the public. To comply with the law, GEDCA has been posting its financials to its existing website www.investguam.com.

Also, in an effort to enhance our web presence to effectively market business opportunities on Guam, a local web development firm was hired to build a new web site for GEDCA which is due for soft launch in early 2007.

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FINANCIAL COMMENTS

The following table summarizes the statements of operations and net assets (deficiency) of Guam Economic Development and Commerce Authority for 2006, 2005 & 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets	\$ 8,178,042	\$ 7,455,305	\$ 6,568,731
Long-term assets:			
Land	-	176,174	402,164
Building, improvements and equipment, at cost, net	723,991	1,333,916	1,921,206
Other assets	540,527	606,285	690,669
	<u>\$ 9,442,560</u>	<u>\$ 9,571,680</u>	<u>\$ 9,582,770</u>
Liabilities and Net Deficiency:			
Current liabilities:			
Current portion of long-term debt, net	\$ 897,921	\$ 587,310	\$ 534,070
Other current payables	2,141,514	2,389,785	1,915,549
Long-term liabilities:			
Long-term debt, net	24,382,103	24,781,652	24,964,530
Other long-term payable	393,979	325,939	260,030
Net Deficiency	<u>(18,372,957)</u>	<u>(18,513,006)</u>	<u>(18,091,409)</u>
	<u>\$ 9,442,560</u>	<u>9,571,680</u>	<u>\$ 9,582,770</u>
Revenues, Expenses and Changes in Net Assets:			
Revenue:			
Operating revenues	\$ 1,868,424	\$ 1,925,455	\$ 1,952,435
Tobacco Settlement revenue	1,283,456	1,382,787	1,392,811
Recovery of doubtful accounts receivable	89,669	-	-
Total revenue	<u>3,241,549</u>	<u>3,308,242</u>	<u>3,345,246</u>
Expenses:			
Operating expenses	(1,816,504)	(1,910,076)	(1,565,516)
Other Income (expense), net	(1,284,996)	(1,819,763)	175,968
(Decrease) increase in net assets	<u>\$ 140,049</u>	<u>\$ (421,597)</u>	<u>\$ 1,955,698</u>

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Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in GEDCA's report on the audit of financial statements, which is dated April 20, 2006. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be viewed at the Office of the Public Auditor's website at www.guamopa.com.

2001 GEDCA Tobacco Settlement Asset Backed Bonds

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

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

Operating Revenues

In fiscal year 2006, GEDCA recorded operating revenues of \$1,868,424, compared to \$1,925,455 in fiscal year 2005. The year-to-year change of \$57,031 represents a decline of 2.962%. GEDCA generates its own revenues to sustain annual operations from two primary sources. The first is the rental income from Industrial Parks and the second is application and surveillance fees from QC beneficiaries. Bond fees are a third source, but is not recurring annual income.

Industrial Park

12 GCA Section 50103 authorizes GEDCA to lease Government of Guam land to promote investments in entrepreneurial capital thereby increasing opportunity for employment in manufacturing, industrial, commercial, recreational, retail and service enterprises. GEDCA maintains industrial parks under leases from the Government of Guam: the 18-acre Harmon Industrial Park, the 26-acre E.T. Calvo Memorial Park, and the 32-acre Cabras Industrial Park. A fourth industrial park is operated under a lease with the U.S. Navy for ship repair and other industrial services.

Rental income decreased 3.164% from \$1,754,285 in FY05 to \$1,698,784 in FY06. The decrease was due to the Port Authority of Guam (PAG)-GEDCA addendum agreement which expired in April '06.

Qualifying Certificate (Q.C.) Program

The Qualifying Certificate program is an economic incentive tool to entice investors into Guam. The program was created in the 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 support of the currently emerging industries previously named. It is a proven enticement for investment that otherwise may not have happened, but for the program. A \$1,530 or 0.894% decrease in QC revenues accrued in FY06.

Bond Fees

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

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Assets

Land, building, improvement and equipment decreased \$786,099 or 52.056% in FY06. This is mainly attributable to the transfer of property from GBDC to GDFA.

Operating Expenses

The Authority's operating expenses in FY06 of \$1,726,835 (which includes the recovery of doubtful accounts receivable of \$89,669) decreased 9.59% over FY05 of \$1,910,076.

Personnel Expense

Salaries and Benefits increased 8.42% or \$103,346 (including allocation to trust funds) in FY06, which is attributable to an increase in staff from 19 to 24, and also an increase in government benefits.

Legal and Professional Services

Professional service expense decreased \$83,406 or 18.785% from \$444,002 in FY05 to \$360,596 in FY06. The need for legal services decreased in FY05; however, about 40.76% is attributable to a legal dispute with two former employees.

Depreciation Expense

Depreciation expense decreased \$33,010 or 13.858% from \$238,199 in FY05 to \$205,189 in FY'06.

Office Space and Equipment Rental

Office Space and Equipment Rental decreased by \$7,610 or 5.665% from \$134,329 in FY05 to \$126,716 in FY06. This was due to a reduction in the cost of a copier lease.

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Statements of Net Assets (Deficiency)
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<u>ASSETS</u>	<u>Divisional Information</u>		<u>2006</u>	<u>2005</u>
	<u>GEDCA</u>	<u>TSA</u>		
Current assets:				
Cash and cash equivalents	\$ 103,550	\$ 1,792,255	\$ 1,895,805	\$ 1,511,978
Investments	2,442,076	2,440,226	4,882,302	3,368,866
Current portion of notes and accrued interest receivable	115	-	115	115
Due from trust funds administered by GEDCA:				
Agricultural Development Fund	798	-	798	1,650
Guam Development Fund Act	25,130	-	25,130	41,402
Other receivables, net of an allowance for doubtful receivables of \$385,731 in 2006 and \$475,400 in 2005	433,276	-	433,276	1,462,363
Inventory	6,367	-	6,367	14,309
Prepaid expense	204	-	204	124,658
Deferred charges	934,045	-	934,045	929,964
Total current assets	<u>3,945,561</u>	<u>4,232,481</u>	<u>8,178,042</u>	<u>7,455,305</u>
Deferred bond issuance costs	-	537,027	537,027	602,785
Investments:				
Stock	3,500	-	3,500	3,500
Other real estate:				
Land, net of a valuation allowance of \$248,989 in 2005	-	-	-	176,174
Improvements, net of a valuation allowance of \$406,078 in 2005	-	-	-	419,826
Building, improvements and equipment, at cost, net	723,991	-	723,991	914,090
Total assets	<u>\$ 4,673,052</u>	<u>\$ 4,769,508</u>	<u>\$ 9,442,560</u>	<u>\$ 9,571,680</u>
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ 327,921	\$ -	\$ 327,921	\$ 82,310
Current portion of bonds payable	-	570,000	570,000	505,000
Accounts payable	1,175,175	-	1,175,175	1,655,638
Due to trust funds administered by GEDCA:				
Microenterprise Development Program	62,812	-	62,812	50,072
U.S. Base Relocation and Closure Commission	22	-	22	22
Accrued liabilities	429,311	-	429,311	240,802
Interest payable	-	340,000	340,000	340,000
Deferred rental income	134,194	-	134,194	103,251
Total current liabilities	<u>2,129,435</u>	<u>910,000</u>	<u>3,039,435</u>	<u>2,977,095</u>
Non-current liabilities:				
Long-term portion of notes payable to Guam Development Fund Act	-	-	-	828,192
Bonds payable, net of current portion and discount	-	24,382,103	24,382,103	23,953,460
Accrued Retirement Fund contributions	358,603	-	358,603	291,305
DCRS sick leave liability	28,532	-	28,532	27,790
Deposits	6,844	-	6,844	6,844
Total non-current liabilities	<u>393,979</u>	<u>24,382,103</u>	<u>24,776,082</u>	<u>25,107,591</u>
Total liabilities	<u>2,523,414</u>	<u>25,292,103</u>	<u>27,815,517</u>	<u>28,084,686</u>
Commitments and contingencies				
Net assets (deficiency):				
Invested in capital assets	723,991	-	723,991	914,090
Unrestricted	1,425,647	(20,522,595)	(19,096,948)	(19,427,096)
Net assets (deficiency)	<u>2,149,638</u>	<u>(20,522,595)</u>	<u>(18,372,957)</u>	<u>(18,513,006)</u>
	<u>\$ 4,673,052</u>	<u>\$ 4,769,508</u>	<u>\$ 9,442,560</u>	<u>\$ 9,571,680</u>

See accompanying notes to consolidated financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
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	Divisional Information		2006	2005
	GEDCA	TSA		
Revenues:				
Rental income	\$ 1,698,784	\$ -	\$ 1,698,784	\$ 1,754,285
Tobacco Settlement revenue	-	1,283,456	1,283,456	1,382,787
Qualifying certificate application and surveillance fees	169,640	-	169,640	171,170
	<u>1,868,424</u>	<u>1,283,456</u>	<u>3,151,880</u>	<u>3,308,242</u>
Recovery of doubtful accounts receivable	89,669	-	89,669	-
	<u>1,958,093</u>	<u>1,283,456</u>	<u>3,241,549</u>	<u>3,308,242</u>
Operating expenses:				
Salaries and benefits	1,025,989	-	1,025,989	990,519
Legal and professional services	360,596	-	360,596	444,002
Depreciation and amortization	205,189	-	205,189	238,199
Office space and equipment rent	126,719	-	126,719	134,329
Advertising and promotions	30,799	-	30,799	25,549
Utilities, telephone and communication	17,507	-	17,507	18,883
Insurance	9,613	-	9,613	11,607
Supplies	6,308	-	6,308	11,585
Repairs and maintenance	3,737	-	3,737	5,235
Travel	9,666	-	9,666	4,059
Miscellaneous	20,381	-	20,381	26,109
	<u>1,816,504</u>	<u>-</u>	<u>1,816,504</u>	<u>1,910,076</u>
Operating income	<u>141,589</u>	<u>1,283,456</u>	<u>1,425,045</u>	<u>1,398,166</u>
Other income (expense):				
Interest expense, net	778	(1,507,831)	(1,507,053)	(1,523,596)
Investment income	-	178,385	178,385	141,198
Other income, net	15,475	-	15,475	21,069
Loss on transfer of property	(9,254)	-	(9,254)	-
Typhoon recovery, net	-	-	-	160,237
Provision for property valuation allowance	-	-	-	(632,067)
Gain on investments	37,451	-	37,451	13,396
Other (expense) income, net	<u>44,450</u>	<u>(1,329,446)</u>	<u>(1,284,996)</u>	<u>(1,819,763)</u>
Net income (loss)	<u>186,039</u>	<u>(45,990)</u>	<u>140,049</u>	<u>(421,597)</u>
Net assets (deficiency) at beginning of year	<u>1,963,599</u>	<u>(20,476,605)</u>	<u>(18,513,006)</u>	<u>(18,091,409)</u>
Net assets (deficiency) at end of year	<u>\$ 2,149,638</u>	<u>\$ (20,522,595)</u>	<u>\$ (18,372,957)</u>	<u>\$ (18,513,006)</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
(A Component Unit of the Government of Guam)
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Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	Divisional Information		2006	2005
	GEDCA	TSA		
Cash flows from operating activities:				
Cash received from customers	\$ 2,672,900	\$ 1,283,456	\$ 3,956,356	\$ 3,229,514
Cash paid to suppliers for goods and services	(421,536)	-	(421,536)	(670,833)
Cash paid to employees for services	(890,651)	-	(890,651)	(924,610)
Net cash provided by operating activities	<u>1,360,713</u>	<u>1,283,456</u>	<u>2,644,169</u>	<u>1,634,071</u>
Cash flows from investing activities:				
Interest and investment income	37,451	178,385	215,836	154,594
Rollover of interest into investment	(37,451)	-	(37,451)	(13,396)
Purchase of investment securities	(1,352,768)	(123,217)	(1,475,985)	(215,541)
Net cash (used in) provided by investing activities	<u>(1,352,768)</u>	<u>55,168</u>	<u>(1,297,600)</u>	<u>(74,343)</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(15,090)	-	(15,090)	(56,986)
Net cash used in capital and related financing activities	<u>(15,090)</u>	<u>-</u>	<u>(15,090)</u>	<u>(56,986)</u>
Cash flows from non-capital financing activities:				
Repayment of bond payable	-	-	-	(575,000)
Net interest received (paid) on deposit accounts, bond and notes payable	778	(948,430)	(947,652)	(964,195)
Notes payable to GDFA	-	-	-	(48,281)
Net cash provided by (used in) noncapital financing activities	<u>778</u>	<u>(948,430)</u>	<u>(947,652)</u>	<u>(1,587,476)</u>
Net change in cash and cash equivalents	(6,367)	390,194	383,827	(84,734)
Cash and cash equivalents at beginning of year	109,917	1,402,061	1,511,978	1,596,712
Cash and cash equivalents at end of year	<u>\$ 103,550</u>	<u>\$ 1,792,255</u>	<u>\$ 1,895,805</u>	<u>\$ 1,511,978</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 141,589	\$ 1,283,456	\$ 1,425,045	\$ 1,398,166
Typhoon recovery, net	-	-	-	160,237
Other income, net	15,475	-	15,475	21,069
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	205,189	-	205,189	238,199
Recovery of doubtful accounts receivable	(89,669)	-	(89,669)	-
(Increase) decrease in assets:				
Notes receivable and accrued interest receivable	-	-	-	26,167
Due from trust funds administered by GEDCA	17,124	-	17,124	4,279
Other receivables	858,058	-	858,058	(25,078)
Inventory	7,942	-	7,942	-
Prepaid expenses	124,454	-	124,454	(124,149)
Deferred charges	(4,081)	-	(4,081)	(604,964)
Increase (decrease) in liabilities:				
Accounts payable	(219,765)	-	(219,765)	412,148
Due to trust funds administered by GEDCA	12,740	-	12,740	10,626
Accrued liabilities	192,674	-	192,674	134,487
Deferred rental income	30,943	-	30,943	(83,025)
Accrued Retirement Fund contributions	67,298	-	67,298	121,639
DCRS sick leave liability	742	-	742	(55,730)
Net cash provided by operating activities	<u>\$ 1,360,713</u>	<u>\$ 1,283,456</u>	<u>\$ 2,644,169</u>	<u>\$ 1,634,071</u>
Supplemental disclosure of non-cash transactions				
Non-cash decrease in notes payable to GDFA and accrued interest payable through transfer of assets	\$ 596,000	\$ -	\$ 596,000	\$ -
Non-cash decrease in other receivables and accounts payable due to direct payment made by lessee	260,698	-	260,698	-
	<u>\$ 856,698</u>	<u>\$ -</u>	<u>\$ 856,698</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Economic Development and Commerce Authority (GEDCA) was created by Public Law 8-80 on August 21, 1965, to assist in the implementation of an integrated program for the economic development of Guam. Public Law No. 26-76 reenacted any reference in any law to the Guam Economic Development Authority (GEDA) to mean and be read as the Guam Economic Development and Commerce Authority (GEDCA). Enabling legislation set forth several specific purposes for the establishment of GEDCA to include:

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

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

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

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

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

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

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

New Accounting Standards

During fiscal year 2006, the GEDCA implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statements are effective for periods beginning after December 15, 2007.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006.

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

Management does not believe that the implementation of these Statements will have a material effect on the financial statements of GEDCA.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

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

Principles of Consolidation

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

Basis of Accounting

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

Estimates

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

Net Assets

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

Cash and Cash Equivalents

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

Notes and Accrued Interest Receivable

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

Depreciation and Amortization

Buildings and improvements are depreciated on a straight-line basis over estimated useful lives of 7 to 30 years. Equipment and automobiles are depreciated on a straight-line basis over estimated useful lives of three to five years. GEDCA generally capitalizes items with useful lives extending beyond one year.

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

Bond Discounts and Issuance Costs

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

Compensated Absences

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

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDCA has accrued an estimated liability of \$28,532 and \$27,790 as of September 30, 2006 and 2005, respectively, for potential future sick leave payments as a result of this law. The actual liability that ultimately results may be significantly different than estimated.

Inventories

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

Operating Expenses

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

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September 30, 2006 and 2005

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

Risk Management

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

Concentrations of Credit Risk

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

At September 30, 2006 and 2005, GEDCA has cash deposits in bank accounts that exceed federal depository insurance limits. GEDCA has not experienced any losses in such accounts.

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

(2) Cash and Investments

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

Investments in debt securities are carried at cost which approximates market value. Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2006 and 2005 consist the following:

	<u>2006</u>	<u>2005</u>
Cash on hand and due from banks	\$ 103,550	\$ 109,917
Money market accounts	<u>1,792,255</u>	<u>1,402,061</u>
Cash and cash equivalents	<u>\$ 1,895,805</u>	<u>\$ 1,511,978</u>
Shares in mutual funds	\$ 2,442,076	\$ 1,051,857
Federal Home Loan Mortgage Corporation (FHLMC) discount note	<u>2,440,226</u>	<u>2,317,009</u>
Investments	<u>\$ 4,882,302</u>	<u>\$ 3,368,866</u>

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

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Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, Continued

A. Cash

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

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

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

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

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

At September 30, 2006 and 2005, the carrying amount of balances in banks was \$103,550 and \$109,917, respectively, and the corresponding bank balances were \$263,025 and \$189,990, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$176,274 and \$138,070 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2006 and 2005, respectively. GEDCA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

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

B. Investments

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

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

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

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Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, Continued

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

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

As of September 30, 2006 and 2005, GEDCA's investments are as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>
Shares in mutual funds	\$ 2,442,076	N/A	\$ 1,051,857	N/A
FHLMC discount note	2,440,226	11/07/06	2,317,009	11/15/05

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDCA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDCA's investment in a FHLMC discount note is held and registered in the name of U.S. Bank as Co-Trustee for the 2001 Series A and B Tobacco Settlement Bond. GEDCA's investment in shares of mutual funds is registered in GEDCA's name and is held by an investment manager for GEDCA.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDCA. As of September 30, 2006 and 2005, GEDCA's investment in a FHLMC discount note constituted 50% and 69% 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. GEDCA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(3) Other Real Estate

GEDCA has acquired land carried at cost of \$402,164 through loan foreclosure. During the year ended September 30, 2005, GEDCA obtained property appraisals and performed market valuation analysis and accordingly provided a valuation allowance of \$225,989.

During the year ended September 30, 2005, a building and its improvements with a net book value of \$825,903, which were previously held for rent, were reclassified as other real estate consistent with GEDCA's intention of disposal. A property appraisal was obtained and GEDCA accordingly provided a valuation allowance of \$406,078, based on appraisal results.

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Notes to Financial Statements
September 30, 2006 and 2005

(3) Other Real Estate, Continued

During the year ended September 30, 2006, GEDCA entered into an agreement with GDFA where the above properties, with the net value of \$596,000, were deeded to GDFA in partial satisfaction of a loan payable to the trust fund.

(4) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2006 and 2005 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2005</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2006</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Equipment	544,559	5,086	-	549,645
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>63,681</u>	<u>10,004</u>	<u>-</u>	<u>73,685</u>
	1,989,814	15,090	\$ -	2,004,904
Less accumulated depreciation and amortization	<u>(1,075,724)</u>	<u>(205,189)</u>	<u>-</u>	<u>(1,280,913)</u>
	<u>\$ 914,090</u>	<u>\$ (190,099)</u>	<u>\$ -</u>	<u>\$ 723,991</u>
	<u>Beginning Balance</u> <u>October 1, 2004</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2005</u>
Building	\$ 1,207,031	\$ -	\$ (1,207,031)	\$ -
Leasehold improvements	792,537	-	-	792,537
Equipment	487,573	56,986	-	544,559
Other improvements	459,395	-	-	459,395
Land improvements	129,642	-	-	129,642
Automobiles	<u>63,681</u>	<u>-</u>	<u>-</u>	<u>63,681</u>
	3,139,859	56,986	(1,207,031)	1,989,814
Less accumulated depreciation and amortization	<u>(1,218,653)</u>	<u>(238,199)</u>	<u>381,128</u>	<u>(1,075,724)</u>
	<u>\$ 1,921,206</u>	<u>\$ (181,213)</u>	<u>\$ (825,903)</u>	<u>\$ 914,090</u>

(5) Employees' Retirement Plan

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

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

(5) Employees' Retirement Plan, Continued

The Defined Benefit Plan (DB Plan) and the DCRS are administered by the Government of Guam Retirement Fund, to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of actuarial valuations performed as of September 30, 2004, 2003 and 2002, contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Normal costs (% of DB Plan payroll)	17.83%	18.30%	17.66%
Unfunded liability costs (% of total payroll)	<u>21.36%</u>	<u>19.93%</u>	<u>16.23%</u>
	39.19%	38.23%	33.89%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as a % of DB Plan payroll	<u>29.69%</u>	<u>28.73%</u>	<u>24.39%</u>
Government contribution as a % of total payroll	<u>26.00%</u>	<u>24.89%</u>	<u>20.81%</u>

Statutory contribution rates for employer and employee contributions were 21.81% and 9.5%, respectively, for the year ended September 30, 2006. For each of the years ended September 30, 2005 and 2004, statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively.

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

	<u>2004</u> <u>Actuarial Valuation</u>	<u>2003</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.0%
Payroll increases	3.5%	3.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuation performed as of September 30, 2004 and 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuations were performed for GEDCA as a separate sponsor, the accrued unfunded liability at September 30, 2006 and 2005 may be materially different than that recorded in the accompanying financial statements.

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

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Notes to Financial Statements
September 30, 2006 and 2005

(5) Employees' Retirement Plan, Continued

Statutory employer contributions into the DCRS for the years ended September 30, 2006 and 2005 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement expense (including allocations to the trust funds administered by GEDCA) for the years ended September 30, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash contributions and accruals	\$ 212,157	\$ 209,996	\$ 221,747
Increase in accrued unfunded liability to the retirement fund	<u>67,298</u>	<u>121,639</u>	<u>46,312</u>
	<u>\$ 279,455</u>	<u>\$ 331,635</u>	<u>\$ 268,059</u>

(6) Rental Income

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

In 2001, GEDCA agreed to a ten year term with a lessee with future minimum rental set at \$237,800 for 2001 and \$96,000 for the next five years. The lease contains provisions for additional percentage rentals if revenues exceed a defined threshold set in 2002. The lease was renewed in April 2006 for an additional 5-year term at \$120,000 per annum. The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. However, negotiations are ongoing and a definitive agreement has not been finalized. At September 30, 2005, estimated lease expense payable has been recorded of approximately \$260,698, which was directly paid by the lessee during the year ended September 30, 2006. GEDCA did not record any lease expense for 2006 and 2005 and expects that future lease expense over the following five years will be \$0.

Future minimum rentals to be received under noncancelable subleases as of September 30, 2006, are as follows:

Years ending September 30:	
2007	\$ 1,159,523
2008	1,059,184
2009	1,029,564
2010	848,230
2011	423,198
2012 – 2016	559,459
2017 – 2021	165,940
2022 – 2026	165,940
2027 – 2031	165,940
2032 – 2036	165,940
2037 – 2041	165,940

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Notes to Financial Statements
September 30, 2006 and 2005

(6) Rental Income, Continued

2042 – 2046	165,940
2047 – 2051	165,940
2052 – 2056	165,940
2057 – 2061	165,940
2062 – 2063	<u>33,188</u>

\$ 6,605,806

(7) Lease Commitments

In September 2003, GEDCA entered into an amendment to its 1999 office space lease with the original term of 5 years for the purpose of increasing total rental area as well as extending the expiration date through February 28, 2011. Concurrently, GEDCA and Guam Housing Corporation (GHC), a Government of Guam agency, entered into a Memorandum of Understanding (MOU) in which GEDCA charges GHC for use of office space.

At September 30, 2006, 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:		
2007	\$ 216,177	\$ 72,198
2008	216,177	72,198
2009	216,177	72,198
2010	216,177	72,198
2011	<u>90,074</u>	<u>30,082</u>
	\$ <u>954,782</u>	\$ <u>318,874</u>

Rent expense, net of GHC reimbursements for the years ended September 30, 2006 and 2005, was \$144,344 and \$144,077, respectively, of which \$40,186 and \$37,694, respectively, was allocated to GDFa and ADF.

(8) Contingencies

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

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

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Notes to Financial Statements
September 30, 2006 and 2005

(9) Related Parties

At September 30, 2006 and 2005, the following trust funds were administered by GEDCA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2006</u>	<u>2005</u>
Guam Development Fund Act (GDFA)	\$ 12,394,381	\$ 12,610,261
Agricultural Development Fund (ADF)	816,707	1,156,941
Landowner's Recovery Fund (LRF)	-	10,611
Microenterprise Development Program (MDP)	63,988	63,131
Housing and Urban Development Fund (HUD)	445	445
Local Arts Revolving Fund (LARF)	-	-
Guam Territorial Aquarium Foundation (GTAF)	18,204	18,768
Music and Legends of Guam Fund (MLGF)	14,673	14,700
U.S. Base Realignment and Closure Commission (BRAC)	43	43

The Agricultural Expense Insurance Fund (AEIF) and Aquacultural Training Fund (ATF) have no assets, liabilities, or net assets as of September 30, 2006 and 2005 and had no activities during the years then ended.

(10) Long-Term Obligations

Notes Payable to GDFA

	<u>2006</u>	<u>2005</u>
Term loan, payable in monthly installments of \$8,785, including interest at 4.5%, collateralized by real property with final payment due in 2016.	\$ 327,921	\$ 910,502
Less current portion	<u>(327,921)</u>	<u>(82,310)</u>
	<u>\$ -</u>	<u>\$ 828,192</u>

During the year ended September 30, 2006, GEDCA entered into an agreement with GDFA where certain real properties, as described in note 3, were deeded to GDFA in partial satisfaction the loan in the amount of \$582,581. No other principal or interest payments were made during the year ended September 30, 2006. GEDCA and GDFA have not reached an agreement as to repayment of the remaining loan balance and therefore the balance is presented as a current liability in the accompanying financial statements.

Bonds Payable

	<u>2006</u>	<u>2005</u>
Tobacco settlement bonds, 2001 Series A (original issue of \$11,982,980 with a maturity par value of \$13,270,000), varying interest rates at 5% - 5.4% per annum, payable semiannually in May and November, principal fund payments due in varying annual installments commencing with a payment of \$580,000 in May 2002 and increasing to \$2,175,000 in May 2012. These bonds are payable solely from and secured by certain revenues. The bonds have been issued for deposit to trust and endowment funds.	\$ 10,920,000	\$ 10,920,000

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Notes to Financial Statements
September 30, 2006 and 2005

(10) Long-Term Obligations, Continued

Bonds Payable, Continued

Tobacco settlement bonds, 2001 Series B (original issue of \$13,494,479 with a maturity par value of \$14,990,000) varying interest rates at 5.2% - 5.5% per annum, payable semiannually in May and November, principal fund payments due in varying annual installments commencing with a payment of \$175,000 in May 2012 and increasing to \$3,615,000 in May 2017. These bonds are payable solely from and secured by certain revenues. The bonds have been issued for deposit to trust and endowment funds.

	<u>14,990,000</u>	<u>14,990,000</u>
	25,910,000	25,910,000
Less discount on bond issuance	<u>(957,897)</u>	<u>(1,451,540)</u>
Bond payable, net of discount on bond issuance	24,952,103	24,458,460
Less current portion	<u>(570,000)</u>	<u>(505,000)</u>
Bonds payable, net of current portion	\$ <u>24,382,103</u>	\$ <u>23,953,460</u>

The annual payments on series 2001 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2006, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2007	\$ 570,000	\$ 857,290	\$ 1,427,290
2008	1,815,000	1,087,343	2,902,343
2009	1,895,000	1,253,590	3,148,590
2010	2,040,000	1,154,760	3,194,760
2011	2,190,000	1,047,360	3,237,360
2012 through 2016	13,550,000	3,303,973	16,853,973
2017	<u>3,850,000</u>	<u>198,825</u>	<u>4,048,825</u>
	\$ <u>25,910,000</u>	\$ <u>8,903,141</u>	\$ <u>34,813,141</u>

During the years ended September 30, 2006 and 2005, the following changes occurred in liabilities reported as part of GEDCA's long-term liabilities in the statements of net assets:

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Notes to Financial Statements
September 30, 2006 and 2005

(10) Long-Term Obligations, Continued

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due within one year
Bonds payable	\$ 25,910,000	\$ -	\$ -	\$ 25,910,000	\$ 570,000
Notes payable	<u>910,502</u>	<u>-</u>	<u>(582,581)</u>	<u>327,921</u>	<u>327,921</u>
	26,820,502	-	(582,581)	26,237,921	897,921
Deferred amounts:					
Unamortized discount on bonds issued	<u>(1,451,540)</u>	<u>-</u>	<u>493,643</u>	<u>(957,897)</u>	<u>-</u>
	<u>25,368,962</u>	<u>-</u>	<u>(88,938)</u>	<u>25,280,024</u>	<u>897,921</u>
Other liabilities:					
Unfunded pension	291,305	67,298	-	358,603	-
DCRS sick leave liability	27,790	742	-	28,532	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>325,939</u>	<u>68,040</u>	<u>-</u>	<u>393,979</u>	<u>-</u>
	<u>\$ 25,694,901</u>	<u>\$ 68,040</u>	<u>\$ (88,938)</u>	<u>\$ 25,674,003</u>	<u>\$ 897,921</u>
	Balance October 1, 2004	Additions	Reductions	Balance September 30, 2005	Due within one year
Bonds payable	\$ 26,485,000	\$ -	\$ (575,000)	\$ 25,910,000	\$ 505,000
Notes payable	<u>958,783</u>	<u>-</u>	<u>(48,281)</u>	<u>910,502</u>	<u>82,310</u>
	27,443,783	-	(623,281)	26,820,502	587,310
Deferred amounts:					
Unamortized discount on bonds issued	<u>(1,945,183)</u>	<u>-</u>	<u>493,643</u>	<u>(1,451,540)</u>	<u>-</u>
	<u>25,498,600</u>	<u>-</u>	<u>(129,638)</u>	<u>25,368,962</u>	<u>587,310</u>
Other liabilities:					
Unfunded pension	169,666	121,639	-	291,305	-
DCRS sick leave liability	83,520	-	(55,730)	27,790	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>260,030</u>	<u>121,639</u>	<u>(55,730)</u>	<u>325,939</u>	<u>-</u>
	<u>\$ 25,758,630</u>	<u>\$ 121,639</u>	<u>\$ (185,368)</u>	<u>\$ 25,694,901</u>	<u>\$ 587,310</u>

(11) Investment in Stock

During the year ended September 30, 1998, GEDCA paid \$61,700 for shares (a 72% interest) of preferred stock in Heli-Guam, Inc. (HGI). This investment is carried at \$0 using the equity method. A summary of investment in stock at September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Bank of Guam	\$ 3,500	\$ 3,500
Heli-Guam, Inc	<u>-</u>	<u>-</u>
	<u>\$ 3,500</u>	<u>\$ 3,500</u>

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

(12) 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 summarized as follows:

	<u>2005</u>
Restoration costs incurred	\$ <u>7,245</u>
Total typhoon loss	7,245
FEMA reimbursements	305
FEMA reimbursement receivable	<u>167,177</u>
Typhoon recovery, net	\$ <u>160,237</u>

As of September 30, 2005, GEDCA paid \$1,236,379 relating to restoration and replacement of leasehold improvements and contents, of which \$1,205,362 was capitalized as fixed assets. Of these costs, \$885,089 was reimbursable by FEMA. As of September 30, 2005, \$703,985 has been received and \$181,104 was included in other receivables in the accompanying statements of net assets, which was subsequently received during the year ended September 30, 2006. Additionally, GEDCA received landlord and GHC contributions totaling \$150,000. Total cost of restoration to GEDCA was \$201,290.

Restoration and replacement of leasehold improvements and contents has been completed as of September 30, 2005.

(13) Financial Advisory Services

GEDCA entered into a financial advisory agreement (the Agreement) to receive debt issuance and related services. The Agreement calls for an annual fee of \$500,000, payable quarterly, plus actual expenses incurred. GEDCA has also entered into a Memorandum of Understanding (MOU) with Guam Power Authority (GPA) to receive an annual fee of \$85,000 from GPA. As of September 30, 2006 and 2005, balances related to these agreements are as follows:

	<u>2006</u>	<u>2005</u>
Receivable from GIAA	\$ 100,000	\$ 275,000
Payable under the Agreement	\$ <u>1,159,399</u>	\$ <u>1,340,318</u>

The aggregate differential as of September 30, 2006 has been allocated to ongoing bond projects that are expected to be finalized in the year ended September 30, 2007, and consequently, any uncollected costs have been recorded as deferred charges in the accompanying statement of net assets. Collection of the deferred charges is contingent upon final realization of future planned bond issuances.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2006 and 2005

	2006	2005
Salaries and wages:		
Salaries	\$ 807,208	\$ 761,740
Benefits	523,218	465,340
Total salaries and wages	\$ 1,330,426	\$ 1,227,080
Employees at end of year	24	19

See accompanying independent auditors' report.

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2006 AND 2005

Independent Auditors' Report

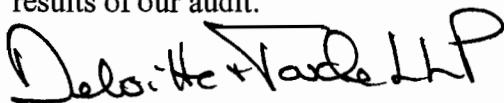
The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Landowner's Recovery Fund, the Housing and Urban Development Fund, the Local Arts Revolving Fund, the Guam Territorial Aquarium Foundation, the Music and Legends of Guam Fund, the Microenterprise Development Program and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years then ended. The Funds are administered by the Guam Economic Development and Commerce Authority (a public corporation) which is a component unit of the Government of Guam. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2006 and 2005, and the changes in their net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated January 31, 2007, on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



January 31, 2007

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

Statements of Fiduciary Net Assets
September 30, 2006 and 2005

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2006	2005	2006	2005	2006	2005	2006	2005
Cash on hand and in bank	\$ 48,066	\$ 39,027	\$ 4,265	\$ 5,089	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	7,348,776	8,570,084	637,163	666,448	-	-	48,272	60,595
Less allowance for doubtful receivables	(4,255,061)	(4,093,950)	(508,817)	(518,784)	-	-	(47,347)	(47,787)
Net notes and accrued interest receivable	3,093,715	4,476,134	128,346	147,664	-	-	925	12,808
Due from other funds:								
Guam Economic Development Authority	-	-	-	-	-	-	62,812	50,072
Guam Development Fund Act	-	-	-	8,364	-	10,611	251	251
Local Arts Revolving Fund	-	8,703	-	-	-	-	-	-
Microenterprise Development Program	-	-	420	420	-	-	-	-
Agricultural Development Program	3	-	-	-	-	-	-	-
Investments	5,822,309	3,698,132	599,796	577,611	-	-	-	-
Other real estate:								
Land	823,870	912,155	83,000	83,000	-	-	-	-
Improvements	419,826	-	-	-	-	-	-	-
Leasehold interest, net	841,080	855,198	-	333,171	-	-	-	-
Other receivables	(9,006)	(9,006)	-	-	-	-	-	-
Furniture and equipment, at cost, net	14,512	14,635	853	1,591	-	-	-	-
Other assets	6	6	27	31	-	-	-	-
	<u>7,912,600</u>	<u>5,479,823</u>	<u>684,096</u>	<u>1,004,188</u>	<u>-</u>	<u>10,611</u>	<u>63,063</u>	<u>50,323</u>
Restricted assets:								
Investments	1,340,000	2,615,277	-	-	-	-	-	-
Total assets	<u>\$ 12,394,381</u>	<u>\$ 12,610,261</u>	<u>\$ 816,707</u>	<u>\$ 1,156,941</u>	<u>\$ -</u>	<u>\$ 10,611</u>	<u>\$ 63,988</u>	<u>\$ 63,131</u>

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Assets, Continued
September 30, 2006 and 2005

	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2006	2005	2006	2005	2006	2005	2006	2005
<u>LIABILITIES AND NET ASSETS</u>								
Liabilities:								
Accounts payable and accrued expenses	\$ 125,568	\$ 79,584	\$ 11,884	\$ 12,036	\$ -	\$ -	\$ 242	\$ 242
Due to other funds:								
Guam Economic Development Authority	25,130	41,402	798	1,650	-	-	-	-
Guam Territorial Aquarium Foundation	-	-	-	-	-	1,086	-	-
Landowner's Recovery Fund	-	10,611	-	-	-	-	-	-
Microenterprise Development Program	251	251	-	-	-	-	-	-
Guam Development Fund Act	-	-	3	-	-	-	-	-
Agricultural Development Program	-	8,364	-	-	-	-	420	420
Total liabilities	<u>150,949</u>	<u>140,212</u>	<u>12,685</u>	<u>13,686</u>	<u>-</u>	<u>1,086</u>	<u>662</u>	<u>662</u>
Contingencies								
Net assets held in trust	<u>12,243,432</u>	<u>12,470,049</u>	<u>804,022</u>	<u>1,143,255</u>	<u>-</u>	<u>9,525</u>	<u>63,326</u>	<u>62,469</u>
Total liabilities and net assets	<u>\$ 12,394,381</u>	<u>\$ 12,610,261</u>	<u>\$ 816,707</u>	<u>\$ 1,156,941</u>	<u>\$ -</u>	<u>\$ 10,611</u>	<u>\$ 63,988</u>	<u>\$ 63,131</u>

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Assets (Deficiency)
September 30, 2006 and 2005

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<u>ASSETS</u>										
Due from other funds:										
Guam Economic Development Authority	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22	\$ 22
Landowner's Recovery Fund	-	-	-	-	-	1,086	-	-	-	-
Other receivables	445	445	-	-	-	-	-	-	21	21
Investments	-	-	-	-	18,204	17,682	-	-	-	-
Inventories	-	-	-	-	-	-	14,673	14,700	-	-
Total assets	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,204</u>	<u>\$ 18,768</u>	<u>\$ 14,673</u>	<u>\$ 14,700</u>	<u>\$ 43</u>	<u>\$ 43</u>
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>										
Liabilities:										
Due to other funds:										
Guam Development Fund Act	\$ -	\$ -	\$ -	\$ 8,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	8,703	-	-	-	-	-	-
Net assets held in trust	445	445	-	(8,703)	18,204	18,768	14,673	14,700	43	43
Total liabilities and net assets	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,204</u>	<u>\$ 18,768</u>	<u>\$ 14,673</u>	<u>\$ 14,700</u>	<u>\$ 43</u>	<u>\$ 43</u>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets
Years Ended September 30, 2006 and 2005

	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2006	2005	2006	2005	2006	2005	2006	2005
Additions:								
Interest	\$ 442,777	\$ 391,140	\$ 34,947	\$ 24,738	\$ -	\$ -	\$ 415	\$ 3,538
Net increase (decrease) in the fair value of investments	(3,271)	(54,478)	148	(4,984)	-	-	-	-
Net gain on sale of real property owned	2,662	45,369	-	66,751	-	-	-	-
Other	145,506	158,132	575	3,941	-	-	442	17,695
Total additions	587,674	540,163	35,670	90,446	-	-	857	21,233
Deductions:								
Loss on loan guaranty	-	800,000	-	-	-	-	-	-
Salaries and benefits	276,859	212,146	27,578	24,415	-	-	-	-
Legal and professional services	62,183	63,129	1,047	1,110	-	-	-	25
Rent	37,499	35,016	2,687	2,678	-	-	-	-
Depreciation	17,183	16,391	1,016	997	-	-	-	-
Provision for doubtful notes and accrued interest	268,712	13,360	8,488	74,723	-	-	-	-
Bank charges	9,890	8,098	874	536	-	-	-	-
Provision for property valuation allowance	158,660	-	333,171	-	-	-	-	-
Miscellaneous	(16,695)	422	42	92	9,525	-	-	4
Total deductions	814,291	1,148,562	374,903	104,551	9,525	-	-	29
Net change in net assets	(226,617)	(608,399)	(339,233)	(14,105)	(9,525)	-	857	21,204
Net assets at beginning of year	12,470,049	13,078,448	1,143,255	1,157,360	9,525	9,525	62,469	41,265
Net assets at end of year	\$ 12,243,432	\$ 12,470,049	\$ 804,022	\$ 1,143,255	\$ -	\$ 9,525	\$ 63,326	\$ 62,469

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Statements of Changes in Fiduciary Net Assets (Deficiency)
Years Ended September 30, 2006 and 2005

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Additions:										
Other	\$ -	\$ -	\$ 8,703	\$ -	\$ 522	\$ -	\$ -	\$ -	\$ -	\$ -
Total additions	<u>-</u>	<u>-</u>	<u>8,703</u>	<u>-</u>	<u>522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deductions										
Miscellaneous	-	-	-	-	1,086	-	27	-	-	-
Total deductions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,086</u>	<u>-</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in net assets (deficiency)	-	-	8,703	-	(564)	-	(27)	-	-	-
Net assets (deficiency) at beginning of year	<u>445</u>	<u>445</u>	<u>(8,703)</u>	<u>(8,703)</u>	<u>18,768</u>	<u>18,768</u>	<u>14,700</u>	<u>14,700</u>	<u>43</u>	<u>43</u>
Net assets (deficiency) at end of year	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ (8,703)</u>	<u>\$ 18,204</u>	<u>\$ 18,768</u>	<u>\$ 14,673</u>	<u>\$ 14,700</u>	<u>\$ 43</u>	<u>\$ 43</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2006 and 2005

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

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

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

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

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

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

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

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

**TRUST FUNDS ADMINISTERED BY THE
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Notes to Financial Statements
September 30, 2006 and 2005

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

Additionally, GEDCA administered the Agricultural Expense Insurance Fund (AEIF) and the Aquacultural Training Fund (ATF) which have no assets, liabilities or net assets as of September 30, 2006 and 2005 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements. The specific purpose of each fund is as follows:

AEIF - AEIF was created to insure or to reinsure insurers of farmers, livestock producers and commercial fishermen against losses due to natural disasters. The premiums are collected at rates sufficient to cover claims for losses and to provide a reasonable reserve against unforeseen losses. Initial funding was by an appropriation from the Government of Guam. There were no insurance policies issued in 2006 and 2005 nor were there any policies outstanding at September 30, 2006 and 2005.

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

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDCA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2006 and 2005.

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

Basis of Accounting

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

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

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

**TRUST FUNDS ADMINISTERED BY THE
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Notes to Financial Statements
September 30, 2006 and 2005

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

Estimates

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

Cash and Cash Equivalents

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

Notes and Accrued Interest Receivable

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

Included in notes receivable for GDFA as of September 30, 2006 and 2005, is a note due from GEDCA for \$327,921 and \$918,921 (including accrued interest of \$8,419), respectively. During the year ended September 30, 2006, GDFA entered into an agreement with GEDCA where certain real properties were deeded to GDFA for a partial satisfaction of the note. Properties received were valued at \$596,000 where \$591,000 was applied to the outstanding loan and accrued interest and \$5,000 was applied to fees relating to the agreement.

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

Inventories

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

Expenses

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

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

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Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments

Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2006 and 2005 consist the following:

	<u>2006</u>	<u>2005</u>
Cash on hand and due from banks	\$ <u>52,331</u>	\$ <u>44,116</u>
Cash and cash equivalents	\$ <u>52,331</u>	\$ <u>44,116</u>
Shares in fixed income mutual funds	\$ <u>7,780,309</u>	\$ <u>6,313,409</u>
Investments	\$ <u>7,780,309</u>	\$ <u>6,313,409</u>

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

A. Cash

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

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

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

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

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

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Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, Continued

A. Cash, Continued

At September 30, 2006 and 2005, the carrying amount of balances due from banks was \$51,931 and \$43,716, respectively, and the corresponding bank balances were \$52,301 and \$55,996, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. As the trust funds are administered by GEDCA, cash balances of the trust funds, combining with the cash balances of GEDCA, exceed the insurance limit of the Federal Deposit Insurance Corporation (FDIC) at September 30, 2006 and 2005, respectively. GEDCA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

B. Investments

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

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

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

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

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

As of September 30, 2006 and 2005, GEDCA's investments are as follows:

	<u>Amount</u>	<u>2006</u> <u>Maturity</u>	<u>Amount</u>	<u>2005</u> <u>Maturity</u>
Shares in mutual funds	\$ 7,780,309	N/A	\$ 6,313,409	N/A

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDCA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Trust Funds' investments in shares of a mutual fund are registered in GEDCA's name and are held by an investment manager for GEDCA.

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Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDCA. There was no concentration of credit risk for investments as of September 30, 2006 and 2005.

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

(3) Other Real Estate, Land

G DFA and ADF have acquired certain land through foreclosure of loans. During the year ended September 30, 2006, G DFA and ADF performed market valuation analyses and accordingly provided valuation allowance of \$158,660 for two parcels that are actively marketed for sale.

A summary of the changes in other real estate for 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 995,155	\$ 1,128,155
Additions	395,818	-
Sales	<u>(325,443)</u>	<u>(133,000)</u>
	1,065,530	995,155
Provision for valuation loss	<u>(158,660)</u>	<u>-</u>
Balance at end of year	\$ <u>906,870</u>	\$ <u>995,155</u>

(4) Other Real Estate, Leasehold Interest

G DFA and ADF have acquired leasehold interest in land through foreclosure of loans. Leasehold interests are reflected at cost of \$1,231,600 (net of a valuation allowance of \$333,171) and \$1,231,600, net of accumulated amortization of \$57,349 and \$43,231 at September 30, 2006 and 2005, respectively. During the year ended September 30, 2006, ADF performed market valuation analyses and accordingly, provided a valuation allowance of \$333,171 for one leasehold interest.

(5) Contingencies

At September 30, 2006 and 2005, G DFA was contingently liable as guarantor for loans in the amount of \$540,000 and \$1,340,000, respectively, and any related collection costs. In accordance with Section 4 of the Guam Development Fund Act of 1968; G DFA is required to maintain reserves of not less than 25% of the loan guarantee. Investments internally restricted for this purpose amounted to \$1,340,000 and \$2,615,277 at September 30, 2006 and 2005, respectively. During the year ended September 30, 2005, G DFA settled a guaranty of \$311,200 for a cash payment of \$170,000 to a financial institution, recorded a loan receivable of this amount and is pursuing collection with the borrower.

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Notes to Financial Statements
September 30, 2006 and 2005

(5) Contingencies, Continued

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

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

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

The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the financial statements of the Guam Economic Development and Commerce Authority and subsidiary (GEDCA), as of September 30, 2006, and for the year then ended, and have issued our report thereon dated January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

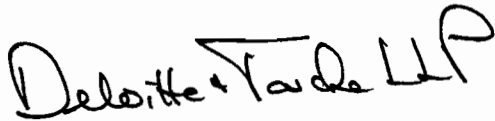
Internal Control Over Financial Reporting

In planning and performing our audit, we considered GEDCA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 31, 2007