

**GUAM ECONOMIC DEVELOPMENT  
AND COMMERCE AUTHORITY  
(A Public Corporation)**

---

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

---

**SEPTEMBER 30, 2005 AND 2004**

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
**(A Public Corporation)**

Table of Contents  
Years Ended September 30, 2005 and 2004

	<u>Page No.</u>
I. FINANCIAL STATEMENTS	
<u>Guam Economic Development and Commerce Authority</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Assets (Deficiency)	10
Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)	11
Statements of Cash Flows	12
Notes to Financial Statements	13
Supplemental Schedule of Salaries and Wages	28
<u>Trust Funds Administered by the Guam Economic Development and Commerce Authority</u>	
Independent Auditors' Report	29
Statements of Fiduciary Net Assets	30
Statements of Changes in Fiduciary Net Assets	33
Notes to Financial Statements	35
II. INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	42
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Award Program and Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards	44

## 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, 2005 and 2004, 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.

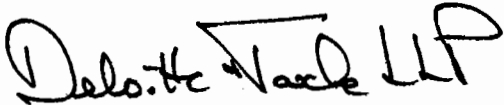
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 Guam Economic Development and Commerce Authority and subsidiary at September 30, 2005 and 2004, 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 9 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 10 through 12 and the data on page 28 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, 2005. 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 April 20, 2006, on our consideration of the Guam Economic Development and Commerce Authority's and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

April 20, 2006

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Management's Discussion and Analysis  
Year Ended September 30, 2005

Guam Economic Development and 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 PL8-80, GEDCA 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.

---

## **INDUSTRY DEVELOPMENT DIVISION (ID)**

### Economic Development Conference

The Guam Economic Development & Commerce Authority coordinated the organization of the 2005 Guam Economic Development Conference, "Realigning in a Resurging Economy: Resolve, Recover, Results," was held on March 30-31, 2005 attracting 273 participants from Guam's small business community, which included both chamber and non-chamber members, as well as public sector stakeholder entities, all of whom contributed their time and effort to hold frank discussions regarding the impediments that have hindered our island's economic progress and for the first time offered definitive solutions to those identified impediments.

### Grants

Prompted by the Governor's Economic Recovery Plan; particularly the industry diversification component, GEDCA received and administered a \$598,000 technical assistance grant from the Office of Insular Affairs which funded the preparation of several feasibility reports on the potential of attracting various new industries to Guam. Final feasibility reports were received March 30, 2005 for the Captive Ins. & Trusts, May 30, 2005 for the "Back Office" facilities study, and September 6, 2005 for the Regional Distribution Center.

In FY05, GEDCA was able to obtain for the Guam Memorial Hospital a \$500,000 Health & Human Services grant to initiate a Medical Residency Program at the hospital.

### Hagåtña Revitalization Plan

Developed a conceptual plan for "KOTTURA" a culturally based economic zone that will be a core element in (1.) The Revitalization of Guam's capital city of Hagåtña, (2.) The Preservation of the Chamorro Culture and Arts and (3.) The Diversification and Expansion of Guam's Revenue base utilizing existing opportunities.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARIES**

Management's Discussion and Analysis  
Year Ended September 30, 2005

**REAL PROPERTY DIVISION (RPD)**

GEDCA Industrial Parks

In 2005, under a \$66,000 grant from the National Oceanic and Atmospheric Administration, through the Guam Coastal Management Program, GEDCA was able to develop and complete a Storm Water Management Plan for the E.T. Calvo Memorial Park. The purpose of the plan was to determine alternatives for the management of non-point source storm water runoff into the park that prevented the development of the last remaining parcel of vacant land. The report recommended a combination of three alternatives that best address the flooding problem occurring at the park, including cost estimates for implementation and construction.

GEDCA Office Space and Office Contents

In September of 2005, GEDCA submitted to FEMA the last of three Project Certification and Completion Reports for the repair and reconstruction of the Authority's fifth floor offices damaged by Super Typhoon Pongsona. RPD was successful in obtaining FEMA approval of an additional \$138,000 in reimbursement for office repairs as a result of Typhoon Pongsona, over and above the \$380,000 already reimbursed. Currently, RPD is continuing to close out the FEMA grant for Office contents and is requesting FEMA to award an additional \$130,000 above the \$312,000 already reimbursed.

**FINANCIAL SERVICES DIVISION (FSD)**

Public Finance Goal Statement

To ensure adherence with all mandates and obligations of the Authority, administer the Authority's financial assistance programs, and support GEDCA's role as "Central Financial Manager" for the Government of Guam.

Guam Power Authority

Financial assistance provided to Guam Power Authority ("GPA") to finalize negotiations with the Cathay Bank, successor liquidity facility provider for the GPA's Tax-Exempt Commercial Paper ("TECP") program (November 2004).

Guam Visitors Bureau

Assisted the Guam Visitors Bureau, in closing a 1 year note for \$300,000 for the payment of previous marketing efforts in Japan (January 2005).

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARIES**

Management's Discussion and Analysis  
Year Ended September 30, 2005

Bond Market

Facilitated visits from bond market analysts from Fitch rating agency (November 15-16, 2004) and with Vanguard Investment Company (January 28, 2005).

Guam Waterworks Authority

GEDCA and the bond working group participated in the review of all financing documents and costs related to the meter financing for Guam Waterworks Authority (GWA) (loan documents signed, July 2005). Through out the year and finally, in the fall of 2005, GEDCA actively assisted in the closing of the inaugural issue of a \$100 Million dollar GWA Revenue Bond Financing to support GWA's capital projects program and to pay-off outstanding costly debt.

NFMA Conference

The National Federation of Municipal Analysts (NFMA) invited GEDCA to participate in the panel for the featured session on U.S. Territory Credits at their 22nd Annual Conference held in New Orleans, April 26th – 29th. Andreas "Andy" Jordanou, Guam's Insurance and Banking Commissioner and Chief Fiscal Advisor to the Governor, made the presentation on behalf of the Government of Guam.

Excess Bond Proceeds re-programming efforts

\$24 Million 2001 Highway Bond Construction Fund Reprogramming – project list finalized and approved by the Guam Legislature and the Governor in September 2005 (P.L. 28-68).

1997 Infrastructure Bond Construction Fund – P.L. 28-027 approved up to \$2 Million for roadway repairs and resurfacing of Pale San Vitores Road, and for upgrades and repairs to the Tumon Area infrastructure.

Excess funds in Bond Cost of Issuance accounts: approximately \$77,000 in four bond cost of issuance accounts returned to government accounts via bond certificates.

Loan Services Goal Statement

Grow business loans to provide financing opportunities to assist in the development of small business in the areas of agriculture, manufacturing, tourism, vitally needed industries, home-based businesses, support services, and start-ups.

Agricultural Development Fund Act

Funded \$25,000 to a local farmer from the Agriculture Development Fund (ADF).

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARIES**

Management's Discussion and Analysis  
Year Ended September 30, 2005

Guam Development Fund Act

As referenced in the body of our 2005 Financial Statement, on October 21, 2004, GEDCA entered into a pledge and security agreement in the amount of \$800,000 with Comerica Bank supporting a loan that was funded to Guam Motion Pictures Company (GMPC) for the production of Max Havoc: Curse of the Dragon. In accordance with the agreement, the \$800,000 was transferred from GDFA to an interest bearing account at Comerica. Based upon available information, current GEDCA management has determined that the guaranty can potentially be called upon and has reserved the entire \$800,000 as a Loan Loss Reserve entry.

Lenders Conference

Presenter at the Lenders Conference sponsored by the Guam Small Business Development Centers (SBDC) in August 2005.

**COMPLIANCE & INTERNAL AUDIT (CIA)**

Forbearance agreements, foreclosure proceedings, repossessions and pursuing and securing judgments and payments plans, and levies are a few ways we are able to collect on loans. In fiscal year 2005, GEDCA received over \$200,000 in collections.

GEDCA's reputation as a commercial lender has improved 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, CIA conducted its auctions, bids, and asset searches in-house, which provided a cost savings to the Authority.

The Compliance & Internal Audit in cooperation with the Loan Department completed and updated the Standard Operating Procedures (SOPs) for the GEDCA's loan programs. The SOPs were later approved by the GEDCA Board of Directors.

Collectively, in FY 2005, the Compliance & Internal Audit generated about a Million dollars in recoveries for the Agency. This was attributed to all the programs administered by CIA.

**HUMAN RESOURCES DIVISION (HRD)**

Reorganization was a major goal of the Authority in FY '05. Human Resources and senior management continued restructuring efforts to align each division to act as its own independent mechanism to better meet the mandates of the Authority.



**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARIES**

Management's Discussion and Analysis  
Year Ended September 30, 2005

**INFORMATION TECHNOLOGY (IT)**

GEDCA's in-house email operation was outsourced to provide improved email support and the management of computer viruses/worms and network intrusions. The Elephant Outlook Company was selected as the email service provider. Email service commenced at the start of FY'05.

**FINANCIAL COMMENTS**

The following table summarizes the statements of net assets (deficiency) and statements of revenues, expenses, and changes in net assets (deficiency) of Guam Economic Development and Commerce Authority for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Current assets	\$ 7,455,305	\$ 6,568,731
Long-term assets:		
Land	176,174	402,164
Building, improvements and equipment, at cost, net	1,333,916	1,921,206
Other assets	<u>606,285</u>	<u>690,669</u>
	<u>\$ 9,571,680</u>	<u>\$ 9,582,770</u>
<b>Liabilities and Net Deficiency:</b>		
Current liabilities:		
Current portion of long-term debt, net	\$ 587,310	\$ 534,070
Other current payables	2,389,785	1,915,549
Long-term liabilities:		
Long-term debt, net	24,781,652	24,964,530
Other long-term payable	325,939	260,030
Net Deficiency	<u>(18,513,006)</u>	<u>(18,091,409)</u>
	<u>\$ 9,571,680</u>	<u>\$ 9,582,770</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARIES**

Management's Discussion and Analysis  
Year Ended September 30, 2005

Revenues, Expenses and Changes in Net Assets:

Revenue:

Operating revenues	\$ 1,925,455	\$ 1,952,435
Tobacco Settlement revenue	<u>1,382,787</u>	<u>1,392,811</u>
Total revenue	<u>3,308,242</u>	<u>3,345,246</u>

Expenses:

Operating expenses	(1,910,076)	(1,565,516)
Other Income (expense), net	<u>(1,819,763)</u>	<u>175,968</u>
(Decrease) increase in net assets	\$ <u>(421,597)</u>	\$ <u>1,955,698</u>

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 Income

In fiscal year 2005, GEDCA recorded operating income of \$1,925,455, compared to \$1,952,435 in fiscal year 2004. The year-to-year change, \$26,980 represented a decline of 1.4%. 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 a 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 increased 3% from \$1,706,721 in FY04 to \$1,754,285 in FY05. The increase was due to a 10% escalation in some of our leases.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARIES**

Management's Discussion and Analysis  
Year Ended September 30, 2005

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 would otherwise may not have happened, but for the program. The 30% decline in QC revenues is attributable to expiration of QC's.

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.

Operating Expenses

The Authority's operating expenses in FY05 (\$1,910,076) went up 22.01% over FY04 (\$1,565,516).

Personnel Expense

Salaries and benefits account for over 50% of the operating budget. At the close of FY05, GEDCA staff was reduced from 21 to 19 employees. This reduction was not realized until the last quarter of the fiscal year. The net savings in personnel expense was \$55,635.

Legal and Professional Services

Legal and professional service expense increased \$278,314 or 167.97% from \$165,688 in FY04 to \$444,002 in FY05. This was attributable to a legal dispute with two former employees who are seeking reinstatement of employment and back-wages, and other various litigation and legal services.

Depreciation Expense

Depreciation expense increased \$69,803 or 41.45% from \$168,396 in FY04 to \$238,199 in FY05. This was attributable to the acquisition of additional fixed assets.

Office Space and Equipment Rental

Office Space & Equipment Rental decreased by \$10,935 or 7.5% from \$145,264 in FY04 to \$134,329 in FY05. This was due to a reduction on cost for copier lease.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
**(A Public Corporation)**  
**AND SUBSIDIARY**

Statements of Net Assets (Deficiency)  
September 30, 2005 and 2004

<u>ASSETS</u>	Divisional Information		2005	2004
	GEDCA	TSA		
Current assets:				
Cash and cash equivalents	\$ 109,917	1,402,061	\$ 1,511,978	\$ 1,596,712
Investments	1,051,857	2,317,009	3,368,866	3,139,929
Current portion of notes and accrued interest receivable	115	-	115	7,656
Due from trust funds administered by GEDCA:				
Agricultural Development Fund	1,650	-	1,650	13,342
Guam Development Fund Act	41,402	-	41,402	33,989
Other receivables, net of an allowance for doubtful receivables of \$475,400 in 2005 and 2004	1,462,363	-	1,462,363	1,437,285
Inventory	14,309	-	14,309	14,309
Prepaid expense	124,658	-	124,658	509
Deferred charges	929,964	-	929,964	325,000
Total current assets	3,736,235	3,719,070	7,455,305	6,568,731
Deferred bond issuance costs	-	602,785	602,785	668,543
Long term portion of notes and accrued interest receivable thereon, net of an allowance for doubtful receivables of \$5,035 in 2005 and 2004	-	-	-	18,626
Investments:				
Stock	3,500	-	3,500	3,500
Other real estate:				
Land, net of a valuation allowance of \$248,989 in 2005 and \$23,000 in 2004	176,174	-	176,174	402,164
Improvements, net of a valuation allowance of \$406,078 in 2005 and \$0 in 2004	419,826	-	419,826	-
Building, improvements and equipment, at cost, net	914,090	-	914,090	1,921,206
Total assets	\$ 5,249,825	\$ 4,321,855	\$ 9,571,680	\$ 9,582,770
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ 82,310	-	\$ 82,310	\$ 64,070
Current portion of bonds payable	-	505,000	505,000	470,000
Accounts payable	1,655,638	-	1,655,638	1,243,490
Due to trust funds administered by GEDCA:				
Microenterprise Development Program	50,072	-	50,072	39,446
U.S. Base Relocation and Closure Commission	22	-	22	22
Accrued liabilities	240,802	-	240,802	106,315
Interest payable	-	340,000	340,000	340,000
Deferred rental income	103,251	-	103,251	186,276
Total current liabilities	2,132,095	845,000	2,977,095	2,449,619
Non-current liabilities:				
Long-term portion of notes payable to Guam Development Fund Act	828,192	-	828,192	894,713
Bonds payable, net of current portion and discount	-	23,953,460	23,953,460	24,069,817
Accrued Retirement Fund contributions	291,305	-	291,305	169,666
DCRS sick leave liability	27,790	-	27,790	83,520
Deposits	6,844	-	6,844	6,844
Total non-current liabilities	1,154,131	23,953,460	25,107,591	25,224,560
Total liabilities	3,286,226	24,798,460	28,084,686	27,674,179
Commitments and contingencies				
Net assets (deficiency):				
Invested in capital assets	914,090	-	914,090	1,921,206
Unrestricted	1,049,509	(20,476,605)	(19,427,096)	(20,012,615)
Net assets (deficiency)	1,963,599	(20,476,605)	(18,513,006)	(18,091,409)
	\$ 5,249,825	\$ 4,321,855	\$ 9,571,680	\$ 9,582,770

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
**(A Public Corporation)**  
**AND SUBSIDIARY**

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)  
Years Ended September 30, 2005 and 2004

	Divisional Information		2005	2004
	GEDCA	TSA		
<b>Revenues:</b>				
Rental income	\$ 1,754,285	-	\$ 1,754,285	\$ 1,706,721
Tobacco Settlement revenue	-	1,382,787	1,382,787	1,392,811
Qualifying certificate application and surveillance fees	171,170	-	171,170	245,714
	<u>1,925,455</u>	<u>1,382,787</u>	<u>3,308,242</u>	<u>3,345,246</u>
<b>Operating expenses:</b>				
Salaries and benefits	990,519	-	990,519	977,827
Legal and professional services	444,002	-	444,002	165,688
Depreciation and amortization	238,199	-	238,199	168,396
Office space and equipment rent	134,329	-	134,329	145,264
Advertising and promotions	25,549	-	25,549	29,587
Utilities, telephone and communication	18,883	-	18,883	27,166
Insurance	11,607	-	11,607	20,029
Supplies	11,585	-	11,585	10,449
Repairs and maintenance	5,235	-	5,235	3,157
Travel	4,059	-	4,059	1,551
Miscellaneous	26,109	-	26,109	16,402
	<u>1,910,076</u>	<u>-</u>	<u>1,910,076</u>	<u>1,565,516</u>
Operating income	<u>15,379</u>	<u>1,382,787</u>	<u>1,398,166</u>	<u>1,779,730</u>
<b>Other income (expense):</b>				
Interest expense, net	(38,156)	(1,485,440)	(1,523,596)	(1,445,695)
Investment income	-	141,198	141,198	118,721
Gain on sale of Shipyard equipment	-	-	-	700,000
Other income, net	21,069	-	21,069	124,400
Typhoon recovery, net	160,237	-	160,237	698,742
Provision for property valuation allowance	(632,067)	-	(632,067)	(23,000)
Gain on investments	13,396	-	13,396	2,800
Other (expense) income, net	<u>(475,521)</u>	<u>(1,344,242)</u>	<u>(1,819,763)</u>	<u>175,968</u>
Net (loss) income	<u>(460,142)</u>	<u>38,545</u>	<u>(421,597)</u>	<u>1,955,698</u>
Net assets (deficiency) at beginning of year	<u>2,423,741</u>	<u>(20,515,150)</u>	<u>(18,091,409)</u>	<u>(20,047,107)</u>
Net assets (deficiency) at end of year	<u>\$ 1,963,599</u>	<u>\$ (20,476,605)</u>	<u>\$ (18,513,006)</u>	<u>\$ (18,091,409)</u>

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
**(A Public Corporation)**  
**AND SUBSIDIARY**

Statements of Cash Flows  
Years Ended September 30, 2005 and 2004

	Divisional Information		2005	2004
	GEDCA	TSA		
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 1,846,727	1,382,787	\$ 3,229,514	\$ 4,734,547
Cash paid to suppliers for goods and services	(670,833)	-	(670,833)	(1,067,106)
Cash paid to employees for services	(924,610)	-	(924,610)	(918,420)
Net cash provided by operating activities	251,284	1,382,787	1,634,071	2,749,021
<b>Cash flows from investing activities:</b>				
Interest and investment income	13,396	141,198	154,594	121,521
Rollover of interest into investment	(13,396)	-	(13,396)	(2,800)
Purchase of investment securities	(98,733)	(116,808)	(215,541)	(986,866)
Net cash (used in) provided by investing activities	(98,733)	24,390	(74,343)	(868,145)
<b>Cash flows from capital and related financing activities:</b>				
Purchase of property and equipment	(56,986)	-	(56,986)	(1,115,818)
Sale of Shipyard equipment	-	-	-	700,000
Net cash used for capital and related financing activities	(56,986)	-	(56,986)	(415,818)
<b>Cash flows from non-capital financing activities:</b>				
Repayment of bond payable	-	(575,000)	(575,000)	(455,000)
Interest paid on bond and notes payable	(38,156)	(926,039)	(964,195)	(970,509)
Notes payable to GDFA	(48,281)	-	(48,281)	(60,333)
Net cash used for noncapital financing activities	(86,437)	(1,501,039)	(1,587,476)	(1,485,842)
Net change in cash and cash equivalents	9,128	(93,862)	(84,734)	(20,784)
Cash and cash equivalents at beginning of year	100,789	1,495,923	1,596,712	1,617,496
Cash and cash equivalents at end of year	\$ 109,917	\$ 1,402,061	\$ 1,511,978	\$ 1,596,712
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 15,379	1,382,787	\$ 1,398,166	\$ 1,779,730
Typhoon recovery, net	160,237	-	160,237	698,742
Other income, net	21,069	-	21,069	124,400
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	238,199	-	238,199	168,396
Write-off of fixed assets	-	-	-	23,094
(Increase) decrease in assets:				
Notes receivable and accrued interest receivable	26,167	-	26,167	6,144
Due from trust funds administered by GEDCA	4,279	-	4,279	(29,945)
Other receivables	(25,078)	-	(25,078)	415,151
Prepaid expenses	(124,149)	-	(124,149)	3,329
Deferred charges	(604,964)	-	(604,964)	(325,000)
Increase (decrease) in liabilities:				
Accounts payable	412,148	-	412,148	299,696
Due to trust funds administered by GEDCA	10,626	-	10,626	(458,510)
Accrued liabilities	134,487	-	134,487	(87,383)
Deferred rental income	(83,025)	-	(83,025)	71,770
Accrued Retirement Fund contributions	121,639	-	121,639	46,312
DCRS sick leave liability	(55,730)	-	(55,730)	13,095
Net cash provided by operating activities	\$ 251,284	\$ 1,382,787	\$ 1,634,071	\$ 2,749,021

See accompanying notes to consolidated financial statements.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(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  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

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

New Accounting Standards

In fiscal year 2004, GEDCA implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. In fiscal year 2005, GEDCA implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. The adoption of these Statements did not have a material effect on GEDCA's net assets, revenues, expenses or cash flows. In fiscal year 2006, GEDCA will implement GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GEDCA has yet to assess the impact of the implementation of Statement No. 42.

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.

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 due from 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.



**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(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 charges.

Compensated Absences

Annual leave vests and is accrued each bi-weekly pay period in which an employee is in a pay status for the entire ten (10) days. Sick leave does not vest and is not accrued. All 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. Employees who have annual leave earned in excess of 320 hours but not exceeding 100 excess 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 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 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 \$27,790 and \$83,520 as of September 30, 2005 and 2004, 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.

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.

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 GDF and ADF.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(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 2005 and 2004.

**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, 2005 and 2004, 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 receivables 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.

**Reclassifications**

Certain reclassifications have been made to the 2004 financial statements to correspond with the 2005 presentation.

**(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, 2005 and 2004 consist the following:

	<u>2005</u>	<u>2004</u>
Cash on hand and due from banks	\$ 109,917	\$ 100,789
Money market accounts	<u>1,402,061</u>	<u>1,495,923</u>
Cash and cash equivalents	\$ <u>1,511,978</u>	\$ <u>1,596,712</u>
Shares in mutual funds	\$ 1,051,857	\$ 939,728
Federal Home Loan Mortgage Corporation (FHLMC) discount note	<u>2,317,009</u>	<u>2,200,201</u>
Investments	\$ <u>3,368,866</u>	\$ <u>3,139,929</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
**(A Public Corporation)**  
**AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(2) Cash and Investments, Continued

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

A. Cash

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

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

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

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

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

At September 30, 2005 and 2004, the carrying amount of balances in banks was \$109,917 and \$100,789, respectively, and the corresponding bank balances were \$189,990 and \$254,666, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$138,070 and \$137,271 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2005 and 2004, 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.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(2) Cash and Investments, Continued

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, 2005, GEDCA's investments are as follows:

	<u>Amount</u>	<u>Maturity</u>
Shares in mutual funds	\$ 1,051,857	N/A
FHLMC discount note	2,317,009	November 15, 2005

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 investment 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. GEDCA's investment in 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 held by an investment manager for GEDCA.

Concentration of credit risk for investment 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, 2005, GEDCA's investment in FHLMC discount note constituted 69% of its total investments.

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

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY**  
**(A Public Corporation)**  
**AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(3) Other Real Estate**

GEDCA has acquired land carried at cost of \$425,164 through loan foreclosure, which is held for sale. During the years ended September 30, 2005 and 2004, GEDCA obtained property appraisals and performed market valuation analysis and accordingly provided a valuation allowance of \$225,989 and \$23,000, respectively.

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.

**(4) Building, Improvements and Equipment**

A summary of building, improvements and equipment at September 30, 2005 and 2004 is as follows:

	<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>
	<u>Beginning Balance</u> <u>October 1, 2003</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2004</u>
Building	\$ 1,207,031	\$ -	\$ -	\$ 1,207,031
Leasehold improvements	-	792,537	-	792,537
Other improvements	459,395	-	-	459,395
Equipment	510,864	309,192	(332,483)	487,573
Land improvements	129,642	-	-	129,642
Automobiles	<u>85,941</u>	<u>14,089</u>	<u>(36,349)</u>	<u>63,681</u>
	2,392,873	1,115,818	(368,832)	3,139,859
Less accumulated depreciation and amortization	<u>(1,395,995)</u>	<u>(168,396)</u>	<u>345,738</u>	<u>(1,218,653)</u>
	<u>\$ 996,878</u>	<u>\$ 947,422</u>	<u>\$ (23,094)</u>	<u>\$ 1,921,206</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 new 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  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(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 an actuarial valuations performed as of September 30, 2003, 2002 and 2001, contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal costs (% of DB Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs (% of total payroll)	<u>19.93%</u>	<u>16.23%</u>	<u>22.94%</u>
	38.23%	33.89%	39.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	28.73%	24.39%	29.86%
Agency specific adjustments	<u>- %</u>	<u>- %</u>	<u>1.62%</u>
Government contribution as a % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>31.48%</u>
Government contribution as a % of total payroll	<u>24.89%</u>	<u>20.81%</u>	<u>29.25%</u>

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, for each of the years ended September 30, 2005 and 2004. For the year ended September 30, 2003, statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

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

	<u>2003</u> <u>Actuarial Valuation</u>	<u>2002</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll increases	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuation performed as of September 30, 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 valuation were performed for GEDCA as a separate sponsor, the accrued unfunded liability at September 30, 2005 and 2004 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 annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(5) Employees' Retirement Plan, Continued

Statutory employer contributions into the DCRS for the years ended September 30, 2005 and 2004 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 annuity 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, 2005, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash contributions and accruals	\$ 209,996	\$ 221,747	\$ 343,885
Increase in accrued unfunded liability to the retirement fund	<u>121,639</u>	<u>46,312</u>	<u>-</u>
	<u>\$ 331,635</u>	<u>\$ 268,059</u>	<u>\$ 343,885</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 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 and 2004, estimated lease expense payable has been recorded of approximately \$260,698. GEDCA did not record any lease expense for 2005 and 2004 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, 2005, are as follows:

Years ending September 30:	
2006	\$ 1,210,643
2007	935,665
2008	842,046
2009	827,686
2010	716,100
2011 – 2015	962,796
2016 – 2060 (\$165,940 every 5 years)	1,493,460
2061 – 2063	<u>69,142</u>
	<u>\$ 7,057,538</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(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 in which GEDCA charges GHC for use of office space.

At September 30, 2005, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding are as follows:

Years ending September 30:	<u>Lease Agreement</u>	<u>GHC MOU</u>
2006	\$ 216,177	\$ 72,198
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>\$ 1,170,959</u>	<u>\$ 391,072</u>

Rent expense, net of GHC reimbursements for the years ended September 30, 2005 and 2004, was \$144,077 and \$163,288, respectively, of which \$37,694 and \$51,940, 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.

**(9) Related Parties**

At September 30, 2005 and 2004, the following trust funds were administered by GEDCA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2005</u>	<u>2004</u>
Guam Development Fund Act (GDFA)	\$ 12,610,261	\$ 13,164,050
Agricultural Development Fund (ADF)	1,156,941	1,182,683
Landowner's Recovery Fund (LRF)	10,611	10,611
Microenterprise Development Program (MDP)	63,131	41,927
Housing and Urban Development Fund (HUD)	445	445
Local Arts Revolving Fund (LARF)	-	-
Guam Territorial Aquarium Foundation (GTAF)	18,768	18,768
Music and Legends of Guam Fund (MLGF)	14,700	14,700
U.S. Base Realignment and Closure Commission (BRAC)	43	43



**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(9) Related Parties, Continued**

Agricultural Expense Insurance Fund (AEIF) and Aquacultural Training Fund (ATF) have no assets, liabilities, net assets as of September 30, 2005 and 2004 and have no activities during the years then ended.

**(10) Long-Term Obligations**

**Notes Payable to GDFA**

	<u>2005</u>	<u>2004</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.	\$ 910,502	\$ 958,783
Less current portion	<u>(82,310)</u>	<u>(64,070)</u>
	<u>\$ 828,192</u>	<u>\$ 894,713</u>

The annual payments on notes payable to GDFA subsequent to September 30, 2005, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2006	\$ 82,310	\$ 38,901	\$ 121,211
2007	69,576	35,845	105,421
2008	72,772	32,649	105,421
2009	76,115	29,306	105,421
2010	79,612	25,809	105,421
2011 through 2015	456,400	70,707	527,107
2016	<u>73,717</u>	<u>1,329</u>	<u>75,046</u>
	<u>\$ 910,502</u>	<u>\$ 234,546</u>	<u>\$ 1,145,048</u>

**Bonds Payable**

	<u>2005</u>	<u>2004</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	\$ 11,495,000

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(10) Long-Term Obligations, Continued

Bonds Payable, Continued

	<u>2005</u>	<u>2004</u>
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	26,485,000
Less discount on bond issuance	<u>(1,451,540)</u>	<u>(1,945,183)</u>
Bond payable, net of discount on bond issuance	24,458,460	24,539,817
Less current portion	<u>(505,000)</u>	<u>(470,000)</u>
Bonds payable, net of current portion	<u>\$ 23,953,460</u>	<u>\$ 24,069,817</u>

The annual payments on series 2001 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2005, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2006	\$ 505,000	\$ 882,540	\$ 1,387,540
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 through 2015	12,645,000	3,983,005	16,628,005
2016 through 2017	<u>6,440,000</u>	<u>567,152</u>	<u>7,007,152</u>
	<u>\$ 25,910,000</u>	<u>\$ 9,785,680</u>	<u>\$ 35,695,680</u>

During the years ended September 30, 2005 and 2004, the following changes occurred in liabilities reported as part of GEDCA's long-term liabilities in the statement of net assets:

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(10) Long-Term Obligations, Continued

	Balance October 1, 2004	<u>Additions</u>	<u>Reductions</u>	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>
	Balance October 1, 2003	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2004	Due within one year
Bonds payable	\$ 26,940,000	\$ -	\$ (455,000)	\$ 26,485,000	\$ 470,000
Notes payable	<u>1,019,116</u>	<u>-</u>	<u>(60,333)</u>	<u>958,783</u>	<u>64,070</u>
	27,959,116	-	(515,333)	27,443,783	534,070
Deferred amounts:					
Unamortized discount on bonds issued	<u>(2,438,826)</u>	<u>-</u>	<u>493,643</u>	<u>(1,945,183)</u>	<u>-</u>
	<u>25,520,290</u>	<u>-</u>	<u>(21,690)</u>	<u>25,498,600</u>	<u>534,070</u>
Other liabilities					
Unfunded pension	123,354	46,312	-	169,666	-
DCRS sick leave liability	70,425	13,095	-	83,520	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>200,623</u>	<u>59,407</u>	<u>-</u>	<u>260,030</u>	<u>-</u>
	<u>\$ 25,720,913</u>	<u>\$ 59,407</u>	<u>\$ (21,690)</u>	<u>\$ 25,758,630</u>	<u>\$ 534,070</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. As of September 30, 2005 and 2004, the carrying value of this investment has been adjusted for its prorata share of losses. A summary of investment in stock at September 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</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  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(12) Other Income (Expense)

During the year ended September 30, 2004, GEDCA sold equipment located in the former Ship Repair Facility to the same party for \$700,000 in cash. The equipment was acquired at no cost from a transfer from the U.S. Navy in 1999.

(13) 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>	<u>2004</u>
Restoration costs incurred	\$ 7,245	\$ 20,251
Property, plant and equipment damage	<u>-</u>	<u>23,094</u>
 Total typhoon loss	 7,245	 43,345
 FEMA reimbursements	 305	 499,697
FEMA reimbursement receivable	167,177	177,592
Reclassification of prior year expense to PP&E	-	44,798
GHC contribution	<u>-</u>	<u>20,000</u>
 Typhoon recovery, net	 \$ <u>160,237</u>	 \$ <u>698,742</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 is reimbursable by FEMA (based on the original cost estimate and Notice to Proceed dated December 2002 and FEMA Final Inspection Report dated February 28, 2006). As of September 30, 2005, \$703,985 has been received and \$181,104 is included in other receivables in the accompanying statements of net assets. Additionally, GEDCA received landlord and GHC contributions totaling \$150,000. As of September 30, 2005, GEDCA contributed \$201,290 to the restoration.

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

(14) 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 two separate Memorandums of Understanding (MOU) with Guam Power Authority (GPA) and Guam Waterworks Authority (GWA) to provide financial advisory services for certain annual fees. The receivable from Guam International Airport Authority (GIAA) resulted from services provided in connection with its 2003 bond refinancing. GEDCA expects to fully collect these balances during the year ended September 30, 2006. As of September 30, 2005 and 2004, balances related to these agreements are as follows:

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Notes to Financial Statements  
September 30, 2005 and 2004

(14) Financial Advisory Services, Continued

Receivable from:	<u>2005</u>	<u>2004</u>
GIAA	\$ 275,000	\$ 278,098
GPA	-	125,000
GWA	<u>-</u>	<u>50,000</u>
	\$ <u>275,000</u>	\$ <u>453,098</u>
Payable under the Agreement	\$ <u>1,340,318</u>	\$ <u>953,452</u>

The aggregate differential as of September 30, 2005 has been allocated to ongoing bond projects that are expected to be finalized in the year ended September 30, 2006, 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 the bond issuances.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)  
AND SUBSIDIARY**

Schedule 1  
Schedule of Salaries and Wages (Including Trust Funds)  
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries and wages:		
Salaries	\$ 761,740	\$ 826,603
Benefits	<u>465,340</u>	<u>456,112</u>
Total salaries and wages	<u>\$ 1,227,080</u>	<u>\$ 1,282,715</u>
Employees at end of year	19	21

See accompanying independent auditors' report.

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

---

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

---

**SEPTEMBER 30, 2005 AND 2004**

## Independent Auditors' Report

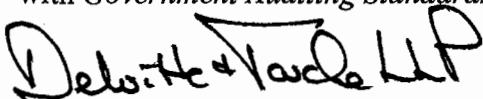
The Board of Directors  
Guam Economic Development and Commerce Authority:

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, 2005 and 2004, 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, 2005 and 2004, 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 April 20, 2006, 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.



April 20, 2006



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

Statements of Fiduciary Net Assets  
September 30, 2005 and 2004

ASSETS	Guam Development Fund Act	Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program
	2005	2005	2004	2005	2004	2005
Cash on hand and in bank	\$ 39,027	\$ 56,293	\$ 29,600	\$ -	\$ -	\$ -
Notes and accrued interest receivable	8,570,084	10,105,132	709,440	-	-	67,220
Less allowance for doubtful receivables	<u>(4,093,950)</u>	<u>(4,093,950)</u>	<u>(449,337)</u>	-	-	<u>(64,990)</u>
Net notes and accrued interest receivable	4,476,134	6,011,182	260,103	-	-	2,230
Due from other funds:						
Guam Economic Development Authority	-	-	-	-	-	50,072
Guam Development Fund Act	-	8,364	8,459	10,611	10,611	251
Local Arts Revolving Fund	8,703	8,703	-	-	-	-
Microenterprise Development Program	-	420	420	-	-	-
Investments	3,698,132	3,215,010	577,611	355,315	-	-
Other real estate:						
Land (GDFA is net of an allowance of \$148,946 at 2005 and 2004)	912,155	935,155	83,000	193,000	-	-
Leasehold interest, net	855,198	789,075	333,171	333,171	-	-
Other receivables	(9,006)	10,376	-	-	-	-
Furniture and equipment, at cost, net	14,635	17,150	1,591	2,588	-	-
Other assets	6	6	31	27	-	-
Restricted assets:						
Investments	2,615,277	2,121,100	-	-	-	-
Total assets	<u>\$ 12,610,261</u>	<u>\$ 13,164,050</u>	<u>\$ 1,156,941</u>	<u>\$ 1,182,683</u>	<u>\$ 10,611</u>	<u>\$ 63,131</u>
	\$ 5,479,823	4,975,475	1,004,188	892,980	10,611	50,323
	39,027	56,293	29,600	-	-	-
	8,570,084	10,105,132	709,440	-	-	67,220
	<u>(4,093,950)</u>	<u>(4,093,950)</u>	<u>(449,337)</u>	-	-	<u>(64,990)</u>
	4,476,134	6,011,182	260,103	-	-	2,230
	-	-	-	-	-	50,072
	-	8,364	8,459	10,611	10,611	251
	8,703	8,703	-	-	-	-
	-	420	420	-	-	-
	3,698,132	3,215,010	577,611	355,315	-	-
	912,155	935,155	83,000	193,000	-	-
	855,198	789,075	333,171	333,171	-	-
	(9,006)	10,376	-	-	-	-
	14,635	17,150	1,591	2,588	-	-
	6	6	31	27	-	-
	5,479,823	4,975,475	1,004,188	892,980	10,611	50,323
	2,615,277	2,121,100	-	-	-	-
	<u>\$ 12,610,261</u>	<u>\$ 13,164,050</u>	<u>\$ 1,156,941</u>	<u>\$ 1,182,683</u>	<u>\$ 10,611</u>	<u>\$ 63,131</u>
	\$ 12,610,261	\$ 13,164,050	\$ 1,156,941	\$ 1,182,683	\$ 10,611	\$ 63,131
	\$ 5,479,823	\$ 4,975,475	\$ 1,004,188	\$ 892,980	\$ 10,611	\$ 50,323
	\$ 39,027	\$ 56,293	\$ 29,600	\$ -	\$ -	\$ -
	\$ 8,570,084	\$ 10,105,132	\$ 709,440	\$ -	\$ -	\$ 67,220
	<u>\$(4,093,950)</u>	<u>\$(4,093,950)</u>	<u>\$(449,337)</u>	\$ -	\$ -	<u>\$(64,990)</u>
	\$ 4,476,134	\$ 6,011,182	\$ 260,103	\$ -	\$ -	\$ 2,230
	-	-	-	-	-	\$ 50,072
	-	8,364	8,459	10,611	10,611	251
	8,703	8,703	-	-	-	-
	-	420	420	-	-	-
	3,698,132	3,215,010	577,611	355,315	-	-
	912,155	935,155	83,000	193,000	-	-
	855,198	789,075	333,171	333,171	-	-
	(9,006)	10,376	-	-	-	-
	14,635	17,150	1,591	2,588	-	-
	6	6	31	27	-	-
	5,479,823	4,975,475	1,004,188	892,980	10,611	50,323
	2,615,277	2,121,100	-	-	-	-
	<u>\$ 12,610,261</u>	<u>\$ 13,164,050</u>	<u>\$ 1,156,941</u>	<u>\$ 1,182,683</u>	<u>\$ 10,611</u>	<u>\$ 63,131</u>
	\$ 12,610,261	\$ 13,164,050	\$ 1,156,941	\$ 1,182,683	\$ 10,611	\$ 63,131
	\$ 5,479,823	\$ 4,975,475	\$ 1,004,188	\$ 892,980	\$ 10,611	\$ 50,323
	\$ 39,027	\$ 56,293	\$ 29,600	\$ -	\$ -	\$ -
	\$ 8,570,084	\$ 10,105,132	\$ 709,440	\$ -	\$ -	\$ 67,220
	<u>\$(4,093,950)</u>	<u>\$(4,093,950)</u>	<u>\$(449,337)</u>	\$ -	\$ -	<u>\$(64,990)</u>
	\$ 4,476,134	\$ 6,011,182	\$ 260,103	\$ -	\$ -	\$ 2,230
	-	-	-	-	-	\$ 50,072
	-	8,364	8,459	10,611	10,611	251
	8,703	8,703	-	-	-	-
	-	420	420	-	-	-
	3,698,132	3,215,010	577,611	355,315	-	-
	912,155	935,155	83,000	193,000	-	-
	855,198	789,075	333,171	333,171	-	-
	(9,006)	10,376	-	-	-	-
	14,635	17,150	1,591	2,588	-	-
	6	6	31	27	-	-
	5,479,823	4,975,475	1,004,188	892,980	10,611	50,323
	2,615,277	2,121,100	-	-	-	-
	<u>\$ 12,610,261</u>	<u>\$ 13,164,050</u>	<u>\$ 1,156,941</u>	<u>\$ 1,182,683</u>	<u>\$ 10,611</u>	<u>\$ 63,131</u>
	\$ 12,610,261	\$ 13,164,050	\$ 1,156,941	\$ 1,182,683	\$ 10,611	\$ 63,131
	\$ 5,479,823	\$ 4,975,475	\$ 1,004,188	\$ 892,980	\$ 10,611	\$ 50,323
	\$ 39,027	\$ 56,293	\$ 29,600	\$ -	\$ -	\$ -
	\$ 8,570,084	\$ 10,105,132	\$ 709,440	\$ -	\$ -	\$ 67,220
	<u>\$(4,093,950)</u>	<u>\$(4,093,950)</u>	<u>\$(449,337)</u>	\$ -	\$ -	<u>\$(64,990)</u>
	\$ 4,476,134	\$ 6,011,182	\$ 260,103	\$ -	\$ -	\$ 2,230
	-	-	-	-	-	\$ 50,072
	-	8,364	8,459	10,611	10,611	251
	8,703	8,703	-	-	-	-
	-	420	420	-	-	-
	3,698,132	3,215,010	577,611	355,315	-	-
	912,155	935,155	83,000	193,000	-	-
	855,198	789,075	333,171	333,171	-	-
	(9,006)	10,376	-	-	-	-
	14,635	17,150	1,591	2,588	-	-
	6	6	31	27	-	-
	5,479,823	4,975,475	1,004,188	892,980	10,611	50,323
	2,615,277	2,121,100	-	-	-	-
	<u>\$ 12,610,261</u>	<u>\$ 13,164,050</u>	<u>\$ 1,156,941</u>	<u>\$ 1,182,683</u>	<u>\$ 10,611</u>	<u>\$ 63,131</u>
	\$ 12,610,261	\$ 13,164,050	\$ 1,156,941	\$ 1,182,683	\$ 10,611	\$ 63,131
	\$ 5,479,823	\$ 4,975,475	\$ 1,004,188	\$ 892,980	\$ 10,611	\$ 50,323
	\$ 39,027	\$ 56,293	\$ 29,600	\$ -	\$ -	\$ -
	\$ 8,570,084	\$ 10,105,132	\$ 709,440	\$ -	\$ -	\$ 67,220
	<u>\$(4,093,950)</u>	<u>\$(4,093,950)</u>	<u>\$(449,337)</u>	\$ -	\$ -	<u>\$(64,990)</u>
	\$ 4,476,134	\$ 6,011,182	\$ 260,103	\$ -	\$ -	\$ 2,230
	-	-	-	-	-	\$ 50,072
	-	8,364	8,459	10,611	10,611	251
	8,703	8,703	-	-	-	-
	-	420	420	-	-	-
	3,698,132	3,215,010	577,611	355,315	-	

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

Statements of Fiduciary Net Assets, Continued  
September 30, 2005 and 2004

	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2005	2004	2005	2004	2005	2004	2005	2004
\$	79,584	\$ 32,292	\$ 12,036	\$ 11,981	\$ -	\$ -	\$ 242	\$ 242
Guam Economic Development Authority	41,402	33,989	1,650	13,342	-	-	-	-
Guam Territorial Aquarium Foundation	-	-	-	-	1,086	1,086	-	-
Landowner's Recovery Fund	10,611	10,611	-	-	-	-	-	-
Microenterprise Development Program	251	251	-	-	-	-	-	-
Agricultural Development Program	8,364	8,459	-	-	-	-	420	420
Total liabilities	140,212	85,602	13,686	25,323	1,086	1,086	662	662
Contingencies								
Net assets held in trust	12,470,049	13,078,448	1,143,255	1,157,360	9,525	9,525	62,469	41,265
Total liabilities and net assets	\$ 12,610,261	\$ 13,164,050	\$ 1,156,941	\$ 1,182,683	\$ 10,611	\$ 10,611	\$ 63,131	\$ 41,927

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable and accrued expenses  
Due to other funds:  
Guam Economic Development Authority  
Guam Territorial Aquarium Foundation  
Landowner's Recovery Fund  
Microenterprise Development Program  
Agricultural Development Program

Total liabilities

**Contingencies**

Net assets held in trust

Total liabilities and net assets

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Assets (Deficiency)  
September 30, 2005 and 2004

	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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
\$	-	-	-	-	-	-	-	-	22	22
Guam Economic Development Authority	-	-	-	-	-	1,086	-	-	-	-
Landowner's Recovery Fund	445	445	-	-	1,086	-	-	-	21	21
Other receivables	-	-	-	-	17,682	17,682	-	-	-	-
Investments	-	-	-	-	-	-	14,700	14,700	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Total assets	445	445	-	-	18,768	18,768	14,700	14,700	43	43

**ASSETS**

Due from other funds:

Guam Economic Development Authority	-
Landowner's Recovery Fund	-
Other receivables	445
Investments	-
Inventories	-
Total assets	445

**LIABILITIES AND NET ASSETS (DEFICIENCY)**

Liabilities:

Due to other funds:

Guam Development Fund Act	8,703	8,703	-	-	-	-
Total liabilities	8,703	8,703	-	-	-	-
Net assets held in trust	445	445	(8,703)	(8,703)	18,768	18,768
Total liabilities and net assets	445	445	-	-	18,768	18,768

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets  
Years Ended September 30, 2005 and 2004

	Guam Development Fund Act		Agricultural Development Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Additions:</b>								
Interest	\$ 391,140	\$ 394,079	\$ 24,738	\$ 21,312	\$ -	\$ -	\$ 3,538	\$ 961
Net (decrease) increase in the fair value of investments	(54,478)	5,001	(4,984)	(19,265)	-	-	-	-
Net gain (loss) on sale of real property owned	45,369	(3,700)	66,751	(10,000)	-	-	-	-
Other	158,132	141,487	3,941	-	-	-	17,695	-
<b>Total additions</b>	<b>540,163</b>	<b>536,867</b>	<b>90,446</b>	<b>(7,953)</b>	<b>-</b>	<b>-</b>	<b>21,233</b>	<b>961</b>
<b>Deductions:</b>								
Loss on loan guaranty	800,000	-	-	-	-	-	-	-
Salaries and benefits	212,146	251,151	24,415	53,737	-	-	-	-
Legal and professional services	63,129	2,361	1,110	138	-	-	25	4
Rent	35,016	39,518	2,678	12,422	-	-	-	-
Depreciation	16,391	14,869	997	1,041	-	-	-	-
Provision for doubtful notes and accrued interest	13,360	-	74,723	-	-	-	-	28,375
Bank charges	8,098	7,127	536	531	-	-	-	-
Provision for property valuation allowance	-	148,946	-	-	-	-	-	-
Miscellaneous	422	36,365	92	66	-	-	4	1
<b>Total deductions</b>	<b>1,148,562</b>	<b>500,337</b>	<b>104,551</b>	<b>67,935</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>28,380</b>
<b>Net change in net assets</b>	<b>(608,399)</b>	<b>36,530</b>	<b>(14,105)</b>	<b>(75,888)</b>	<b>-</b>	<b>-</b>	<b>21,204</b>	<b>(27,419)</b>
<b>Net assets at beginning of year</b>	<b>13,078,448</b>	<b>13,041,918</b>	<b>1,157,360</b>	<b>1,233,248</b>	<b>9,525</b>	<b>9,525</b>	<b>41,265</b>	<b>68,684</b>
<b>Net assets at end of year</b>	<b>\$ 12,470,049</b>	<b>\$ 13,078,448</b>	<b>\$ 1,143,255</b>	<b>\$ 1,157,360</b>	<b>\$ 9,525</b>	<b>\$ 9,525</b>	<b>\$ 62,469</b>	<b>\$ 41,265</b>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets (Deficiency)  
Years Ended September 30, 2005 and 2004

	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		
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
\$	-	\$ -	-	\$ -	-	\$ 158	-	\$ -	-	\$ -	-
	-	-	-	-	-	158	-	-	-	-	-
Total additions											
Deductions											
Miscellaneous	-	-	-	-	-	889	-	-	-	-	-
Total deductions						889					
Net change in net assets (deficiency)						(731)					
Net assets (deficiency) at beginning of year	445	445	(8,703)	(8,703)	18,768	19,499	14,700	14,700	43	43	43
Net assets (deficiency) at end of year	\$ 445	\$ 445	\$ (8,703)	\$ (8,703)	\$ 18,768	\$ 18,768	\$ 14,700	\$ 14,700	\$ 43	\$ 43	\$ 43

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2005 and 2004

(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 (MPD) 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  
GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)**

Notes to Financial Statements  
September 30, 2005 and 2004

(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, net assets as of September 30, 2005 and 2004 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 2005 and 2004 nor were there any policies outstanding at September 30, 2005 and 2004.

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, 2005 and 2004.

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  
GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)**

Notes to Financial Statements  
September 30, 2005 and 2004

(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, 2005 and 2004, is a note due from GEDCA for \$910,502 and \$958,783, respectively. The note bears interest at 4.5% and is due in 2016.

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.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements to correspond with the 2005 presentation.



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

Notes to Financial Statements  
September 30, 2005 and 2004

**(2) Cash and Investments**

Investments in mutual funds are carried at market value. Cash and cash equivalents and investments at September 30, 2005 and 2004 consist the following:

	<u>2005</u>	<u>2004</u>
Cash on hand and due from banks	\$ <u>44,116</u>	\$ <u>85,893</u>
Cash and cash equivalents	\$ <u>44,116</u>	\$ <u>85,893</u>
Shares in fixed income mutual funds	\$ <u>6,313,409</u>	\$ <u>5,336,110</u>
Investments	\$ <u>6,313,409</u>	\$ <u>5,336,110</u>

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

**A. Cash**

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

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

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

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

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

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

Notes to Financial Statements  
September 30, 2005 and 2004

(2) Cash and Investments, Continued

A. Cash, Continued

At September 30, 2005 and 2004, the carrying amount of balances due from banks was \$43,716 and \$85,493, respectively, and the corresponding bank balances were \$55,996 and \$85,493, 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, 2005 and 2004, 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, 2005, GEDCA's investments are as follows:

	<u>Amount</u>	<u>Maturity</u>
Shares in a mutual fund	\$ 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 investment 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's investments in shares of a mutual fund is registered in GEDCA's name and held by an investment manager for GEDCA.

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

Notes to Financial Statements  
September 30, 2005 and 2004

(2) Cash and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investment 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.

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

GDFCA and ADF have acquired certain land through foreclosure of loans. During the year ended September 30, 2004, GDFCA and ADF performed market valuation analyses and accordingly provided valuation allowance of \$148,946 for three parcels that are actively marketed for sale.

A summary of the changes in other real estate for 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 1,128,155	\$ 1,259,570
Additions	-	123,000
Sales	<u>(133,000)</u>	<u>(105,469)</u>
	995,155	1,277,101
Provision for valuation loss	<u>-</u>	<u>(148,946)</u>
Balance at end of year	\$ <u>995,155</u>	\$ <u>1,128,155</u>

(4) Other Real Estate, Leasehold Interest

GDFCA and ADF have acquired leasehold interest in land through foreclosure of loans. Leasehold interests are reflected at cost of \$1,231,600 and \$1,151,600, net of accumulated amortization of \$43,231 and \$29,354 at September 30, 2005 and 2004, respectively.

(5) Contingencies

At September 30, 2005 and 2004, GDFCA was contingently liable as guarantor for loans in the amount of \$1,340,000 and \$2,121,100, respectively, and any related collection costs. In accordance with Section 4 of the Guam Development Fund Act of 1968; GDFCA is required to maintain reserves of not less than 25% of the loan guarantee. Investments internally restricted for this purpose amounted to \$2,615,277 and \$2,121,100 at September 30, 2005 and 2004, respectively. During the year ended September 30, 2005, GDFCA settled a guaranty of \$311,200 for a cash payment of \$170,000 to a financial institution and has recorded a loan receivable of this amount and is pursuing collection with the borrower.

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

Notes to Financial Statements  
September 30, 2005 and 2004

**(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 calls for interest-only payments through June 2006, at which time the principal becomes due. Repayment of the loan is contingent upon the successful distribution of the final production. Additionally, GEDCA has 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 GEDCA loan fund investment account to an interest-bearing money market account with the financial institution as collateral. Based on information available, management is of the opinion that GEDCA's guaranty may be called upon to repay the debt; furthermore, the ultimate collection against the security agreement and continuing guaranty is uncertain. As a result, GEDCA has provided for the likely loss of the cash collateral.

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, 2005, and for the year then ended, and have issued our report thereon dated April 20, 2006. 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.

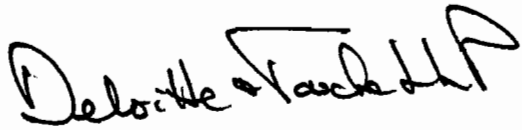
**Internal Control Over Financial Reporting**

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 assurance 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of GEDCA in a separate letter dated April 20, 2006.

**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 grants, 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, appearing to read "Deloitte Touche LLP". The signature is stylized and cursive, with the letters "D", "T", and "L" being particularly prominent.

April 20, 2006

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

The Board of Directors  
Guam Economic Development and Commerce Authority:

### Compliance

We have audited the compliance of the Guam Economic Development and Commerce Authority and subsidiary (GEDCA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2005. GEDCA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of GEDCA's management. Our responsibility is to express an opinion on GEDCA's compliance based on our audit.

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

In our opinion, GEDCA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2005.

### Internal Control Over Financial Reporting

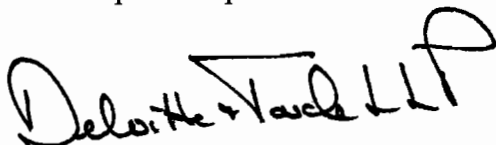
The management of GEDCA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered GEDCA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Economic Development and Commerce Authority (GEDCA) and subsidiary, as of and for the year ended September 30, 2005, and have issued our report thereon dated April 20, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of GEDCA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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, appearing to read "Deloitte & Touche LLP", is written over the printed name of the firm.

April 20, 2006



**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

Federal grantor/ program title/ project designation	Catalog of Federal Domestic Assistance number	Project amount	Balance at beginning of year	Receipts	Expenditures	Receivable at End of Year
Federal Emergency Management Authority						
Grant	83.544	\$ <u>884,784</u>	\$ <u>177,592</u>	\$ <u>163,970</u>	\$ <u>167,482</u>	\$ <u>181,104</u>
Other federal assistance:						
Guam Development Fund Act*	N/A(1)	\$ <u>6,240,000</u>	\$ <u>9,663,564</u>	\$ <u>1,831,580</u>	\$ <u>330,456</u>	\$ <u>8,162,440</u>
U.S. Department of the Interior						
Grant*	15.875	\$ <u>598,384</u>	\$ <u>-</u>	\$ <u>383,606</u>	\$ <u>437,957</u>	\$ <u>54,351</u>

\*Denotes a major federal award program.

(1) Other federal assistance:

- (a) The Guam Economic Development Fund Act of 1968, U.S. Public Law 90-601, authorized funding to establish a Revolving Loan Fund which would be used to develop private industry on Guam by providing loans and loan guarantees to qualified businesses. Subsequently, Public Law 95-134, authorized additional appropriations to supplement the Revolving Fund. As a result of these two public laws, the Government of Guam received a total of \$6,240,000 for the Revolving Fund.
- (b) The federal grant above is classified as "other federal assistance" as it has not been assigned a "Catalog of Federal Domestic Assistance Number".
- (c) The \$8,162,440 above reflects the Revolving Loan Fund receivable balance at September 30, 2005. The difference between the September 30, 2005 balance and the project amount represents interest income.
- (d) The \$8,162,440 principal balance above, plus accrued interest receivable and legal fee costs of \$407,644 at September 30, 2005, reconciles to the Guam Economic Development Fund \$8,570,084 notes and accrued interest receivable balance per the September 30, 2005 financial statements.
- (e) Per the Guam Economic Development Fund Act, \$6,240,000 was received directly from the federal agency. Subsequent contributions have been made by the Guam Legislature.

- (2) The above mentioned Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.
- (3) The FEMA grant was received in a sub-recipient capacity from the Government of Guam.
- (4) The U.S. Department of the Interior grant was received in a sub-recipient capacity from the Government of Guam.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY  
(A Public Corporation)**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

**Part I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were not identified.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal awards programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Guam Economic Development and Commerce Authority's major federal programs consist of:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Guam Development Fund Act	N/A
U.S. Department of Interior	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Part II - Financial Statement Findings Section**

No matters are reportable.

**Part III - Federal Award Findings and Questioned Cost Section**

No matters are reportable.