

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

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

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**SEPTEMBER 30, 2014 AND 2013**

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

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## **Independent Auditors' Report**

The Board of Directors  
Guam Economic Development Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Guam Economic Development Authority (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Economic Development Authority as of September 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 17 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental divisional information on pages 18 through 20, the supplemental schedule of salaries and wages on page 39 and the supplemental comparative divisional schedules on pages 40 through 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental divisional information, the schedule of salaries and wages and the supplemental comparative divisional schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, supplemental divisional information, the schedule of salaries and wages and the supplemental comparative divisional schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

March 23, 2015

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Management's Discussion and Analysis  
Years Ended September 30, 2014 and 2013

**PREFACE**

The mission of the Guam Economic Development Authority, *Aturidat Inadilanton Ikunumihan Guahan* (GEDA), is to develop a sound and sustainable economy through innovative programs that preserve and promote local culture, economic opportunities and quality of life.

As a public corporation (12GCA Chapter 50), GEDA has broad responsibility for the centralized direction, control and supervision of an integrated plan for the economic development of Guam through its programs and offerings, which include public financial services, business and investment assistance and incentive programs, and real property management.

Although GEDA has a series of broad mandates, GEDA focused on key areas, serving as central financial manager for the Government of Guam (GovGuam), assisting local enterprise while promoting investments of entrepreneurial capital in Guam, along with an internal focus on program compliance, process improvement measures and leveraging limited resources. With that, the accomplishments and strides achieved have been milestones for both GEDA and Guam overall. Following are highlights of those milestones, overcoming great challenges and a vision to realize great opportunities for the sustainable growth of the island's economy.

**ASSISTING LOCAL ENTERPRISE/PROMOTING INVESTMENTS**

Developing Guam's economy by supporting local enterprise and attracting new investments through incentive programs and industry diversification efforts has been a top priority for GEDA. The following are highlights of projects and promotions over this past year:

**BUSINESS DEVELOPMENT & MARKETING DIVISION**

**Trade Missions/Seminars**

GEDA assisted in the promotion of the Administration's Economic Development Initiatives by coordinating, attending and fielding follow up inquiries for the following Trade Missions and Local Seminars:

- SelectUSA Pearl Delta River Road Show April 14-18, 2014
- Captive Insurance Companies Association (CICA) Intl. Conference, March 9-11, 2014
- GEDA was an exhibit participant at the *Guam Chamber of Commerce 10th Annual Small Business Expo*, June 26, 2014 at the Hyatt Hotel.

**Qualifying Certificates (QC)**

GEDA has been working closely on major QC application with details as follows:

*Guam Regional Medical Center:* Applicant will construct and operate a \$219,000,000 medical facility in Dededo, Guam, featuring an initial 130 beds, including extensive emergency, surgical, intensive care, neo-natal and other specialty medical services to the people of Guam and Micronesia. The GEDA Board has since approved the application (December 2013) and the Governor signed the QC in December 2014.

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*Core Tech Affordable Housing, QC*

Batch 14: Approval of the construction and the development of 81 units Summer Homes Residences affordable rental housing project on Lot # 10076-1-3-3, Dededo, Guam was approved on October 1, 2013. Maximum income amount is \$24,465,500 USD.

Batch 15: Approval of the construction and the development of 240 units Summer Town Estates Senior Housing Development (formerly Lada Estates) affordable rental housing project on B13000817 on Tract 11404 Block 1 through 8, Kaiser Dededo, Guam was approved on 11/29/2013. Maximum income amount is \$43,496,413 USD.

*Guam Hardwood Construction Supply:* Guam Hardwood submitted an application to assist in its expansion of their current operations as a construction retailer to include manufacturing of drywall, metal frames and hollow core doors with an investment of \$720,000. This application has been pending information from client and may be recommended for resubmission.

*Lina' La:* Application submitted for a business that includes a Chamorro Cultural Park, ancient Chamorro village, theme park, hiking and eco-tours, animal displays, ocean and beach activities, food and beverage, restaurant and bar, retail and concession activities, cultural demonstrations, cultural performances, dinner show and other cultural, adventure, entertainment and/or tourist activities. Total investment approximates \$27,750,000. This application has been pending information from client and may be recommended for resubmission.

*Quantum Guam:* Quantum intends to invest approximately \$89,500,000 towards the production of Renewable (Solar) Electricity Facility located on 150 acres in the municipality of Inarajan, Guam. They have since sold their business to another company. This application has been pending information from client and may be recommended for resubmission.

**U.S. SBA STEP Grant Awarded to GEDA**

GEDA was notified of the approval of Grant Year 2 in the amount of \$227,445 on January 1, 2013 to promote President Obama's NEI which seeks to double U.S. exports in the next 5 years. Besides maximizing the opportunity in the Tourism industry, GEDA focused on assisting new and existing businesses with training on the development, manufacturing and marketing of products geared towards the souvenir and gift markets, now described as "Carry-On" products. GEDA's also used funds for the promotion of Guam Product Seal (GPS) Program for products manufactured on Guam. Other activities completed during this term are as follows:

- \* *Hong Kong Printing & Packaging Expo*, (April 27-30, 2014) and Foreign Market Sales trip to Chuangzhao, China
- \* *Manila Food & Beverage Expo*, June 11-13, 2014
- \* Client received certification for a *Better Process Control School* on June 10-13, 2014 at the Asian Institute of Management Conference Center in Makati City, Philippines
- \* Sponsored STEP clients at the *3rd Annual Mai'la ta Fan Chesa* event, May 27, 2014
- \* Provided funds for reading material translation in Russian, Chinese and Japanese language as part of new class offerings to tourists
- \* Hosted the *3rd Annual Guam Export Trade Fair* held at the Agana Shopping Center Exhibit Hall, July 26, 2014. 30 STEP and GPS clients participated with buyers and the general public invited.

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In December 2013, GEDA received approval to carryover unused funds of \$23,000 to continue work on outstanding projects through December 2014.

**Hotel Development – Tourism 2020**

In support of Governor Calvo's initiative to add additional hotel rooms to meet the demands of our growing tourism industry, a GEDA team participated at the *Hotel Investment Conference Asia Pacific (HICAP)*, from October 16 – 18, 2013 in Hong Kong. GEDA, GIAA and GVB jointly promoted Guam at this very prestigious conference. Along with logos in the conference booklets and all marketing materials and web pages going forward, GVB General Manager Karl Pangelinan spoke on the tourism industry, supported with a video "commercial".

GEDA attended the March 2014 HICAP Conference in Singapore, where the delegation met with executives from a number of the world's top hotels, including Pan Pacific, New World, Starwood Hotels, Four Seasons, Six Sense, Filinvest Hotels and The Bellevue Hotels and Resorts, some of whom expressed a keen interest in Guam, and are now working with GEDA in exploring opportunities.

*Special Hotel QC Program Development:* A GEDA task force was created to draft a special QC program for Hotel Development. It is meant to entice investment now to meet the desire to build 1,600 additional hotel rooms, pre-China VISA Waiver approval. Should China VISA waiver be granted, the Board will assess the need for a special Hotel QC program because hotel investments will then naturally flow to the island. Update: This Special Hotel QC program received legislative approval and was signed by Governor Calvo by PL 32-233 (Dec. 2014).

*Independent Hotel Capacity Study:* GEDA, in partnership with the Guam Visitors Bureau has requested for Horwath HTL to conduct a market assessment and outlook study to determine the future hotel market operating conditions in Guam, recommend/comment on the capacity for future hotel room supply in the market, the appropriate scale and positioning of future supply additions and the likely timeframe required for future hotel additions based on the projected tourism growth to the market. This study is necessary to support Guam's marketing efforts to hotel developers and owners. The agreement with Horwath HTL was executed in April 2014 with the first draft completed by September 2014. The report is now in review by Guam visitor industry professionals to ensure accuracy of items within the report with a release expected by February 2015.

**Made in Guam Incubator Program (PL 32-068):** This law created a business incubator program at the Guam Airport for companies offering products that are made on Guam and which display the Guam Product Seal. GEDA has been working with the managers of GIAA to develop the program and receive the approval of FAA. Upon its approval, GEDA is mandated to assist in the buildup of kiosks for the vendors.

**Sports Tourism - UOG Sports Complex Tax Credit:** The Governor signed P.L. 27-130, which provides seed funding via the issuance of \$1 million in tax credits that should be sufficient for A&E design and construction of the first phase of the project. GEDA developed the legislatively mandated Rules and Regulations via the AAA process, which was approved in June 2011. GEDA developed an application form and developed a mechanism with UOG to implement the Tax Credit program. GEDA is currently awaiting notification from UOG via resolution of their Board of Directors on the implementation of the Tax Credit program.

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**Film Industry – The Development of a Film Commission:** On January 4, 2012, Governor Calvo signed into law P.L. 343-31 establishing the Guam Film Office within GEDA. GEDA has been mandated to develop and organize Guam's Film Industry overseeing all film, video and photographic projects and activities on Guam.

GEDA continues to meet with industry stakeholders on draft Rules and Regulations for the industry that will then evolve into the development of the industry.

**Guam Product Seal:** With the Governor's Executive Order 2012-11, the administration and compliance of the Guam Product Seal was transferred to GEDA. GEDA held an education seminar on April 25, 2013 with 60 participants, including 20 Customs officers. GEDA is working with the Guam Product Seal Task Force to address issues specific to updates and clarification of the law as well as proposed program benefits.

To date GEDA has issued 53 Guam Product Seal Permits and will seek grant funding for continued marketing and support of the program.

**PUBLIC FINANCE DIVISION**

Mandated to serve as the Central Financial Manager for the Government of Guam, GEDA assists with, coordinates and monitors Financial Advisory Services, Capital Financing, Debt Management and access to the Capital Markets. Accomplishments in FY2014 include the following:

**Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2013 (December 2013)**

GEDA and the Guam Waterworks Authority (GWA) successfully closed the \$173 million Revenue Bonds, Series 2013 on December 12, 2013. The bonds were authorized by Public Law Number 32-069 to fund capital improvements to the GWA's water and wastewater systems.

The Authority developed its six-year Capital Improvement Program detailing improvements of facilities, including those specified in the 2011 Court Order. The entire CIP has been estimated at approximately \$457.5 million. The Authority expects to fund the rest of the CIP with two series of Additional Bonds to be issued in 2015 and 2017.

Moody's Investor Services Inc. assigned a "Ba1" with a "Positive" outlook, Fitch Ratings assigned a "BB" with a "Positive" outlook and Standard & Poor's assigned its "A-" investment grade rating with a "Stable" outlook.

**Government of Guam General Obligation: Guam Memorial Hospital Authority Loan (February 2014)**

GEDA assisted the Guam Memorial Hospital in securing a \$25 million term loan with the Bank of Guam to refinance the 2011 GMHA loan and for outstanding payments to vendors. The loan was authorized by Public Laws 30-200, 30-235, 32-043 and 32-105.

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**Port Authority of Guam Loan (April 2014)**

GEDA assisted the Port Authority of Guam in securing 2 loans totaling \$10 million with the Bank of Guam. The first loan is to finance the Port's service life extension repairs to F-5, F-3, F-4 or F-6 Berths or Wharfs at the Commercial Port of Guam; the second loan for either or both (a) funding the cost of software acquisition for the purpose of upgrading of the Authority's financial management system, (b) funding the cost of acquisition of container handling top-lifter (Purchase loan). The loan was authorized under 12 Guam Code Annotated Chapter 10 §10237 and Public Laws 32-042 and 32-107.

**Government of Guam General Obligation: Guam Legislature Building (April 2014)**

GEDA assisted The 31st Guam Legislature in securing a \$4 million loan with the Bank of Guam to finance the renovation of the Guam Legislature Building, formerly known as the Guam Congress. The building is anticipated to be Platinum LEED Certification, the first on Guam. Project cost is estimated at \$6.8M with the remaining balance to be funded by the Guam Preservation Trust.

**Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2014 (August 2014)**

The Guam Waterworks Authority successfully closed \$85.6 million Revenue B, Series 2014 on August 7, 2014. Bond proceeds refunded GWA's outstanding 2005 bonds for significant savings. Through an aggressive marketing effort, including several glowing reports about Guam in the prestigious Bloomberg financial magazine, the overwhelming investor interest helped to drive interest rates lower and ultimately resulted in net present value savings of approximately \$8.3 million.

Moody's Investor Services Inc. assigned a "Ba1" with a "Positive" outlook, Fitch Ratings assigned a "BB" with a "Positive" outlook and Standard & Poor's assigned its "A-" with "Stable" outlook.

**Guam Power Authority Revenue Bonds, 2014 Series A (September 2014)**

The Guam Power Authority successfully closed \$76 million Revenue Bonds, Series 2014 September 30, 2014. The bonds was authorized to be issued pursuant to Chapter 8 of Title 12 of the Guam Code Annotated, and by Public Law Numbers 32-140, as amended by Public Law 32-181 for payment of the 2104 projects.

**Bond Disclosure Services (2014)**

GEDA is the Dissemination Agent for the Government of Guam and is designated to file the required bond disclosure documents on the Municipal Securities Rulemaking Boards' Electronic Municipal Market Access (EMMA) system website, the official site for Bond statements and trade data for the Municipal Market. Reports have been filed for the following bonds:

- 2007 Guam Economic Development Authority Tobacco Settlement Asset-Backed Bonds – 2013 Bond Information Report, GEDA's FY 2013 audited financial statement;
- 2007 General Obligation Bonds – 2013 Bond Information Report, GovGuam FY2013 audited financial statement;
- 2009 General Obligation Bonds - 2013 Bond Information Report, GovGuam FY2013 audited financial statement;
- 2009 Limited Obligation (Section 30) Bonds - 2013 Bond Information Report;

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- 2010 Certificate of Participation's (John F. Kennedy project) - 2013 Bond Information Report, GovGuam FY2013 audited financial statement;
- 2011 Government of Guam Hotel Occupancy Tax Revenue Bonds – 2013 Bond Information Report, GovGuam FY2013 audited financial statement;
- 2011, 2012, 2013 Government of Guam Business Privilege Tax Bonds - 2013 Bond Information Report.

**Private Activity Bond Program**

Private Activity Bonds (PAB's) are tax-exempt bonds issued by public entities to provide below-market financing for certain types of private projects that serve a public purpose, as specified by Federal tax law. Federal tax law also imposes a number of other restrictions and requirements on the issuance of Private Activity Bonds, among which is a "volume cap" at the state level that limits the amount of PAB's that can be issued each year. Each state receives an annual PAB volume cap allocation, calculated according to a formula established by federal tax law. In addition, federal law allows unused volume cap to be carried forward for future use; carry forward amounts expire after three years.

2015 carry-over volume cap in the amount of approximately \$242,490,588 will be available during the year for any of the designated types of bonds.

**REAL PROPERTY**

GEDA manages three industrial parks: the E.T. Calvo Memorial Park, the Harmon Industrial Park, generating an average of about 700 to 1000 jobs annually, \$41.0 million in payroll, over \$130.0 million in gross sales and over \$6.0 million in GRT. In an effort to generate additional revenues for GEDA as a result of losing the Guam Shipyard Sublease in FY 2013, GEDA purchased certain improvements which are situated within the E.T. Calvo Memorial Park at a combined cost of \$500,000. As a result of this purchase, GEDA anticipates an increase in annual lease rents collected by some \$120,000, well above the previous lease arrangements whereby the Authority collected only \$68,000 per annum from these two subleases.

Leveraging GEDA's real property management program, GEDA engaged in a management Memorandum of Understanding ("MOU") with the Guam Ancestral Lands Commission (GALC), to manage leases on the Spanish Crown properties. For the period October 2007 to September 2014, GEDA collected over \$3.5 million in ground lease rents and participation rents of which over \$3 million was remitted to GALC while the difference was retained by GEDA as provided for in the MOU. The Authority also executed an MOU with the Chamorro Land Trust Commission (CLTC) which was approved by the Governor on April 24, 2013 for general consultancy and property management services for commercial land leases which are expected to generate over \$300K in management fees for GEDA annually. GEDA is currently negotiating similar management agreements with other GovGuam agencies with land inventory that could generate lease revenues at fair market value rates.

Public Law 30-228 which authorized the use of over \$55 million of the proceeds from the 2011 Hotel Occupancy Tax Bond requires the construction of various capital improvement projects throughout the island. GEDA, through a Memorandum of Agreement with the Office of the Governor of Guam (OOGG), has established a Program Management Office (PMO) to oversee, coordinate and manage capital improvement projects and other programs assigned to the PMO by the OOGG. These projects and programs include, but are not limited to, the construction of the Guam Chamorro and Educational Facility better known as the Guam Museum, the restoration and renovation of the Plaza De Espana, mitigation of the flooding in Tumon along with the restoration or renovation of various historic sites, and

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public parks and facilities throughout the island. The establishment of the PMO at GEDA carries out the Office of the Governor's objective that such programs and projects are properly managed to ensure that public resources are utilized in an efficient, expeditious and effective manner to allow for the implementation of as many projects and programs as possible and to allow local businesses, residents and visitors to enjoy the economic and social benefits of these projects and programs.

In August of 2014, a Memorandum of Agreement was executed between GEDA and the Office of the Governor in which GEDA procured the services of a Consultant, Matrix Design Group, to conduct various studies associated with the military relocation to Guam. These studies are required by the Office of the Governor and the Department of Defense which will pay over \$3 Million to GEDA to fund preparation of the studies to include approximately \$300K (10%) as GEDA's management fee. The preparation of these reports will assist the Office of the Governor and the Department of Defense in satisfying the requirements of Section 2822(d) of the 2014 National Defense Authorization Act (NDAA) which directs the convening of the Economic Adjustment Committee (EAC) to consider all assistance necessary to support the preferred alternative for the relocation of Marine Corps forces to Guam. EAC must submit a report to Congress no later than the date on which the Navy Supplemental Environmental Impact Record of Decision is issued (Spring 2015).

## **COMMERCE AND ECONOMIC**

The CED Division, having been established in the mid-part of 2013, is the newest division within GEDA. It was created to enhance GEDA's ability to conduct general economic research and financial analysis. The primary mission of this unit is to respond to public inquiry concerning economic development initiatives for the territory of Guam, provide data collection for policy assessment, compile and disseminate investment related statistics and various metrics to gauge regional and local industry development, technical assistance and collateral research support as requested by government agencies and business entities. This encompasses a number of functions and activities initiated or supported by the CED Division during October 2013 through September 2014 to include:

- Revenue forecasting using the Prevailing Economic Variables (PEV) model
- Data repository and mining activities
- Comprehensive economic development planning, including a review of existing Government of Guam master plans to support the Imagine Guam program established by Executive Order 2014-13 and creation of a regional economic scorecard
- Industry-specific research to improve the Qualifying Certificate program as per Public Law 32-233
- Economic analysis on large-scale projects (i.e. medical marijuana, hotel industry, Chamorro Land Trust Commission commercial lease program, Gef Pa'go, interisland high speed ferry and alternative means of transportation, and the shipping industry)
- Review and input on social and economic studies and reports for Guam
- Fiscal policy and stabilization assessment
- Input on proposed legislation on business and economic matters

The CED Division is in the process of the overlay, merger, amendment, planning, programming, and sequencing of all existing master plans within the government of Guam. The unit has also allocated time and resources to the task of integrated CIP planning and programming with the goal of developing necessary infrastructure capacity for Guam in light of the impending military build-up and its anticipated impact.

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A major role currently undertaken by the CED unit involves monitoring the implementation of programs and projects that have favorable impact on job creation, tax revenue, gross domestic production and infrastructure capacity. As the coordinating entity for the Governor's Economic Coordination Task Force and Fiscal Policy Committee through which CED is designated to provide economic and financial analysis and recommendation, GEDA is able to facilitate development programs that support its primary mission.

**LOANS**

**ADF, GDFA and SSBCI Loan Programs**

**Agriculture Development Fund (ADF)**

The program's target market is limited to individuals, corporations and partnerships that engage in commercial agriculture businesses. Activities include the areas of agriculture, aqua-culture, horticulture, mari-culture, commercial fishing and other related areas. The program enables bonifide farmers and commercial farming enterprises to obtain a line of credit financing for working capital needs and to provide funding for the purchase of supplies and inventory.

**Guam Development Fund Act (GDFA)**

This Program is targeted at businesses that are engaged or about to engage in activities in the areas of agriculture, fishing, manufacturing, tourism, and their support industries. GDFA enables start-ups and existing businesses to secure long-term financing for the acquisition of long-term fixed assets, working capital needs and to provide funding for the purchase of supplies and inventory.

In May 2014, GEDA recognized a \$1.1M net gain from a sale of a GDFA leasehold. The property was obtained through foreclosure, listed on the Multiple Listing Service by a real estate broker, and was sold to the highest offerer for \$2.2M.

**State Small Business Credit Initiative (SSBCI) - \$13.1 Million allocated for Guam**

On October 4, 2011, Governor Calvo received approval of the \$13,168,350 U.S. Treasury funding for the Guam SSBCI Program. The Guam SSBCI Programs provide credit enhancement to lenders and borrowers who cannot otherwise obtain loans or credit lines through standard commercial underwriting guidelines.

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**FINANCIAL COMMENTS**

The following table summarizes the statements of Net Position and operations of Guam Economic Development Authority for 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u> <u>(As Restated)</u>
Assets:			
Current assets	\$ 16,813,747	\$ 12,690,919	\$ 12,213,884
Long-term assets:			
Building, improvements and equipment, at cost, net	531,926	525,941	555,803
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	17,349,173	13,220,360	12,773,187
Deferred Outflow of Resources:			
Bond defeasance cost, net	<u>505,120</u>	<u>815,962</u>	<u>1,126,804</u>
	<u>\$ 17,854,293</u>	<u>\$ 14,036,322</u>	<u>\$ 13,899,991</u>
Liabilities and Net Position:			
Current liabilities:			
Current portion of long-term debt, net	\$ 2,120,000	\$ 1,980,000	\$ 1,850,000
Other current payables	9,540,293	5,470,451	5,402,455
Long-term liabilities:			
Long-term debt, net	29,794,140	30,326,991	30,754,665
Other long-term payable	<u>280,462</u>	<u>240,342</u>	<u>241,477</u>
Total liabilities	<u>41,734,895</u>	<u>38,017,784</u>	<u>38,248,597</u>
Net position:			
Net investment in capital assets	531,926	525,941	555,803
Unrestricted	<u>(24,412,528)</u>	<u>(24,507,403)</u>	<u>(24,904,409)</u>
Net position	<u>(23,880,602)</u>	<u>(23,981,462)</u>	<u>(24,348,606)</u>
	<u>\$ 17,854,293</u>	<u>\$ 14,036,322</u>	<u>\$ 13,899,991</u>
Revenues, Expenses and Changes in Net Position:			
Revenue:			
Operating revenues	\$ 2,250,607	\$ 3,380,768	\$ 2,677,516
Tobacco Settlement revenue	<u>2,524,077</u>	<u>2,386,117</u>	<u>2,385,822</u>
Total revenue	<u>4,774,684</u>	<u>5,766,885</u>	<u>5,063,338</u>
Expenses:			
Operating expenses	(3,500,777)	(3,118,345)	(2,718,851)
Other expense, net	<u>(1,173,047)</u>	<u>(2,281,396)</u>	<u>(2,233,692)</u>
Total expenses	<u>(4,673,824)</u>	<u>(5,399,741)</u>	<u>(4,952,543)</u>
Increase in net position	100,860	367,144	110,795
Net position at beginning of year	<u>(23,981,462)</u>	<u>(24,348,606)</u>	<u>(24,459,401)</u>
Net position at end of year	<u>\$ (23,880,602)</u>	<u>\$ (23,981,462)</u>	<u>\$ (24,348,606)</u>

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Management's Discussion and Analysis  
Years Ended September 30, 2014 and 2013

**Operating Revenues**

In FY2014, GEDA recorded operating revenues of \$2,216,756 compared to \$3,288,210 in FY2013. The year-to-year change of \$1,071,454 represents a decrease of 32.58%. GEDA generates its own revenues to sustain annual operations from three primary sources. The first is the rental income from Industrial Parks, the second is application and surveillance fees from QC beneficiaries and the third source is from the management of the GALC Lease properties under the current MOU. Bond fees and other federal and local grants additional sources of revenues, but may not represent recurring annual income.

**Industrial Park**

12 GCA Section 50103 authorizes GEDA to lease Government of Guam land to promote investments in entrepreneurial capital thereby increasing opportunity for employment in manufacturing, industrial, commercial, recreational, retail and service enterprises. GEDA maintains industrial parks under leases from the Government of Guam: the 18-acre Harmon Industrial Park, and the 26-acre E.T. Calvo Memorial Park, and the 15K-sq. meters Cabras Island.

Rental income decreased 8.69% from \$1,182,977 in FY13 to \$1,080,091 in FY14. This is due to the termination and a reduction of a lease.

**Qualifying Certificate (Q.C.) Program**

The Qualifying Certificate program is an economic incentive tool to entice investors into Guam. The program was created in early 1965 to foster the growth of the then fledgling tourism industry. The tax incentive program that offers corporate income tax and corporate dividends tax rebates and real property tax abatements has proven to be a successful tool in the development of the tourism industry and will now serve a critical role in supporting the growth of new and emerging industries. QC revenues increased \$46,952 or 11.70% from \$401,463 in FY13 to \$448,415 in FY14.

**Bond Fees**

GEDA's mandate establishes GEDA 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, 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. Bond fees decreased 58.43% from \$1,386,626 in FY13 to \$576,460 in FY14. This is due to the timing of the issuance of bonds.

**Capital Assets**

Land, building, improvements and equipment increased \$5,985 from \$525,941 in FY13 to \$531,926 in FY14. The increase is the net of equipment purchases and accumulated depreciation for the year. There were no significant capital transactions during the year. For additional information concerning capital assets, please refer to note 3 to the financial statements.

**Long-term Debt**

No additions to long-term debt occurred during the year ended September 30, 2014. For additional information concerning long-term debt, please refer to note 4 to the financial statements.

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**Operating Expense**

GEDA's operating expense in FY14 was \$3,271,732, an increase of 9.13% over FY13 of \$2,997,925.

**Personnel Expenses**

Salaries and benefits (including allocation to trust funds) increased 6.87% or \$174,864 (including allocation to trust funds) in FY14, which is attributed to an increase in increments, and new hires.

**Legal and Professional Services**

GEDA's legal and professional service expense increased by \$122,624 or 43.08% from \$284,636 in FY13 to \$407,260 in FY14. Increase is due to a service done for the study of Guam Hotel Market Assessment and Outlook and Business and Sustainability Plan.

**Depreciation Expense**

GEDA's depreciation expense increased by \$7,434 or 21.19% from \$35,084 in FY13 to \$42,518 in FY14. Increase is due to additional equipment.

**Office Space and Equipment Rental**

Total office space and equipment rental (including allocation to trust funds) increased \$14,161 or 5.57% from \$254,120 in FY13 to \$268,281 in FY14. This is attributed to an increase in office space rental.

**Travel**

GEDA's travel expense decreased by \$78,472 or 51.46% from \$152,493 in FY13 to \$74,021 in FY14. Decrease is attributed to GEDA's State Trade and Export Promotions (STEP) which expired during FY14.

**FY2015 INITIATIVES AND ECONOMIC OUTLOOK**

With Guam's growth potential expected to reach unprecedented levels over the next several years, in GEDA's role as central financial manager, GEDA will continue to work with both the Executive and Legislative Branch on implementing deficit reduction and economic development plans to bring GovGuam back to credit positive and provide a better quality of life for the people of Guam, as well as maintain support of professional financial services to maintain Guam's image and participation in the municipal market.

**BUSINESS DEVELOPMENT & MARKETING**

**Qualifying Certificate Program Update:** The Legislature recognizes that the Qualifying Certificate program of the Guam Economic Development Authority (the Authority) was conceived as an economic incentive tool to entice investors into Guam. In use for over four (4) decades, it has had substantial positive impact upon the economic development of the territory, mainly in the tourist industry.

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In order to help develop industries on Guam, GEDA has been tasked with managing a Tax Qualifying Certificate Program (QC). In order to improve the program and make it more relevant to new investors, GEDA is revising the program. Currently, the program is run using one master QC program. This program needs to be all encompassing for each of the industries covered. However, GEDA recognizes that each industry has unique needs and community benefits. With this, it is GEDA's intent to redraft the QC program with industry specific QCs comprised of incentives and community benefits appropriate for the specific industry.

### **Guam Economic Symposium**

GEDA worked closely with its board and members of the community to convene an economic symposium "*Invest Guam... The Time is Now*" on October 22nd to October 24th, 2014 at the Hyatt Regency Guam. Guam is at the cusp of the largest period of sustained economic expansion in its history. Over the next five to seven years, over \$12.5 billion in economic growth will result from the island's visitor industry, mandated federal infrastructure investment, and the expansion of the America's military presence in the region. GEDA had invited industry leaders and policy makers from America and Asia to engage in a discussion that will frame what will be a period of great and positive change for our island.

The symposium brought investors from Guam, Asia, Europe and the U.S. together to discuss the investment potential Guam offers over the next five to seven years. GEDA was informed that representatives from the Philippines, Singapore and China have already begun organizing trade investment interests in Guam as a result of the symposium. In addition, GEDA received a number of inquiries from locally known, large international companies with experience on Guam, who were very interested in the Special Hotel QC Program.

### **Aggressive Marketing and Trade Mission 2015**

GEDA will be coordinating a number of trade missions to the US and Asia with an aggressive goal to bring new investment to the island in the field of Tourism, Agriculture, Manufacturing and Financial Services. The Guam Investment Portfolio will include a new and improved tax incentive program via the Qualifying Certificate Program, the development of a database of investment ready public and private projects and properties, EB-5 Investor Visa program and new initiatives in the field of higher education at the University of Guam and the Guam Community College. Planned trade missions included:

- The second **SelectUSA 2015 Investment Summit**, scheduled to take place March 23-24, 2015 in Washington, DC. The event will consist of a national/international meeting on business attraction to the United States.
- *Guam Investment Mission to Korea*, scheduled for April 2015
- *Guam Investment Mission to China*, May 2015
- *Guam Investment Mission to Manila*, June 2015
- *Guam Investment Mission to Taiwan*, July 2015

### **Guam Product Seal Program**

*Marketing to visiting tourists.* GEDA is working on a GPS education campaign to maximize the program potential by extending its reach to local residents buying for off-island families, to the tourists looking for authentic Guam made souvenirs and to the local manufacturer looking at the potential export opportunity.

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As of the end of 2014, GEDA issued 65 Guam Product Seal Certificates covering a range of products from snack foods, souvenir items, clothing and art. GEDA will continue seeking grants from various sources to support the program and its clients.

**OTHER**

- Development of a database of properties available for development.
- Pursue EB-5 investment opportunities for immigrants investing in new US commercial enterprises that create direct/indirect employment for US workers.
- Work with GVB in developing a strategy to establish a business development presence in China.
- Pursue International Economic Development Council (IEDC) professional certification for GEDA staff.
- Continue work with Take Care on the promotion of Medical Industry Business Opportunities and acquire additional institutional knowledge in the Insurance Industry.
- Continue to respond to off-island inquires via the Internet Investor Desk and GEDA's Website.
- Continue to provide assistance to the Governor's Affordable Housing Coordinating Council.
- Continue to sit on the Guam Visitors Bureau Greater China Committee and the Guam Chamber of Commerce Small Business Committee.
- Continue to work with the Guam Farmer's Cooperative on the realization of a new Farmers Co-op Facility.

**Future Public Finance Projects**

*Department of Land Management (DLM)*

Public Law 29-135 authorized the Department of Land Management to borrow an amount not to exceed Fifteen Million Seven Hundred Fifty Thousand Dollars (\$15,750,000.00) for the construction for a new Land Resources Public Facility and for the purchase of collateral equipment.

*Department of Public Works GARVEE Bond*

P.L. 31-233 authorizes the issuance of GARVEE bonds in a not to exceed \$75 million for the purpose of implementing the capital improvement highway projects identified in the 2030 Guam Transportation Plan (GTP) to improve Guam's highway infrastructure.

*Public School Financing – Guam Department of Education*

*Public Law's 31-229, 32-120, 32-121 authorizes approximately \$100,000,000.00 to provide a comprehensive capital improvement plan, financing for the rehabilitation, construction, expansion and of Simon Sanchez High School and Other Guam Department of Education Facilities and to provide collateral equipment, buses, bus shelters, maintenance and insurance.*

*University of Guam (UOG) and Guam Community College (GCC)*

Public Laws 30-201, 31-229, 31-277 and 32-063 authorizes funding for the construction of the UOG Student Services Center and the Annex Building for the School of Engineering, and the extension of the GCC Gregorio Perez Crime Lab Building and for the renovation and hardening of GCC Buildings 100 and 200.

**Government of Guam Financing**

1. *Government of Guam General Obligation Bonds, 2007 Series A*, can be refunded with Government of Guam Business Privilege Tax Bonds (BPT), realizing up to a total of \$10 million in debt service payments through the balance of the bonds or 2037. Update: Bill 34-33 was introduced on January 28, 2015 authorizing the refunding of Government of Guam General Obligation Bonds, 2007 Series A.

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2. *The Guam Education Financing Foundation (Guam Public School Facilities Project) Certificates of Participation, Series 2006 A* can be refinanced with Guam Economic Development Authority Project Revenue Bonds, with significant savings for the General Funds, and ensures that any bond issued would not be public indebtedness. Under current market conditions, the 2006 COP's will produce debt service saving estimated at \$4.4M or 9.6% savings.
3. *Guam Department of Corrections (DOC)*  
DOC has sought GEDA's assistance for the financing of a new Adult Correction Facility (ACF). DOC is seeking funding for the design, land preparation, and constitution of a new ACF to house both local and federal prisoners on island.

Update: Bill 5-33 also referred to as "The Department of Corrections Construction Initiative Act of 2015" was introduced January 5, 2015.

**Challenges Affecting GEDA**

There are two significant challenges that GEDA faces: (a) unfunded legislative mandates and (b) Public Law 32-040's limitation on commercial leases.

GEDA over the years has been mandated by the *I Liheslaturan Guahan* to perform duties that are not financially supported. These mandates, while in line with the GEDA mission, imposes a financial burden to the agency. Unlike the line agencies, GEDA is not supported by GovGuam appropriations. All expenses incurred by GEDA to meet the unfunded mandates must come out of our finite operating revenues.

Public Law 32-040 imposes a five (5) year duration limit on commercial leases. The law has unintended consequences for GEDA. This short time period makes GEDA's commercial leases less attractive to private investors. The law affects GEDA's biggest revenue sources which account for 53% of our operating revenues.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in GEDA's report on the audit of financial statements which is dated March 11, 2014. That Discussion and Analysis explains in more detail major factors impacting the 2013 financial statements. A copy of that report can be obtained by contacting us at (671) 647-4332 or can be viewed at the Office of Public Accountability - Guam website at [www.guamopa.org](http://www.guamopa.org).

For additional information about this report, please contact Mr. John A. Rios, Administrator, Guam Economic Development Authority, 590 South Marine Corps Drive, Tamuning, Guam 96913 or visit the website at [www.investguam.com](http://www.investguam.com).

**GUAM ECONOMIC DEVELOPMENT AUTHORITY**  
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Statements of Net Position  
September 30, 2014 and 2013

<u>ASSETS</u>	Divisional Information			2014	2013
	GEDA	SSBCI	TSA		
Current assets:					
Cash and cash equivalents	\$ 3,063,234	\$ 5,574,335	\$ 3,585,540	\$ 12,223,109	\$ 6,160,458
Investments	1,064,124	2,968,575	-	4,032,699	5,739,269
Due from trust funds administered by GEDA:					
Agricultural Development Fund	10,186	-	-	10,186	-
Guam Development Fund Act	13,076	-	-	13,076	22,591
Reimbursable expense	3,029	(3,029)	-	-	-
Other receivables, net of an allowance for doubtful receivables of \$113,235 and \$36,809 in 2014 and 2013, respectively	525,246	-	-	525,246	754,346
Promotional supplies	9,431	-	-	9,431	9,955
Prepaid expenses	-	-	-	-	4,300
Total current assets	4,688,326	8,539,881	3,585,540	16,813,747	12,690,919
Equity investment	3,500	-	-	3,500	3,500
Building, improvements and equipment, at cost, net	530,286	1,640	-	531,926	525,941
Total assets	5,222,112	8,541,521	3,585,540	17,349,173	13,220,360
<u>DEFERRED OUTFLOW OF RESOURCES</u>					
Bond defeasance cost, net	-	-	505,120	505,120	815,962
	\$ 5,222,112	\$ 8,541,521	\$ 4,090,660	\$ 17,854,293	\$ 14,036,322
<u>LIABILITIES AND NET POSITION</u>					
Current liabilities:					
Current portion of bonds payable	\$ -	\$ -	\$ 2,120,000	\$ 2,120,000	\$ 1,980,000
Accounts payable	242,778	-	-	242,778	452,666
Due to trust funds administered by GEDA:					
Agricultural Development Fund	-	-	-	-	2,180
Accrued liabilities	227,799	(2,149)	(30,927)	194,723	150,016
Interest payable	-	-	500,000	500,000	515,000
Unearned grant revenues	-	8,506,204	-	8,506,204	4,220,546
Unearned rental income	96,588	-	-	96,588	130,043
Total current liabilities	567,165	8,504,055	2,589,073	11,660,293	7,450,451
Non-current liabilities:					
Bonds payable, net of current portion and discount	-	-	29,794,140	29,794,140	30,326,991
DCRS sick leave liability	112,730	-	-	112,730	96,519
Deposits	18,322	-	-	18,322	11,610
Deposits due to GALC	149,410	-	-	149,410	132,213
Total non-current liabilities	280,462	-	29,794,140	30,074,602	30,567,333
Total liabilities	847,627	8,504,055	32,383,213	41,734,895	38,017,784
Commitments and contingencies					
Net position:					
Net investment in capital assets	530,286	1,640	-	531,926	525,941
Unrestricted	3,844,199	35,826	(28,292,553)	(24,412,528)	(24,507,403)
Net position	4,374,485	37,466	(28,292,553)	(23,880,602)	(23,981,462)
	\$ 5,222,112	\$ 8,541,521	\$ 4,090,660	\$ 17,854,293	\$ 14,036,322

See accompanying notes to financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2014 and 2013

	Divisional Information			2014	2013
	GEDA	SSBCI	TSA		
Revenues:					
Rental income	\$ 1,080,091	\$ -	\$ -	\$ 1,080,091	\$ 1,182,977
Tobacco Settlement revenue	-	-	2,524,077	2,524,077	2,386,117
Qualifying certificate application, surveillance and other	448,415	-	-	448,415	401,463
Bond fees earned	576,460	-	-	576,460	1,386,626
Grants revenue	22,701	59,897	-	82,598	248,165
GALC lease commission	89,089	-	-	89,089	94,545
Guarantee fees	-	50,380	-	50,380	66,992
<b>Total operating revenues</b>	<b>2,216,756</b>	<b>110,277</b>	<b>2,524,077</b>	<b>4,851,110</b>	<b>5,766,885</b>
Provision for bad debts	(76,426)	-	-	(76,426)	-
<b>Net operating revenues</b>	<b>2,140,330</b>	<b>110,277</b>	<b>2,524,077</b>	<b>4,774,684</b>	<b>5,766,885</b>
Operating expenses:					
Salaries and benefits	2,318,246	91,575	-	2,409,821	2,165,956
Legal and professional services	407,260	-	98,650	505,910	313,620
Office space and equipment rent	201,503	-	-	201,503	206,110
Advertising and promotions	160,123	2,000	-	162,123	136,239
Travel	74,021	14,688	-	88,709	176,157
Depreciation and amortization	42,518	578	-	43,096	35,662
Supplies	11,139	-	-	11,139	6,334
Utilities, telephone and communication	7,540	-	-	7,540	8,982
Insurance	5,126	-	-	5,126	5,472
Repairs and maintenance	4,103	-	-	4,103	1,316
Miscellaneous	40,153	1,436	20,118	61,707	62,497
<b>Operating (loss) income</b>	<b>(1,131,402)</b>	<b>-</b>	<b>2,405,309</b>	<b>1,273,907</b>	<b>2,648,540</b>
Other income (expense):					
Interest income (expense), net	7,151	5,124	(2,337,691)	(2,325,416)	(2,350,032)
Investment income	37,052	5,193	-	42,245	65,521
Net decrease in the fair value of investments	58,653	7,126	-	65,779	(158,170)
Other income, net	1,044,345	-	-	1,044,345	161,285
<b>Other income (expense), net</b>	<b>1,147,201</b>	<b>17,443</b>	<b>(2,337,691)</b>	<b>(1,173,047)</b>	<b>(2,281,396)</b>
<b>Change in net position</b>	<b>15,799</b>	<b>17,443</b>	<b>67,618</b>	<b>100,860</b>	<b>367,144</b>
Net position at beginning of year	4,358,686	20,023	(28,360,171)	(23,981,462)	(24,348,606)
<b>Net position at end of year</b>	<b>\$ 4,374,485</b>	<b>\$ 37,466</b>	<b>\$ (28,292,553)</b>	<b>\$ (23,880,602)</b>	<b>\$ (23,981,462)</b>

See accompanying notes to financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2014 and 2013

	Divisional Information			2014	2013
	GEDA	SSBCI	TSA		
Cash flows from operating activities:					
Cash received on grants and contracts	\$ -	\$ 4,395,935	\$ -	\$ 4,395,935	\$ 66,992
Cash received from customers	3,931,518	-	2,524,077	6,455,595	4,979,756
Cash paid to suppliers for goods and services	(1,082,342)	(536,128)	(119,886)	(1,738,356)	(347,259)
Cash paid to employees for services	(2,255,909)	(91,575)	-	(2,347,484)	(2,134,150)
Cash paid for retirement benefits	(46,126)	-	-	(46,126)	(37,941)
Net cash provided by operating activities	<u>547,141</u>	<u>3,768,232</u>	<u>2,404,191</u>	<u>6,719,564</u>	<u>2,527,398</u>
Cash flows from investing activities:					
Interest and investment income	95,705	12,319	-	108,024	92,649
Rollover of interest into investment	(95,705)	(12,319)	-	(108,024)	(92,649)
Maturity of investment securities	1,438,455	376,138	-	1,814,593	(1,080,392)
Net cash provided by (used in) investing activities	<u>1,438,455</u>	<u>376,138</u>	<u>-</u>	<u>1,814,593</u>	<u>(1,080,392)</u>
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(49,081)	-	-	(49,081)	(5,800)
Net cash used in capital and related financing activities	<u>(49,081)</u>	<u>-</u>	<u>-</u>	<u>(49,081)</u>	<u>(5,800)</u>
Cash flows from noncapital financing activities:					
Repayment of bond payable	-	-	(890,000)	(890,000)	(770,000)
Net interest received (paid) on deposit accounts and bonds payable	7,151	5,124	(1,544,700)	(1,532,425)	(1,580,864)
Net cash provided by (used in) noncapital financing activities	<u>7,151</u>	<u>5,124</u>	<u>(2,434,700)</u>	<u>(2,422,425)</u>	<u>(2,350,864)</u>
Net change in cash and cash equivalents	1,943,666	4,149,494	(30,509)	6,062,651	(909,658)
Cash and cash equivalents at beginning of year	1,119,568	1,424,841	3,616,049	6,160,458	7,070,116
Cash and cash equivalents at end of year	<u>\$ 3,063,234</u>	<u>\$ 5,574,335</u>	<u>\$ 3,585,540</u>	<u>\$ 12,223,109</u>	<u>\$ 6,160,458</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:					
Operating (loss) income	\$ (1,131,402)	\$ -	\$ 2,405,309	\$ 1,273,907	\$ 2,648,540
Other income, net	1,044,346	-	-	1,044,346	161,285
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:					
Depreciation and amortization	42,518	578	-	43,096	35,662
Provision for bad debts	76,426	-	-	76,426	-
(Increase) decrease in assets:					
Due from trust funds administered by GEDA	9,515	-	-	9,515	(8,032)
Reimbursable expense	517,773	(517,773)	-	-	-
Other receivables	152,674	-	-	152,674	(390,386)
Promotional supplies	524	-	-	524	674
Prepaid expenses	4,300	-	-	4,300	(1,206)
Increase (decrease) in liabilities:					
Accounts payable	(209,888)	-	29,809	(180,079)	101,587
Due to trust funds administered by GEDA	(12,366)	-	-	(12,366)	2,535
Accrued liabilities	15,129	(231)	(30,927)	(16,029)	(28,061)
Unearned grant revenue	-	4,285,658	-	4,285,658	(25,566)
Deferred rental income	(2,528)	-	-	(2,528)	31,501
Due to GALC	23,909	-	-	23,909	5,000
DCRS sick leave liability	16,211	-	-	16,211	(6,135)
Net cash provided by operating activities	<u>\$ 547,141</u>	<u>\$ 3,768,232</u>	<u>\$ 2,404,191</u>	<u>\$ 6,719,564</u>	<u>\$ 2,527,398</u>

See accompanying notes to financial statements.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2014 and 2013

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Economic Development Authority (GEDA) was created by Public Law 8-80 on August 21, 1965, to assist in the implementation of an integrated program for the economic development of Guam. Enabling legislation set forth several specific purposes for the establishment of GEDA to include:

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

To accomplish the stated purposes, GEDA is authorized to conduct research of, invest in, provide loans to, operate and provide technical assistance to industries and/or agricultural projects; issue revenue bonds; obtain Government of Guam land; purchase mortgages; and recommend to the Governor of Guam businesses qualifying for tax rebates and abatements. GEDA utilizes certain Trust Funds, such as the Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF) to accomplish certain of the stated purposes.

Guam Business Development Corporation (GBDC) was formed on October 18, 1988 as a wholly-owned subsidiary of GEDA for the purpose of acquiring and developing tourist-related property and protecting the various interests of GEDA and Funds administered by GEDA. GBDC was dissolved during the year ended September 30, 2011.

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

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

In 2011, the Government of Guam applied to receive an allocation of the total \$1.5 billion funds available under the State Small Business Credit Initiative (SSBCI) Job Act of 2010. The funds are to support the fifty states and territories for use in programs designed to increase access to credit for small businesses. In June 2011, GEDA entered into a Memorandum of Agreement (MOA) with the Office of the Governor of Guam. In the MOA, GEDA was delegated the primary responsibility of administrating Guam's SSBCI's program. On September 30, 2011, the Government of Guam and the United States Department of the Treasury entered into an "Allocation Agreement" in which Guam was approved to receive a total of \$13,168,380. The Allocation Agreement expires on March 31, 2017.

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Notes to Financial Statements  
September 30, 2014 and 2013

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

Basis of Accounting

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

Estimates

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

Net Position

Net position represent the residual interest in GEDA's assets, deferred outflows of resources, after liabilities and deferred inflows of resources, are deducted and consist of two sections: invested in capital assets and unrestricted. Net position invested in capital assets includes capital assets, restricted and unrestricted, net of accumulated depreciation. All other net position is unrestricted.

Cash and Cash Equivalents

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

Depreciation and Amortization

Buildings and improvements are depreciated on a straight-line basis over estimated useful lives of 7 to 30 years. Equipment and automobiles are depreciated on a straight-line basis over estimated useful lives of three to five years. GEDA generally capitalizes items with values \$500 or more and with useful lives extending beyond one year.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GEDA has determined the loss on defeasance of the Series 2001 A bonds qualifies for reporting in this category.

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Notes to Financial Statements  
September 30, 2014 and 2013

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

Bond Discounts

Bond discounts associated with the 2001 and 2007 series bonds are being amortized over the weighted average lives of the bonds using the straight-line method, which approximates the effective interest method.

Compensated Absences

Compensated absences are accrued and reported as liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement. 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.

Operating Expenses

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

Risk Management

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

Concentrations of Credit Risk

Financial instruments which potentially subject GEDA to concentrations of credit risk consist principally of cash demand deposits and accounts receivable. At September 30, 2014 and 2013, GEDA has cash deposits in bank accounts that exceed federal depository insurance limits. Additionally, GEDA has investments in mutual fund and U.S. Government agency or sponsored-agency securities that are not subject to insurance. GEDA has not experienced any losses in such accounts. Substantially all of GEDA's accounts receivables are due from companies and government agencies based in Guam. GEDA establishes an allowance for doubtful accounts based on management's evaluation of potential uncollectibility. Bad debts are written-off against the allowance on the specific identification method.

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

New Accounting Standards

During fiscal year 2014, GEDA implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

The implementation of these statements did not have a material effect on the Authority's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of GEDA and will require a restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that GEDA will record upon implementation of Statement 68 is anticipated to be \$4,623,015. The other postemployment benefits liability is unknown at this time.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GEDA.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of GEDA.

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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash on hand and deposits in banks	\$ 8,637,569	\$ 2,544,409
Money market accounts	<u>3,585,540</u>	<u>3,616,049</u>
Cash and cash equivalents	\$ <u>12,223,109</u>	\$ <u>6,160,458</u>
Total shares in mutual funds	\$ 2,968,575	\$ 3,332,393
Municipal bonds	883,975	1,606,421
Brokered certificates of deposit (CDs)	180,149	726,707
U.S. Government treasury securities	<u>-</u>	<u>73,748</u>
Investments	\$ <u>4,032,699</u>	\$ <u>5,739,269</u>

The deposits and investment policies of GEDA are governed by 5 GCA 21, *Investments and Deposits* and policies set by the Board of Directors 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. Deposits

Custodial credit risk is the risk that in the event of a bank failure, GEDA's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GEDA does not have a deposit policy for custodial credit risk.

At September 30, 2014 and 2013, the carrying amount of cash was \$8,637,569 and \$2,544,409, respectively, and the corresponding bank balances were \$7,527,700 and \$2,597,551, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$400,994 and \$507,557 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2014 and 2013, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

The bond indenture for the 2007 Series A and B Tobacco settlement bonds require the establishment of special funds to be held and administered by the trustees. 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.

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

B. Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, municipal bonds and U.S Government securities at September 30, 2014 and 2013 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDA.

As of September 30, 2014, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 2,968,575	N/A	N/A
Municipal bonds:			
Arizona St CTFS Partn PFDG-Dept (040588B38)	62,193	10/01/18	A1
Conway Ark Sch Dist (212597ZT8)	49,867	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	39,284	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	71,099	10/01/23	AA2
Forth Woth Tex Rfdg Impt (349425V51)	60,558	03/01/20	AA1
Hawaii St Er Eh (419791Z27)	67,089	08/01/23	AA2
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	52,279	11/01/21	AA
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	46,560	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	50,243	01/01/17	AA2
Maryland St Dept Transn Cons Transn (574204XR9)	26,368	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	43,466	07/01/19	A2
Massachusetts St Health Edl Facs Auth (57586EQQ7)	55,418	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	52,656	05/15/20	AA+
Metropolitan Transn Auth N Y Rev for (59259YXH7)	89,454	11/15/21	A2
New York N Y Cith Transitional Fin (64971MW81)	31,656	11/01/26	AA1
Wisconsin St Clean Wtr Rev Rfdg-Ser (977092WF8)	47,823	06/01/25	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	37,962	05/01/17	AA3
Brokered CDs	<u>180,149</u>	N/A	N/A
	<u>\$ 4,032,699</u>		

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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2013, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 3,332,393	N/A	N/A
Municipal bonds:			
Arizona St CTFS Partn PFDG-Dept (040588B38)	122,336	10/01/18	A1
Conway Ark Sch Dist (212597ZT8)	96,311	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	73,294	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	138,980	10/01/23	AA2
Forth Woth Tex Rfdg Impt (349425V51)	118,176	03/01/20	AA1
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	102,529	11/01/21	AA
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	86,223	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	100,852	01/01/17	AA2
Maryland St for Issues dated prior (574193EB0)	119,031	03/15/21	AAA
Maryland St Dept Transn Cons Transn (574204XR9)	49,939	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	83,812	07/01/19	A2
Massachusetts St Health Edl Facs Auth (57586EQQ7)	107,634	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	102,644	05/15/20	AA+
Metropolitan Transn Auth N Y Rev for (59259YXH7)	168,806	11/15/21	A2
New York N Y Cith Transitional Fin (64971MW81)	59,861	11/01/26	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	75,993	05/01/17	AA3
Brokered CDs	726,707	N/A	N/A
US Government Treasury Note (U.S. T note)	<u>73,748</u>	12/31/13	AAA
	<u>\$ 5,739,269</u>		

Brokered CDs are placed with FDIC insured banks, under applicable federal insurance deposit coverage, and all mature within one year.

Investments of GEDA and Trust Funds are maintained in pooled accounts. Related earnings and gains/losses are allocated based on percentage weight of total balances.

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Notes to Financial Statements  
September 30, 2014 and 2013

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

A summary of building, improvements and equipment at September 30, 2014 and 2013 is as follows:

	Beginning Balance <u>October 1, 2013</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2014</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	546,603	-	-	546,603
Furniture and equipment	532,046	47,530	-	579,576
Other improvements	428,325	-	-	428,325
Land improvements	129,642	-	-	129,642
Leasehold interests	-	1,551	-	1,551
Automobiles	<u>14,471</u>	<u>-</u>	<u>-</u>	<u>14,471</u>
	2,443,624	49,081	-	2,492,705
Less accumulated depreciation and amortization	<u>(1,917,683)</u>	<u>(43,096)</u>	<u>-</u>	<u>(1,960,779)</u>
	<u>\$ 525,941</u>	<u>\$ 5,985</u>	<u>\$ -</u>	<u>\$ 531,926</u>
	Beginning Balance <u>October 1, 2012</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2013</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	546,603	-	-	546,603
Furniture and equipment	665,150	5,800	(138,904)	532,046
Other improvements	459,395	-	(31,070)	428,325
Land improvements	129,642	-	-	129,642
Automobiles	<u>14,471</u>	<u>-</u>	<u>-</u>	<u>14,471</u>
	2,607,798	5,800	(169,974)	2,443,624
Less accumulated depreciation and amortization	<u>(2,051,995)</u>	<u>(35,662)</u>	<u>169,974</u>	<u>(1,917,683)</u>
	<u>\$ 555,803</u>	<u>\$ (29,862)</u>	<u>\$ -</u>	<u>\$ 525,941</u>

**(4) Long-Term Obligations**

**Bonds Payable**

Bonds payable at September 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Tobacco settlement bonds, 2007 Series A current interest turbo term bonds, original principal amounts of \$17,505,000 and \$16,070,000, with interest rates at 5.25% and 5.625% per annum, respectively, payable semiannually on June 1 and December 1 ("Distribution Date"), principal payments due in varying annual installments commencing with a payment of \$1,025,000 on June 1, 2008 and increasing to \$3,840,000 on June 1, 2026. The Series A bonds are primarily secured by Tobacco Settlement Revenue (TSR) and Guam's right to be paid the TSR under the MSA (which was irrevocably assigned to GEDA as discussed in note 1).	\$ 27,395,000	\$ 28,285,000

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Notes to Financial Statements  
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(4) Long-Term Obligations, Continued

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

	<u>16,773,618</u>	<u>16,773,618</u>
Total	44,168,618	45,058,618
Less current portion	<u>(2,120,000)</u>	<u>(1,980,000)</u>
	42,048,618	43,078,618
Less discount on Series B capital appreciation turbo term bonds	(11,275,652)	(11,653,189)
Less discount on issuance	<u>(978,826)</u>	<u>(1,098,438)</u>
	<u>\$ 29,794,140</u>	<u>\$ 30,326,991</u>

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2014 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2015	\$ 2,120,000	\$ 1,227,732	\$ 3,347,732
2016	2,270,000	1,116,300	3,386,300
2017	2,430,000	996,380	3,426,380
2018	1,115,000	885,891	2,000,891
2019	1,200,000	805,219	2,005,219
2020 through 2024	7,435,000	2,908,969	10,343,969
2025 through 2029	12,710,509	561,302	13,271,811
2030 through 2034	<u>14,888,110</u>	<u>-</u>	<u>14,888,110</u>
	<u>\$ 44,168,619</u>	<u>\$ 8,501,793</u>	<u>\$ 52,670,412</u>

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(4) Long-Term Obligations, Continued

On December 13, 2007, GEDA issued \$36,982,077 (original principal) in Series 2007 Tobacco Settlement Bonds. Net proceeds were \$35,478,149 (\$34,359,109 of original principal after issuance discount, underwriter discount and other issuance costs, plus an additional \$794,040 from the Series 2001 funds plus \$325,000 received in connection with the termination of Series 2001 Reserve Fund Agreement). Of this amount, \$8,345,278 was transferred into a custodial account for the benefit of the Government of Guam. The remaining \$27,132,871 was deposited in an irrevocable trust with an escrow agent to provide for the future service of the Series 2001 bonds through May 15, 2016. Except to the extent of any excess which is to be released upon termination (when all transfers and payments required are satisfied), GEDA has no interest in the funds or investments held in the escrow fund and as a result, the Series 2001 bond indenture was satisfied and discharged. Additionally, the transaction meets the requirement of an in-substance defeasance and as a result, the Series 2001 bonds and the related funds held by the escrow agent are not included in the accompanying financial statements.

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

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

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

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

As discussed in the above section, all Tobacco Settlement Revenue and interest earned in trust funds have been pledged to repay bond principal and interest. The debt service for the bonds was \$2,434,700 and \$2,355,125 for the years ended September 30, 2014 and 2013, respectively, or approximately 96% and 98%, respectively, of pledged revenues for those years.

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Notes to Financial Statements  
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**(4) Long-Term Obligations, Continued**

During the years ended September 30, 2014 and 2013, the following changes occurred in liabilities reported as part of GEDA's long-term liabilities in the statements of net position:

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2014</u>	Due within <u>one year</u>
Bonds payable	\$ 45,058,618	\$ -	\$ (890,000)	\$ 44,168,618	\$ 2,120,000
Deferred amount:					
Unamortized discount on bonds issued	<u>(12,751,627)</u>	<u>-</u>	<u>497,149</u>	<u>(12,254,478)</u>	<u>-</u>
	<u>32,306,991</u>	<u>-</u>	<u>(392,851)</u>	<u>31,914,140</u>	<u>2,120,000</u>
Other liabilities:					
DCRS sick leave liability	96,519	16,211	-	112,730	-
Deposits due to GALC	132,213	17,197	-	149,410	-
Deposits	<u>11,610</u>	<u>6,712</u>	<u>-</u>	<u>18,322</u>	<u>-</u>
	<u>240,342</u>	<u>40,120</u>	<u>-</u>	<u>280,462</u>	<u>-</u>
	<u>\$ 32,547,333</u>	<u>\$ 40,120</u>	<u>\$ (392,851)</u>	<u>\$ 32,194,602</u>	<u>\$ 2,120,000</u>
	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2013</u>	Due within <u>one year</u>
Bonds payable	\$ 45,828,618	\$ -	\$ (770,000)	\$ 45,058,618	\$ 1,980,000
Deferred amount:					
Unamortized discount on bonds issued	<u>(13,223,953)</u>	<u>-</u>	<u>472,326</u>	<u>(12,751,627)</u>	<u>-</u>
	<u>32,604,665</u>	<u>-</u>	<u>(297,674)</u>	<u>32,306,991</u>	<u>1,980,000</u>
Other liabilities:					
DCRS sick leave liability	102,654	-	(6,135)	96,519	-
Deposits due to GALC	127,213	10,000	(5,000)	132,213	-
Deposits	<u>11,610</u>	<u>-</u>	<u>-</u>	<u>11,610</u>	<u>-</u>
	<u>241,477</u>	<u>10,000</u>	<u>(11,135)</u>	<u>240,342</u>	<u>-</u>
	<u>\$ 32,846,142</u>	<u>\$ 10,000</u>	<u>\$ (308,809)</u>	<u>\$ 32,547,333</u>	<u>\$ 1,980,000</u>

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(5) Employees' Retirement Plan

Defined Benefit Plan

*Plan Description:*

GEDA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GEDA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – [www.ggrf.com](http://www.ggrf.com).

*Funding Policy:*

As a result of actuarial valuations performed as of September 30, 2012, 2011, and 2010, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2014, 2013 and 2012, respectively, have been determined as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal costs (% of DB Plan payroll)	16.61%	17.52%	17.07%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.11%</u>	<u>8.02%</u>	<u>7.57%</u>
Employer portion of normal costs (% of total payroll)	2.39%	3.00%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.01%</u>	<u>24.33%</u>	<u>23.75%</u>
Government contribution as a % of total payroll	<u>26.40%</u>	<u>27.33%</u>	<u>26.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.03%</u>	<u>30.09%</u>	<u>28.30%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GEDA's contributions to the DB Plan for the years ended September 30, 2014, 2013 and 2012 were \$138,260, \$196,666 and \$176,392, respectively, which were equal to the required contributions for the respective year ended.

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(5) Employees' Retirement Plan, Continued

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2014 and 2013 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GEDA's contributions to the DCRS plan for the years ended September 30, 2014, 2013 and 2012 were \$405,296, \$307,202 and \$277,864, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$337,817, \$256,059 and \$228,743 were contributed toward the unfunded liability of the DB Plan at September 30, 2014, 2013 and 2012, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDA has accrued an estimated liability of \$112,730 and \$96,519 at September 30, 2014 and 2013, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post-Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated. During the years ended September 30, 2014, 2013 and 2012, actual contributions paid were \$46,126, \$37,941 and \$30,795, respectively.

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**(6) Rental Income**

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

Future minimum rentals to be received under noncancelable subleases are as follows:

Years ending September 30:

2015	\$ 798,200
2016	670,800
2017	590,400
2018	430,500
2019	390,200
2020 – 2024	779,100
2025 – 2029	25,000
2030 – 2034	25,000
2035 – 2039	25,000
2040 – 2044	25,000
2045 – 2049	25,000
2050 – 2054	25,000
2055 – 2059	25,000
2060 – 2064	<u>15,400</u>
	<u>\$ 3,849,600</u>

**(7) Commitments**

**Lease Commitments**

GEDA has an operating lease for office space expiring February 28, 2017. Concurrently, GEDA and Guam Housing Corporation (GHC), a Government of Guam agency, entered into a Memorandum of Understanding (MOU) in which GEDA charges GHC for use of a portion of the office space. At September 30, 2014, annual lease commitments and reimbursements from GHC under the MOU for each of the years ending September 30, 2015 and 2016 are \$348,672 and \$99,744, respectively, and for the year ending September 30, 2017 are \$145,280 and \$41,560, respectively.

Rent expense, net of GHC reimbursements for the years ended September 30, 2014 and 2013, was \$248,928 and \$234,200, respectively, of which \$60,041 and \$44,545, respectively, was allocated to trust funds administered by GEDA.

**Contract Commitments**

Contract commitments in connection with two professional services contracts approximate \$103,000 at September 30, 2014.

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**(8) Related Parties**

At September 30, 2014 and 2013, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2014</u>	<u>2013</u>
Guam Development Fund Act (GDFA)	\$ 12,076,103	\$ 11,593,855
Agricultural Development Fund (ADF)	995,472	940,368

During the year ended September 30, 2014, GDFA sold foreclosed real estate with total net book value of \$1,145,166 for \$2,350,000, net of related cost of \$120,136. The gain on sale of \$1,084,698 was transferred to GEDA and included as a component of other income in the accompanying statement of revenues, expenses and changes in net position for the year ended September 30, 2014.

On June 9, 2014, GEDA entered into a promissory note receivable from the Government of Guam (GovGuam) for \$2,200,737, payable in ten (10) quarterly installments at fixed interest rate of 3%. The loan was paid in full on July 16, 2014.

**(9) Contingencies**

**Tobacco Settlement Bonds Reserve Fund Agreement**

In connection with its Series 2007 Tobacco Settlement Bonds, GEDA entered into a Reserve Fund Agreement (the "Agreement") with Lehman Brothers Special Financing, Inc. ("LBSF"), which requires LBSF to cause Lehman Brothers, Inc., as qualified dealer, to deliver securities that mature on or before the next interest payment date, at a price designed to produce a rate of return of at least 4.365%. The contractual termination date for the Reserve Fund Agreement is June 1, 2047. LBSF's obligation under the Agreement was guaranteed by Lehman Brothers Holdings Inc. ("LBHI"). On September 15, 2008, LBSF and LBHI filed for Chapter 11 bankruptcy protection. LBSF failed to deliver new Qualified Securities under the Agreement on the next scheduled delivery date of December 1, 2008, and, as a result, Co-Trustee U.S. Bank National Association declared an event of default under the Agreement and invested the amount on deposit in the Reserve Fund in short-term securities as required under the Agreement. On September 22, 2009, GEDA filed claims with the United States Bankruptcy Court against LBSF and LBHI, each for approximately \$1.8 million, as the estimated replacement market value of the Reserve Fund Agreement. Such replacement value represents the present value of the difference between the guaranteed rate and the market interest rate over the remaining term of the Agreement, i.e. through June 1, 2047. If the termination claim is not favorably resolved, GEDA's earnings from the investment of the Reserve Fund could be lower than originally expected, but no loss of principal has occurred or would occur. These events are not expected to have an adverse impact on the timely repayment of the Series 2007 Tobacco Settlement Bonds.

**Claims and Litigation**

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

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Notes to Financial Statements  
September 30, 2014 and 2013

(10) SSBCI

On October 4, 2011, Guam received initial SSBCI program funding of \$4,345,556, approximating 33% of total funding. On March 24, 2014, GEDA received \$4,345,555 which approximates the second 33% of total funding. 80% of the amount received must be obligated before the next tranche of funding can be received. Additionally, the Agreement allows certain direct and indirect costs for administering the program at 5% of initial funding and 3% of subsequent funding. During the years ended September 30, 2014 and 2013, GEDA had incurred administrative costs of \$110,277 and \$92,558, respectively.

Pursuant to Allocation Agreement term, GEDA has entered into a Lender Participation Agreement (“Agreement”) with four financial institutions (“Lenders”). Under the Agreements, GEDA will guarantee loans made by the lenders to eligible Guam small businesses not to exceed 75% of each loan, with total loan enrolments not to exceed \$5 million under each Agreement. GEDA has sole and absolute right to approve or reject enrollment of any loan in the program where the amount of the loan exceeds \$500,000. For each loan enrolled by the Lenders under the Agreements, the Lenders shall pay GEDA up to 2% of the amount of the loan as guarantee fees. The guarantees are made in the form of cash deposits with the Lenders, not to exceed 75% of the total enrolled loan amount.

As of September 30, 2013, two Lenders have enrolled twenty-two loans totaling \$4,412,396 in the program and remitted \$88,248 in guarantee fees to GEDA; additionally, \$3,284,297 of the total of total deposits and investments of \$4,784,431 with these lenders is restricted under the Agreement.

As of September 30, 2014, two Lenders have enrolled thirty-six loans totaling \$6,469,756 in the program and remitted \$128,395 in guarantee fees to GEDA; additionally, \$4,802,317 of the total of total deposits and investments of \$8,542,910 with these lenders is restricted under the Agreement.

At September 30, 2014 and 2013, loans under the guaranty program had total outstanding balances of \$3,728,301 and \$2,005,132, respectively. At September 30, 2014, two loans totaling \$38,477 were in default status. GEDA has not provided for any potential losses.

(11) State Trade and Export Promotions (STEP)

During the year ended September 30, 2013, GEDA was awarded the STEP grant in the amount of \$227,445, from the U.S. Small Business Administration (SBA) authorized by the Small Business Jobs Act of 2010. The STEP grant is designed to increase the number of small businesses that are exporting and to increase the value of exports for existing small businesses. During the years ended September 30, 2014 and 2013, GEDA has incurred \$16,007 and \$212,791, respectively, of grant expenditures, of which \$186,392 and \$133,516 was reimbursed during the respective years and \$20,242 and \$190,627 was recorded in “other receivables” in the accompanying statements of net position as of September 30, 2014 and 2013, respectively.

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Notes to Financial Statements  
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(12) Government of Guam Mitigation Program for Business Interruption

On March 30, 2011, Public Law 31-13 authorized GEDA to develop, implement and administer the Government of Guam Mitigation Program for Business Interruption, (the Program), which provides financial relief to businesses adversely affected by government projects, including, but not limited to road construction. The Program provides financial assistance through grants and loans to small and mid-sized businesses. As of September 30, 2014 and 2013, GEDA has provided \$0 in grants. GEDA has not provided loans under the Program as of September 30, 2014 and 2013.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Schedule of Funding Progress and Actuarial Accrued Liability - Post  
Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for GovGuam's Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 2,135,000	\$ 2,135,000	0.0%	\$ 904,590	236.0%
October 1, 2009	\$ -	\$ 1,665,295 *	\$ 1,665,295 *	0.0%	\$ 1,235,125	134.8%
October 1, 2011	\$ -	\$ 1,877,000	\$ 1,877,000	0.0%	\$ 1,375,250	136.5%

\* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities

The actuarial accrued liability presented above is only for the Authority's active employees. It does not include the actuarial accrued liability for the Authority's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Schedule 1  
Schedule of Salaries and Wages (Including Trust Funds)  
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Salaries and wages:		
Salaries	\$ 1,641,380	\$ 1,513,390
Benefits	<u>1,078,177</u>	<u>1,031,303</u>
Total salaries and wages	<u>\$ 2,719,557</u>	<u>\$ 2,544,693</u>
 Employees at end of year	 35	 33

See accompanying independent auditors' report.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Comparative Divisional Schedules of Net Position  
September 30, 2014 and 2013

ASSETS	GEDA		SSBCI		TSA	
	2014	2013	2014	2013	2014	2013
Current assets:						
Cash and cash equivalents	\$ 3,063,234	\$ 1,119,568	\$ 5,574,335	\$ 1,424,841	\$ 3,585,540	\$ 3,616,049
Investments	1,064,124	2,406,875	2,968,575	3,332,394	-	-
Due from trust funds administered by GEDA:						
Agricultural Development Fund	10,186	-	-	-	-	-
Guam Development Fund Act	13,076	22,591	-	-	-	-
Reimbursable expense	3,029	520,802	(3,029)	(520,802)	-	-
Other receivables, net	525,246	754,346	-	-	-	-
Promotional supplies	9,431	9,955	-	-	-	-
Prepaid expense	-	4,300	-	-	-	-
Total current assets	<u>4,688,326</u>	<u>4,838,437</u>	<u>8,539,881</u>	<u>4,236,433</u>	<u>3,585,540</u>	<u>3,616,049</u>
Equity investment	3,500	3,500	-	-	-	-
Building, improvements and equipment, at cost, net	530,286	523,723	1,640	2,218	-	-
Total assets	<u>5,222,112</u>	<u>5,365,660</u>	<u>8,541,521</u>	<u>4,238,651</u>	<u>3,585,540</u>	<u>3,616,049</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>						
Bond defeasance cost, net	-	-	-	-	505,120	815,962
	<u>\$ 5,222,112</u>	<u>\$ 5,365,660</u>	<u>\$ 8,541,521</u>	<u>\$ 4,238,651</u>	<u>\$ 4,090,660</u>	<u>\$ 4,432,011</u>
<b>LIABILITIES AND NET POSITION</b>						
Current liabilities:						
Current portion of bonds payable	\$ -	\$ -	\$ -	\$ -	\$ 2,120,000	\$ 1,980,000
Accounts payable	242,778	452,666	-	-	-	-
Due to trust funds administered by GEDA:						
Agricultural Development Fund	-	2,180	-	-	-	-
Accrued liabilities	227,799	181,743	(2,149)	(1,918)	(30,927)	(29,809)
Interest payable	-	-	-	-	500,000	515,000
Unearned grant revenues	-	-	8,506,204	4,220,546	-	-
Unearned rental income	96,588	130,043	-	-	-	-
Total current liabilities	<u>567,165</u>	<u>766,632</u>	<u>8,504,055</u>	<u>4,218,628</u>	<u>2,589,073</u>	<u>2,465,191</u>
Non-current liabilities:						
Bonds payable, net of current portion and discount	-	-	-	-	29,794,140	30,326,991
DCRS sick leave liability	112,730	96,519	-	-	-	-
Deposits	18,322	11,610	-	-	-	-
Deposits due to GALC	149,410	132,213	-	-	-	-
Total non-current liabilities	<u>280,462</u>	<u>240,342</u>	<u>-</u>	<u>-</u>	<u>29,794,140</u>	<u>30,326,991</u>
Total liabilities	<u>847,627</u>	<u>1,006,974</u>	<u>8,504,055</u>	<u>4,218,628</u>	<u>32,383,213</u>	<u>32,792,182</u>
Net position:						
Net investment in capital assets	530,286	523,723	1,640	2,218	-	-
Unrestricted	3,844,199	3,834,963	35,826	17,805	(28,292,553)	(28,360,171)
Net position	<u>4,374,485</u>	<u>4,358,686</u>	<u>37,466</u>	<u>20,023</u>	<u>(28,292,553)</u>	<u>(28,360,171)</u>
	<u>\$ 5,222,112</u>	<u>\$ 5,365,660</u>	<u>\$ 8,541,521</u>	<u>\$ 4,238,651</u>	<u>\$ 4,090,660</u>	<u>\$ 4,432,011</u>

See accompanying independent auditors' report.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY**  
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Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2014 and 2013

	GEDA		SSBCI		TSA	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Rental income	\$ 1,080,091	\$ 1,182,977	\$ -	\$ -	\$ -	-
Tobacco Settlement revenue		-	-	-	2,524,077	2,386,117
Qualifying certificate application, surveillance and other	448,415	401,463	-	-	-	-
Bond fees earned	576,460	1,386,626	-	-	-	-
Grants revenue	22,701	222,599	59,897	25,566	-	-
GALC lease commission	89,089	94,545	-	-	-	-
Guarantee fees	-	-	50,380	66,992	-	-
<b>Total operating revenues</b>	<b>2,216,756</b>	<b>3,288,210</b>	<b>110,277</b>	<b>92,558</b>	<b>2,524,077</b>	<b>2,386,117</b>
Provision for bad debts	(76,426)	-	-	-	-	-
<b>Net operating revenues</b>	<b>2,140,330</b>	<b>3,288,210</b>	<b>110,277</b>	<b>92,558</b>	<b>2,524,077</b>	<b>2,386,117</b>
<b>Operating expenses:</b>						
Salaries and benefits	2,318,246	2,100,889	91,575	65,067	-	-
Legal and professional services	407,260	284,636	-	1,122	98,650	27,862
Office space and equipment rent	201,503	206,110	-	-	-	-
Advertising and promotions	160,123	136,239	2,000	-	-	-
Travel	74,021	152,493	14,688	23,664	-	-
Depreciation and amortization	42,518	35,084	578	578	-	-
Supplies	11,139	6,334	-	-	-	-
Utilities, telephone and communication	7,540	8,982	-	-	-	-
Insurance	5,126	5,472	-	-	-	-
Repairs and maintenance	4,103	1,316	-	-	-	-
Miscellaneous	40,153	60,370	1,436	2,127	20,118	-
	<b>3,271,732</b>	<b>2,997,925</b>	<b>110,277</b>	<b>92,558</b>	<b>118,768</b>	<b>27,862</b>
<b>Operating (loss) income</b>	<b>(1,131,402)</b>	<b>290,285</b>	<b>-</b>	<b>-</b>	<b>2,405,309</b>	<b>2,358,255</b>
<b>Other income (expense):</b>						
Interest income (expense), net	7,151	900	5,124	3,361	(2,337,691)	(2,354,293)
Investment income	37,052	46,081	5,193	19,440	-	-
Net increase (decrease) in the fair value of investments	58,653	(115,425)	7,126	(42,745)	-	-
Other income, net	1,044,345	161,285	-	-	-	-
<b>Other income (expense), net</b>	<b>1,147,201</b>	<b>92,841</b>	<b>17,443</b>	<b>(19,944)</b>	<b>(2,337,691)</b>	<b>(2,354,293)</b>
<b>Change in net position</b>	<b>15,799</b>	<b>383,126</b>	<b>17,443</b>	<b>(19,944)</b>	<b>67,618</b>	<b>3,962</b>
Net position at beginning of year	4,358,686	3,975,560	20,023	39,967	(28,360,171)	(28,364,133)
<b>Net position at end of year</b>	<b>\$ 4,374,485</b>	<b>\$ 4,358,686</b>	<b>\$ 37,466</b>	<b>\$ 20,023</b>	<b>\$ (28,292,553)</b>	<b>\$ (28,360,171)</b>

See accompanying independent auditors' report.

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**Comparative Divisional Schedules of Cash Flows  
Years Ended September 30, 2014 and 2013**

	GEDA		SSBCI		TSA	
	2014	2013	2014	2013	2014	2013
<b>Cash flows from operating activities:</b>						
Cash received on grants and contracts	\$ -	\$ -	\$ 4,395,935	\$ 66,992	\$ -	\$ -
Cash received from customers	3,931,518	2,593,639	-	-	2,524,077	2,386,117
Cash paid to suppliers for goods and services	(1,082,342)	(756,128)	(536,128)	468,202	(119,886)	(59,333)
Cash paid to employees for services	(2,255,909)	(2,069,083)	(91,575)	(65,067)	-	-
Cash paid for retiree benefits	(46,126)	(37,941)	-	-	-	-
Net cash provided by (used in) operating activities	<u>547,141</u>	<u>(269,513)</u>	<u>3,768,232</u>	<u>470,127</u>	<u>2,404,191</u>	<u>2,326,784</u>
<b>Cash flows from investing activities:</b>						
Interest and investment income	95,705	69,344	12,319	23,305	-	-
Rollover of interest into investment	(95,705)	(69,344)	(12,319)	(23,305)	-	-
Maturity (purchase) of investment securities	1,438,455	1,277,199	376,138	(2,357,591)	-	-
Net cash provided by (used in) investing activities	<u>1,438,455</u>	<u>1,277,199</u>	<u>376,138</u>	<u>(2,357,591)</u>	<u>-</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>						
Purchase of property and equipment	(49,081)	(5,800)	-	-	-	-
Net cash used in capital and related financing activities	<u>(49,081)</u>	<u>(5,800)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash flows from noncapital financing activities:</b>						
Repayment of bond payable	-	-	-	-	(890,000)	(770,000)
Net interest received (paid) on deposit accounts and bonds payable	7,151	900	5,124	3,361	(1,544,700)	(1,585,125)
Net cash provided by (used in) noncapital financing activities	<u>7,151</u>	<u>900</u>	<u>5,124</u>	<u>3,361</u>	<u>(2,434,700)</u>	<u>(2,355,125)</u>
Net change in cash and cash equivalents	1,943,666	1,002,786	4,149,494	(1,884,103)	(30,509)	(28,341)
Cash and cash equivalents at beginning of year	1,119,568	116,782	1,424,841	3,308,944	3,616,049	3,644,390
Cash and cash equivalents at end of year	<u>\$ 3,063,234</u>	<u>\$ 1,119,568</u>	<u>\$ 5,574,335</u>	<u>\$ 1,424,841</u>	<u>\$ 3,585,540</u>	<u>\$ 3,616,049</u>
<b>Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:</b>						
Operating (loss) income	\$ (1,131,402)	\$ 290,285	\$ -	\$ -	\$ 2,405,309	\$ 2,358,255
Other income, net	1,044,346	161,285	-	-	-	-
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	42,518	35,084	578	578	-	-
Provision for bad debts	76,426	-	-	-	-	-
(Increase) decrease in assets and deferred outflows of resources:						
Due from trust funds administered by GEDA	9,515	(8,032)	-	-	-	-
Reimbursable expense	517,773	(493,939)	(517,773)	493,939	-	-
Other receivables	152,674	(390,386)	-	-	-	-
Promotional supplies	524	674	-	-	-	-
Prepaid expenses	4,300	(4,300)	-	3,094	-	-
Increase (decrease) in liabilities and deferred inflows of resources:						
Accounts payable	(209,888)	101,942	-	(355)	29,809	-
Due to trust funds administered by GEDA	(12,366)	2,180	-	355	-	-
Accrued liabilities	15,129	5,328	(231)	(1,918)	(30,927)	(31,471)
Unearned grant revenue	-	-	4,285,658	(25,566)	-	-
Unearned rental income	(2,528)	31,501	-	-	-	-
Due to GALC	23,909	5,000	-	-	-	-
DCRS sick leave liability	16,211	(6,135)	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 547,141</u>	<u>\$ (269,513)</u>	<u>\$ 3,768,232</u>	<u>\$ 470,127</u>	<u>\$ 2,404,191</u>	<u>\$ 2,326,784</u>

See accompanying independent auditors' report.

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2014 AND 2013**

## **Independent Auditors' Report**

The Board of Directors  
Guam Economic Development Authority:

### **Report on Financial Statements**

We have audited the accompanying statements of fiduciary net position of the Guam Development Fund Act and the Agricultural Development Fund (the Funds) as of September 30, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements. The Funds are administered by the Guam Economic Development Authority (the Authority) which is a component unit of the Government of Guam.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Development Fund Act and the Agricultural Development Fund as of September 30, 2014 and 2013, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, on our consideration of the Funds' internal control over financial reporting and on 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 opinions on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Deloitte & Touche LLP

March 23, 2015

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

Statements of Fiduciary Net Position  
September 30, 2014 and 2013

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund	
	2014	2013	2014	2013
Cash on hand and in bank	\$ 856,282	\$ 691,085	\$ 125,750	\$ 201,552
Investments	9,973,440	9,148,367	826,698	719,647
Notes and accrued interest receivable	1,273,986	700,858	60,599	41,269
Less allowance for doubtful receivables	(169,547)	(332,058)	(7,389)	(27,167)
Net notes and accrued interest receivable	1,104,439	368,800	53,210	14,102
Due from other funds:				
Guam Development Fund Act	-	-	-	2,887
Other real estate:				
Land	-	548,571	-	-
Leasehold interest, net	136,154	742,249	-	-
Other receivables	5,788	94,783	-	-
	141,942	1,385,603	-	2,887
 Total assets	 \$ 12,076,103	 \$ 11,593,855	 \$ 1,005,658	 \$ 938,188
<u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 95,806	\$ 76,501	\$ 10,968	\$ 10,973
Due to other funds:				
Guam Economic Development Authority	13,076	22,591	10,186	(2,180)
Agricultural Development Program	-	2,887	-	-
Total liabilities	108,882	101,979	21,154	8,793
Commitments and Contingencies				
Net position held in trust	11,967,221	11,491,876	984,504	929,395
Total liabilities and net position	\$ 12,076,103	\$ 11,593,855	\$ 1,005,658	\$ 938,188

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position  
Years Ended September 30, 2014 and 2013

	Guam Development Fund Act		Agricultural Development Fund	
	2014	2013	2014	2013
Additions:				
Investment income, net	\$ 650,480	\$ 451,530	\$ 34,257	\$ (20,114)
Interest from loans	36,646	24,753	1,298	1,063
Other	115,944	167,761	13	(2,356)
Total additions	803,070	644,044	35,568	(21,407)
Deductions:				
Recovery of doubtful notes receivable and accrued interest	(166,516)	(3,339)	(19,778)	(376)
Salaries and benefits	309,736	378,617	-	120
Rent	66,778	48,010	-	-
Bank charges	59,046	68,696	-	7,302
Legal and professional services	34,115	40,339	237	-
Depreciation	9,501	14,119	-	-
Travel	1,201	3,091	-	-
Miscellaneous	13,864	4,686	-	-
Total deductions	327,725	554,219	(19,541)	7,046
Net change in net position	475,345	89,825	55,109	(28,453)
Net position at beginning of year	11,491,876	11,402,051	929,395	957,848
Net position at end of year	\$ 11,967,221	\$ 11,491,876	\$ 984,504	\$ 929,395

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2014 and 2013

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF) are administered by the Guam Economic Development Authority (GEDA). GEDA utilizes the Funds to carry out its stated purpose of providing an integrated program for the economic development of Guam. The Funds are Fiduciary Fund Types and are component units of the Government of Guam. The specific purpose of each fund is as follows:

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

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

Additionally, GEDA administered the Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF), and the Music and Legends of Guam Fund (MLGF), the Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), the Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF), the U.S. Base Realignment and Closure Committee (BRAC) which have no assets, liabilities or net position as of September 30, 2014 and 2013 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements.

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

Basis of Accounting

The Funds 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 position, pursuant to GASB 34, are held in trust for specified purposes.

Estimates

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

**TRUST FUNDS ADMINISTERED BY THE  
GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2014 and 2013

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

Cash

For the purpose of the statements of net position, cash includes 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 and long-term loans are secured by real property.

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

Allowance for Doubtful Receivables

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

Expenses

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

New Accounting Standards

During fiscal year 2014, the Trust Funds implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2014 and 2013

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

New Accounting Standards, Continued

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

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of the Trust Fund and will require a restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that the Trust Funds will record upon implementation of Statement 68 is anticipated to be \$4,623,015. The other postemployment benefits liability is unknown at this time.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Trust Fund.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Trust Fund.

**TRUST FUNDS ADMINISTERED BY THE  
GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2014 and 2013 consist the following:

	<u>2014</u>	<u>2013</u>
Cash on hand and deposits in banks	\$ <u>982,032</u>	\$ <u>892,637</u>
Cash and cash equivalents	\$ <u>982,032</u>	\$ <u>892,637</u>
Total shares in mutual funds	\$ 1,173,022	\$ 1,207,350
Exchange-traded & closed-end funds	6,063,997	5,559,857
Municipal bonds	3,002,878	1,987,511
Brokered Certificates of Deposit (CDs)	560,241	1,022,053
U.S. Government treasury securities	<u>-</u>	<u>91,243</u>
Investments	\$ <u>10,800,138</u>	\$ <u>9,868,014</u>

The deposits and investment policies of GEDA are governed by 5 GCA 21, *Investments and Deposits* and policies set by the Board of Directors. 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. Deposits

Custodial credit risk is the risk that in the event of a bank failure, GEDA's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GEDA does not have a deposit policy for custodial credit risk.

At September 30, 2014 and 2013, the carrying amount of cash was \$982,032 and \$892,637, respectively, and the corresponding bank balances were \$989,393 and \$893,354, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). Cash balances of \$99,006 and \$317,726 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2014 and 2013, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

**TRUST FUNDS ADMINISTERED BY THE  
GUAM ECONOMIC DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments, Continued

B. Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, exchange-traded and closed-end funds, municipal bonds and U.S. Government securities at September 30, 2014 and 2013 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GEDA.

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments, Continued

As of September 30, 2014, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Calamos Market Neutral, Income (CMNIX)	\$ 624,975	N/A	N/A
Guggenheim Managed Futures Strategy H Fund (RYMFX)	153,027	N/A	N/A
Invesco Treasurer's Series Trust Premier Portfolio Institutional Class (IPPXX)	395,020	N/A	N/A
Exchange-traded & closed-end funds:			
ALERIAN MLP ETF (AMPLP)	262,341	N/A	N/A
ISHARES JP Morgan EM Bond ETF (EMB)	34,758	N/A	N/A
ISHARES N Amer Nat Res ETF (IGE)	173,630	N/A	N/A
ISHARES Russell 1000 GRW ETF (IWF)	968,529	N/A	N/A
ISHARES Russell 1000 Value ETF (IWD)	812,030	N/A	N/A
ISHARES Russel 2000 Grwth ETF (IWO)	179,491	N/A	N/A
ISHARES Russell 2000 Value ETF (IWN)	175,519	N/A	N/A
ISHARES Russell Midcap G ETF (IWP)	184,475	N/A	N/A
ISHARES Russell Midcap V ETF (IWS)	181,440	N/A	N/A
SPDR Barclays Capital Hihg Yie (JNK)	355,513	N/A	N/A
SPDR Barclays Capital Internat (BWX)	103,381	N/A	N/A
Vanguard FTSE Developed Mkts E (VEA)	1,024,159	N/A	N/A
Vanguard FTSE Emerging Markets (VWO)	139,186	N/A	N/A
Vanguard Reit ETF (VNQ)	66,892	N/A	N/A
Vanguard Short Term Bnd (BSV)	829,525	N/A	N/A
Vanguard Total Bond Market (BND)	465,936	N/A	N/A
ISHARES Cohen&Steers Reit ETF (ICF)	107,192	N/A	N/A
Municipal bonds:			
Arizona St CTFS Partn PFDG-Dept (040588B38)	211,272	10/01/18	A1
Conway Ark Sch Dist (212597ZT8)	169,400	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	133,447	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	241,526	10/01/23	AA2
Forth Woth Tex Rfdg Impt (349425V51)	205,718	03/01/20	AA1
Hawaii St Er Eh (419791Z27)	227,901	08/01/23	AA2
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	177,591	11/01/21	AA
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	158,163	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	170,677	01/01/17	AA2
Maryland St Dept Transn Cons Transn (574204XR9)	89,571	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	147,655	07/01/19	A2
Massachusetts St Health Edl Facs Auth (57586EQQ7)	188,254	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	178,872	05/15/20	AA+
Metropolitan Transn Auth N Y Rev for (59259YXH7)	303,876	11/15/21	A2
New York N Y Cith Transitional Fin (64971MW81)	107,535	11/01/26	AA1
Wisconsin St Clean Wtr Rev Rfdg-Ser 1 (9770092WW8)	162,456	06/01/25	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	128,964	05/01/17	AA3
Brokered CDs	<u>560,241</u>	N/A	N/A
	<u>\$ 10,800,138</u>		

**TRUST FUNDS ADMINISTERED BY THE  
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Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments, Continued

As of September 30, 2013, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Calamos Market Neutral, Income (CMNIX)	\$ 573,219	N/A	N/A
Guggenheim Managed Futures Strategy H Fund (RYMFX)	131,994	N/A	N/A
Invesco Treasurer's Series Trust Premier Portfolio Institutional Class (IPPXX)	502,137	N/A	N/A
Exchange-traded & closed-end funds:			
ISHARES JP Morgan EM Bond ETF (EMB)	136,503	N/A	N/A
ISHARES N Amer Nat Res ETF (IGE)	402,880	N/A	N/A
ISHARES Russell 1000 GRW ETF (IWF)	748,296	N/A	N/A
ISHARES Russell 1000 Value ETF (IWD)	603,400	N/A	N/A
ISHARES Russel 2000 Grwth ETF (IWO)	173,408	N/A	N/A
ISHARES Russell 2000 Value ETF (IWN)	103,736	N/A	N/A
ISHARES Russell Midcap G ETF (IWP)	204,649	N/A	N/A
ISHARES Russell Midcap V ETF (IWS)	135,525	N/A	N/A
SPDR Barclays Capital Hihg Yie (JNK)	134,238	N/A	N/A
SPDR Barclays Capital Internat (BWX)	136,936	N/A	N/A
Vanguard FTSE Developed Mkts E (VEA)	788,790	N/A	N/A
Vanguard FTSE Emerging Markets (VWO)	267,740	N/A	N/A
Vanguard Reit ETF (VNQ)	66,008	N/A	N/A
Vanguard Short Term Bnd (BSV)	977,299	N/A	N/A
Vanguard Total Bond Market (BND)	577,968	N/A	N/A
ISHARES Cohen&Steers Reit ETF (ICF)	102,481	N/A	N/A
Municipal bonds:			
Arizona St CTFS Partn PFDG-Dept (040588B38)	151,358	10/01/18	A1
Conway Ark Sch Dist (212597ZT8)	119,159	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	90,682	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	171,950	10/01/23	AA2
Forth Woth Tex Rfdg Impt (349425V51)	146,211	03/01/20	AA1
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	126,851	11/01/21	AA
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	106,678	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	124,776	01/01/17	AA2
Maryland St for Issues dated prior (574193EB0)	147,268	03/15/21	AAA
Maryland St Dept Transn Cons Transn (574204XR9)	61,787	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	103,695	07/01/19	A2
Massachusetts St Health Edl Facs Auth (57586EQQ7)	133,168	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	126,994	05/15/20	AA+
Metropolitan Transn Auth N Y Rev for (59259YXH7)	208,851	11/15/21	A2
New York N Y Cith Transitional Fin (64971MW81)	74,062	11/01/26	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	94,021	05/01/17	AA3
Brokered CDs	1,022,053	N/A	N/A
US Government Treasury Note (U.S. T note)	<u>91,243</u>	12/31/13	AAA
	<u>\$ 9,868,014</u>		

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

Notes to Financial Statements  
September 30, 2014 and 2013

(2) Deposits and Investments, Continued

Brokered CDs are placed with FDIC insured banks, under applicable federal insurance deposit coverage, and all mature within one year.

Investments of GEDA and Trust Funds are maintained in pooled accounts. Related earnings and gains/losses are allocated based on percentage weight of total balances.

(3) Other Real Estate

G DFA and ADF have acquired certain land and leasehold interest through loan foreclosure. Leasehold interests are reflected at cost of \$167,000 and \$1,231,600 (net of a valuation allowance of \$333,171) as of September 30, 2014 and 2013, respectively, net of accumulated amortization of \$30,846 and \$156,180 at September 30, 2014 and 2013, respectively.

During the year ended September 30, 2014, G DFA sold land of \$548,571 with related leasehold interest of \$731,429, net of accumulated amortization of \$134,834, for proceeds of \$2,229,864, which resulted in a net gain of \$1,084,698. The net gain on sale was recorded in GEDA's operating fund.

(4) Commitments

GEDA has approved undisbursed G DFA loans totaling \$0 and \$83,510 as of September 30, 2014 and 2013.

(5) Contingencies

GEDA is involved in various litigation that is inherent in the operations of the Funds. 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 ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Guam Economic Development Authority:

We have audited, in accordance with the 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, the financial statements of the Guam Economic Development Authority (GEDA), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered GEDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GEDA's internal control. Accordingly, we do not express an opinion on the effectiveness of GEDA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, a material weakness may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLP*

March 23, 2015

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

The Board of Directors  
Guam Economic Development Authority:

We have audited, in accordance with the 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, the financial statements of the Guam Development Fund Act and the Agricultural Development Fund, administered by the Guam Economic Development Authority (GEDA), which comprise the respective statements of fiduciary net position as of September 30, 2014 and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon March 23, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the GEDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GEDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the GEDA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, a material weakness may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLP*

March 23, 2015