

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2003 AND 2002

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
(A Public Corporation)

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Years Ended September 30, 2003 and 2002

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Independent Auditors' Report

The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the accompanying consolidated balance sheets of the Guam Economic Development and Commerce Authority (a public corporation) and subsidiaries, a component unit of the Government of Guam, as of September 30, 2003 and 2002, and the related consolidated statements of operations and 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.

Except as discussed in the following paragraph, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to obtain information supporting certain travel expenses for the years ended September 30, 2003 and 2002. As a result, we are unable to form an opinion on travel advances net of suspense accounts carried at \$0 and \$38,338 and travel and related expenses of \$71,523 and \$102,647 at September 30, 2003 and 2002, respectively.

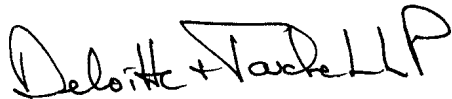
In our opinion, except for the effects of such adjustments, if any, as might be required had we been able to obtain information to satisfy ourselves with respect to travel advances, net of suspense accounts and related travel expenses as of and for the years ended September 30, 2003 and 2002, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Guam Economic Development and Commerce Authority and subsidiaries at September 30, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GEDCA has adopted Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, effective October 1, 2001, which addresses accounting by state and local governments in connection with settlements made by U.S. tobacco companies. Beginning net assets have been restated to reflect this change.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic consolidated 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 consolidated financial statements taken as a whole. The supplemental division information on pages 7-9 is presented for the purpose of additional analysis rather than to present the financial position and results of operations of the individual companies and 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 consolidated financial statements of Guam Economic Development and Commerce Authority and subsidiaries for the year ended September 30, 2003. In our opinion, such information is fairly presented in all material respects in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated November 10, 2004, on our consideration of the Guam Economic Development and Commerce Authority's and subsidiaries' internal control over financial reporting and our tests of their compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

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

November 10, 2004

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

Management's Discussion and Analysis
Year Ended September 30, 2003

The Guam Economic Development & Commerce Authority (GEDCA) is a public corporation (12GCA Chapter 50) with broad responsibility for 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.

FY2003 was a difficult year for the Authority and for Guam. On December 8, 2002, Typhoon Pongsona hit the island and over 70% of GEDCA's offices in the ITC Building were destroyed. Temporary offices were established on the 2nd floor of the building allowing limited operations to resume two weeks following the disaster, and under very taxing working conditions through the close of FY2003.

In addition to the re-allocation of resources to recovery efforts, GEDCA needed to plan for an anticipated drop in revenues resulting from requests for waivers and deferrals from clients in the industrial parks and Qualifying Certificate programs resulting from economic hardship. Management efforts focused on an aggressive cost control policy in order to mitigate anticipated shortfalls in anticipated revenues.

The following table summarizes the consolidated statements of operations and net assets (deficiency) of Guam Economic Development and Commerce Authority for 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 5,264,033	\$ 5,707,496
Long-term assets:		
Land	425,164	425,164
Building, improvements and equipment, at cost, net	996,878	1,084,398
Deferred bond issuance costs	734,301	800,059
Other assets	<u>24,523</u>	<u>422,305</u>
	\$ <u>7,444,899</u>	\$ <u>8,439,422</u>
Liabilities and Net Deficiency:		
Current liabilities:		
Current portion of long-term debt, net	\$ 1,310,182	\$ 3,019,436
Other current payables	1,595,739	1,655,594
Long-term liabilities:		
Long-term debt, net	23,228,035	24,134,934
Other long-term payable	130,198	130,198
Net Deficiency	<u>(18,819,255)</u>	<u>(20,500,740)</u>
	\$ <u>7,444,899</u>	\$ <u>8,439,422</u>

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Year Ended September 30, 2003

	<u>2003</u>	<u>2002</u>
Revenues, Expenses and Changes in Net Assets:		
Revenue:		
Operating revenues	\$ 2,275,124	\$ 2,152,293
Tobacco Settlement revenue	<u>1,629,630</u>	<u>1,653,887</u>
Total Revenue	<u>3,904,754</u>	<u>3,806,180</u>
Expenses:		
Operating expenses	(2,871,099)	(2,685,410)
Other income (expense),net	<u>647,830</u>	<u>(592,632)</u>
Increase in net assets	<u>\$ 1,681,485</u>	<u>\$ 528,138</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. The FY'01 and FY'02 audits did in fact recognize that this obligation belonged to the Government of Guam and not to GEDCA.

In April 2004, however, a GASB ruling changed the way the government was reporting this debt and required that it be recorded in the books of the direct issuer, which in Guam's case is GEDCA. Further, because the payment source is reliant on how many cigarettes are shipped out the year before, the GASB board is not allowing the reporting entities to record a receivable to counter the debt until the annual payments have been actually made. This change in accounting treatment has therefore added the \$20M deficit to GEDCA's bottom line for FY 2003, notwithstanding the fact that the Authority simply acted as facilitator for Government of Guam.

GEDCA will be working with the Legislature and Bond Counsel to resolve these reporting issues and allow the debt reporting to revert to the Government of Guam in a way that would not change the absolute assignment of the proceeds in the basic deal on which the bondholders relied.

Operating Income

In FY03, GEDA recorded an operating income of \$2,275,124, compared to \$2,152,293 in fiscal year 2002. The year-to-year change of \$122,831 represents an increase of 5%. GEDA generates its own revenues to sustain annual operations from two primary sources. The first is the rental income from Industrial Parks and the second is application and surveillance fees from QC beneficiaries. Bond Fees are a third source, but is not a recurring annual income.

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1. 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 4% from \$1,669,686 in FY02 to \$1,746,375 in FY03. The increase was due to a 10% escalation in some of our leases.

2. 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 4% decline in QC revenues is attributable to unfortunate economic conditions worsened by Typhoon Pongsona.

3. 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 Department, which assists with, coordinates and monitors Financial Advisory Services, Capital Financing Debt Management and the Capital Markets.

GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. Increased bond fees for FY03 is a result of increased bond closings over the prior year.

Operating Expenses

The Authority's operating expenses in FY03 (\$2,871,098) went up 6.5% over FY02 (\$2,685,410). GEDCA would have realized a substantial reduction in actual cost of operations, were it not for the write-off taken on the \$403,653.37 receivable from the Landowners Recovery Fund.

1. Personnel Expense

Salaries and benefits account for over 50% of the operating budget. At the close of FY2003, GEDCA staff was reduced from 34 to 27 employees, although this reduction was not realized until the last month of the fiscal year. The net savings in personnel expenses was \$120,000.

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2. Professional Service

Professional Service Expense increased \$326,847 or 58.7% from \$229,995 in FY02 to \$556,842 in FY03 because of a short lived contract with the Washington Pacific Group for \$375,000.

3. Rent Expense

Rent expense declined \$78,593 or 37.6% from \$208,786 in FY02 to \$130,193 in FY03. This savings is attributable to the non-renewal of the Philippine Representative Office (\$50,000.00) and a credit for office space expenses due to Typhoon Pongsona.

4. Travel Expense

Travel expense increased \$60,903 or 57.8% from \$44,419 in FY02 to \$105,322 in FY03. This was primarily due to a write-off of \$47 thousand in travel advances resulting from the loss of documentation sustained from Typhoon Pongsona.

5. Advertising and Promotion

Advertising & Promo declined \$201,752 or 79.7% from \$253,231 in FY02 to \$51,479 in FY03 as GEDCA re-evaluated its Marketing efforts to align these with proposed economic recovery and industry diversification initiatives and conform to an austerity policy.

6. Special Projects

Special projects declined \$179,971 from \$182,231 in FY02 to \$2,260 in FY03, primarily as a result of expired mandates under Public Law 25-69 to the Department of Public Works (\$100,000) as well as the Hope for Recovery Program (\$50,000).

7. Provision for Doubtful Accounts

The authority increased its provision for doubtful accounts from \$165,559 in FY02 to \$403,653 in FY03. This 58.9% increase is attributed to doubtful collections of receivables under the Landowner's Recovery Fund.

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Consolidated Balance Sheets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>GEDCA</u>	<u>TSA</u>	<u>2003</u>	<u>Restated 2002</u>
Current assets:				
Cash	\$ 138,999	3,566,832	\$ 3,705,831	\$ 4,266,418
Investment	61,928	-	61,928	58,079
Current portion of notes and accrued interest receivable	11,403	-	11,403	2,084
Due from other funds and governmental agencies:				
Agricultural Development Fund	17,386	-	17,386	3,817
Other receivables, net of an allowance for doubtful receivables of \$475,400 in 2003 and 2002	1,449,338	-	1,449,338	1,283,625
Inventory	14,309	-	14,309	51,088
Prepaid expense	3,838	-	3,838	42,385
Total current assets	<u>1,697,201</u>	<u>3,566,832</u>	<u>5,264,033</u>	<u>5,707,496</u>
Deferred bond issuance costs	-	734,301	734,301	800,059
Long term portion of notes and accrued interest receivable thereon, net of an allowance for doubtful receivables of \$5,035 in 2003 and 2002	21,023	-	21,023	35,152
Investments:				
Stock	3,500	-	3,500	3,500
Other real estate:				
Land	425,164	-	425,164	425,164
Building, improvements and equipment, at cost, net	996,878	-	996,878	1,084,398
Due from other funds and governmental agencies:				
Landowner's Recovery Fund	-	-	-	383,653
Total assets	<u>\$ 3,143,766</u>	<u>4,301,133</u>	<u>\$ 7,444,899</u>	<u>\$ 8,439,422</u>
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ 60,805	-	\$ 60,805	\$ 1,344,960
Current portion of bonds payable	-	1,249,377	1,249,377	1,674,476
Accounts payable	365,342	-	365,342	433,117
Due to other funds and governmental agencies:				
Guam Development Fund Act	465,318	-	465,318	241,651
Microenterprise Development Program	32,638	-	32,638	7,325
U.S. Base Relocation and Closure Commission	22	-	22	22
Accrued liabilities	193,698	-	193,698	296,264
Interest payable	-	424,215	424,215	447,425
Deferred rental income	114,506	-	114,506	229,790
Total current liabilities	<u>1,232,329</u>	<u>1,673,592</u>	<u>2,905,921</u>	<u>4,675,030</u>
Non-current liabilities:				
Long-term portion of notes payable to Guam Development Fund Act	958,311	-	958,311	1,024,655
Bonds payable, net of current portion	-	22,269,724	22,269,724	23,110,279
Accrued Retirement Fund contributions	123,354	-	123,354	123,354
Deposits	6,844	-	6,844	6,844
Total non-current liabilities	<u>1,088,509</u>	<u>22,269,724</u>	<u>23,358,233</u>	<u>24,265,132</u>
Total liabilities	<u>2,320,838</u>	<u>23,943,316</u>	<u>26,264,154</u>	<u>28,940,162</u>
Commitment and contingencies				
Net assets (deficiency):				
Investment in capital assets	996,878	-	996,878	1,084,398
Unrestricted	(173,950)	(19,642,183)	(19,816,133)	(21,585,138)
Net assets (deficiency)	<u>822,928</u>	<u>(19,642,183)</u>	<u>(18,819,255)</u>	<u>(20,500,740)</u>
	<u>\$ 3,143,766</u>	<u>4,301,133</u>	<u>\$ 7,444,899</u>	<u>\$ 8,439,422</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations and Net Assets (Deficiency)
Years Ended September 30, 2003 and 2002

	GEDCA	TSA	2003	Restated 2002
Revenues:				
Rental income	\$ 1,746,375	-	\$ 1,746,375	\$ 1,669,686
Tobacco Settlement Revenue	-	1,629,630	1,629,630	1,653,887
Qualifying certificate application and surveillance fees	223,340	-	223,340	233,607
Bond service fee	305,409	-	305,409	249,000
	<u>2,275,124</u>	<u>1,629,630</u>	<u>3,904,754</u>	<u>3,806,180</u>
Operating expenses:				
Salaries and benefits	1,352,128	-	1,352,128	1,351,833
Professional services	556,842	-	556,842	229,995
Provision for doubtful notes and accrued interest receivable	403,653	-	403,653	165,559
Rent	130,193	-	130,193	208,786
Travel	105,322	-	105,322	44,419
Depreciation and amortization	90,301	-	90,301	101,251
Advertising and promotions	51,479	-	51,479	253,231
Utilities, telephone and communication	31,861	-	31,861	39,623
Supplies	12,973	-	12,973	6,164
Repairs and maintenance	3,760	-	3,760	7,550
Special projects	2,260	-	2,260	182,231
Insurance	1,318	-	1,318	2,092
Directors' fees	950	-	950	5,100
Miscellaneous	128,059	-	128,059	87,576
	<u>2,871,099</u>	<u>-</u>	<u>2,871,099</u>	<u>2,685,410</u>
Operating (loss) income	<u>(595,975)</u>	<u>1,629,630</u>	<u>1,033,655</u>	<u>1,120,770</u>
Other income (expense):				
Interest expense, net	(39,487)	(1,068,934)	(1,108,421)	(1,263,645)
Investment income	-	108,112	108,112	83,614
Gain on sale of Big 8 Drydock	1,398,228	-	1,398,228	-
Other, net	221,309	-	221,309	583,822
Contribution in excess of damage	24,753	-	24,753	-
Gain on investments	3,849	-	3,849	3,577
Other income (expense), net	<u>1,608,652</u>	<u>(960,822)</u>	<u>647,830</u>	<u>(592,632)</u>
Net income	<u>1,012,677</u>	<u>668,808</u>	<u>1,681,485</u>	<u>528,138</u>
Deficiency at beginning of year	<u>(189,749)</u>	<u>(20,310,991)</u>	<u>(20,500,740)</u>	<u>(21,028,878)</u>
Net assets (deficiency) at end of year	<u>\$ 822,928</u>	<u>(19,642,183)</u>	<u>\$ (18,819,255)</u>	<u>\$ (20,500,740)</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Consolidated Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	GEDCA	TSA	2003	Restated 2002
Cash flows from operating activities:				
Cash received from customers	\$ 2,114,220	1,629,630	\$ 3,743,850	\$ 3,833,375
Cash paid to suppliers and employees for goods and service:	(2,063,336)	-	(2,063,336)	(2,197,725)
Net cash provided by operating activities	50,884	1,629,630	1,680,514	1,635,650
Cash flows from investing activities:				
Interest and investment income	3,849	108,112	111,961	87,191
Rollover of interest into investment	(3,849)	-	(3,849)	(3,052)
Net cash provided by investing activities	-	108,112	108,112	84,139
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(65,415)	-	(65,415)	(26,988)
Net cash used for capital and related financing activities	(65,415)	-	(65,415)	(26,988)
Cash flows from non-capital financing activities:				
Repayment of bond payable	-	(1,320,000)	(1,320,000)	-
Interest paid on bond and notes payable	(39,487)	(972,040)	(1,011,527)	(1,018,099)
Notes payable to GDFA	47,729	-	47,729	37,574
Net cash used for noncapital financing activities	8,242	(2,292,040)	(2,283,798)	(980,525)
Net (decrease) increase in cash	(6,289)	(554,298)	(560,587)	712,276
Cash at beginning of year	145,288	4,121,130	4,266,418	3,554,142
Cash at end of year	\$ 138,999	3,566,832	\$ 3,705,831	\$ 4,266,418
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (595,975)	1,629,630	\$ 1,033,655	\$ 1,120,770
Other income, net	221,309	-	221,309	580,622
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	90,301	-	90,301	101,251
Typhoon restoration	24,753	-	24,753	-
Write-off of fixed assets	62,633	-	62,633	-
(Increase) decrease in assets:				
Provision for doubtful notes	403,653	-	403,653	165,559
Notes receivable	4,810	-	4,810	(126,903)
Due from other funds and governmental agencies	215,414	-	215,414	2,189
Other receivables	(165,713)	-	(165,713)	18,168
Inventory and other	36,779	-	36,779	6,223
Other assets	38,547	-	38,547	18,518
Increase (decrease) in liabilities:				
Accounts payable	(67,775)	-	(67,775)	(18,605)
Due to other funds and governmental agencies	-	-	-	(238,970)
Accrued liabilities	(102,569)	-	(102,569)	(7,898)
Deferred rental income	(115,283)	-	(115,283)	14,726
Net cash provided by operating activities	\$ 50,884	1,629,630	\$ 1,680,514	\$ 1,635,650
Supplemental disclosure of non-cash transactions:				
Non-cash decrease in notes payable	(1,398,228)	-	(1,398,228)	-
Gain on sale of Big 8 Drydock	1,398,228	-	1,398,228	-
	-	-	-	-
See accompanying notes to consolidated financial statements				

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

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

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

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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

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

New Accounting Standards

In fiscal year 2004, GEDCA will be implementing GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units. For fiscal year 2005, GEDCA will be implementing GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3) and GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. GEDCA has not evaluated the financial statement impact of GASB Statement Nos. 39, 40 and 42.

Reclassification

Certain reclassifications have been made to the 2002 financial statement presentation to conform to the 2003 consolidated financial statement presentation.

Principles of Consolidation

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

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. In accordance with the accrual method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Notes and Accrued Interest Receivable

It is the policy of 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.

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. Bonds payable are reported net of bond discounts whereas debt issuance costs are reported as deferred charges.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

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

Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

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

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

In 2003 and 2002, GEDCA's investments are stated at fair market value in accordance with GASB Statement No. 31, which also requires investment income, dividends and unrealized gains and losses to be included in earnings.

An investment in a 72% owned company is accounted for using the equity method. (Refer to note 11).

Vacation and Sick Leave

Vacation of not more than 320 cumulative hours vests and is accrued each bi-weekly pay period in which an employee is in a pay status for the entire ten (10) days. Sick leave does not vest and is not accrued. The aggregate amount of the sick leave liability is not estimable.

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. The Government of Guam is evaluating the impact of this law and accordingly no liability, if any, that may result has been recorded in the accompanying financial statements.

Depreciation and Amortization

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

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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

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

Inventories

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

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.

Risk Management

GEDCA purchases automobile insurance covering \$300,000 for general single limited liability, inclusive of \$3,000 per person medical. GEDCA is self-insured against all other potential risks and losses. No losses in excess of insurable limits have been recognized in 2003 and 2002.

(2) Cash

At September 30, 2003 and 2002, the carrying amount of GEDCA's and TSA's cash balances was \$3,705,831 and \$4,266,418, respectively, and the corresponding bank balances were \$3,910,759 and \$4,470,330, respectively, which are maintained in financial institutions subject to the Federal Deposit Insurance Corporation insurance. Cash balances of \$238,500 and \$244,788 are insured by the Federal Deposit Insurance Corporation at September 30, 2003 and 2002, respectively.

(3) Investments

Other investments consist of money market funds and securities in Investment Service Group (ISG) and Merrill Lynch. At September 30, 2003 and 2002 investments are carried at market value.

(4) Other Real Estate

GEDCA has acquired land carried at cost of \$425,164 through loan foreclosure.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(5) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2003 and 2002 is as follows:

	<u>Beginning Balance October 1, 2002</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2003</u>
Building	\$ 1,207,031	\$ -	\$ -	\$ 1,207,031
Other improvements	532,875	-	(73,480)	459,395
Equipment	623,583	65,415	(307,776)	381,222
Land improvements	129,642	-	-	129,642
Automobiles	<u>85,941</u>	<u>-</u>	<u>-</u>	<u>85,941</u>
	2,579,072	65,415	(381,256)	2,263,231
Less accumulated depreciation and amortization	<u>(1,494,674)</u>	<u>(90,301)</u>	<u>318,622</u>	<u>(1,266,353)</u>
	<u>\$ 1,084,398</u>	<u>\$ (24,886)</u>	<u>\$ (62,634)</u>	<u>\$ 996,878</u>

	<u>Beginning Balance October 1, 2001</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2002</u>
Building	\$ 1,207,031	\$ -	\$ -	\$ 1,207,031
Other improvements	532,875	-	-	532,875
Equipment	596,596	26,987	-	623,583
Land improvements	129,642	-	-	129,642
Automobiles	<u>85,941</u>	<u>-</u>	<u>-</u>	<u>85,941</u>
	2,552,085	26,987	-	2,579,072
Less accumulated depreciation and amortization	<u>(1,393,423)</u>	<u>(101,251)</u>	<u>-</u>	<u>(1,494,674)</u>
	<u>\$ 1,158,662</u>	<u>\$ (74,264)</u>	<u>\$ -</u>	<u>\$ 1,084,398</u>

(6) Employees' Retirement Plan

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

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2003, a minimum combined employer and employee contribution rate of 40.98% (9.5% for employees and 31.48% for employer) of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were initially set at 9.5% and 26%, for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(6) Employees' Retirement Plan, Continued

The defined benefit plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 4.5% per annum. The most recent actuarial valuation performed as of September 30, 2001, 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 was performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2003 and 2002 may be materially different than that recorded in the accompanying financial statements.

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

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

Employer contributions into the DCRS for the years ended September 30, 2003 and 2002 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.

(7) 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 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 signed. At September 30, 2003, estimated lease expense payable has been recorded of approximately \$260,698. Lease expense for the years 2003 and 2002 was \$0. Future lease expense over the following five years is currently expected to be \$0.

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(7) Rental Income, Continued

Future minimum rentals to be received under noncancelable subleases as of September 30, 2003, are as follows:

Years ending September 30:	
2004	\$ 986,593
2005	751,125
2006	686,633
2007	171,527
2008	147,073
Thereafter	<u>3,250,689</u>
	<u>\$ 5,993,640</u>

(8) Commitment and Contingencies

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.

Management is of the opinion that the total amount due to trust funds of \$497,978 at September 30, 2003 will be resolved within the next year with funds received from collection of other receivables.

The Authority entered into an agreement relating to the reconstruction of its office, which sustained typhoon damages on December 8, 2002 amounting to \$640,000, of which \$380,507 will be reimbursable by FEMA.

(9) Related Parties

At September 30, 2003 and 2002, the following trust funds were administered by GEDCA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2003</u>	<u>2002</u>
Guam Development Fund Act (GDFA)	\$ 13,086,332	\$ 13,746,051
Agricultural Development Fund (ADF)	1,281,302	1,545,083
Agricultural Expense Insurance Fund (AEIF)	-	-
Landowner's Recovery Fund (LRF)	10,611	10,611
Local Arts Revolving Fund (LARF)	-	453
Guam Territorial Aquarium Foundation (GTAF)	19,499	18,470
Aquacultural Training Fund (ATF)	-	-
Music and Legends of Guam Fund (MLGF)	14,700	14,678
U.S. Base Realignment and Closure Commission (BRAC)	43	2,265
Housing and Urban Development Fund (HUD)	445	445
Microenterprise Development Program (MDP)	69,273	65,547

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(10) Long-Term Obligations

Notes Payable to G DFA

	<u>2003</u>	<u>2002</u>
Term loan, bears interest at 4.5%, payable in monthly installments of \$8,785, including interest, collateralized by real property with final payment due in 2016.	\$ 1,019,116	\$ 1,082,180
Line of credit, bears interest at 5%, principal and interest due in 2003, collateralized by a dry dock. This credit facility was repaid in full during 2003.	<u> -</u>	<u>1,287,435</u>
	1,019,116	2,369,615
Less current portion	<u>(60,805)</u>	<u>(1,344,960)</u>
	\$ <u>958,311</u>	\$ <u>1,024,655</u>

Bonds Payable

Tobacco settlement bonds, 2001 Series A (original issue of \$11,982,980), 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 \$1,853,356 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.	\$ 10,662,980	\$ 11,982,980
Tobacco Settlement bonds, 2001 Series B (original issue of \$13,494,479) 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 \$3,580,000 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>13,462,979</u>	<u>13,462,979</u>
	24,125,959	25,445,959
Less discount on bond issuance	<u>(606,858)</u>	<u>(661,204)</u>
Bond payable, net of discount on bond issuance	23,519,101	24,784,755
Less current portion	<u>(1,249,377)</u>	<u>(1,674,476)</u>
Bonds payable, net of current portion	\$ <u>22,269,724</u>	\$ <u>23,110,279</u>

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(10) Long-Term Obligations, Continued

Bonds Payable, Continued

The annual principal payments on notes payable to GDFCA subsequent to September 30, 2003, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$ 60,805	\$ 44,615	\$ 105,420
2005	63,598	41,822	105,420
2006	66,520	38,900	105,420
2007	69,576	35,844	105,420
2008	72,772	32,648	105,420
2009 through 2013	417,190	109,918	527,108
2014 through 2016	<u>268,655</u>	<u>17,233</u>	<u>285,888</u>
	<u>\$ 1,019,116</u>	<u>\$ 320,980</u>	<u>\$ 1,340,096</u>

The annual principal payments on series 2001 bonds payable subsequent to September 30, 2003, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$ 1,249,377	\$ 1,210,713	\$ 2,460,090
2005	1,316,898	1,143,192	2,460,090
2006	1,388,069	1,072,021	2,460,090
2007	1,463,086	997,004	2,460,090
2008	1,542,157	917,933	2,460,090
2009 through 2013	9,054,773	3,245,675	12,300,448
2014 through 2017	<u>7,504,741</u>	<u>695,559</u>	<u>8,200,300</u>
	<u>\$ 23,519,101</u>	<u>\$ 9,282,097</u>	<u>\$ 32,801,198</u>

During the years ended September 30, 2003 and 2002, the following changes occurred in liabilities reported as part of GEDCA's long-term liabilities in the statement of net assets:

	Balance October 1, 2002	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2003	Due within <u>one year</u>
Bonds payable	\$ 25,445,959	\$ -	\$ (1,320,000)	\$ 24,125,959	\$ 1,249,377
Notes payable	<u>2,369,615</u>	<u>-</u>	<u>(1,350,499)</u>	<u>1,019,116</u>	<u>60,805</u>
	27,815,574	-	(2,670,499)	25,145,075	1,310,182
Deferred amounts:					
Unamortized discount on bonds issued	<u>(661,204)</u>	<u>-</u>	<u>54,346</u>	<u>(606,858)</u>	<u>-</u>
	<u>27,154,370</u>	<u>-</u>	<u>(2,616,153)</u>	<u>24,538,217</u>	<u>1,310,182</u>
Other liabilities					
Unfunded pension	123,354	-	-	123,354	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>130,198</u>	<u>-</u>	<u>-</u>	<u>130,198</u>	<u>-</u>
	<u>\$ 27,284,568</u>	<u>\$ -</u>	<u>\$ (2,616,153)</u>	<u>\$ 24,668,415</u>	<u>\$ 1,310,182</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(10) Long-Term Obligations, Continued

Bonds Payable, Continued

	Balance October 1, <u>2001</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2002</u>	Due within <u>one year</u>
Bonds payable	\$ 25,445,959	\$ -	\$ -	\$ 25,445,959	\$ 1,674,476
Notes payable	<u>2,332,042</u>	<u>75,147</u>	<u>(37,574)</u>	<u>2,369,615</u>	<u>1,344,960</u>
	27,778,001	75,147	(37,574)	27,815,574	3,019,436
Deferred amounts:					
Unamortized discount on bonds issued	<u>(715,550)</u>	<u>-</u>	<u>54,346</u>	<u>(661,204)</u>	<u>-</u>
	<u>27,062,451</u>	<u>75,147</u>	<u>16,772</u>	<u>27,154,370</u>	<u>3,019,436</u>
Other liabilities					
Unfunded pension	131,233	-	(7,879)	123,354	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>138,077</u>	<u>-</u>	<u>(7,879)</u>	<u>130,198</u>	<u>-</u>
	<u>\$ 27,200,528</u>	<u>\$ 75,147</u>	<u>\$ 8,893</u>	<u>\$ 27,284,568</u>	<u>\$ 3,019,436</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, 2003 and 2002, the carrying value of this investment has been adjusted for its prorata share of losses.

A summary of investment in stock at September 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Bank of Guam	\$ 3,500	\$ 3,500
Heli-Guam, Inc	<u>-</u>	<u>-</u>
	<u>\$ 3,500</u>	<u>\$ 3,500</u>

(12) Other Income (Expense)

Other income and expense for the year ended September 30, 2003 includes the sale of the Big 8 Drydock for \$1,398,228. The buyer assumed the Authority's existing loan balance.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 2003 and 2002

(13) Typhoon Damage

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:

Restoration costs incurred	\$ 48,319
Property, plant and equipment damage	62,633
Inventory damage	<u>34,613</u>
Total typhoon loss	145,565
FEMA reimbursement	40,318
Landlord contribution	<u>130,000</u>
Contribution in excess of damage	\$ <u>24,753</u>

FEMA representatives estimated total typhoon repairs and replacement costs to be \$1,082,607. Of these costs, \$654,979 is expected to be reimbursed by FEMA, \$130,000 by the landlord, and the remaining \$297,628 is to be contributed by the Authority. As of September 30, 2003, the Authority incurred restoration costs of \$48,319.

(14) Prior Year Restatement

Due to the implementation of GASB Technical Bulletin 2004-1, "Tobacco Settlement Recognition and Financial Reporting Entity Issues," unrestricted net assets were restated as of October 1, 2001 to include accounts related to Tobacco Settlement Bonds. Ending unrestricted net assets were restated from \$(1,274,147) to \$(21,585,138).

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Salaries and wages:		
Salaries	\$ 1,276,434	\$ 1,423,137
Benefits	<u>665,173</u>	<u>639,373</u>
Total salaries and wages	<u>\$ 1,941,607</u>	<u>\$ 2,062,510</u>
Employees at end of year	27	34

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, 2003 AND 2002

Independent Auditors' Report

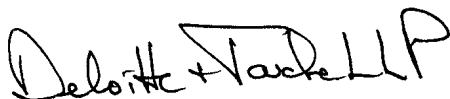
The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Agricultural Expense Insurance Fund, the Landowner's Recovery Fund, the Housing and Urban Development Fund, the Local Arts Revolving Fund, the Guam Territorial Aquarium Foundation, the Aquacultural Training Fund, the Music and Legends of Guam Fund, the Microenterprise Development Program and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2003 and 2002, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 10, 2004, on our consideration of the Funds' internal control over financial reporting and our tests of their compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.



November 10, 2004

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

Statements of Fiduciary Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Cash on hand and in bank	\$ 70,471	\$ 57,440	\$ 27,042	\$ 2,638	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	10,755,615	11,010,270	844,480	1,005,135	-	-	-	-	135,905	146,651
Less allowance for doubtful receivables	<u>(4,306,950)</u>	<u>(3,715,208)</u>	<u>(449,337)</u>	<u>(329,893)</u>	-	-	-	-	<u>(99,525)</u>	<u>(89,296)</u>
Net notes and accrued interest receivable	<u>6,448,665</u>	<u>7,295,062</u>	<u>395,143</u>	<u>675,242</u>	-	-	-	-	<u>36,380</u>	<u>57,355</u>
Due from other funds:										
Guam Economic Development Authority	465,318	241,651	-	-	-	-	-	-	32,638	7,325
Guam Development Fund Act	-	-	-	-	-	-	10,611	10,611	255	268
Agricultural Development Fund	21,482	21,243	-	-	-	-	-	-	-	-
Local Arts Revolving Fund	8,703	8,703	-	-	-	-	-	-	-	-
Microenterprise Development Program	-	-	347	347	-	-	-	-	-	-
Investments	1,736,123	1,826,642	371,942	488,737	-	-	-	-	-	-
Other real estate:										
Land	1,109,570	1,034,870	150,000	40,000	-	-	-	-	-	-
Other assets	<u>734,100</u>	<u>768,540</u>	<u>336,828</u>	<u>338,119</u>	-	-	-	-	-	599
	<u>4,075,296</u>	<u>3,901,649</u>	<u>859,117</u>	<u>867,203</u>	-	-	10,611	10,611	32,893	8,192
Restricted assets:										
Investments	<u>2,491,900</u>	<u>2,491,900</u>	-	-	-	-	-	-	-	-
Total assets	<u>\$ 13,086,332</u>	<u>\$ 13,746,051</u>	<u>\$ 1,281,302</u>	<u>\$ 1,545,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 69,273</u>	<u>\$ 65,547</u>

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, Continued
September 30, 2003 and 2002

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>										
Liabilities:										
Accounts payable and accrued expenses	\$ 33,548	\$ 73,320	\$ 9,186	\$ 13,033	\$ -	\$ -	\$ -	\$ -	\$ 242	\$ 242
Due to other funds:										
Guam Economic Development Authority	-	-	17,386	3,817	-	-	-	383,653	-	-
Guam Development Fund Act	-	-	21,482	21,243	-	-	-	-	-	-
Guam Territorial Aquarium Foundation	-	-	-	-	-	-	1,086	1,086	-	-
Landowner's Recovery Fund	10,611	10,611	-	-	-	-	-	-	-	-
Microenterprise Development Program	255	268	-	-	-	-	-	-	-	-
Agricultural Development Program	-	-	-	-	-	-	-	-	347	347
Total liabilities	<u>44,414</u>	<u>84,199</u>	<u>48,054</u>	<u>38,093</u>	<u>-</u>	<u>-</u>	<u>1,086</u>	<u>384,739</u>	<u>589</u>	<u>589</u>
Contingencies										
Net assets (deficiency):										
Investment capital assets	1,109,570	1,034,870	-	-	-	-	-	-	-	-
Restricted	6,992,443	6,992,443	1,796,000	1,796,000	75,000	75,000	1,168,672	1,168,672	-	-
Unrestricted	<u>4,939,905</u>	<u>5,634,539</u>	<u>(562,752)</u>	<u>(289,010)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>(1,159,147)</u>	<u>(1,542,800)</u>	<u>68,684</u>	<u>64,958</u>
Net assets (deficiency)	<u>13,041,918</u>	<u>13,661,852</u>	<u>1,233,248</u>	<u>1,506,990</u>	<u>-</u>	<u>-</u>	<u>9,525</u>	<u>(374,128)</u>	<u>68,684</u>	<u>64,958</u>
Total liabilities and net assets (deficiency)	<u>\$ 13,086,332</u>	<u>\$ 13,746,051</u>	<u>\$ 1,281,302</u>	<u>\$ 1,545,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 69,273</u>	<u>\$ 65,547</u>

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
September 30, 2003 and 2002

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
ASSETS												
Unrestricted assets:												
Notes and accrued interest receivable thereon	\$ -	\$ -	\$ -	\$ 12,720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less allowance for doubtful receivables	-	-	-	(12,267)	-	-	-	-	-	-	-	-
Net notes and accrued interest receivable	-	-	-	453	-	-	-	-	-	-	-	-
Government of Guam appropriations receivable	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds:												
Guam Economic Development Authority	-	-	-	-	-	-	-	-	-	-	22	22
Landowner's Recovery Fund	-	-	-	-	1,086	1,086	-	-	-	-	-	-
Other receivables	445	445	-	-	-	-	-	-	-	-	21	21
Investments	-	-	-	-	18,413	17,384	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	14,700	14,678	-	-
Equipment, at cost less accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	2,222
	445	445	-	-	19,499	18,470	-	-	14,700	14,678	43	2,265
Total assets	\$ 445	\$ 445	\$ -	\$ 453	\$ 19,499	\$ 18,470	\$ -	\$ -	\$ 14,700	\$ 14,678	\$ 43	\$ 2,265
LIABILITIES AND NET ASSETS (DEFICIENCY)												
Liabilities:												
Account payable and accrued expenses	\$ -	\$ 43,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,591
Due to other funds:												
Guam Development Fund Act	-	-	8,703	8,703	-	-	-	-	-	-	-	-
Total liabilities	-	43,989	8,703	8,703	-	-	-	-	-	-	-	12,591
Net assets (deficiency):												
Restricted	-	-	100,000	100,000	524,368	524,368	54,217	54,217	75,900	75,900	-	-
Unrestricted	445	(43,544)	(108,703)	(108,250)	(504,869)	(505,898)	(54,217)	(54,217)	(61,200)	(61,222)	43	(10,326)
Net assets (deficiency)	445	(43,544)	(8,703)	(8,250)	19,499	18,470	-	-	14,700	14,678	43	(10,326)
Total liabilities and net assets (deficiency)	\$ 445	\$ 445	\$ -	\$ 453	\$ 19,499	\$ 18,470	\$ -	\$ -	\$ 14,700	\$ 14,678	\$ 43	\$ 2,265

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, 2003 and 2002

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Additions:										
Interest	\$ 426,451	\$ 747,382	\$ 12,543	\$ 21,094	\$ -	\$ -	\$ -	\$ -	\$ 4,780	\$ 8,838
Net (decrease) increase in the fair value of investments	(25,144)	-	18,824	-	-	-	-	-	-	-
Other	139,211	722,817	-	40,999	-	-	403,653	-	-	-
Total additions	540,518	1,470,199	31,367	62,093	-	-	403,653	-	4,780	8,838
Deductions:										
Provision for doubtful notes and accrued interest	641,940	842,890	119,444	105,326	-	7,659	-	-	449	20,150
Salaries	423,824	509,478	165,654	201,187	-	-	-	-	-	12
Professional services	9,218	10,233	2,387	3,234	-	-	20,000	-	-	-
Rent	48,392	48,372	15,212	15,418	-	-	-	-	-	-
Bank charges	6,076	4,899	684	719	-	-	-	-	-	-
Depreciation	24,532	7,817	-	1,899	-	-	-	-	204	565
Promotions	45	-	-	-	-	-	-	-	-	-
Repair and maintenance	-	27	-	-	-	-	-	-	-	-
Loss on investments	-	7,429	-	-	-	-	-	-	-	-
Typhoon Damage	9,908	-	1,292	-	-	-	-	-	395	-
Miscellaneous	(3,483)	392	436	2,302	-	-	-	-	6	7
Total deductions	1,160,452	1,431,537	305,109	330,085	-	7,659	20,000	-	1,054	20,734
Net change in net assets (deficiency)	(619,934)	38,662	(273,742)	(267,992)	-	(7,659)	383,653	-	3,726	(11,896)
Net assets (deficiency) at beginning of year	13,661,852	13,623,190	1,506,990	1,774,982	-	7,659	(374,128)	(374,128)	64,958	76,854
Net assets (deficiency) at end of year	\$ 13,041,918	\$ 13,661,852	\$ 1,233,248	\$ 1,506,990	\$ -	\$ -	\$ 9,525	\$ (374,128)	\$ 68,684	\$ 64,958

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, 2003 and 2002

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Additions:												
Other	\$ 43,989	\$ 29,482	\$ -	\$ -	\$ 1,055	\$ 213	\$ -	\$ -	\$ -	\$ 45	\$ 12,592	\$ 10,182
Total additions	43,989	29,482	-	-	1,055	213	-	-	-	45	12,592	10,182
Deductions												
Provision for doubtful notes and accrued interest	-	-	453	49,988	-	119,704	-	31,907	-	41,890	-	11,926
Promotions	-	-	-	-	-	-	-	-	(22)	540	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	2,076	4,111
Typhoon damage	-	-	-	-	-	-	-	-	-	-	147	-
Miscellaneous	-	-	-	-	26	22	-	-	-	-	-	-
Total deductions	-	-	453	49,988	26	119,726	-	31,907	(22)	42,430	2,223	16,037
Net change in net assets (deficiency)	43,989	29,482	(453)	(49,988)	1,029	(119,513)	-	(31,907)	22	(42,385)	10,369	(5,855)
Net assets (deficiency) at beginning of year	(43,544)	(73,026)	(8,250)	41,738	18,470	137,983	-	31,907	14,678	57,063	(10,326)	(4,471)
Net assets (deficiency) at end of year	\$ 445	\$ (43,544)	\$ (8,703)	\$ (8,250)	\$ 19,499	\$ 18,470	\$ -	\$ -	\$ 14,700	\$ 14,678	\$ 43	\$ (10,326)

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, 2003 and 2002

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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 2003 and 2002 nor were there any policies outstanding at September 30, 2002.

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

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

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

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

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

Notes to Financial Statements
September 30, 2003 and 2002

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

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.

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

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

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by 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, 2003 and 2002.

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 Agricultural Expense Insurance Fund (AEIF), the Landowner's Recovery Fund (LRF), the Housing and Urban Development Fund (HUD), the Local Arts Revolving Fund (LARF), the Guam Territorial Aquarium Foundation (GTAF), the Aquacultural Training Fund (ATF), the Music and Legends of Guam Fund (MLGF), the U.S. Base Realignment and Closure Committee (BRAC), the Microenterprise Development Program (MPD), the Guam Industry Promotions Fund (GIPF) and the Guam Education Fund (GEF) (the Funds) are accounted for as Fiduciary Fund Type - Private Purpose Trust Funds and are component units of the Government of Guam.

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

Notes to Financial Statements
September 30, 2003 and 2002

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

Basis of Accounting, Continued

For the year ended September 30 2002, the Funds 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 and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

- Nonexpendable – Net assets subject to externally imposed stipulations that require the Administration to maintain them permanently. For the year ended September 30, 2003 and 2002, the Administration does not have nonexpendable net assets.

- Expendable – Net assets whose use by the Administration is subject to externally imposed stipulations that can be fulfilled by actions of the Administration pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash

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

At September 30, 2003 and 2002, the Funds have cash balances of \$97,513 and \$60,578, respectively, deposited in checking accounts. Of the total deposits, up to \$100,000 each year is insured by the Federal Deposit Insurance Corporation. The remaining balances are not insured or collateralized.

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

Notes to Financial Statements
September 30, 2003 and 2002

(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.

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, 2003 and 2002, are notes due from GEDCA for \$1,019,116 and \$2,369,615, respectively. One note bears interest at 4.5% and is due in 2016. The second note bears interest at 5% and was paid in full during the year ended September 30, 2003.

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.

Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

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

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

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

Notes to Financial Statements
September 30, 2003 and 2002

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

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.

(2) Cash Deposits

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

(3) Other Real Estate

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

(4) Other Assets

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

(5) Contingencies

At September 30, 2003 and 2002, GDFFA was contingently liable as guarantor for loans in the amount of \$2,181,100 and \$2,633,000, respectively, and any related collection costs. In accordance with Section 4 of the Guam Development Fund Act of 1968; GDFFA is required to maintain reserves of not less than 25% of the loan guarantee.

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 COMPLIANCE AND ON AN
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the consolidated financial statements of the Guam Economic Development and Commerce Authority and subsidiaries (GEDCA), as of September 30, 2003, and for the year then ended, and have issued our report thereon dated November 10, 2004, which report was qualified due to our inability to form an opinion on travel advances net of suspense accounts, travel and related expenses. Except as discussed in the preceding sentence, 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 consolidated 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 November 10, 2004.

Compliance

As part of obtaining reasonable assurance about whether GEDCA's consolidated 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 and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte + Tatchell LLP

November 10, 2004

**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 subsidiaries (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, 2003. 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, 2003.

Internal Control Over Financial Reporting

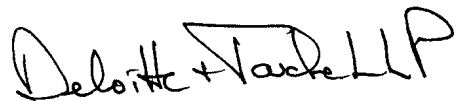
The management of GEDCA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered GEDCA's internal control over compliance 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 consolidated financial statements of the Guam Economic Development and Commerce Authority (GEDCA) and subsidiaries, as of and for the year ended September 30, 2003, and have issued our report thereon dated November 10, 2004. Our audit was performed for the purpose of forming an opinion on the consolidated 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 consolidated 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 consolidated financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the consolidated financial statements taken as a whole.

This report is intended for the information of the Board of Directors and management of GEDCA and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

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

November 10, 2004

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

Federal grantor/ program title/ <u>project designation</u>	Catalog of Federal Domestic Assistance <u>number</u>	Project amount	Balance at beginning of year	<u>Receipts</u>	<u>Expenditures</u>	(Payable) receivable at <u>end of year</u>
Community Development Block Grant/Special Purpose	14.225	\$ <u>123,071</u>	\$ <u>(43,989)</u>	\$ <u>43,989</u>	\$ <u>-</u>	\$ <u>-</u>
Other federal assistance: Guam Development Fund Act	N/A(1)	\$ <u>6,240,000</u>	\$ <u>10,599,476</u>	\$ <u>1,663,928*</u>	\$ <u>1,400,194</u>	\$ <u>10,335,742</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 \$10,335,742 above reflects the Revolving Loan Fund receivable balance at September 30, 2003. The difference between the September 30, 2003 balance and the project amount represents interest income.
- (d) The \$10,335,742 principal balance above, plus accrued interest receivable and legal fee costs of \$419,873 at September 30, 2003, reconciles to the Guam Economic Development Fund \$10,755,615 notes and accrued interest receivable balance per the September 30, 2003 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) All programs are received in a direct capacity.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the consolidated financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were not identified.
3. No instances of noncompliance considered material to the consolidated 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

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.