

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2004 AND 2003

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
(A Public Corporation)

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Independent Auditors' Report

The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of net assets (deficiency) of the Guam Economic Development and Commerce Authority (the Authority) (a public corporation) and subsidiaries, a component unit of the Government of Guam, as of September 30, 2004 and 2003, and the related statements of operations and net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

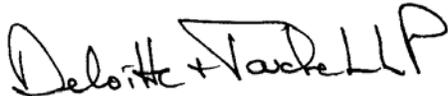
We were unable to obtain information supporting certain travel expenses for the year ended September 30, 2003. As a result, we are unable to form an opinion on travel related expenses of \$71,523 at September 30, 2003.

In our opinion, except for the effects of such adjustments, if any, as might be required had we been able to obtain information to satisfy ourselves with respect to travel related expenses as of and for the year ended September 30, 2003, the accompanying financial statements present fairly, in all material respects, the financial position of Guam Economic Development and Commerce Authority and subsidiaries at September 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of the management of the Guam Economic Development and Commerce Authority. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental divisional information on pages 10 through 12 and the data on page 26 is presented for the purpose of additional analysis rather than to present the financial position and results of operations of the individual companies and divisions. This additional information is the responsibility of the Authority's management. Such information has been subjected to the tests and other auditing procedures applied in our audit of the basic financial statements of Guam Economic Development and Commerce Authority and subsidiaries for the year ended September 30, 2004. In our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005, on our consideration of the Guam Economic Development and Commerce Authority's and subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

May 13, 2005

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Management's Discussion and Analysis
Year Ended September 30, 2004

The management of the Guam Economic Development & Commerce Authority (GEDCA) provides an overview of key goals of the Authority, implementation of which started in the last half of FY 2003 and continues to date.

Five strategic goals were initially established and designed to help meet the Authority's mandates, to facilitate the island's economic recovery, and to lay the foundation for future economic growth. The financial activities of the Authority during this fiscal year represent ongoing efforts to fulfill these mandates and to position the organization's effectiveness.

Goal 1: Create an operating cash flow environment to support the pursuit of economic development. Efforts prior to 2003 were satisfactory in maintaining GEDCA's financial position, but the weak and deteriorating cash flow situation rendered difficult the Authority's ability to implement new programs. The urgent demand to revitalize the island's sagging economy in 2003 (i.e., post typhoon Chataan and Pongsona) compelled GEDCA to act proactively if the island was to reverse the 7 year recession and fund economic development initiatives. Specific initiatives to support this effort during Fiscal Year 2004 included:

- Aggressive cost controls resulting in savings of \$ 240,000.
- Payroll attrition resulting in savings of \$ 729,000.
- Selling off on non-performing (unproductive) assets (shipyard equipment) resulting in proceeds of \$ 700,000.

Goal 2: Produce financial statements that reflect GEDCA's true financial condition. Efforts in this area included:

- Clearing up outstanding audit issues; specifically, Inspector General audits from 2001 were finally closed, Office of the Public Auditor audit of the Chamorro Village, and independent audits
- Attaining and maintaining "low risk" auditee status for federal grant programs
- Instituting or tightening controls to ensure financial integrity
- Enforcing loan conditions and collections aggressively
- Minimizing or eliminating risk (i.e., retaining assets like the dry dock and revisiting GEDCA's Investment Policy for deposited funds).
- Drafted legislation to more accurately assign the Tobacco Bond obligations to agencies and the General Fund, which benefit directly from this debt obligation, and clarifying GEDCA's intermediary role by law.

Goal 3: Update GEDCA's operating platform to meet the future direction and mission of the Authority. Initiatives during the fiscal year:

- Reorganization and establishment of appropriate staffing patterns is ongoing with implementation during Fiscal Year 2005
- Build up and expand business development capacity through GEDCA's Industry Development department. Major business development programs would include:
 - Attracting New and Off-Island investments based on Guam's competitive advantages.
 - Local Business development, expansion and retention utilizing new and expanded local business development programs to leverage relationships with existing agencies, public and private.
 - Industry diversification beyond Tourism and Military Industries
 - Reform Qualifying Certificate Program to sustain the island's tourism base and re-tool program to focus on targeted industry clusters

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- Streamline the administrative and financial services functions to better support GEDCA's economic development mandate by:
 - Reasserting GEDCA's role as central financial manager for the Government of Guam (Public Finance Division)
 - Improving internal controls and budget discipline
 - Refocusing GEDCA's Loan Programs to:
 - Meet the needs of an underserved lending niche i.e., home-based small businesses and start-ups
 - Minimize GEDCA's loan concentration by spreading risk among many small loans as opposed to large single loans
 - Judicious use of loan guarantees to foster relationships with private lending institutions and enhance new business opportunities
 - Building up Human Resource capacity in order to improve:
 - Recruitment and training practices
 - Administer cost effective and attractive compensation and benefits packages
 - Maintain the independence of GEDCA's compliance programs

Goal 4: Grow business revenues from non-tourism and military sectors, a major initiative to diversify Guam's economic base. Efforts during the last 2 years have focused on examining the viability of specific industries in Guam's regional context, some of which include the following:

- Alternative Dispute Resolution (Arbitration and Mediation)
- Regional Freight Consolidation and Distribution
- Regional Back-Office Support Center
 - Continuing Education and Professional Certification
 - Traditional Back-Office Support Functions
- Financial Services
 - Captive Insurance
 - Guam-based Trusts
- Filming of commercials and features
- Hagatna Restoration and Redevelopment
- Regional Recycling Center
- Fisheries/Aquaculture
- Regional Health Center
- Entertainment Tourism
- Senior Retirees Market
- Telecommunications
- Agriculture
- Emerging Money Manager
- Continuing Education and Professional Certification
- Entertainment Tourism
- Regional Software Support Center

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Progress to date for these initiatives includes:

- Alternative Dispute Resolution
 - Formation of Guam International Mediation and Arbitration Center (GIMAC)
 - Legal infrastructure now put in place
 - Marketing and build up of institutional capacity has begun
- Building commercial filming capacity
 - Fully secured Max Havoc Film Loan Guarantee was provided in order to advance the development of Guam's commercial filming capacity. The following merits of the production were considered. The production would:
 - Help to develop an industry uncorrelated to tourism and the military
 - Create 150 new jobs
 - Increase investment/economic activity
 - Provide free exposure/visibility for Guam
 - Add tourist attraction to Guam's core markets in Asia
 - Enhance Guam's image as a viable filming location
 - Develop local capacity & employment
 - Risk abated by limiting guarantee amount, relying on underwriting expertise of largest film financing bank (Comerica) and securing personal and confirming guarantee of Producer
- Other Regional Initiatives: Progress was made through the fiscal year after work began under a \$598,000 Department of the Interior Economic Recovery Grant. Under work performed, feasibility studies and marketing recommendations were made for:
 - Back-Office Support Center with final report due May 2005
 - Regional Distribution Center with final report due in March 2005
 - Marketing Plan for Financial Services, with concentration in captive insurance and Guam-based Trusts due in June 2005
- Regional Medical Center. GEDCA assisted the Guam Memorial Hospital in securing a \$500,000 grant to establish a medical residency program in order to:
 - Build capacity in medical services and eventually specialized medical services
 - Reduce capital leakage caused by off-island referral of medical procedures

Goal 5: Address Strategic Issues facing the Authority which may impede economic development programs:

- Internal revenue generation. GEDCA expects a significant loss in revenues (30%) by Fiscal Years 2007 and 2008 due to prior agreement made transferring the Cabras Industrial Park revenues to the Port Authority of Guam. Thus, efforts were begun to identify new revenue sources in order to support ongoing initiatives. Those explored during this year included:
 - Development Agreement with Chamorro Land Trust Commission for the development of Ypao Point

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- Joint venture efforts in regional recycling and manufacturing
- Re-development of GEDCA's current Industrial Park infrastructure and facilities in order to develop a more attractive and profitable product.
- GEDCA's future viability as an effective catalyst for economic development will depend on:
 - The replacement of lost revenues from the Cabras Industrial Park,
 - The periodic debt financing fees earned,
 - The ability to truly function autonomously as originally chartered by enabling statutes,
 - The ability to recruit and retain talented employees, and
 - The level of support from the public and political leadership.

Financial Analysis

FY2004 marked the post typhoon recovery period for the island of Guam. Businesses that were greatly affected by the typhoon in the late 2002 started rebuilding, tourism has increased and the increase in military spending have all helped toward the island's continuing economic recovery. GEDCA too has renovated its 5th Floor office and purchased new equipment and furnishings. Thanks to grants that came from FEMA and the Governor's Hazard Mitigation Office, these improvements only cost the Authority 10 % of the costs to rebuild, refurbish and re-equip the entire office.

Cost cutting measures were strictly observed thereby avoiding any unnecessary expenditures and payroll and travel were also reduced.

The following table summarizes the statements of operations and net assets (deficiency) of Guam Economic Development and Commerce Authority for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets	\$ 6,568,731	\$ 5,667,131
Long-term assets:		
Land	402,164	425,164
Building, improvements and equipment, at cost, net	1,921,206	996,878
Other assets	<u>690,669</u>	<u>758,824</u>
	<u>\$ 9,582,770</u>	<u>\$ 7,847,997</u>
Liabilities and Net Deficiency:		
Current liabilities:		
Current portion of long-term debt, net	\$ 534,070	\$ 490,805
Other current payables	1,915,549	2,174,191
Long-term liabilities:		
Long-term debt, net	24,964,530	25,029,485
Other long-term payable	260,030	200,623
Net Deficiency	<u>(18,091,409)</u>	<u>(20,047,107)</u>
	<u>\$ 9,582,770</u>	<u>\$ 7,847,997</u>

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	<u>2004</u>	<u>2003</u>
Revenues, Expenses and Changes in Net Assets:		
Revenue:		
Operating revenues	\$ 1,952,435	\$ 2,099,770
Tobacco Settlement revenue	<u>1,392,811</u>	<u>1,629,630</u>
Total revenue	<u>3,345,246</u>	<u>3,729,400</u>
Expenses:		
Operating expenses	(1,565,516)	(2,941,524)
Other Income (expense), net	<u>175,968</u>	<u>211,353</u>
Increase in net assets	\$ <u>1,955,698</u>	\$ <u>999,229</u>

2001 GEDCA Tobacco Settlement Asset Backed Bonds

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

GEDCA, on behalf of the Government of Guam, was assigned the rights to all tobacco receipts to ensure compliance with all contractual duties to the bondholders and to maintain the tax-exempt status of the Bonds. It was understood that the debt was truly a Government of Guam debt. GEDCA, acting as the pass through conduit per P.L. 23-04, was strictly the facilitator of the bonds. The FY'01 and FY'02 audits did in fact recognize that this obligation belonged to the Government of Guam and not to GEDCA.

In April 2004, however, a GASB ruling changed the way the government was reporting this debt and required that it be recorded in the books of the direct issuer, which in Guam's case is GEDCA. Further, because the payment source is reliant on how many cigarettes are shipped out the year before, the GASB does not allow the reporting entities to record a receivable to counter the debt until the annual payments have been actually made. This change in accounting treatment has therefore added the \$20M deficit to GEDCA's bottom line for FY2003, notwithstanding the fact that the Authority simply acted as facilitator for the Government of Guam.

GEDCA has submitted suggested legislation to resolve the reporting issues on Bonds to allow the debt reporting to revert to the Government of Guam in a way that would not change the absolute assignment of the proceeds to the basic deal on which the bondholders relied.

Operating Income

Although the Operating Revenues for FY2004 is \$3,345,246 which is \$384,154 or 10.3% less than last year's figure of \$3,729,400, Operating Expenses are \$1,376,008 less than last year's \$2,941,524, 46.8% savings from last year.

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1. **Industrial Park**

12 GCA Section 50103 authorizes GEDCA to lease Government of Guam land to promote investments in entrepreneurial capital thereby increasing opportunity for employment in manufacturing, industrial, commercial, recreational, retail and service enterprises. GEDCA maintains industrial parks under leases from the Government of Guam. The 18-acre Harmon Industrial Park, the 26-acre E.T. Calvo Memorial Park; and the 32-acre Cabras Industrial Park. A fourth industrial park is operated under a lease with the U.S. Navy for ship repair and other industrial services. Although the Shell Dock Fee has decreased by \$85,576, part of this was offset by increase in rents for other renewed lease agreements, thereby making the overall decrease \$39,654.

2. **Qualifying Certificate**

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 was proven to be just as effective in the growth support of the currently emerging industries previously named. It is a proven enticement for investment that would otherwise may not have happened, but for the program. The 10% increase in QC revenue is a good sign of resurging economy in the post typhoon condition.

3. **Bond Fees**

GEDCA's mandate establishes the Authority as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Department, which assists with, coordinates and monitors Financial Advisory Services, Capital Financing Debt Management and the Capital Markets. GEDCA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. No bond fees were collected in FY'04 due to non-activity during the year.

Operating Expenses

The Authority's operating expenses in FY'04 (\$1,565,516) were down 46.8% as compared to FY'03's \$2,941,524 due to a significant decrease in payroll costs.

1. **Personnel Expense**

From FY'03's 27 employees, the number was reduced even further to 21. The net savings from last year's payroll (including allocation to trust funds) was \$729,317, which was 36.2% less than last year.

2. **Professional Service**

Professional Service Expense of \$165,688 in FY'04 is \$391,154 is lower than last year's \$556,842. No lobbying group was hired in FY'04 and the savings from last year is 70.2%.

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3. **Office Space and Equipment Rent**

FY'04's Office Space and Equipment Rent is higher than FY'03 by \$15,071 or 11.6%. This is because rent is back to normal since the offices moved back to the newly renovated 5th floor office.

4. **Travel Expense**

Travel Expense decreased by 74.2% over last year. The FY'04 Travel Expense is \$27,166 while FY'03 is \$105,322.

5. **Advertising and Promotion**

Advertising and Promotions went down by 42.5%. The FY'04 Advertising and Promo Expense is \$29,587 while FY'03 is \$51,479 or a decrease of \$21,892.

6. **Special Projects**

None in FY'04

7. **Provision for Doubtful Accounts**

Due to GEDCA's efficient collection efforts, no provision has been provided for doubtful accounts in fiscal year 2004.

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Statements of Net Assets (Deficiency)
September 30, 2004 and 2003

<u>ASSETS</u>	Divisional Information		2004	Restated 2003
	GEDCA	TSA		
Current assets:				
Cash and cash equivalents	\$ 100,789	\$ 1,495,923	\$ 1,596,712	\$ 1,617,496
Investments	939,728	2,200,201	3,139,929	2,150,263
Current portion of notes and accrued interest receivable	7,656	-	7,656	11,403
Due from trust funds administered by GEDCA:				
Agricultural Development Fund	13,342	-	13,342	17,386
Guam Development Fund Act	33,989	-	33,989	-
Other receivables, net of an allowance for doubtful receivables of \$475,400 in 2004 and 2003	1,437,285	-	1,437,285	1,852,436
Inventory	14,309	-	14,309	14,309
Prepaid expense	509	-	509	3,838
Deferred charges	325,000	-	325,000	-
Total current assets	2,872,607	3,696,124	6,568,731	5,667,131
Deferred bond issuance costs	-	668,543	668,543	734,301
Long term portion of notes and accrued interest receivable thereon, net of an allowance for doubtful receivables of \$5,035 in 2004 and 2003	18,626	-	18,626	21,023
Investments:				
Stock	3,500	-	3,500	3,500
Other real estate:				
Land, net of a valuation allowance of \$23,000 in 2004 and \$0 in 2003	402,164	-	402,164	425,164
Building, improvements and equipment, at cost, net	1,921,206	-	1,921,206	996,878
Total assets	\$ 5,218,103	\$ 4,364,667	\$ 9,582,770	\$ 7,847,997
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>				
Current liabilities:				
Current portion of notes payable to Guam Development Fund Act	\$ 64,070	\$ -	\$ 64,070	\$ 60,805
Current portion of bonds payable	-	470,000	470,000	430,000
Accounts payable	1,243,490	-	1,243,490	943,794
Due to trust funds administered by GEDCA:				
Guam Development Fund Act	-	-	-	465,318
Microenterprise Development Program	39,446	-	39,446	32,638
U.S. Base Relocation and Closure Commission	22	-	22	22
Accrued liabilities	106,315	-	106,315	193,698
Interest payable	-	340,000	340,000	424,215
Deferred rental income	186,276	-	186,276	114,506
Total current liabilities	1,639,619	810,000	2,449,619	2,664,996
Non-current liabilities:				
Long-term portion of notes payable to Guam Development Fund Act	894,713	-	894,713	958,311
Bonds payable, net of current portion and discount	-	24,069,817	24,069,817	24,071,174
Accrued Retirement Fund contributions	169,666	-	169,666	123,354
DCRS sick leave liability	83,520	-	83,520	70,425
Deposits	6,844	-	6,844	6,844
Total non-current liabilities	1,154,743	24,069,817	25,224,560	25,230,108
Total liabilities	2,794,362	24,879,817	27,674,179	27,895,104
Commitment and contingencies				
Net assets (deficiency):				
Investment in capital assets	1,921,206	-	1,921,206	996,878
Unrestricted	502,535	(20,515,150)	(20,012,615)	(21,043,985)
Net assets (deficiency)	2,423,741	(20,515,150)	(18,091,409)	(20,047,107)
	\$ 5,218,103	\$ 4,364,667	\$ 9,582,770	\$ 7,847,997

See accompanying notes to consolidated financial statements.

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Statements of Operations and Net Assets (Deficiency)
Years Ended September 30, 2004 and 2003

	Divisional Information		2004	Restated 2003
	GEDCA	TSA		
Revenues:				
Rental income	\$ 1,706,721	\$ -	\$ 1,706,721	\$ 1,746,375
Tobacco Settlement revenue	-	1,392,811	1,392,811	1,629,630
Qualifying certificate application and surveillance fees	245,714	-	245,714	223,340
Bond service fee	-	-	-	130,055
	<u>1,952,435</u>	<u>1,392,811</u>	<u>3,345,246</u>	<u>3,729,400</u>
Operating expenses:				
Salaries and benefits	977,827	-	977,827	1,422,553
Depreciation and amortization	168,396	-	168,396	90,301
Professional services	165,688	-	165,688	556,842
Office space and equipment rent	145,264	-	145,264	130,193
Advertising and promotions	29,587	-	29,587	51,479
Travel	27,166	-	27,166	105,322
Utilities, telephone and communication	20,029	-	20,029	31,861
Supplies	10,449	-	10,449	12,973
Insurance	3,157	-	3,157	1,318
Repairs and maintenance	1,551	-	1,551	3,760
Provision for doubtful notes and accrued interest receivable	-	-	-	403,653
Special projects	-	-	-	2,260
Directors' fees	-	-	-	950
Miscellaneous	16,402	-	16,402	128,059
	<u>1,565,516</u>	<u>-</u>	<u>1,565,516</u>	<u>2,941,524</u>
Operating income	<u>386,919</u>	<u>1,392,811</u>	<u>1,779,730</u>	<u>787,876</u>
Other income (expense):				
Interest expense, net	(43,269)	(1,402,426)	(1,445,695)	(1,544,898)
Investment income	-	118,721	118,721	108,112
Gain on sale of Big 8 Drydock	-	-	-	1,398,228
Gain on sale of Shipyard equipment	700,000	-	700,000	-
Other, net	124,400	-	124,400	221,309
Typhoon recovery, net	698,742	-	698,742	24,753
Valuation loss on land	(23,000)	-	(23,000)	-
Gain on investments	2,800	-	2,800	3,849
	<u>1,459,673</u>	<u>(1,283,705)</u>	<u>175,968</u>	<u>211,353</u>
Net income	1,846,592	109,106	1,955,698	999,229
Net assets (deficiency) at beginning of year, restated	577,149	(20,624,256)	(20,047,107)	(21,046,336)
Net assets (deficiency) at end of year	<u>\$ 2,423,741</u>	<u>\$ (20,515,150)</u>	<u>\$ (18,091,409)</u>	<u>\$ (20,047,107)</u>

See accompanying notes to consolidated financial statements.

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Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	Divisional Information		2004	Restated 2003
	GEDCA	TSA		
Cash flows from operating activities:				
Cash received from customers	\$ 3,341,736	\$ 1,392,811	\$ 4,734,547	\$ 3,743,850
Cash paid to suppliers for goods and services	(1,067,106)	-	(1,067,106)	(711,208)
Cash paid to employees for services	(918,420)	-	(918,420)	(1,352,128)
Net cash provided by operating activities	<u>1,356,210</u>	<u>1,392,811</u>	<u>2,749,021</u>	<u>1,680,514</u>
Cash flows from investing activities:				
Interest and investment income	2,800	118,721	121,521	111,961
Rollover of interest into investment	(2,800)	-	(2,800)	(3,849)
Purchase of investment securities	(875,000)	(111,866)	(986,866)	(2,088,335)
Net cash (used in) provided by investing activities	<u>(875,000)</u>	<u>6,855</u>	<u>(868,145)</u>	<u>(1,980,223)</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(1,115,818)	-	(1,115,818)	(65,415)
Sale of Shipyard equipment	700,000	-	700,000	-
Net cash used for capital and related financing activities	<u>(415,818)</u>	<u>-</u>	<u>(415,818)</u>	<u>(65,415)</u>
Cash flows from non-capital financing activities:				
Repayment of bond payable	-	(455,000)	(455,000)	(1,320,000)
Interest paid on bond and notes payable	(43,269)	(927,240)	(970,509)	(1,011,527)
Notes payable to GDFA	(60,333)	-	(60,333)	47,729
Net cash used for noncapital financing activities	<u>(103,602)</u>	<u>(1,382,240)</u>	<u>(1,485,842)</u>	<u>(2,283,798)</u>
Net change in cash and cash equivalents	(38,210)	17,426	(20,784)	(2,648,922)
Cash and cash equivalents at beginning of year	138,999	1,478,497	1,617,496	4,266,418
Cash and cash equivalents at end of year	<u>\$ 100,789</u>	<u>\$ 1,495,923</u>	<u>\$ 1,596,712</u>	<u>\$ 1,617,496</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 386,919	\$ 1,392,811	\$ 1,779,730	\$ 787,876
Typhoon recovery, net	698,742	-	698,742	24,753
Other income, net	124,400	-	124,400	221,309
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	168,396	-	168,396	90,301
Write-off of fixed assets	23,094	-	23,094	62,633
(Increase) decrease in assets:				
Provision for doubtful notes	-	-	-	403,653
Notes receivable	6,144	-	6,144	4,810
Due from other funds and governmental agencies	(29,945)	-	(29,945)	215,414
Other receivables	415,151	-	415,151	(568,811)
Inventory	-	-	-	36,779
Prepaid expenses	3,329	-	3,329	38,547
Deferred charges	(325,000)	-	(325,000)	-
Increase (decrease) in liabilities:				
Accounts payable	299,696	-	299,696	510,677
Due to other funds and governmental agencies	(458,510)	-	(458,510)	-
Accrued liabilities	(87,383)	-	(87,383)	(102,569)
Deferred rental income	71,770	-	71,770	(115,283)
Accrued Retirement Fund contributions	46,312	-	46,312	-
DCRS sick leave liability	13,095	-	13,095	70,425
Net cash provided by operating activities	<u>\$ 1,356,210</u>	<u>\$ 1,392,811</u>	<u>\$ 2,749,021</u>	<u>\$ 1,680,514</u>
Supplemental disclosure of non-cash transactions:				
Non-cash decrease in notes payable	-	-	-	(1,398,228)
Gain on sale of Big 8 Drydock	-	-	-	1,398,228
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
(A Public Corporation)
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Notes to Financial Statements
September 30, 2004 and 2003

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

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

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

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

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Notes to Financial Statements
September 30, 2004 and 2003

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

New Accounting Standards

In fiscal year 2004, GEDCA implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The adoption of this Statement did not have a material effect on GEDCA's results of operations. For fiscal year 2005, GEDCA will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GEDCA has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

Principles of Consolidation

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

Basis of Accounting

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

Notes and Accrued Interest Receivable

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

Bond Discounts and Issuance Costs

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

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.

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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September 30, 2004 and 2003

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

Investments

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

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

In 2004 and 2003, GEDCA's investments are stated at fair market value in accordance with GASB Statement No. 31, which also requires investment income, dividends and unrealized gains and losses to be included in earnings.

An investment in a 72% owned company is accounted for using the equity method. (Refer to note 12).

Vacation and Sick Leave

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

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. During the year ended September 30, 2004, GEDCA has estimated a liability of \$83,520 and \$70,425 as of September 30, 2004 and 2003, respectively, and has restated its September 30, 2003 financial statements (refer note 16). The actual liability that ultimately results may be significantly different from the estimates.

Depreciation and Amortization

Buildings and improvements are amortized on a straight-line basis over estimated useful lives of 7 to 30 years. Equipment and automobiles are depreciated on a straight-line basis over estimated useful lives of three to five years.

Inventories

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

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2004 and 2003

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

Operating Expenses

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

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

Risk Management

GEDCA purchases automobile insurance covering \$300,000 for general single limited liability, inclusive of \$3,000 per person medical. GEDCA also purchases commercial liability insurance against fire and typhoon damages to its leasehold improvements and contents. GEDCA is self-insured against all other potential risks and losses. No losses in excess of insurable limits have been recognized in 2004 and 2003.

Reclassification

Certain reclassifications have been made to the 2003 financial statements to correspond with the 2004 presentation.

(2) Cash

For the purpose of the statements of net assets and cash flows, cash and cash equivalents include balances due from banks and money market accounts. At September 30, 2004 and 2003, the carrying amount of balances due from banks was \$100,289 and \$138,499, respectively, and the corresponding bank balances were \$254,666 and \$343,927, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$137,271 and \$138,499 are insured by the Federal Deposit Insurance Corporation at September 30, 2004 and 2003, respectively. Cash and cash equivalents held by TSA are restricted for bond services.

(3) Investments

Other investments recorded by GEDCA consist of shares in mutual fund and securities in Investment Service Group (ISG) and Merrill Lynch. Other investments recorded by TSA consist of federal agency debentures and are restricted for bond services. At September 30, 2004 and 2003 investments are carried at market value, which approximates cost.

(4) Other Real Estate

GEDCA has acquired land carried at cost of \$425,164 through loan foreclosure. During the year-ended September 30, 2004, GEDCA performed market valuation analysis and accordingly provided a valuation allowance of \$23,000 for a parcel that is actively marketed for sale.

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(5) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2004 and 2003 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2003</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2004</u>
Building	\$ 1,207,031	\$ -	\$ -	\$ 1,207,031
Leasehold improvements	-	792,537	-	792,537
Other improvements	459,395	-	-	459,395
Equipment	510,864	309,192	(332,483)	487,573
Land improvements	129,642	-	-	129,642
Automobiles	<u>85,941</u>	<u>14,089</u>	<u>(36,349)</u>	<u>63,681</u>
	2,392,873	1,115,818	(368,832)	3,139,859
Less accumulated depreciation and amortization	<u>(1,395,995)</u>	<u>(168,396)</u>	<u>345,738</u>	<u>(1,218,653)</u>
	\$ <u>996,878</u>	\$ <u>947,422</u>	\$ <u>(23,094)</u>	\$ <u>1,921,206</u>
	<u>Beginning Balance</u> <u>October 1, 2002</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2003</u>
Building	\$ 1,207,031	\$ -	\$ -	\$ 1,207,031
Other improvements	459,395	-	-	459,395
Equipment	753,225	65,415	(307,776)	510,864
Land improvements	129,642	-	-	129,642
Automobiles	85,941	-	-	85,941
Leasehold improvements	<u>73,480</u>	<u>-</u>	<u>(73,480)</u>	<u>-</u>
	2,708,714	65,415	(381,256)	2,392,873
Less accumulated depreciation and amortization	<u>(1,624,316)</u>	<u>(90,301)</u>	<u>318,622</u>	<u>(1,395,995)</u>
	\$ <u>1,084,398</u>	\$ <u>(24,886)</u>	\$ <u>(62,634)</u>	\$ <u>996,878</u>

(6) Employees' Retirement Plan

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

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

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(6) Employees' Retirement Plan, Continued

As a result of an actuarial valuations performed as of September 30, 2002, 2001 and 2000, contribution rates for the years ended September 30, 2004, 2003 and 2002, respectively, have been determined as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Normal costs (% of DB Plan payroll)	17.66%	16.42%	15.15%
Unfunded liability costs (% of total payroll)	<u>16.23%</u>	<u>22.94%</u>	<u>18.58%</u>
	33.89%	39.36%	33.73%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	24.39%	29.86%	24.23%
Agency specific adjustments	<u>- %</u>	<u>1.62%</u>	<u>.91%</u>
Government contribution as a % of DB Plan payroll	<u>24.39%</u>	<u>31.48%</u>	<u>25.14%</u>
Government contribution as a % of total payroll	<u>20.81%</u>	<u>29.25%</u>	<u>N/A</u>

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

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 4.5% per annum. The actuarial valuation performed as of September 30, 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2004 and 2003, may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2004 and 2003 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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(6) Employees' Retirement Plan, Continued

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

Retirement expense (including allocations to the trust funds administered by GEDCA) for the years ended September 30, 2004, 2003 and 2002 is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash contributions and accruals	\$ 221,747	\$ 343,885	\$ 348,684
Increase in accrued unfunded liability to the retirement fund	<u>46,312</u>	_____ -	_____ -
	<u>\$ 268,059</u>	<u>\$ 343,885</u>	<u>\$ 348,684</u>

(7) Rental Income

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

In 2001, GEDCA agreed to a ten year term with a lessee with future minimum rental set at \$237,800 for 2001 and \$96,000 for the next five years. The lease contains provisions for additional percentage rentals if revenues exceed a defined threshold set in 2002. The underlying real estate in this transaction is subject to a lease agreement with the U.S. Government, the terms of which are to be renegotiated under a long-term lease. However, negotiations are ongoing and a definitive agreement has not been finalized. At September 30, 2004 and 2003, estimated lease expense payable has been recorded of approximately \$260,698. GEDCA did not record any lease expense for 2004 and 2003 and expects that future lease expense over the following five years will be \$0.

Future minimum rentals to be received under noncancelable subleases as of September 30, 2004, are as follows:

Years ending September 30:	
2005	\$ 1,253,745
2006	1,081,132
2007	802,518
2008	772,030
2009	759,448
2010 – 2014	1,292,166
2015 – 2059 (\$165,940 every 5 years)	1,493,460
2060 – 2063	<u>102,330</u>
	<u>\$ 7,556,829</u>

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(8) Lease Commitments

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

At September 30, 2004, annual lease commitments and reimbursements from GHC under the Memorandum of Understanding are as follows:

Years ending September 30:	<u>Lease Agreement</u>	<u>GHC MOU</u>
2005	\$ 220,491	\$ 73,944
2006	216,177	72,198
2007	216,177	72,198
2008	216,177	72,198
2009	216,177	72,198
2010 – 2011	<u>306,250</u>	<u>102,280</u>
	<u>\$ 1,391,449</u>	<u>\$ 465,016</u>

Rent expense net of GHC reimbursements for the years ended September 30, 2004 and 2003 was \$163,288 and \$164,989, respectively, of which \$51,940 and \$63,604, respectively, were allocated to GDFA and ADF.

(9) Contingencies

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

(10) Related Parties

At September 30, 2004 and 2003, the following trust funds were administered by GEDCA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2004</u>	<u>2003</u>
Guam Development Fund Act (GDFA)	\$ 13,164,050	\$ 13,086,332
Agricultural Development Fund (ADF)	1,182,683	1,281,302
Agricultural Expense Insurance Fund (AEIF)	-	-
Landowner's Recovery Fund (LRF)	10,611	10,611
Local Arts Revolving Fund (LARF)	-	-
Guam Territorial Aquarium Foundation (GTAF)	18,768	19,499
Aquacultural Training Fund (ATF)	-	-
Music and Legends of Guam Fund (MLGF)	14,700	14,700
U.S. Base Realignment and Closure Commission (BRAC)	43	43
Housing and Urban Development Fund (HUD)	445	445
Microenterprise Development Program (MDP)	41,927	69,273

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Notes to Financial Statements
September 30, 2004 and 2003

(11) Long-Term Obligations

Notes Payable to GDFA

	<u>2004</u>	<u>2003</u>
Term loan, bears interest at 4.5%, payable in monthly installments of \$8,785, including interest, collateralized by real property with final payment due in 2016.	\$ 958,783	\$ 1,019,116
Less current portion	<u>(64,070)</u>	<u>(60,805)</u>
	<u>\$ 894,713</u>	<u>\$ 958,311</u>

The annual payments on notes payable to GDFA subsequent to September 30, 2004, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2005	\$ 64,070	\$ 41,823	\$ 105,893
2006	66,520	38,901	105,421
2007	69,576	35,845	105,421
2008	72,772	32,649	105,421
2009	76,115	29,306	105,421
2010 through 2014	436,354	90,753	527,107
2015 through 2016	<u>173,376</u>	<u>7,092</u>	<u>180,468</u>
	<u>\$ 958,783</u>	<u>\$ 276,369</u>	<u>\$ 1,235,152</u>

Bonds Payable

	<u>2004</u>	<u>2003</u>
Tobacco settlement bonds, 2001 Series A (original issue of \$11,982,980 with a maturity par value of \$13,270,000), varying interest rates at 5% - 5.4% per annum, payable semiannually in May and November, principal fund payments due in varying annual installments commencing with a payment of \$580,000 in May 2002 and increasing to \$2,175,000 in May 2012. These bonds are payable solely from and secured by certain revenues. The bonds have been issued for deposit to trust and endowment funds.	\$ 11,495,000	\$ 11,950,000

Tobacco Settlement bonds, 2001 Series B (original issue of \$13,494,479 with a maturity par value of \$14,990,000) varying interest rates at 5.2% - 5.5% per annum, payable semiannually in May and November, principal fund payments due in varying annual installments commencing with a payment of \$175,000 in May 2012 and increasing to \$3,615,000 in May 2017. These bonds are payable solely from and secured by certain revenues. The bonds have been issued for deposit to trust and endowment funds.	<u>14,990,000</u>	<u>14,990,000</u>
	<u>26,485,000</u>	<u>26,940,000</u>

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(11) Long-Term Obligations, Continued

Bonds Payable, Continued

	<u>2004</u>	<u>2003</u>
Less discount on bond issuance	<u>(1,945,183)</u>	<u>(2,438,826)</u>
Bond payable, net of discount on bond issuance	24,539,817	24,501,174
Less current portion	<u>(470,000)</u>	<u>(430,000)</u>
Bonds payable, net of current portion	\$ <u>24,069,817</u>	\$ <u>24,071,174</u>

The annual payments on series 2001 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2004, and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2005	\$ 470,000	\$ 906,040	\$ 1,376,040
2006	505,000	882,540	1,387,540
2007	570,000	857,290	1,427,290
2008	1,815,000	1,087,343	2,902,343
2009	1,895,000	1,253,590	3,148,590
2010 through 2014	11,800,000	4,612,113	16,412,113
2015 through 2017	<u>9,430,000</u>	<u>1,092,805</u>	<u>10,522,805</u>
	\$ <u>26,485,000</u>	\$ <u>10,691,721</u>	\$ <u>37,176,721</u>

During the years ended September 30, 2004 and 2003, the following changes occurred in liabilities reported as part of GEDCA's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2004</u>	Due within <u>one year</u>
Bonds payable	\$ 26,940,000	\$ -	\$ (455,000)	\$ 26,485,000	\$ 470,000
Notes payable	<u>1,019,116</u>	<u>-</u>	<u>(60,333)</u>	<u>958,783</u>	<u>64,070</u>
	27,959,116	-	(515,333)	27,443,783	534,070
Deferred amounts:					
Unamortized discount on bonds issued	<u>(2,438,826)</u>	<u>-</u>	<u>493,643</u>	<u>(1,945,183)</u>	<u>-</u>
	<u>25,520,290</u>	<u>-</u>	<u>(21,690)</u>	<u>25,498,600</u>	<u>534,070</u>
Other liabilities					
Unfunded pension	123,354	46,312	-	169,666	-
DCRS sick leave liability	70,425	13,095	-	83,520	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>200,623</u>	<u>59,407</u>	<u>-</u>	<u>260,030</u>	<u>-</u>
	\$ <u>25,720,913</u>	\$ <u>59,407</u>	\$ <u>(21,690)</u>	\$ <u>25,758,630</u>	\$ <u>534,070</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
(A Public Corporation)
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Notes to Financial Statements
September 30, 2004 and 2003

(11) Long-Term Obligations, Continued

	Balance October 1, <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2003</u>	Due within <u>one year</u>
Bonds payable	\$ 28,260,000	\$ -	\$ (1,320,000)	\$ 26,940,000	\$ 1,249,377
Notes payable	<u>2,369,615</u>	<u>-</u>	<u>(1,350,499)</u>	<u>1,019,116</u>	<u>60,805</u>
	30,629,615	-	(2,670,499)	27,959,116	1,310,182
Deferred amounts:					
Unamortized discount on bonds issued	<u>(2,929,649)</u>	<u>-</u>	<u>490,823</u>	<u>(2,438,826)</u>	<u>-</u>
	<u>27,699,966</u>	<u>-</u>	<u>(2,179,676)</u>	<u>25,520,290</u>	<u>1,310,182</u>
Other liabilities					
Unfunded pension	123,354	-	-	123,354	-
DCRS sick leave liability	-	70,425	-	70,425	-
Deposits	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>
	<u>130,198</u>	<u>70,425</u>	<u>-</u>	<u>200,623</u>	<u>-</u>
	<u>\$ 27,830,164</u>	<u>\$ 70,425</u>	<u>\$ (2,179,676)</u>	<u>\$ 25,720,913</u>	<u>\$ 1,310,182</u>

(12) Investment in Stock

During the year ended September 30, 1998, GEDCA paid \$61,700 for shares (a 72% interest) of preferred stock in Heli-Guam, Inc. (HGI). This investment is carried at \$0 using the equity method. As of September 30, 2004 and 2003, the carrying value of this investment has been adjusted for its prorata share of losses.

A summary of investment in stock at September 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Bank of Guam	\$ 3,500	\$ 3,500
Heli-Guam, Inc	<u>-</u>	<u>-</u>
	<u>\$ 3,500</u>	<u>\$ 3,500</u>

(13) Other Income (Expense)

Other income and expense for the year ended September 30, 2003 includes the sale of the Big 8 Drydock for \$1,398,228. The buyer assumed GEDCA's existing loan balance to GDFA. During the year ended September 30, 2004, GEDCA sold equipment located in the former Ship Repair Facility to the same party for \$700,000 in cash. The equipment was acquired at no cost from a transfer from the U.S. Navy in 1999.

(14) Typhoon Recovery

On December 8, 2002, Supertyphoon Pongsona struck Guam, with destructive winds of approximately 180 miles per hour. The Authority sustained typhoon damages and received FEMA and landlord assistance summarized as follows:

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Notes to Financial Statements
September 30, 2004 and 2003

(14) Typhoon Recovery, Continued

	<u>2004</u>	<u>2003</u>
Restoration costs incurred	\$ 20,251	\$ 48,319
Property, plant and equipment damage	23,094	62,633
Inventory damage	<u>-</u>	<u>34,613</u>
Total typhoon loss	43,345	145,565
FEMA reimbursements	499,697	40,318
FEMA reimbursement receivable	177,592	-
Reclassification of prior year expense to PP&E	44,798	-
GHC contribution	20,000	-
Landlord contribution	<u>-</u>	<u>130,000</u>
Typhoon recovery, net	\$ <u>698,742</u>	\$ <u>24,753</u>

As of September 30, 2004, GEDCA paid \$1,172,148 relating to restoration and replacement of leasehold improvement and contents, of which \$1,148,376 was capitalized as fixed assets. Of these costs, \$717,607 is reimbursable by FEMA (based on the original cost estimate and Notice to Proceed dated December 2002). As of September 30, 2004, \$540,015 has been received and \$177,592 is included in other receivables in the accompanying statements of net assets. Additionally, GEDCA also received landlord and GHC contributions totaling \$150,000. The remaining cost of \$304,541 is to be contributed by GEDCA. GEDCA has submitted FEMA reimbursement requests in excess of original approved amounts and is in active negotiation to receive additional funds approximating \$230,000. However, since the ultimate outcome of the negotiation is uncertain, no receivable has been recorded for this amount.

Restoration and replacement of leasehold improvements and contents has been substantially completed as of September 30, 2004. GEDCA does not expect to incur additional costs of a material amount.

(15) Financial Advisory Services

GEDCA entered into a financial advisory agreement (the Agreement) to receive debt issuance and related services. The Agreement calls for an annual fee of \$500,000, payable quarterly, plus actual expenses incurred. GEDCA has also entered into two separate Memorandums of Understanding (MOU) with Guam Power Authority (GPA) and Guam Waterworks Authority (GWA) to provide financial advisory services. As of September 30, 2004 and 2003, balances related to these agreements are as follows:

Receivable from:	<u>2004</u>	<u>2003</u>
Guam International Airport Authority (GIAA)	\$ 278,098	\$ 278,098
GPA	125,000	125,000
GWA	<u>50,000</u>	<u>-</u>
	\$ <u>453,098</u>	\$ <u>403,098</u>
Payable under the Agreement	\$ <u>953,452</u>	\$ <u>578,452</u>

GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
(A Public Corporation)
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Notes to Financial Statements
September 30, 2004 and 2003

(15) Financial Advisory Services, Continued

The difference between 2003 receivables and payables of \$175,354 was recorded to reduce bond fee income of \$305,409, previously recognized during the year ended September 30, 2003 (refer note 16). The aggregate differential as of September 30, 2004 has been allocated to ongoing bond projects that are expected to be finalized in the years ended September 30, 2005 and 2006, and consequently, these costs have been recorded as deferred charges in the accompanying statement of net assets. Collection of the deferred charges is contingent upon final realization of the bond issuances. Additionally, the receivable from GIAA is currently in negotiation, and the final outcome of this matter is not currently predictable.

(16) Prior Year Restatements

2001 Series A and B bonds include certain capital appreciation bonds, which were issued at a discount, that are to be accreted to par value through November 15, 2007 upon which they are converted into ordinary term bonds with maturity dates from May 15, 2008 and May 15, 2016. No payment of interest expense occurs for these bonds until after November 15, 2007. Interest expense, therefore, represents accretion of issuing discount. These bonds were recorded at issued value in the 2003 and 2002 financial statements. During the year ended September 30, 2004, it was determined that the bonds should be presented at Par, with the difference between Par and issued value recorded as discount, and discount accretion as interest expense.

As discussed in note 1, 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. During the year ended September 30, 2004, GEDCA has estimated that a liability of \$70,425 existed as of September 30, 2003.

During the year ended September 30, 2004, GEDCA re-evaluated the manner in which bond service revenue and financial advisory service costs were recorded under the Agreement discussed in note 15. As a result, bond service fee income recorded for the year ended September 30, 2003 was reduced by \$175,354.

The accompanying 2003 financial statements have been restated for the foregoing as follows:

Beginning unrestricted net asset deficiency, as originally stated	\$ 19,816,133
Accretion of discount on Capital Appreciation Bonds	982,073
DCRS sick leave liability	70,425
Bond service fee	<u>175,354</u>
Beginning unrestricted net asset deficiency, as restated	\$ <u>21,043,985</u>

**GUAM ECONOMIC DEVELOPMENT AND COMMERCE AUTHORITY
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2004 and 2003

	2004	Restated 2003
Salaries and wages:		
Salaries	\$ 826,603	\$ 1,276,434
Benefits	456,112	735,598
Total salaries and wages	\$ 1,282,715	\$ 2,012,032
Employees at end of year	21	27

See accompanying independent auditors' report.

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2004 AND 2003

Independent Auditors' Report

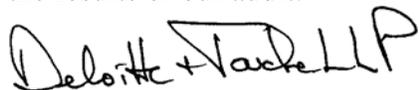
The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the accompanying statements of fiduciary net assets of the Guam Development Fund Act, the Agricultural Development Fund, the Agricultural Expense Insurance Fund, the Landowner's Recovery Fund, the Housing and Urban Development Fund, the Local Arts Revolving Fund, the Guam Territorial Aquarium Foundation, the Aquacultural Training Fund, the Music and Legends of Guam Fund, the Microenterprise Development Program and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 2004 and 2003, and the related statements of changes in fiduciary net assets for the years then ended. The Funds are administered by the Guam Economic Development and Commerce Authority (a public corporation) which is a component unit of the Government of Guam. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 2004 and 2003, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated May 13, 2005, on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



May 13, 2005

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

Statements of Fiduciary Net Assets
September 30, 2004 and 2003

ASSETS	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Cash on hand and in bank	\$ 56,293	\$ 70,471	\$ 29,600	\$ 27,042	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable	10,105,132	10,755,615	709,440	844,480	-	-	-	-	67,220	125,677
Less allowance for doubtful receivables	(4,093,950)	(4,306,950)	(449,337)	(449,337)	-	-	-	-	(64,990)	(89,297)
Net notes and accrued interest receivable	6,011,182	6,448,665	260,103	395,143	-	-	-	-	2,230	36,380
Due from other funds:										
Guam Economic Development Authority	-	465,318	-	-	-	-	-	-	39,446	32,638
Guam Development Fund Act	-	-	8,459	-	-	-	10,611	10,611	251	255
Agricultural Development Fund	-	21,482	-	-	-	-	-	-	-	-
Local Arts Revolving Fund	8,703	8,703	-	-	-	-	-	-	-	-
Microenterprise Development Program	-	-	420	347	-	-	-	-	-	-
Investments	3,215,010	1,736,123	355,315	371,942	-	-	-	-	-	-
Other real estate:										
Land (GDFA is net of an allowance of \$148,946 and \$0 at 2004 and 2003, respectively)	935,155	1,109,570	193,000	150,000	-	-	-	-	-	-
Leasehold interest, net	789,075	713,882	333,171	333,171	-	-	-	-	-	-
Other receivables	10,376	-	-	-	-	-	-	-	-	-
Furniture and equipment, at cost, net	17,150	20,212	2,588	3,629	-	-	-	-	-	-
Other assets	6	6	27	27	-	-	-	-	-	-
	4,975,475	4,075,296	892,980	859,116	-	-	10,611	10,611	39,697	32,893
Restricted assets:										
Investments	2,121,100	2,491,900	-	-	-	-	-	-	-	-
Total assets	\$ 13,164,050	\$ 13,086,332	\$ 1,182,683	\$ 1,281,301	\$ -	\$ -	\$ 10,611	\$ 10,611	\$ 41,927	\$ 69,273

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Assets, Continued
September 30, 2004 and 2003

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<u>LIABILITIES AND NET ASSETS</u>										
Liabilities:										
Accounts payable and accrued expenses	\$ 32,292	\$ 33,548	\$ 11,981	\$ 9,186	\$ -	\$ -	\$ -	\$ -	\$ 242	\$ 242
Due to other funds:										
Guam Economic Development Authority	33,989	-	13,342	17,386	-	-	-	-	-	-
Guam Development Fund Act	-	-	-	21,482	-	-	-	-	-	-
Guam Territorial Aquarium Foundation	-	-	-	-	-	-	1,086	1,086	-	-
Landowner's Recovery Fund	10,611	10,611	-	-	-	-	-	-	-	-
Microenterprise Development Program	251	255	-	-	-	-	-	-	-	-
Agricultural Development Program	8,459	-	-	-	-	-	-	-	420	347
Total liabilities	<u>85,602</u>	<u>44,414</u>	<u>25,323</u>	<u>48,054</u>	<u>-</u>	<u>-</u>	<u>1,086</u>	<u>1,086</u>	<u>662</u>	<u>589</u>
Contingencies										
Net assets held in trust	<u>13,078,448</u>	<u>13,041,918</u>	<u>1,157,360</u>	<u>1,233,248</u>	<u>-</u>	<u>-</u>	<u>9,525</u>	<u>9,525</u>	<u>41,265</u>	<u>68,684</u>
Total liabilities and net assets	<u>\$ 13,164,050</u>	<u>\$ 13,086,332</u>	<u>\$ 1,182,683</u>	<u>\$ 1,281,302</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 41,927</u>	<u>\$ 69,273</u>

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Assets (Deficiency)
September 30, 2004 and 2003

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
ASSETS												
Due from other funds:												
Guam Economic Development Authority	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22	\$ 22
Landowner's Recovery Fund	-	-	-	-	1,086	1,086	-	-	-	-	-	-
Other receivables	445	445	-	-	-	-	-	-	-	-	21	21
Investments	-	-	-	-	17,682	18,413	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	14,700	14,700	-	-
Total assets	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,768</u>	<u>\$ 19,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,700</u>	<u>\$ 14,700</u>	<u>\$ 43</u>	<u>\$ 43</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)												
Liabilities:												
Due to other funds:												
Guam Development Fund Act	\$ -	\$ -	\$ 8,703	\$ 8,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>8,703</u>	<u>8,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets held in trust	445	445	(8,703)	(8,703)	18,768	19,499	-	-	14,700	14,700	43	43
Total liabilities and net assets	<u>\$ 445</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,768</u>	<u>\$ 19,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,700</u>	<u>\$ 14,700</u>	<u>\$ 43</u>	<u>\$ 43</u>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets
Years Ended September 30, 2004 and 2003

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Additions:										
Interest	\$ 394,079	\$ 426,451	\$ 21,312	\$ 12,543	\$ -	\$ -	\$ -	\$ -	\$ 961	\$ 4,780
Net (decrease) increase in the fair value of investments	1,301	(25,144)	(29,265)	18,824	-	-	-	-	-	-
Other	141,487	139,211	-	-	-	-	-	403,653	-	-
Total additions	536,867	540,518	(7,953)	31,367	-	-	-	403,653	961	4,780
Deductions:										
Provision for doubtful notes and accrued interest	-	641,940	-	119,444	-	-	-	-	28,375	449
Salaries and benefits	251,151	423,824	53,737	165,654	-	-	-	-	-	-
Valuation loss in land	148,946	-	-	-	-	-	-	-	-	-
Professional services	2,361	9,218	138	2,387	-	-	-	20,000	4	-
Rent	39,518	48,392	12,422	15,212	-	-	-	-	-	-
Bank charges	7,127	6,076	531	684	-	-	-	-	-	-
Depreciation	14,869	24,532	1,041	-	-	-	-	-	-	204
Promotions	-	45	-	-	-	-	-	-	-	-
Typhoon Damage	-	9,908	-	1,292	-	-	-	-	-	395
Miscellaneous	36,365	(3,483)	66	436	-	-	-	-	1	6
Total deductions	500,337	1,160,452	67,935	305,109	-	-	-	20,000	28,380	1,054
Net change in net assets (deficiency)	36,530	(619,934)	(75,888)	(273,742)	-	-	-	383,653	(27,419)	3,726
Net assets (deficiency) at beginning of year	13,041,918	13,661,852	1,233,248	1,506,990	-	-	9,525	(374,128)	68,684	64,958
Net assets (deficiency) at end of year	\$ 13,078,448	\$ 13,041,918	\$ 1,157,360	\$ 1,233,248	\$ -	\$ -	\$ 9,525	\$ 9,525	\$ 41,265	\$ 68,684

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets (Deficiency)
Years Ended September 30, 2004 and 2003

	Housing and Urban Development Fund		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam Fund		U.S. Base Realignment and Closure Committee	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Additions:											
Other	\$ -	\$ 43,989	\$ -	\$ -	\$ 158	\$ 1,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,592
Total additions	-	43,989	-	-	158	1,055	-	-	-	-	-	12,592
Deductions												
Provision for doubtful notes and accrued interest	-	-	-	453	-	-	-	-	-	-	-	-
Promotions	-	-	-	-	-	-	-	-	-	(22)	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	2,076
Typhoon damage	-	-	-	-	-	-	-	-	-	-	-	147
Miscellaneous	-	-	-	-	889	26	-	-	-	-	-	-
Total deductions	-	-	-	453	889	26	-	-	-	(22)	-	2,223
Net change in net assets (deficiency)	-	43,989	-	(453)	(731)	1,029	-	-	-	22	-	10,369
Net assets (deficiency) at beginning of year	445	(43,544)	(8,703)	(8,250)	19,499	18,470	-	-	14,700	14,678	43	(10,326)
Net assets (deficiency) at end of year	\$ 445	\$ 445	\$ (8,703)	\$ (8,703)	\$ 18,768	\$ 19,499	\$ -	\$ -	\$ 14,700	\$ 14,700	\$ 43	\$ 43

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2004 and 2003

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

AEIF - AEIF was created to insure or to reinsure insurers of farmers, livestock producers and commercial fishermen against losses due to natural disasters. The premiums are collected at rates sufficient to cover claims for losses and to provide a reasonable reserve against unforeseen losses. Initial funding was by an appropriation from the Government of Guam. There were no insurance policies issued in 2004 and 2003 nor were there any policies outstanding at September 30, 2004 and 2003.

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

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

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

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

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

Notes to Financial Statements
September 30, 2004 and 2003

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

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

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

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

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

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDCA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 2004 and 2003.

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

Basis of Accounting

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

For the year ended September 30 2002, the Funds adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No.s 37 and 38. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments.

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

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

Notes to Financial Statements
September 30, 2004 and 2003

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

Estimates

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

Notes and Accrued Interest Receivable

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

Included in notes receivable for GDFA as of September 30, 2004 and 2003, is a note due from GEDCA for \$958,783 and \$1,019,116, respectively. The note bears interest at 4.5% and is due in 2016.

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

Inventories

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

Investments

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

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

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

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

Notes to Financial Statements
September 30, 2004 and 2003

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

Expenses

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

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

Reclassification

Certain reclassifications have been made to the 2003 financial statements to correspond with the 2004 presentation.

(2) Cash Deposits

Cash includes cash on hand and cash on deposit in banks. At September 30, 2004 and 2003, the Funds have cash balances of \$85,893 and \$97,513, respectively, deposited in checking accounts. Of the total deposits, up to \$100,000 each year is insured by the Federal Deposit Insurance Corporation. The remaining balances are not insured or collateralized.

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

(3) Other Real Estate, Land

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

A summary of the changes in other real estate for 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 1,259,570	\$ 1,074,870
Additions	123,000	184,700
Sales	<u>(105,469)</u>	<u>-</u>
	1,277,101	1,259,570
Provision for valuation loss	<u>(148,946)</u>	<u>-</u>
Balance at end of year	\$ <u>1,128,155</u>	\$ <u>1,259,570</u>

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

Notes to Financial Statements
September 30, 2004 and 2003

(4) Other Real Estate, Leasehold Interest

G DFA and ADF have acquired leasehold interest in land through foreclosure of loans. Leasehold interests are reflected at cost of \$1,151,600 and \$1,064,600, net of accumulated amortization of \$29,354 and \$17,547 at September 30, 2004 and 2003, respectively.

(5) Contingencies

At September 30, 2004 and 2003, G DFA was contingently liable as guarantor for loans in the amount of \$2,121,100 and \$2,181,100, respectively, and any related collection costs. In accordance with Section 4 of the Guam Development Fund Act of 1968; G DFA is required to maintain reserves of not less than 25% of the loan guarantee. Subsequent to year-end, G DFA settled a guaranty of \$311,200 for \$170,000 and has recorded a loan receivable accordingly.

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

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

The Board of Directors
Guam Economic Development and Commerce Authority:

We have audited the financial statements of the Guam Economic Development and Commerce Authority and subsidiaries (GEDCA), as of September 30, 2004, and for the year then ended, and have issued our report thereon dated May 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

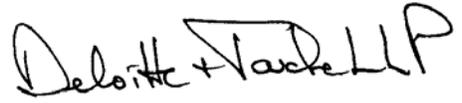
Internal Control Over Financial Reporting

In planning and performing our audit, we considered GEDCA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of GEDCA in a separate letter dated May 13, 2005.

Compliance and Other Matters

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

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

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

May 13, 2005

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

The Board of Directors
Guam Economic Development and Commerce Authority:

Compliance

We have audited the compliance of the Guam Economic Development and Commerce Authority and subsidiaries (GEDCA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2004. GEDCA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of GEDCA's management. Our responsibility is to express an opinion on GEDCA's compliance based on our audit.

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

In our opinion, GEDCA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2004.

Internal Control Over Financial Reporting

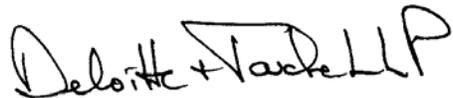
The management of GEDCA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered GEDCA's internal control over compliance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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Economic Development and Commerce Authority (GEDCA) and subsidiaries, as of and for the year ended September 30, 2004, and have issued our report thereon dated May 13, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of GEDCA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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

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

May 13, 2005

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

Federal grantor/ program title/ <u>project designation</u>	Catalog of Federal Domestic Assistance <u>number</u>	Project <u>amount</u>	Balance at beginning <u>of year</u>	<u>Receipts</u>	<u>Expenditures</u>	Receivable at <u>End of Year</u>
Federal Emergency Management Authority Grant*	83.544	\$ <u>717,607</u>	\$ <u>-</u>	\$ <u>540,015</u>	\$ <u>717,607</u>	\$ <u>177,592</u>
Other federal assistance: Guam Development Fund Act*	N/A(1)	\$ <u>6,240,000</u>	\$ <u>10,335,742</u>	\$ <u>672,178</u>	\$ <u>-</u>	\$ <u>9,663,564</u>
U.S. Department of the Interior Grant	15.875	\$ <u>598,384</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

*Denotes a major federal award program.

(1) Other federal assistance:

- (a) The Guam Economic Development Fund Act of 1968, U.S. Public Law 90-601, authorized funding to establish a Revolving Loan Fund which would be used to develop private industry on Guam by providing loans and loan guarantees to qualified businesses. Subsequently, Public Law 95-134, authorized additional appropriations to supplement the Revolving Fund. As a result of these two public laws, the Government of Guam received a total of \$6,240,000 for the Revolving Fund.
- (b) The federal grant above is classified as "other federal assistance" as it has not been assigned a "Catalog of Federal Domestic Assistance Number".
- (c) The \$9,663,564 above reflects the Revolving Loan Fund receivable balance at September 30, 2004. The difference between the September 30, 2004 balance and the project amount represents interest income.
- (d) The \$9,663,564 principal balance above, plus accrued interest receivable and legal fee costs of \$441,568 at September 30, 2004, reconciles to the Guam Economic Development Fund \$10,105,132 notes and accrued interest receivable balance per the September 30, 2004 financial statements.
- (e) Per the Guam Economic Development Fund Act, \$6,240,000 was received directly from the federal agency. Subsequent contributions have been made by the Guam Legislature.

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Part I - Summary of Auditors' Results

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

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Guam Development Fund Act	N/A
Federal Emergency Management Agency	83.544

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

Part II - Financial Statement Findings Section

No matters are reportable.

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.