

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

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

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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

Table of Contents
Years Ended September 30, 2016 and 2015

	<u>Page No.</u>
I. FINANCIAL STATEMENTS	
<u>Guam Economic Development Authority</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statements of Net Position	17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19
Notes to Financial Statements	20
Required Supplementary Information:	
Schedule of Proportional Share of the Net Pension Liability	45
Schedule of Pension Contributions	46
Other Supplementary Information:	
Supplemental Schedule of Salaries and Wages	47
Supplemental Comparative Divisional Schedules of Net Position	48
Supplemental Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Position	49
Supplemental Comparative Divisional Schedules of Cash Flows	50
<u>Trust Funds Administered by the Guam Economic Development Authority</u>	
Independent Auditors' Report	51
Basic Financial Statements:	
Statements of Fiduciary Net Position	53
Statements of Changes in Fiduciary Net Position	54
Notes to Financial Statements	55
II. INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	
<u>Guam Economic Development Authority</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	64
<u>Trust Funds Administered by the Guam Economic Development Authority</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	66

Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Economic Development Authority (the "Authority"), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Economic Development Authority as of September 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Proportional Share of the Net Pension Liability on page 45, and the Schedule of Pension Contributions on page 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension that GASB requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by GASB which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental divisional information on pages 17 through 19, the supplemental schedule of salaries and wages on page 47 and the supplemental comparative divisional schedules on pages 48 through 50 are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 25, 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

PREFACE

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

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

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

ASSISTING LOCAL ENTERPRISE/PROMOTING INVESTMENTS

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

BUSINESS DEVELOPMENT DIVISION (BDD)

Economic Development Trade Missions

The Business Development Division assisted in the promotion of the Administration's Economic Development Initiatives by coordinating and leading InvestGuam Trade Missions to Taiwan, Palau and Hong Kong in 2016.

- Taiwan Business Trip – April 2016
- Palau Business Trip – June 2016
- HICAP 2016 (Hotel Investment Conference Asia Pacific) – October 2016

The trade missions resulted in agreements between Guam Health Insurance companies and Taiwan hospitals for medical referral purposes. It also encouraged numerous business visits to Guam by China Medical University Hospital and the Taiwan Adventist Hospital. The Taiwan hospitals are very interested in long-term wellness investments opportunities in Guam.

BDD also attended HICAP 2016 in Hong Kong to promote Guam's unique hotel and tourism opportunities. HICAP is the region's leading convention for hotel owners, developers, operators and investors to meet and discuss issues and news related to their industry. BDD was able to network with many of these operators in Asia and provide information about Guam. BDD and GEDA must play a greater role in marketing and promoting our primary industry.

In addition, BDD continues to follow up with interested contacts made through previous trade missions. In June 2016, GEDA and the Shanghai Pudong New Area Commission of Commerce signed a Memorandum of Understanding (MOU) to encourage greater economic and trade ties between the government entities. The MOU was signed at the governor's office in Guam. We also entertained investor visits from Shanghai Pudong, Taiwan, Philippines, Korea and Palau. Investors are interested in opportunities related to power generation, agriculture, technology and education, and hotel investment.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Qualifying Certificates (QC) Program

The Legislature recognizes that the Qualifying Certificate program of the Guam Economic Development Authority was conceived as an economic incentive tool to entice investors into Guam. In use for over five (5) decades, it has had substantial positive impact upon the economic development of the territory, mainly in the tourist industry.

In order to help develop industries on Guam, GEDA has been tasked with managing the Tax Qualifying Certificate Program (QC). Although the QC program has significant benefits to attract new investment, GEDA must continue to improve the program and make it more relevant to new investors. In December 2014 legislation was created to establish the Special Hotel QC, which addressed the need for additional hotel rooms. GEDA recognizes that each industry has unique needs and community benefits. With this, it is GEDA's intent to continue to redraft the QC program with industry specific QCs comprised of incentives and community benefits appropriate for the specific industry.

Guam Product Seal Program

With the Governor's Executive Order 2012-11, the administration and compliance of the Guam Product Seal (GPS) was transferred to GEDA. The GPS program focuses on Guam's local manufacturers with the intent of authenticating products that are made in Guam.

Each year GEDA hosts the "Made in Guam" Product Fair and in 2016, it was held on Black Friday, November 25th at The Guam Premier Outlet. It was estimated that over a thousand customers visited the mall and hundreds visited the fair that was located at the main entrance, adjacent to Ross Department Store. Over 25 GPS members participated in the all-day affair. To support the marketing of the fair, a 30 second TV commercial was created and aired on various local stations and on social media.

At the end of 2016, GEDA issued 96 Guam Product Seal Certificates covering a range of products from snacks foods, souvenir items, clothing and art. GEDA will continue to drive membership by seeking out companies that manufacture locally. Plans for the 2017 Made in Guam Product Fair are being finalized and the location has yet to be determined.

Film Industry – The Development of a Film Commission

On January 4, 2012, Governor Calvo signed into law P.L. 343-31 establishing the Guam Film Office within GEDA. GEDA has been mandated to develop and organize Guam's Film Industry overseeing all film, video and photographic projects and activities on Guam. BDD has prepared a draft Rules & Regulations for the Guam Film Office and will be reviewing it with our administrators by the end of April 2017 and plans to have it finalized by the summer of 2017.

Imagine Guam Program

GEDA continued to play an important role in supporting the Imagine Guam program. In 2016, two Imagine Guam conventions were held finalizing the need to solicit input from the community on what Guam could be in year 2065. These community gatherings were to refine the values that will drive Guam and its development for the next 50 years. A Comprehensive Master Plan was developed and presented to the Governor. The plan will guide the next phases of the Imagine Guam initiative.

International Economic Development Council (IEDC)

GEDA will attend the IEDC 2017 Annual Conference in Toronto, Canada from September 17-20, 2017. The conference will showcase how economic developers are shaping communities that emerge stronger and more resilient.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

The IEDC is a non-profit membership organization serving economic developers. In 2016, the membership grew to over 5,000 members and is the largest organization of its kind. GEDA registered its membership in 2016.

SPECIAL PROJECTS

Chamorro Village

BDD developed a marketing plan to promote activity for Chamorro Village (CV) and the 34 festival huts built to support the 2016 Festival of the Pacific Arts. The program was ready for execution; however, the Memorandum of Agreement between the Department of Chamorro Affairs and GEDA was not approved by the Attorney General's office. BDD has been actively supporting and networking with the staff and vendors of CV in anticipation that an executive order will be issued by the governor to transfer the management, operations and assets of CV to GEDA.

Department of Public Works (DPW) Permit Center

BDD developed a preliminary report that would identify the operations and cost should the DPW Permit Center be transferred to GEDA. The administration is taking a hard look at creating a One Stop Business License and Permit Center under the management of GEDA. The objective is to improve the operations and reduce the time necessary to issue a business license and permit.

Community Outreach and Marketing Program

BDD has participated and continues to participate in numerous business associations and activities as part of our marketing and education outreach program. The Guam Chamber of Commerce, Guam Society of Realtor, various Rotary Organizations, Health Insurance forums are to name a few. BDD will also become more involved with the Guam Chamber of Commerce and other business chambers and associations in 2017.

PUBLIC FINANCE DIVISION

Mandated to serve as the Central Financial Manager for the Government of Guam, GEDA assists with, coordinates and monitors Financial Advisory Services, Capital Financing, Debt Management and access to the Capital Markets. Accomplishments in FY2016 include the following:

\$143.3M GWA Water and Wastewater System Revenue Bonds (Feb 2016)

The Guam Waterworks Authority (GWA) successfully sold the Series 2016 GWA Water and Wastewater System Revenue Bonds valued at \$143.3 million. The bond was sold at a low interest rate of 4.26% with demand exceeding available bonds 10 times over.

Governor Calvo, members of his Fiscal team and GEDA joined the GWA and Consolidated Commission of Utilities (CCU) team in about 20 investor meetings and calls held prior to the bond pricing. The group addressed questions about GWA and Guam's economic outlook, especially in light of the problems Puerto Rico was having with their economic downfall. Proceeds from the Series 2016 will be used to finance capital improvements to Guam's water and wastewater system.

\$38.6M GEFF Certificates of Participation Series 2016 A & B Bonds (August 2016)

On August 4, 2016, GEDA and the Fiscal Team assisted the Guam Education Financing Foundation (GEFF) in the successful refunding of \$38.6 million Certificates of Participation (COP) Series 2016 with an All-In True Interest Cost of 3.49%. The Series 2016 COP successfully refunded the 2006 and 2008 COPs with a total savings of \$3.8 million or a 5.7% lease payment savings.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

The new COP kept in place the existing lease-leaseback arrangement with the existing developer and maintenance contractor. Savings for the government was substantial because of favorable market conditions and strong investor demand. The refinancing was authorized by PL 33-94 as amended by PL 33-118.

\$236.6M Section 30 Bond Refinancing and New Money for GMHA (August 2016)

GEDA worked closely with the Guam Memorial Hospital Authority (GMHA) and the Office of the Governor in addressing its current financial challenges. GEDA also participated in Senator Rodriguez's GMHA Task Force, focused on creating Private-Public Partnership structures for the management of health care on island.

On August 15, 2016, GEDA and the Fiscal Team successfully sold \$236.6 million in Limited Obligation (Section 30) Bonds. The bonds were sold at a record low All-in True Interest Cost of 3.32%. Proceeds from the issuance went to the refunding of the 2009 Section 30 Bonds, liquidating the Bank of Guam loan to GMHA, refunding of the Okkodo COPs Series 2013B, and \$45M of new money for GMHA Vendor Payables.

PROMESA leads to Fitch downgrade of Guam BPT bonds (December 2016)

Puerto Rico's financial problems caused Fitch Ratings to downgrade the Government of Guam's outstanding Business Privilege Tax (BPT) bonds from A- to BB.

The rating had nothing to do with a change in Guam's credit strength or any factor within Guam's control. It was prompted entirely by the federal ***Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)***, which President Obama signed into law on June 30, 2016. Fitch stated that despite Guam's strong economy and growing revenues, they are concerned with the Government's inability to sustain a structural balance and high liability burden. Based on their unchanging position the Government requested the ratings be withdrawn.

On July 11, 2016, Standard & Poors Global, the other rating agency to rate the BPT credit affirmed it's A rating on the BPT bonds.

Rating Agency Activity

GEDA assists with and facilitates meetings with bond rating agencies on an annual basis to provide updates on Guam's economy and its financial picture. These meetings involve hours of work with the financial analysts, obtaining the latest on the economic landscape and then providing a report that is indicative of the agencies performance. Over the past year, the following agencies were evaluated and all ratings were either affirmed or upgraded. Below are the details.

- Government of Guam General Obligation Bonds: S&P reaffirmed the rating at BB- with a Stable outlook (5/4/16).
- Business Privilege Bonds Series A, B & C: S&P reaffirmed at an investment grade A with a Stable outlook (7/11/16).
- Guam International Airport Authority Revenue Bonds: S&P has reaffirmed its BBB rating with a Stable outlook (3/22/16)
- Guam Power Authority (GPA) Bonds: Fitch rating at BBB- with a Stable outlook (1/06/17) and Moody's rating affirmed at Baa2 with a Stable outlook (10/12/16). GEDA and GPA officials met all 3 rating agencies in August 2016 to provide the update to all analysts.
- Guam Waterworks Authority: Fitch affirms rating of BBB- with a Stable outlook (2/24/2017).

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Bond Disclosure Services (FY2016)

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

- 2007 Guam Economic Development Authority Tobacco Settlement Asset-Backed Bonds
- 2009 General Obligation Bonds
- 2010 Certificate of Participation's (John F. Kennedy project)
- 2011 Government of Guam Hotel Occupancy Tax Revenue Bonds
- 2011, 2012, 2013, 2016 Government of Guam Business Privilege Tax
- 2015 Industrial Development Authority (Guam Facilities Foundation, Inc. Tiyan Project) COP's
- 2016 Limited Obligation (Section 30) Bonds
- 2016 GDOE Guam Education Facilities Foundation (GEFF) COP's

Private Activity Bond Program

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

2017 carry-over volume cap in the amount of approximately \$248,407,234 will be available during the year for any of the designated types of bonds.

REAL PROPERTY

GEDA manages three industrial parks: the E.T. Calvo Memorial Park, the Harmon Industrial Park and a small portion of Port Authority of Guam property generating an average of about 700 to 1,000 jobs annually, \$41.0 million in payroll, over \$130 million in gross sales and over \$6.0 million in GRT. In an effort to generate additional revenues for GEDA as a result of losing major properties within the Port Authority of Guam (equating to \$500K per year) and the Guam Shipyard Sublease in FY 2013 (equating to \$132K per year), GEDA purchased certain improvements which are situated within the E.T. Calvo Memorial Park at a combined cost of \$500,000. As a result of this purchase, GEDA sees annual lease rents collected at approximately \$110,000, well above the previous lease arrangements whereby the Authority collected only \$68,000 per annum from these two subleases.

In seeking additional opportunities to recapture downward trending operational revenues by leveraging GEDA's real property management program, GEDA engaged in a management Memorandum of Understanding with the Guam Ancestral Lands Commission (GALC), to manage leases on the Spanish Crown properties. For the period October 2007 to January 2017, GEDA collected over \$5.1 million in ground lease rents and participation rents of which over \$4.4 million was remitted to GALC while the difference was retained by GEDA as provided for in the MOU.

GEDA also executed an MOU with the Chamorro Land Trust Commission (CLTC) which was approved by the Governor on April 24, 2013 for general consultancy and property management services for commercial land leases which could potentially generate over \$300K in management fees for GEDA annually if properties identified for commercial use are realized by CLTC and the Legislature. Overall, Industrial Parks along with GEDA's share of GALC leases revenues generate approximately \$1.3 million per year for the Authority's operating revenues.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Public Law 30-228 which authorized the use of over \$55 million of the proceeds from the 2011 Hotel Occupancy Tax Bond requires the construction of various capital improvement projects throughout the island. GEDA, through a Memorandum of Agreement with the Office of the Governor of Guam (OOGG), has established a Program Management Office (PMO) to oversee, coordinate and manage capital improvement projects and other programs assigned to the PMO by the OOGG. The establishment of the PMO at GEDA carries out the Office of the Governor's objective that such programs and projects are properly managed to ensure that public resources are utilized in an efficient, expeditious and effective manner to allow for the implementation of as many projects and programs as possible and to allow local businesses, residents and visitors to enjoy the economic and social benefits of these projects and programs.

As of the end of calendar year 2016, GEDA has completed nearly all of the projects listed to include the restoration of the Plaza De Espana and the Inarajan Community Center, construction of the Farmers' and Dededo Flea Market Facility, restoration of numerous public parks, scenic and informational signs and new village monuments around the island, renovation of the Mangilao Public Market, renovation of the Hagatna Swimming Pool and Tennis facility, new Pedestrian Safety features in Hagatna, restoration of the Malesso Bell Tower and Magellan Monument and over 95% of the Guam Museum. The other remaining projects anticipated for completion before the conclusion of 2017 include new Pedestrian Safety features in Tumon, completion of the Hagatna Master Plan, lighting improvements at Ypao Park, mitigation of flooding in Tumon and completion of improvements to the Fisherman's Cooperative facility along with reinforcement of the seawall at Paseo.

In March 2016, the United States Department of the Interior awarded a grant in the amount of \$260K to conduct a Boat Ramp Feasibility Study and Design to determine the most feasible boat ramp locations and enhance it to better provide emergency response to the Eastern seaboard of Guam. On July 27, 2016, GEDA issued a Request for Proposal (RFP16-005) soliciting proposals from qualified individuals or firms to provide professional technical services to assist GEDA in implementation of projects in a fashion that meets various objectives and expands and improves Guam's economy. The selected consultant had to have possess demonstrated technical expertise and management capability in the delivery of services in a diversity of disciplines and be readily available to advise, support, and collaborate with GEDA and the Government of Guam in areas including but not limited to: project development, advocacy and coalition building, planning, architectural and engineering services, preparation of program and project feasibility studies; research analysis and recommendation on economic issues and opportunities including those with the federal government; grant writing; and construction program and project management among other areas. Upon selection and award to the highest ranking proposal, the first Task Order was to prepare the Southern Boat Ramp Feasibility Study and Design. GEDA has recently completed negotiations with the selected firm and the contract is currently being reviewed by both parties for final execution.

COMMERCE AND ECONOMIC DEVELOPMENT

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

- Revenue forecasting using the Prevailing Economic Variables (PEV) model
- Data repository and mining activities

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

- Comprehensive economic development planning, including a review of existing Government of Guam master plans to support the Imagine Guam program established by Executive Order 2014-13 and creation of a regional economic scorecard
- Industry-specific research to improve the Qualifying Certificate program as per Public Law 32-233
- Economic analysis on large-scale projects (i.e. medical marijuana, hotel industry, Chamorro Land Trust Commission commercial lease program, Gef Pa'go, interisland high speed ferry and alternative means of transportation, and the shipping industry)
- Review and input on social and economic studies and reports for Guam
- Fiscal policy and stabilization assessment
- Input on proposed legislation on business and economic matters
- Input and technical staff to support the GMHA's Hospital Management Advisory Team (HMAT)
- Compile an annual "Economic Indicator" booklet providing select statistics and data to gauge economic climate
- Prepare a grant application package for the U.S. Department of Commerce, Economic Development Administration's Planning and Local Technical Assistance Program

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

A major role currently undertaken by CED unit involves monitoring the implementation of programs and projects that have favorable impact on job creation, tax revenue, gross domestic production and infrastructure capacity. As one of several research oriented liaisons under the Fiscal Policy Committee, CED is designated to provide economic and financial analysis and recommendation, through which GEDA is able to facilitate development programs that support its primary mission.

LOANS

ADF, GDFA and SSBCI Loan Programs

Agriculture Development Fund (ADF)

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

Guam Development Fund Act (GDFA)

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

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

On October 4, 2011, Governor Calvo received approval of the \$13,168,350 U.S. Treasury funding for the Guam SSBCI Program which would provide additional sources of credit to support and help small businesses located in under-served communities and to provide credit opportunities to women-owned and minority-owned businesses. The overarching goal was to add new jobs to Guam's economy.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Through GEDA's marketing outreach we established a network of participating banks and credit unions to leverage these funds and assist in dispensing these programs out to the community through a loan guaranty.

The SSBCI loan guaranty program (LGP) has proven to be more successful than we had hoped. To date, using the LGP, we have deployed \$8.8 million to support loans to 70 small businesses and circulated \$12 million in new money into Guam's economy thru lending activities. These 70 new ventures comprised of 50 minority owned, 19 women owned, and 1 veteran owned businesses that offered additional goods and services to the local community. They have collectively generated \$40 million in revenues in their first year, created 410 new jobs and resulted in the retention of 474 jobs.

FINANCIAL HIGHLIGHTS

The following table summarizes the Statements of Net Position and Operations of Guam Economic Development Authority for 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current Assets	\$ 21,593,442	\$ 17,001,785	\$ 16,813,747
Long Term Assets:			
Note receivable, net of current portion	-	93,808	-
Building, improvements and equipment, at cost net	490,378	526,049	531,926
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	22,087,320	17,625,142	17,349,173
Deferred outflows of resources	<u>571,955</u>	<u>730,395</u>	<u>981,197</u>
	<u>\$ 22,659,275</u>	<u>\$ 18,355,537</u>	<u>\$ 18,330,370</u>
Liabilities and Net Position:			
Current liabilities	\$ 16,646,109	\$ 12,071,143	\$ 11,660,293
Non-current liabilities	<u>33,173,148</u>	<u>33,359,889</u>	<u>34,607,453</u>
	49,819,257	45,431,032	46,267,746
Deferred inflows of recourses	<u>856</u>	<u>353,251</u>	<u>270,932</u>
Net Position:			
Net investment in capital assets	490,378	526,049	531,926
Restricted	(3,520,376)	(3,556,995)	(3,580,489)
Unrestricted	<u>(24,130,840)</u>	<u>(24,397,800)</u>	<u>(25,159,745)</u>
	<u>(27,160,838)</u>	<u>(27,428,746)</u>	<u>(28,208,308)</u>
	<u>\$ 22,659,275</u>	<u>\$ 18,355,537</u>	<u>\$ 18,330,370</u>
Revenues, Expenses and Changes in Net Position:			
Revenues:			
Operating revenues	\$ 3,184,531	\$ 2,415,060	\$ 2,327,033
Tobacco Settlement Revenue	2,441,209	2,968,356	2,524,077
Provision for bad debts	(876)	-	(76,426)
	<u>5,624,864</u>	<u>5,383,416</u>	<u>4,774,684</u>
Expenses:			
Operating expenses	(3,381,212)	(3,298,511)	(3,313,954)
Other expense, net	<u>(1,975,744)</u>	<u>(1,305,343)</u>	<u>(1,173,047)</u>
Change in net position	267,908	779,562	287,683
Net position at beginning of year	<u>(27,428,746)</u>	<u>(28,208,308)</u>	<u>(28,495,991)</u>
Net position at end of year	<u>\$ (27,160,838)</u>	<u>\$ (27,428,746)</u>	<u>\$ (28,208,308)</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Operating Revenues

In FY2016, GEDA recorded operating revenues of \$3,066,460 compared to \$2,265,123 in FY2015. The year-to-year change of \$801,337 represents an increase of 35.38%. This is mainly due to increase in QC revenue and bond fees. GEDA generates its own revenues to sustain annual operations from three primary sources. The first is the rental income from Industrial Parks, the second is application and surveillance fees from QC beneficiaries and the third source is from the management of the GALC and CLTC Lease properties under the current MOU. Bond fees and other federal and local grants are additional sources of revenues, but may not represent recurring annual income.

Industrial Park

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

Rental income increased by \$76,025 or 6.87% from \$1,106,981 in FY15 to \$1,183,006 in FY16. This is attributed to rent escalation and participation rent received in FY16.

Qualifying Certificate (Q.C.) Program

The Qualifying Certificate program is an economic incentive tool to entice investors into Guam. The program was created in early 1965 to foster the growth of the then fledgling tourism industry. The tax incentive program that offers corporate income tax and corporate dividends tax rebates and real property tax abatements has proven to be a successful tool in the development of the tourism industry and will now serve a critical role in supporting the growth of new and emerging industries. QC revenues increased by \$531,578 or 155% from \$342,187 in FY15 to \$873,765 in FY16. This is mainly attributed to additional QC's for Public Investment contribution from QC#252 and QC#254.

Bond Fees

GEDA's mandate establishes GEDA as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Division, which assists with, coordinates and monitors, Capital Financing Debt Management and the Capital Markets. GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. Bond fees increased by \$205,133 or 28.38% from \$722,744 in FY15 to \$927,877 in FY16. This is due to the timing of the issuance of a bond as well as the total par amount of the bond.

Capital Assets and Long-Term Debt

Land, building, improvements and equipment decreased \$35,141 from \$524,986 in FY15 to \$489,845 in FY16. The decrease is the depreciation expense for the year. There were no significant capital transactions during the year. For additional information concerning capital assets, please refer to note 3 to the financial statements. No additions to long-term debt occurred in FY16. For additional information concerning long-term debt, please refer to note 4 to the financial statements.

Operating Expense

GEDA's operating expense in FY16 was \$3,216,365, an increase of \$98,944 or 3.17% over FY15 of \$3,117,421.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Personnel Expenses

Salaries and benefits (including allocation to trust funds) increase \$275,293 or 10.96% in FY16, which is attributed to increase in benefits as well as staff increments.

Legal and Professional Services

Legal and Professional service expense decrease by \$18,698 or 5.48% from \$341,161 in FY15 to \$322,463 in FY16. Decrease is due to a study of GCEF Business and Sustainability Plan that was done in FY15.

Office Space and Equipment Rental

Total office space and equipment rental (including allocation to trust funds) increase \$5,079 or 1.87% from \$272,057 in FY15 to \$277,136 in FY16. This is attributed to an overage in monthly copy usage.

Travel

Travel expense increase by \$8,886 or 7.77% from \$114,406 in FY15 to \$123,292 in FY16. Increase is attributed to Trade Missions which GEDA leads to market Guam's investment opportunities.

FY2017 INITIATIVES

The Permit Center

BDD will draft the Executive Order that will effectuate the transfer of the DPW Permit Center to GEDA with an effective transfer date of October 1, 2017. GEDA will then begin transforming the Permit Center to become a One Stop Center for permits and business licenses.

Chamorro Village

BDD will draft the Executive Order that will effectuate the transfer of the Chamorro Village from the Department of Chamorro Affairs to GEDA. BDD already prepared a marketing plan to promote the recently constructed 34 huts at the Chamorro Village built to accommodate FESTPAC 2016. BDD will prepare a marketing plan to market and promote the entire Chamorro Village upon signing of the Executive Order for the transfer.

Economic Development Trade Missions planned for 2017

BDD will develop and lead trade missions and business trip to the U.S. and Asia to market Guam's economic opportunities in the industries of Tourism, Agriculture, Manufacturing, Technology and Medical Services. Planned trade missions for 2017 include:

- Singapore – HICAP UPDATE 2017 – March 2017
- Philippines – March 2017
- Guangzhao, China – April 2017
- Taiwan / Vietnam – June 2017
- U.S. Mainland – October 2017
- Shanghai, China – November 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Customer Relationship Management (CRM) software

BDD will acquire and implement a CRM program to manage all its existing and new business contacts and communications to effectively market and promote its program offerings. The CRM software should be implemented by end of Q1, 2017.

Planned Public Finance Projects

University of Guam (UOG) School of Engineering Annex and Student Center Building

Public Law 32-120 authorized an interim loan for UOG in the amount of \$21.7M for the construction of a new Student Services Center and a new School of Engineering. The existing UOG Student Center will be expanded and renovated into a Student Services Center (SSC) that will serve as a one-stop shop by fully integrating vital services into one facility.

The USDA and the UOG Endowment Foundation closed on the loan in December 2016 with the loan interest rate at 2.375% with a 40-year maturity.

InvestGuam Symposium 2017

A key activity of GEDA is to build strong bond investor relations, generate greater interest and provide more advantageous financings for the Government of Guam. In support of this, GEDA hosted the first ever, Invest Guam Symposium 2017, held on February 22nd and 23rd, 2017 at the Dusit Thani Hotel.

This Symposium provides an opportunity for investors to experience first-hand the assets they have or will invest in. The goal of this seminar was to provide investors with updates in tourism, military, ports, utilities and the overall economy as well as enable them to witness the growth Guam has undergone over the past couple of years. It will also help alleviate concerns with the 'Puerto Rico Oversight, Management, and Economic Stability Act' or 'PROMESA' which has raised the concern about Guam's ability to now participate in the municipal markets.

Guam Memorial Hospital Authority – Labor and Delivery Ward

Public Law 32-204 as amended by PL 33-151 authorized a \$9.2M financing for renovation of the Guam Memorial Hospital Labor and Delivery Ward. The loan will be secured by the unpledged portion of the Business Privilege Tax in an amount up to \$600K per year, for no more than 25 years.

GEDA has been working to close this loan with USDA at an interest rate of 2.75%; closing documents have been received and the loan should be closed by April 2017.

Guam Department of Education – Replacement or Renovation of Simon Sanchez High School and Other Guam Department of Education Facilities

Public Laws 31-229, 32-120, 32-121 authorized the financing for the rehabilitation, construction, expansion and renovation of the Simon Sanchez High School and the 34 public school facilities and to provide collateral equipment, maintenance and insurance.

After a protest of the initial award was determined to have merit, DPW cancelled the RFP and has reissued a new RFP in January 2017. A contractor has launched a protest once again and so the procurement is currently on hold.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Port Authority of Guam – Estimated \$45 million New Money

The Port Authority of Guam has approached GEDA in efforts to finance the building of a new hotel wharf with access roads, a new administration building, and the rehabilitation and improvement of the existing administration building for tenants. The Port is seeking to borrow new money of approximately \$45 million for the various projects. The Port anticipates introducing legislation by May 2017 subject to PUC approval.

Department of Land Management (DLM)

Public Law 29-135, authorized the financing for a new Land Resources Public Facility and for the purchase of collateral equipment in an amount not to exceed \$15.75 million. The Land Resources Building Public Facility will house the DLM, Chamorro Land Trust Commission, Ancestral Lands Commission and Hagåtña Restoration and Redevelopment Authority. The subject site will be situated along West O'Brien Drive, between Father Duenas Avenue and Padre' Palomo Street (vacant land across the Julale Center in Hagåtña).

DLM has agreed to the terms and conditions of the loan through Bank of Guam (BOG). The DLM is working to submit required documents needed by BOG to complete the preparation of the loan documents.

\$6M Harmon Industrial Park Association (HIPA) Tax Credit Program

The Harmon Industrial Park Association (HIPA) has received authorization through PL 33-191, to rehabilitate the Harmon Industrial Park main road using \$6 million in tax credits to be issued over the next 4 years. GEDA is working with HIPA to ensure they comply with GEDA's rules and regulations; first tax credits to be issued beginning October 2017.

Other Public Finance Projects

A. Debt Abstract: the Public Finance Department issued the latest GovGuam Debt Abstract reflecting the government's debt position as of October 2016. The abstract further details our current debt capacity, bond ratings per bond and annual debt service due on all bonds. The Debt Abstract can be downloaded on the GEDA website.

Note: The GovGuam Debt Abstract is a publication issued by GEDA's Public Finance Department and is updated every October and March.

B. Drafting of the GovGuam Debt Management Plan: As part of the OPA audit on the Government of Guam Public Debt (OPA Report No. 14-01), it was recommended that GEDA work with the Office of the Governor on a Formal Debt Management Policy which would describe the process of establishing and executing a strategy for managing the government's debt.

GEDA has been working with the Governor's Fiscal Policy Team in the development of this document.

Challenges affecting GEDA

There are two significant challenges that GEDA faces: (a) unfunded legislative mandates (b) that Public Law 32-40's imposes limitation on commercial leases and (c) H2B visas.

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

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Challenges affecting GEDA, Continued

- b) Public Law 32-40 imposes a five (5) year duration limit on commercial leases. The law has unintended consequences for GEDA. This short time period makes GEDA's commercial leases on available government-owned lands less attractive to private investors and more difficult to market at fair market rental value.

- c) H2B VISAS - Since December 2015, Guam employers have been experiencing extremely high incidents of H2B petition denials and requests for evidence notices (RFE) from U.S. Citizenship & Immigration Services (USCIS). Denials have been approximately 95% compared to an approval rate of about 96% for the past 30 years. These denials are based on a new interpretation by USCIS of "temporary need". While USCIS claims no change in policy, regulation or statute, the previous 96% approval rate was for the same job categories and based on the same law and relevant facts. This drastic change in USCIS adjudication appears to be due to a Returning Workers provision included in the 2016 Omnibus Spending Bill that quadrupled the number of alien workers eligible under the U.S. Mainland's H-2B cap, and the resultant pressure by construction labor unions to drastically reduce foreign workers in the U.S. Guam does not have an H2B cap nor construction labor unions, so the impact from the Returning Workers provision on Guam is nil.

Guam is an isolated insular economy, 6,000 miles from the continental U.S. (CONUS) with a small population of about 170,000. Guam's remoteness and size have historically made it very difficult to recruit and retain U.S. construction workers from CONUS. Despite an active vocational training system and apprenticeship program, Guam is not able to train enough construction tradespersons to match our current and projected economic growth. Without the ability to import temporary labor under the H2B program, hundreds of million in ongoing and future private sector, local government and federal government construction projects are in jeopardy. In addition, GEDA's efforts to market its Special Hotel Qualifying Certificate program for the development of 1,600 new hotel rooms to meet GVB's expected growth in arrivals by 2020 is currently affected. Investors and developers' on-island and abroad are cognizant of our labor issues and projects are being pushed back as a result.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in GEDA's report on the audit of financial statements which is dated April 20, 2016. That Discussion and Analysis explains in more detail major factors impacting the 2015 financial statements. A copy of that report can be obtained by contacting us at (671) 647-4332 or can be viewed at the Office of Public Accountability - Guam website at www.guamopa.org.

For additional information about this report, please contact Mr. Jay Rojas, Administrator, Guam Economic Development Authority, 590 South Marine Corps Drive, Tamuning, Guam 96913 or visit the website at www.investguam.com.

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

Statements of Net Position
September 30, 2016 and 2015

<u>ASSETS</u>	Divisional Information			2016	2015
	GEDA	SSBCI	TSA		
Current assets:					
Cash and cash equivalents	\$ 1,989,341	\$ 9,998,555	\$ 35,840	\$ 12,023,736	\$ 7,137,412
Cash and cash equivalents - restricted	-	-	3,520,376	3,520,376	3,556,995
Investments	2,242,572	2,970,506	-	5,213,078	5,777,064
Due from trust funds administered by GEDA:					
Agricultural Development Fund	-	-	-	-	22,106
Guam Development Fund Act	221,900	-	-	221,900	69,589
Reimbursable expense	39,467	(39,467)	-	-	-
Other receivables, net of an allowance for doubtful receivables of \$114,111 in 2016 and \$113,235 in 2015	606,616	30	-	606,646	403,977
Note receivable, current	-	-	-	-	6,192
Promotional supplies	7,706	-	-	7,706	7,706
Prepaid expenses	-	-	-	-	20,744
Total current assets	5,107,602	12,929,624	3,556,216	21,593,442	17,001,785
Equity investment	3,500	-	-	3,500	3,500
Note receivable, net of current portion	-	-	-	-	93,808
Building, improvements and equipment, at cost, net	489,845	533	-	490,378	526,049
Total assets	5,600,947	12,930,157	3,556,216	22,087,320	17,625,142
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Pension	571,955	-	-	571,955	536,117
Bond defeasance cost, net	-	-	-	-	194,278
Total deferred outflows of resources	571,955	-	-	571,955	730,395
	\$ 6,172,902	\$ 12,930,157	\$ 3,556,216	\$ 22,659,275	\$ 18,355,537
<u>LIABILITIES AND NET POSITION</u>					
Current liabilities:					
Current portion of bonds payable	\$ -	\$ -	\$ 2,430,000	\$ 2,430,000	\$ 2,270,000
Accounts payable	517,836	-	-	517,836	397,251
Due to trust funds administered by GEDA:					
Agricultural Development Fund	8,161	-	-	8,161	-
Guam Development Fund Act	-	30,737	-	30,737	30,737
Accrued liabilities	351,145	12,901	(79,184)	284,862	363,154
Interest payable	-	-	458,000	458,000	475,000
Unearned grant revenues	-	12,824,715	-	12,824,715	8,436,547
Unearned rental income	91,798	-	-	91,798	98,454
Total current liabilities	968,940	12,868,353	2,808,816	16,646,109	12,071,143
Non-current liabilities:					
Bonds payable, net of current portion and discount	-	-	28,175,029	28,175,029	28,785,153
DCRS sick leave liability	162,218	-	-	162,218	158,047
Deposits	18,322	-	-	18,322	18,322
Deposits due to GALC	149,410	-	-	149,410	149,410
Net pension liability	4,668,169	-	-	4,668,169	4,248,957
Total non-current liabilities	4,998,119	-	28,175,029	33,173,148	33,359,889
Total liabilities	5,967,059	12,868,353	30,983,845	49,819,257	45,431,032
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Pension	856	-	-	856	353,251
Commitments and contingencies					
Net position:					
Net investment in capital assets	489,845	533	-	490,378	526,049
Restricted	-	-	(3,520,376)	(3,520,376)	(3,556,995)
Unrestricted	(284,858)	61,271	(23,907,253)	(24,130,840)	(24,397,800)
Net position	204,987	61,804	(27,427,629)	(27,160,838)	(27,428,746)
	\$ 6,172,902	\$ 12,930,157	\$ 3,556,216	\$ 22,659,275	\$ 18,355,537

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	Divisional Information			2016	2015
	GEDA	SSBCI	TSA		
Revenues:					
Rental income	\$ 1,183,006	\$ -	\$ -	\$ 1,183,006	\$ 1,106,981
Tobacco Settlement revenue	-	-	2,441,209	2,441,209	2,968,356
Qualifying certificate application, surveillance and other	873,765	-	-	873,765	342,187
Bond fees earned	927,877	-	-	927,877	722,744
Grants revenue	1,591	89,071	-	90,662	73,334
GALC lease commission	80,221	-	-	80,221	89,534
Guarantee fees	-	29,000	-	29,000	80,280
Total operating revenues	<u>3,066,460</u>	<u>118,071</u>	<u>2,441,209</u>	<u>5,625,740</u>	<u>5,383,416</u>
Provision for bad debts	(876)	-	-	(876)	-
Net operating revenues	<u>3,065,584</u>	<u>118,071</u>	<u>2,441,209</u>	<u>5,624,864</u>	<u>5,383,416</u>
Operating expenses:					
Salaries and benefits	2,413,281	75,904	-	2,489,185	2,235,900
Legal and professional services	322,463	647	31,731	354,841	365,254
Office space and equipment rent	230,142	-	-	230,142	208,016
Travel	123,292	14,962	-	138,254	114,406
Depreciation and amortization	43,984	530	-	44,514	37,977
Advertising and promotions	34,289	-	-	34,289	222,399
Loss on loan guaranty	-	26,028	-	26,028	40,989
Supplies	5,390	-	-	5,390	6,147
Insurance	4,160	-	-	4,160	1,877
Utilities, telephone and communication	2,927	-	-	2,927	4,588
Repairs and maintenance	266	-	-	266	1,381
Miscellaneous	36,171	-	15,045	51,216	59,577
	<u>3,216,365</u>	<u>118,071</u>	<u>46,776</u>	<u>3,381,212</u>	<u>3,298,511</u>
Operating (loss) income	(150,781)	-	2,394,433	2,243,652	2,084,905
Other income (expense):					
Interest income (expense), net	609	12,790	(2,157,023)	(2,143,624)	(2,298,334)
Investment income	22,662	39,047	10	61,719	63,946
Net increase (decrease) in the fair value of investments	66,883	(41,963)	-	24,920	29,122
Other income, net	81,241	-	-	81,241	899,923
Other income (expense), net	<u>171,395</u>	<u>9,874</u>	<u>(2,157,013)</u>	<u>(1,975,744)</u>	<u>(1,305,343)</u>
Change in net position	20,614	9,874	237,420	267,908	779,562
Net position at beginning of year	<u>184,373</u>	<u>51,930</u>	<u>(27,665,049)</u>	<u>(27,428,746)</u>	<u>(28,208,308)</u>
Net position at end of year	<u>\$ 204,987</u>	<u>\$ 61,804</u>	<u>\$ (27,427,629)</u>	<u>\$ (27,160,838)</u>	<u>\$ (27,428,746)</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	Divisional Information			2016	2015
	GEDA	SSBCI	TSA		
Cash flows from operating activities:					
Cash received on grants and contracts	\$ -	\$ 4,506,209	\$ -	\$ 4,506,209	\$ 80,280
Cash received from customers	2,872,334	-	2,441,209	5,313,543	6,177,966
Cash paid to suppliers for goods and services	(692,983)	8,512	(56,851)	(741,322)	(810,611)
Cash paid to employees for services	(2,319,955)	(75,904)	-	(2,395,859)	(2,369,202)
Cash paid for retirement benefits	(58,176)	-	-	(58,176)	(52,259)
Net cash (used in) provided by operating activities	<u>(198,780)</u>	<u>4,438,817</u>	<u>2,384,358</u>	<u>6,624,395</u>	<u>3,026,174</u>
Cash flows from investing activities:					
Interest and investment income	89,545	(2,916)	10	86,639	93,068
Rollover of interest into investment	(89,545)	2,916	(10)	(86,639)	(93,068)
Maturity (purchase) of investment securities, net	650,615	-	8	650,623	(1,651,298)
Net cash provided by (used in) investing activities	<u>650,615</u>	<u>-</u>	<u>8</u>	<u>650,623</u>	<u>(1,651,298)</u>
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(8,843)	-	-	(8,843)	(32,100)
Net cash used in capital and related financing activities	<u>(8,843)</u>	<u>-</u>	<u>-</u>	<u>(8,843)</u>	<u>(32,100)</u>
Cash flows from noncapital financing activities:					
Repayment of bond payable	-	-	(1,005,000)	(1,005,000)	(1,385,000)
Net interest received (paid) on deposit accounts and bonds payable	609	12,790	(1,424,869)	(1,411,470)	(1,486,478)
Net cash provided by (used in) noncapital financing activities	<u>609</u>	<u>12,790</u>	<u>(2,429,869)</u>	<u>(2,416,470)</u>	<u>(2,871,478)</u>
Net change in cash and cash equivalents	443,601	4,451,607	(45,503)	4,849,705	(1,528,702)
Cash and cash equivalents at beginning of year	1,545,740	5,546,948	3,601,719	10,694,407	12,223,109
Cash and cash equivalents at end of year	<u>\$ 1,989,341</u>	<u>\$ 9,998,555</u>	<u>\$ 3,556,216</u>	<u>\$ 15,544,112</u>	<u>\$ 10,694,407</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:					
Operating (loss) income	\$ (150,781)	\$ -	\$ 2,394,433	\$ 2,243,652	\$ 2,084,905
Other income, net	81,241	-	-	81,241	899,923
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:					
Noncash pension cost	30,979	-	-	30,979	(261,615)
Depreciation and amortization	43,984	530	-	44,514	37,977
Provision for bad debts	876	-	-	876	-
(Increase) decrease in assets:					
Due from trust funds administered by GEDA	(161,511)	-	-	(161,511)	(68,433)
Reimbursable expense	(3,685)	43,152	-	39,467	-
Other receivables	(203,515)	(30)	-	(203,545)	121,269
Note receivable	100,000	-	-	100,000	(100,000)
Promotional supplies	-	-	-	-	1,725
Prepaid expenses	20,744	-	-	20,744	(20,744)
Increase (decrease) in liabilities:					
Accounts payable	120,585	-	-	120,585	185,400
Due to trust funds administered by GEDA	-	-	-	-	30,737
Accrued liabilities	(75,212)	6,997	(10,075)	(78,290)	137,504
Unearned grant revenue	-	4,388,168	-	4,388,168	(69,657)
Deferred rental income	(6,656)	-	-	(6,656)	1,866
Due to GALC	-	-	-	-	-
DCRS sick leave liability	4,171	-	-	4,171	45,317
Net cash (used in) provided by operating activities	<u>\$ (198,780)</u>	<u>\$ 4,438,817</u>	<u>\$ 2,384,358</u>	<u>\$ 6,624,395</u>	<u>\$ 3,026,174</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

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

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

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

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

Notes to Financial Statements
September 30, 2016 and 2015

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

Basis of Accounting

The accounting policies of GEDA conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. GEDA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Depreciation and Amortization

Buildings and improvements are depreciated on a straight-line basis over estimated useful lives of 7 to 30 years. Equipment and automobiles are depreciated on a straight-line basis over estimated useful lives of 3 to 5 years. GEDA generally capitalizes items with values of \$500 or more and with useful lives extending beyond one year.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GEDA has determined the loss on defeasance of the Series 2001 A bonds, the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. GEDA has determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between GEDA pension contributions and proportionate share of contributions qualify for reporting in this category.

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

Notes to Financial Statements
September 30, 2016 and 2015

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

Bond Discounts

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

Compensated Absences

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

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GEDA recognizes a net pension liability for the pension plan in which it participates, which represents GEDA's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Operating Revenues

Significant sources of operating revenues and their respective recognition policies are as follows:

Rent income under operating leases are recognized as they become due under the terms of long-term lease agreements.

Qualifying certificate application and surveillance fees are earned on a cash basis as fees are generally collected when amounts are determined.

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

Notes to Financial Statements
September 30, 2016 and 2015

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

Operating Revenues, Continued

Bond fees are earned when the underlying bonds are issued.

Tobacco Settlement Revenue (TSR) is recognized on a cash-basis upon receipt by the trustee, which typically occurs annually.

Operating Expenses

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

Non-Operating Revenue and Expenses

Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

Net Position

Net position represents the residual interest in GEDA's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of four sections:

Net investment in capital assets - includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GEDA pursuant to those stipulations or that expire with the passage of time.

Restricted nonexpendable - net position subject to externally imposed stipulations that require GEDA to maintain them permanently.

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by management or may otherwise be limited by contractual agreements with outside parties.

All of GEDA's restricted net position is expendable.

Risk Management

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

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

Notes to Financial Statements
September 30, 2016 and 2015

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

Concentrations of Credit Risk

Financial instruments which potentially subject GEDA to concentrations of credit risk consist principally of cash demand deposits and accounts receivable. At September 30, 2016 and 2015, GEDA has cash deposits in bank accounts that exceed federal depository insurance limits. Additionally, GEDA has investments in mutual funds and U.S. Government agency or sponsored-agency securities that are not subject to insurance. GEDA has not experienced any losses in such accounts. Substantially all of GEDA's accounts receivables are due from companies and government agencies based in Guam. GEDA establishes an allowance for doubtful accounts based on management's evaluation of potential uncollectibility. Bad debts are written-off against the allowance on the specific identification method.

New Accounting Standards

During fiscal year 2016, GEDA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Refer to note 2.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

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

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain items in the 2015 financial statements has been reclassified to correspond with the 2016 financial statement presentation.

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents and investments at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Cash on hand and deposits in banks	\$ 11,987,896	\$ 7,092,688
Money market accounts	<u>3,556,216</u>	<u>3,601,719</u>
Cash and cash equivalents	\$ <u>15,544,112</u>	\$ <u>10,694,407</u>
Total shares in mutual funds	\$ 2,970,506	\$ 2,973,421
Municipal bonds	2,242,572	2,352,740
Brokered certificates of deposit (CDs)	<u>-</u>	<u>450,903</u>
Investments	\$ <u>5,213,078</u>	\$ <u>5,777,064</u>

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

A. Deposits

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

At September 30, 2016 and 2015, the carrying amount of cash was \$11,987,896 and \$7,092,688, respectively, and the corresponding bank balances were \$12,102,780 and \$7,334,125, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$1,285,989 and \$750,000 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2016 and 2015, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

The bond indenture for the 2007 Series A and B Tobacco settlement bonds require the establishment of special funds to be held and administered by the trustees. As of September 30, 2016 and 2015, cash and cash equivalents of \$3,520,376 and \$3,556,995, respectively, held by TSA are restricted for bond services and are invested in money market accounts and are held and administered by TSA's trustees in accordance with the bond indentures. Accordingly, these balances are exposed to custodial credit risk.

B. Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, municipal bonds and U.S. government securities at September 30, 2016 and 2015 is registered in GEDA's name and is held by three investment managers for GEDA.

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

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2016, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 2,970,506	N/A	N/A
Municipal bonds:			
Arizona St CTFS Partn PFDG-Dept (040588B38)	152,025	10/01/18	AA3
Conway Ark Sch Dist (212597ZT8)	127,772	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	97,754	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	182,352	10/01/23	AA2
Forth Woth Tex Rfdg Impt (349425V51)	149,431	03/01/20	AA1
Hawaii St Er Eh (419791Z27)	177,577	08/01/23	AA2
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	133,048	11/01/21	AA2
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	123,275	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	118,659	01/01/17	AA2
Maryland St Dept Transn Cons Transn (574204XR9)	68,116	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	110,042	07/01/19	A3
Massachusetts St Health Edl Facs Auth (57586EQQ7)	141,008	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	131,942	05/15/20	not rated
Metropolitan Transn Auth N Y Rev for (59259YXH7)	233,539	11/15/21	A1
New York N Y Cith Transitional Fin (64971MW81)	80,211	11/01/26	AA1
Wisconsin St Clean Wtr Rev Rfdg-Ser (977092WF8)	125,643	06/01/25	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	<u>90,178</u>	05/01/17	AA3
	<u>\$ 5,213,078</u>		

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, investments at fair value are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Shares in mutual funds invested in:			
Federated Ultra Short Bond Funds (FULAX)	\$ 2,973,421	N/A	N/A
Municipal bonds:			
Arizona St CTFS Partn PFDG-Dept (040588B38)	164,143	10/01/18	A1
Conway Ark Sch Dist (212597ZT8)	134,068	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	103,621	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	187,215	10/01/23	AA2
Forth Woth Tex Rfdg Impt (349425V51)	159,974	03/01/20	AA1
Hawaii St Er Eh (419791Z27)	181,351	08/01/23	AA2
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	141,270	11/01/21	AA
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	124,959	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	129,882	01/01/17	AA2
Maryland St Dept Transn Cons Transn (574204XR9)	70,191	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	115,383	07/01/19	A2
Massachusetts St Health Edl Facs Auth (57586EQQ7)	147,919	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	139,835	05/15/20	AA+
Metropolitan Transn Auth N Y Rev for (59259YXH7)	241,536	11/15/21	A2
New York N Y Cith Transitional Fin (64971MW81)	84,615	11/01/26	AA1
Wisconsin St Clean Wtr Rev Rfdg-Ser (977092WF8)	128,359	06/01/25	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	98,419	05/01/17	AA3
Brokered CDs	<u>450,903</u>	N/A	N/A
	<u>\$ 5,777,064</u>		

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

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

GEDA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. GEDA has the following recurring fair value measurements as of September 30, 2016 and 2015:

	<u>Fair Value Measurements Using</u>			
	September 30, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Municipal bonds	\$ 2,242,572	\$ -	\$ 2,242,572	\$ -
Mutual funds	<u>2,970,506</u>	<u>2,970,506</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>5,213,078</u>	<u>2,970,506</u>	<u>2,242,572</u>	<u>-</u>
	<u>\$ 5,213,078</u>	<u>\$ 2,970,506</u>	<u>\$ 2,242,572</u>	<u>\$ -</u>

	<u>Fair Value Measurements Using</u>			
	September 30, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Municipal bonds	\$ 2,352,740	\$ -	\$ 2,352,740	\$ -
Mutual funds	<u>2,973,421</u>	<u>2,973,421</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>5,326,161</u>	<u>2,973,421</u>	<u>2,352,740</u>	<u>-</u>
Investments measured at cost:				
Brokered CDs	<u>450,903</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments at cost	<u>450,903</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,777,064</u>	<u>\$ 2,973,421</u>	<u>\$ 2,352,740</u>	<u>\$ -</u>

Mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Municipal bonds classified in Level 2 of the fair value hierarchy are valued using observable inputs other than quoted prices such as interest rates and yield curves.

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

Notes to Financial Statements
September 30, 2016 and 2015

(3) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 2016 and 2015 is as follows:

	<u>Beginning Balance October 1, 2015</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2016</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	546,603	-	-	546,603
Furniture and equipment	495,814	8,843	-	504,657
Other improvements	428,325	-	-	428,325
Land improvements	129,642	-	-	129,642
Leasehold interests	1,551	-	-	1,551
Automobiles	<u>14,089</u>	<u>-</u>	<u>-</u>	<u>14,089</u>
	2,408,561	8,843	-	2,417,404
Less accumulated depreciation and amortization	<u>(1,882,512)</u>	<u>(44,514)</u>	<u>-</u>	<u>(1,927,026)</u>
	<u>\$ 526,049</u>	<u>\$ (35,671)</u>	<u>\$ -</u>	<u>\$ 490,378</u>
	<u>Beginning Balance October 1, 2014</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2015</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	546,603	-	-	546,603
Furniture and equipment	579,576	32,100	(115,862)	495,814
Other improvements	428,325	-	-	428,325
Land improvements	129,642	-	-	129,642
Leasehold interests	1,551	-	-	1,551
Automobiles	<u>14,471</u>	<u>-</u>	<u>(382)</u>	<u>14,089</u>
	2,492,705	32,100	(116,244)	2,408,561
Less accumulated depreciation and amortization	<u>(1,960,779)</u>	<u>(37,977)</u>	<u>116,244</u>	<u>(1,882,512)</u>
	<u>\$ 531,926</u>	<u>\$ (5,877)</u>	<u>\$ -</u>	<u>\$ 526,049</u>

(4) Long-Term Obligations

Bonds Payable

Bonds payable at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Tobacco settlement bonds, 2007 Series A current interest turbo term bonds, original principal amounts of \$17,505,000 and \$16,070,000, with interest rates at 5.25% and 5.625% per annum, respectively, payable semiannually on June 1 and December 1 ("Distribution Date"), principal payments due in varying annual installments commencing with a payment of \$1,025,000 on June 1, 2008 and increasing to \$3,840,000 on June 1, 2026. The Series A bonds are primarily secured by Tobacco Settlement Revenue (TSR) and Guam's right to be paid the TSR under the MSA (which was irrevocably assigned to GEDA as discussed in note 1).	\$ 25,005,000	\$ 26,010,000

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

Notes to Financial Statements
September 30, 2016 and 2015

(4) Long-Term Obligations, Continued

Bonds Payable, Continued

	<u>2016</u>	<u>2015</u>
Tobacco settlement bonds, 2007 Series B capital appreciation turbo term bonds, original principal amount of \$3,407,077. Interest on the Series B bonds is not paid currently, but is compounded based on an imputed interest rate of 7.25% on each Distribution Date to become part of the accreted value until the maturity date or earlier redemptions. The bonds bear an original maturity value of \$115,455,000 with final maturity date of June 1, 2057. The projected turbo redemption date, however, is June 1, 2034 with a total projected principal amount of \$16,773,618. Under the Turbo Redemption assumption, principal payments are due in varying annual installments commencing with a payment of \$917,533 on June 1, 2008 and increasing to \$1,191,488 on June 1, 2034. The Series B bonds are also secured by TSR with the Series A bonds; however, they are subordinate to the Series 2007A Bonds.	<u>16,773,618</u>	<u>16,773,618</u>
Total	41,778,618	42,783,618
Less current portion	<u>(2,430,000)</u>	<u>(2,270,000)</u>
	39,348,618	40,513,618
Less discount on Series B capital appreciation turbo term bonds	(10,433,985)	(10,869,250)
Less discount on issuance	<u>(739,604)</u>	<u>(859,215)</u>
	<u>\$ 28,175,029</u>	<u>\$ 28,785,153</u>

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2016 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2017	\$ 2,430,000	\$ 996,380	\$ 3,426,380
2018	1,115,000	885,891	2,000,891
2019	1,200,000	805,219	2,005,219
2020	1,285,000	737,719	2,022,719
2021	1,380,000	665,227	2,045,227
2022 through 2026	10,435,000	2,067,328	12,502,328
2027 through 2031	11,261,709	-	11,261,709
2032 through 2034	<u>12,671,909</u>	<u>-</u>	<u>12,671,909</u>
	<u>\$ 41,778,618</u>	<u>\$ 6,157,764</u>	<u>\$ 47,936,382</u>

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

Notes to Financial Statements
September 30, 2016 and 2015

(4) Long-Term Obligations, Continued

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

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

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

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

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

As discussed in the above section, all Tobacco Settlement Revenue and interest earned in trust funds have been pledged to repay bond principal and interest. The debt service for the bonds was \$2,429,869 and \$2,882,844 for the years ended September 30, 2016 and 2015, respectively, or approximately 97% of pledged revenues for both years.

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

Notes to Financial Statements
September 30, 2016 and 2015

(4) Long-Term Obligations, Continued

During the years ended September 30, 2016 and 2015, the following changes occurred in liabilities reported as part of GEDA's long-term liabilities in the statements of net position:

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2016</u>	Due within <u>one year</u>
Bonds payable	\$ 42,783,618	\$ -	\$ (1,005,000)	\$ 41,778,618	\$ 2,430,000
Deferred amount:					
Unamortized discount on bonds issued	(11,728,465)	-	554,876	(11,173,589)	-
	<u>31,055,153</u>	-	(450,124)	<u>30,605,029</u>	<u>2,430,000</u>
Other liabilities:					
DCRS sick leave liability	158,047	4,171	-	162,218	-
Deposits due to GALC	149,410	-	-	149,410	-
Deposits	18,322	-	-	18,322	-
Net pension liability	<u>4,248,957</u>	<u>923,806</u>	<u>(504,594)</u>	<u>4,668,169</u>	-
	<u>4,574,736</u>	<u>927,977</u>	<u>(504,594)</u>	<u>4,998,119</u>	-
	\$ <u>35,629,889</u>	\$ <u>927,977</u>	\$ <u>(954,718)</u>	\$ <u>35,603,148</u>	\$ <u>2,430,000</u>
	Balance October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2015</u>	Due within <u>one year</u>
Bonds payable	\$ 44,168,618	\$ -	\$ (1,385,000)	\$ 42,783,618	\$ 2,270,000
Deferred amount:					
Unamortized discount on bonds issued	(12,254,478)	-	526,013	(11,728,465)	-
	<u>31,914,140</u>	-	(858,987)	<u>31,055,153</u>	<u>2,270,000</u>
Other liabilities:					
DCRS sick leave liability	112,730	45,317	-	158,047	-
Deposits due to GALC	149,410	-	-	149,410	-
Deposits	18,322	-	-	18,322	-
Net pension liability	<u>4,532,851</u>	-	<u>(283,894)</u>	<u>4,248,957</u>	-
	<u>4,813,313</u>	<u>45,317</u>	<u>(283,894)</u>	<u>4,574,736</u>	-
	\$ <u>36,727,453</u>	\$ <u>45,317</u>	\$ <u>(1,142,881)</u>	\$ <u>35,629,889</u>	\$ <u>2,270,000</u>

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

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

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

Plan Membership: As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,197
Terminated employees entitled to benefits but not yet receiving them	4,701
Current members	<u>2,460</u>
	<u>14,358</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 30 years of service at any age.

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% and 9.55% of base pay during the years ended September 30, 2016 and 2015, respectively.

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Normal costs (% of DB Plan payroll)	15.86%	15.92%	16.61
Employee contributions (DB Plan employees)	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.32%</u>	<u>6.37%</u>	<u>7.11%</u>
Employer portion of normal costs (% of total payroll)	1.94%	2.05%	3.00%
Unfunded liability cost (% of total payroll)	<u>22.42%</u>	<u>24.09%</u>	<u>24.01%</u>
Government contribution as a % of total payroll	<u>24.36%</u>	<u>26.14%</u>	<u>26.40%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.16%</u>	<u>29.85%</u>	<u>30.03%</u>
Employee	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>

GEDA's contributions to the DB Plan for the years ended September 30, 2016, 2015 and 2014 were \$81,934, \$160,912 and \$138,260, respectively, which were equal to the required contributions for the respective year ended.

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	15.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued

Discount Rate: The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>5,672,126</u>	\$ <u>4,668,169</u>	\$ <u>3,804,568</u>

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability: At September 30, 2016 and 2015, GEDA reported a liability of \$4,668,169 and \$4,248,957, respectively, for its proportionate share of the net pension liability. GEDA's proportion of the net pension liability was based on projection of GEDA's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2016 and 2015, GEDA's proportion was 0.3407% and 0.3409%, respectively.

Pension Expense: For the years ended September 30, 2016 and 2015, GEDA recognized pension expense of \$445,304 and \$229,459, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2016 and 2015, GEDA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 58,545	\$ -	\$ 31,523	\$ -
Net difference between projected and actual earnings on pension plan investments	52,752	-	-	323,394
Contributions subsequent to the measurement date	460,658	-	504,594	-
Changes in proportion and difference between GEDA contributions and proportionate share of contributions	-	856	-	29,857
	<u>\$ 571,955</u>	<u>\$ 856</u>	<u>\$ 536,117</u>	<u>\$ 353,251</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	
2017	\$ 29,941
2018	(27,744)
2019	38,607
2020	69,637

Defined Contribution Plan

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2016 and 2015 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

GEDA's contributions to the DCRS plan for the years ended September 30, 2016, 2015 and 2014 were \$437,344, \$412,807 and \$405,296, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$359,867, \$343,682 and \$337,817 were contributed toward the unfunded liability of the DB Plan at September 30, 2016, 2015 and 2014, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GEDA has accrued an estimated liability of \$162,218 and \$158,047 at September 30, 2016 and 2015, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post-Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated. During the years ended September 30, 2016, 2015 and 2014, actual contributions paid were \$58,176, \$52,259 and \$46,126, respectively.

(6) Rental Income

GEDA leases industrial parks from the Government of Guam for an annual rent of \$1 with terms expiring in 2063. GEDA subleases space to various tenants under agreements that call for advance rental payments of one month's to one year's rent. GEDA records such advance rent as a receivable at the anniversary or due date; related income is deferred and recognized over the period to which it applies.

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

Years ending September 30:

2017	\$ 1,102,100
2018	733,600
2019	577,200
2020	425,200
2021	340,100
2022 - 2026	623,300

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

Notes to Financial Statements
September 30, 2016 and 2015

(6) Rental Income, Continued

2027 - 2031	25,000
2032 - 2036	25,000
2037 - 2041	25,000
2042 - 2046	25,000
2047 - 2051	25,000
2052 - 2056	25,000
2057 - 2061	25,000
2062 - 2063	<u>5,400</u>
	\$ <u>3,981,900</u>

(7) Commitments

Lease Commitments

GEDA has an operating lease for office space expiring February 28, 2020. Concurrently, GEDA and Guam Housing Corporation (GHC), a Government of Guam agency, entered into a Memorandum of Understanding (MOU) in which GEDA charges GHC for use of a portion of the office space. At September 30, 2016, annual lease commitment and reimbursement from GHC under the MOU for the year ending September 30, 2017 are \$290,560 and \$83,120, respectively, \$348,672 and \$99,744, respectively, for each of the years ending September 30, 2018 and 2019, and \$145,280 and \$41,560, respectively, for the year ending September 30, 2020.

Rent expense, net of GHC reimbursements for the years ended September 30, 2016 and 2015, was \$252,160 and \$248,928, respectively, of which \$46,994 and \$60,041, respectively, was allocated to trust funds administered by GEDA.

At September 30, 2016 and 2015, reimbursement receivable from GHC, included as a component of other receivables in the accompanying statements of net position, is \$23,544 and \$16,624, respectively.

Contract Commitments

GEDA is under two professional services contracts, currently expiring on February 28, 2018, which require monthly payments of \$14,280. At September 30, 2016, annual commitments for the year ending September 30, 2017 and 2018 are \$124,761 and \$38,116, respectively.

Government of Guam (GovGuam) Mitigation Program for Business Interruption

On March 30, 2011, Public Law 31-13 authorized GEDA to develop, implement and administer the Government of Guam Mitigation Program for Business Interruption, (the "Program"), which provides financial relief to businesses adversely affected by government projects, including, but not limited to road construction. The Program provides financial assistance through grants and loans to small and mid-sized businesses. As of September 30, 2016 and 2015, GEDA has not provided any grants or loans under the Program.

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

Notes to Financial Statements
September 30, 2016 and 2015

(8) Related Party Transactions

Trust Funds Administered by GEDA

At September 30, 2016 and 2015, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2016</u>	<u>2015</u>
Guam Development Fund Act (GDFA)	\$ 11,458,595	\$ 11,351,111
Agricultural Development Fund (ADF)	974,921	988,032

During the year ended September 30, 2015, ADF sold foreclosed property carried at zero net book value for cash proceeds of \$170,025 (which is net of related cost of \$29,975) and an interest-bearing note receivable of \$100,000. The gain on sale of \$270,025 was transferred to GEDA and included as a component of other income in the accompanying statements of revenues, expenses and changes in net position for the year ended September 30, 2015. The note receivable was collected in full as of September 30, 2016.

GovGuam and Others

GEDA is a GovGuam component unit and is therefore affiliated with all GovGuam-owned and affiliated entities, including all departments and agencies of GovGuam.

On July 12, 2006, GEDA entered into a Memorandum of Agreement with the Guam Ancestral Lands Commission (GALC) to assist with the development, management, and maintenance of certain trust land for the purpose of maximizing benefit to dispossessed landowners and be responsible for the collection and remittance of security deposits and lease rental payments to the GALC. GEDA shall remit all rents received from the lease of Trust Lands but shall retain 14.3% of the base rent and 20% of the participation rent paid by all developers and/or lessees of the Trust Lands as payment for GEDA services. Base rent collected from developers and/or lessees shall be remitted to the GALC no later than twenty (20) calendar days after receipt from the developers and/or lessees. Participation rent collected from developers and/or lessees shall be remitted to the GALC no later than ninety (90) calendar days after receipt from the developers and/or lessees. During the years ended September 30, 2016 and 2015, GEDA earned related commission income of \$80,221 and \$89,534, respectively. At September 30, 2016 and 2015, collected rent net of commissions withheld payable to GALC was \$0 and \$32,982, respectively, and is included as a component of accounts payable in the accompanying statement of net position.

Additionally, in accordance with ground lease agreements, certain lessees are required, upon execution of the lease agreements, to remit a security deposit to GEDA on behalf of the GALC. As of September 30, 2016 and 2015, security deposits in the amount of \$149,410 are maintained by GEDA on behalf of the GALC.

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

Notes to Financial Statements
September 30, 2016 and 2015

(8) Related Party Transactions, Continued

GovGuam and Others, Continued

GEDA is under a Memorandum of Agreement (MOA) with the Office of the Governor (OOG) to manage and perform work relating to the U.S. Department of Defense Impact Task Orders for which the Office of Economic Adjustment has approved a program of assistance of \$1,767,000. In connection with the MOA, GEDA has entered into a professional services consulting contract (the "Contract"). Additionally under the MOA, GEDA is compensated at a management fee of 14%. As of September 30, 2015, total payments relating to the contract approximated \$1.43 million of which \$1.332 million have been reimbursed from the OOG during the year and \$98,000 is included as a component of other receivables in the accompanying statements of net position. During the year ended September 30, 2015, GEDA recorded \$186,583 as management fees, which are included a component of other income in the accompanying statements of revenues, expenses and changes in net position.

In addition, GEDA has recorded payables to different GovGuam agencies of \$125,274 as of September 30, 2016.

(9) Contingencies

Tobacco Settlement Bonds Reserve Fund Agreement

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

Claims and Litigation

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(10) SSBCI

On October 4, 2011, Guam received initial SSBCI program funding of \$4,345,556, approximating 33% of total funding. On March 24, 2014, GEDA received \$4,345,555 which approximates the second 33% of total funding. On January 25, 2016 and May 1, 2016, GEDA received \$2,000,000 and \$2,477,239, respectively, representing the third and final tranche of the SSBCI funding. Additionally, the SSBCI program agreement allows certain direct and indirect costs for administering the program at 5% of initial funding and 3% of subsequent funding. During the years ended September 30, 2016 and 2015, GEDA had incurred administrative costs of \$118,071 and \$149,937, respectively.

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

As of September 30, 2015, two Lenders have enrolled forty-eight loans totaling \$10,483,756 in the program and remitted \$80,280 in guarantee fees to GEDA; additionally, \$7,750,317 of the total deposits and investments of \$8,520,369 with these lenders are maintained under the Agreement.

As of September 30, 2016, two Lenders have enrolled fifty-two loans totaling \$11,933,756 in the program and remitted \$29,000 in guarantee fees to GEDA; additionally, \$8,802,817 of the total deposits and investments of \$12,966,511 with these lenders are maintained under the Agreement.

At September 30, 2016 and 2015, loans under the guaranty program had total outstanding balances of \$5,805,899 and \$5,971,557, respectively. At September 30, 2016 and 2015, loans totaling \$0 and \$40,522, respectively, were in default status. In 2016 and 2015, GEDA paid out defaulted loans totaling \$26,028 and \$40,989, respectively, and recorded a loss in loan guaranty in the accompanying statements of revenues, expenses and changes in net position.

(11) Subsequent Event

In October 2016, Bill 2-33 was passed, enacting two new government retirement plans; the DB Lite Plan and the Guam Retirement Security Plan. Beginning 2018, the Security Plan and Defined Contribution Plan are to become the primary retirement systems for all new hires.

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

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2016	2015
Total net pension liability	\$ 1,370,173,934	\$ 1,246,306,754
GEDA's proportionate share of the net pension liability	\$ 4,668,169	\$ 4,248,957
GEDA's proportion of the net pension liability	0.34%	0.34%
GEDA's covered-employee payroll**	\$ 1,705,087	\$ 1,683,621
GEDA's proportionate share of the net pension liability as percentage of its covered employee payroll	273.78%	252.37%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	56.60%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2016	2015
Actuarially determined contribution	\$ 459,426	\$ 459,838
Contribution in relation to the actuarially determined contribution	504,594	476,077
Contribution excess	\$ (45,168)	\$ (16,239)
GEDA's covered-employee payroll **	\$ 1,705,087	\$ 1,683,621
Contribution as a percentage of covered-employee payroll	29.59%	28.28%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Salaries and wages:		
Salaries	\$ 1,705,087	\$ 1,683,621
Benefits	<u>1,081,651</u>	<u>827,824</u>
Total salaries and wages	<u>\$ 2,786,738</u>	<u>\$ 2,511,445</u>
 Employees at end of year	 32	 34

See Accompanying Independent Auditors' Report.

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

Comparative Divisional Schedules of Net Position
September 30, 2016 and 2015

ASSETS	GEDA		SSBCI		TSA	
	2016	2015	2016	2015	2016	2015
Current assets:						
Cash and cash equivalents	\$ 1,989,341	\$ 1,545,740	\$ 9,998,555	\$ 5,546,948	\$ 35,840	\$ 44,724
Cash and cash equivalents - restricted	-	-	-	-	3,520,376	3,556,995
Investments	2,242,572	2,803,643	2,970,506	2,973,421	-	-
Due from trust funds administered by GEDA:						
Agricultural Development Fund	-	22,106	-	-	-	-
Guam Development Fund Act	221,900	69,589	-	-	-	-
Reimbursable expense	39,467	(3,685)	(39,467)	3,685	-	-
Other receivables, net	606,616	403,977	30	-	-	-
Note receivable, current	-	6,192	-	-	-	-
Promotional supplies	7,706	7,706	-	-	-	-
Prepaid expense	-	20,744	-	-	-	-
Total current assets	<u>5,107,602</u>	<u>4,876,012</u>	<u>12,929,624</u>	<u>8,524,054</u>	<u>3,556,216</u>	<u>3,601,719</u>
Equity investment	3,500	3,500	-	-	-	-
Note receivable, net of current portion	-	93,808	-	-	-	-
Building, improvements and equipment, at cost, net	489,845	524,986	533	1,063	-	-
Total assets	<u>5,600,947</u>	<u>5,498,306</u>	<u>12,930,157</u>	<u>8,525,117</u>	<u>3,556,216</u>	<u>3,601,719</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension	571,955	536,117	-	-	-	-
Bond defeasance cost, net	-	-	-	-	-	194,278
Total deferred outflows of resources	<u>571,955</u>	<u>536,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,278</u>
	<u>\$ 6,172,902</u>	<u>\$ 6,034,423</u>	<u>\$ 12,930,157</u>	<u>\$ 8,525,117</u>	<u>\$ 3,556,216</u>	<u>\$ 3,795,997</u>
LIABILITIES AND NET POSITION						
Current liabilities:						
Current portion of bonds payable	\$ -	\$ -	\$ -	\$ -	\$ 2,430,000	\$ 2,270,000
Accounts payable	517,836	397,251	-	-	-	-
Due to trust funds administered by GEDA:						
Agricultural Development Fund	8,161	-	-	-	-	-
Guam Development Fund Act	-	-	30,737	30,737	-	-
Accrued liabilities	351,145	426,358	12,901	5,903	(79,184)	(69,107)
Interest payable	-	-	-	-	458,000	475,000
Unearned grant revenues	-	-	12,824,715	8,436,547	-	-
Unearned rental income	91,798	98,454	-	-	-	-
Total current liabilities	<u>968,940</u>	<u>922,063</u>	<u>12,868,353</u>	<u>8,473,187</u>	<u>2,808,816</u>	<u>2,675,893</u>
Non-current liabilities:						
Bonds payable, net of current portion and discount	-	-	-	-	28,175,029	28,785,153
DCRS sick leave liability	162,218	158,047	-	-	-	-
Deposits	18,322	18,322	-	-	-	-
Deposits due to GALC	149,410	149,410	-	-	-	-
Net pension liability	4,668,169	4,248,957	-	-	-	-
Total non-current liabilities	<u>4,998,119</u>	<u>4,574,736</u>	<u>-</u>	<u>-</u>	<u>28,175,029</u>	<u>28,785,153</u>
Total liabilities	<u>5,967,059</u>	<u>5,496,799</u>	<u>12,868,353</u>	<u>8,473,187</u>	<u>30,983,845</u>	<u>31,461,046</u>
DEFERRED INFLOWS OF RESOURCES						
Pension	856	353,251	-	-	-	-
Net position:						
Net investment in capital assets	489,845	524,986	533	1,063	-	-
Restricted	-	-	-	-	(3,520,376)	(3,556,995)
Unrestricted	(284,858)	(340,613)	61,271	50,867	(23,907,253)	(24,108,054)
Net position	<u>204,987</u>	<u>184,373</u>	<u>61,804</u>	<u>51,930</u>	<u>(27,427,629)</u>	<u>(27,665,049)</u>
	<u>\$ 6,172,902</u>	<u>\$ 6,034,423</u>	<u>\$ 12,930,157</u>	<u>\$ 8,525,117</u>	<u>\$ 3,556,216</u>	<u>\$ 3,795,997</u>

See Accompanying Independent Auditors' Report.

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

Comparative Divisional Schedules of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	GEDA		SSBCI		TSA	
	2016	2015	2016	2015	2016	2015
Revenues:						
Rental income	\$ 1,183,006	\$ 1,106,981	\$ -	\$ -	\$ -	\$ -
Tobacco Settlement revenue	-	-	-	-	2,441,209	2,968,356
Qualifying certificate application, surveillance and other	873,765	342,187	-	-	-	-
Bond fees earned	927,877	722,744	-	-	-	-
Grants revenue	1,591	3,677	89,071	69,657	-	-
GALC lease commission	80,221	89,534	-	-	-	-
Guarantee fees	-	-	29,000	80,280	-	-
Total operating revenues	3,066,460	2,265,123	118,071	149,937	2,441,209	2,968,356
Provision for bad debts	(876)	-	-	-	-	-
Net operating revenues	3,065,584	2,265,123	118,071	149,937	2,441,209	2,968,356
Operating expenses:						
Salaries and benefits	2,413,281	2,156,365	75,904	79,535	-	-
Legal and professional services	322,463	341,161	647	2,598	31,731	21,495
Office space and equipment rent	230,142	208,016	-	-	-	-
Advertising and promotions	34,289	196,408	-	25,991	-	-
Travel	123,292	114,406	14,962	-	-	-
Depreciation and amortization	43,984	37,399	530	578	-	-
Supplies	5,390	6,147	-	-	-	-
Utilities, telephone and communication	2,927	4,588	-	-	-	-
Insurance	4,160	1,877	-	-	-	-
Repairs and maintenance	266	1,381	-	-	-	-
Loss on loan guaranty	-	-	26,028	40,989	-	-
Miscellaneous	36,171	49,673	-	246	15,045	9,658
	3,216,365	3,117,421	118,071	149,937	46,776	31,153
Operating (loss) income	(150,781)	(852,298)	-	-	2,394,433	2,937,203
Other income (expense):						
Interest income (expense), net	609	1,748	12,790	9,617	(2,157,023)	(2,309,699)
Investment income	22,662	31,398	39,047	32,548	10	-
Net increase (decrease) in the fair value of investments	66,883	56,823	(41,963)	(27,701)	-	-
Other income, net	81,241	899,923	-	-	-	-
Other income (expense), net	171,395	989,892	9,874	14,464	(2,157,013)	(2,309,699)
Change in net position	20,614	137,594	9,874	14,464	237,420	627,504
Net position at beginning of year	184,373	46,779	51,930	37,466	(27,665,049)	(28,292,553)
Net position at end of year	\$ 204,987	\$ 184,373	\$ 61,804	\$ 51,930	\$ (27,427,629)	\$ (27,665,049)

See Accompanying Independent Auditors' Report.

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

Comparative Divisional Schedules of Cash Flows
Years Ended September 30, 2016 and 2015

	GEDA		SSBCI		TSA	
	2016	2015	2016	2015	2016	2015
Cash flows from operating activities:						
Cash received on grants and contracts	\$ -	\$ -	\$ 4,506,209	\$ 80,280	\$ -	\$ -
Cash received from customers	2,872,334	3,209,610	-	-	2,441,209	2,968,356
Cash paid to suppliers for goods and services	(692,983)	(672,792)	8,512	(68,486)	(56,851)	(69,333)
Cash paid to employees for services	(2,319,955)	(2,320,404)	(75,904)	(48,798)	-	-
Cash paid for retiree benefits	(58,176)	(52,259)	-	-	-	-
Net cash (used in) provided by operating activities	<u>(198,780)</u>	<u>164,155</u>	<u>4,438,817</u>	<u>(37,004)</u>	<u>2,384,358</u>	<u>2,899,023</u>
Cash flows from investing activities:						
Interest and investment income	89,545	88,221	(2,916)	4,847	10	-
Rollover of interest into investment	(89,545)	(88,221)	2,916	(4,847)	(10)	-
Maturity (purchase) of investment securities, net	650,615	(1,651,298)	-	-	8	-
Net cash provided by (used in) investing activities	<u>650,615</u>	<u>(1,651,298)</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>
Cash flows from capital and related financing activities:						
Purchase of property and equipment	(8,843)	(32,100)	-	-	-	-
Net cash used in capital and related financing activities	<u>(8,843)</u>	<u>(32,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities:						
Repayment of bond payable	-	-	-	-	(1,005,000)	(1,385,000)
Net interest received (paid) on deposit accounts and bonds payable	609	1,749	12,790	9,617	(1,424,869)	(1,497,844)
Net cash provided by (used in) noncapital financing activities	<u>609</u>	<u>1,749</u>	<u>12,790</u>	<u>9,617</u>	<u>(2,429,869)</u>	<u>(2,882,844)</u>
Net change in cash and cash equivalents	443,601	(1,517,494)	4,451,607	(27,387)	(45,503)	16,179
Cash and cash equivalents at beginning of year	1,545,740	3,063,234	5,546,948	5,574,335	3,601,719	3,585,540
Cash and cash equivalents at end of year	<u>\$ 1,989,341</u>	<u>\$ 1,545,740</u>	<u>\$ 9,998,555</u>	<u>\$ 5,546,948</u>	<u>\$ 3,556,216</u>	<u>\$ 3,601,719</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	\$ (150,781)	\$ (852,298)	\$ -	\$ -	\$ 2,394,433	\$ 2,937,203
Other income, net	81,241	899,923	-	-	-	-
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	43,984	37,399	530	578	-	-
Noncash pension cost	30,979	(261,615)	-	-	-	-
Provision for bad debts	876	-	-	-	-	-
(Increase) decrease in assets and deferred outflows of resources:						
Due from trust funds administered by GEDA	(161,511)	(68,433)	-	-	-	-
Reimbursable expense	(3,685)	6,714	43,152	(6,714)	-	-
Other receivables	(203,515)	121,269	(30)	-	-	-
Note receivable	100,000	(100,000)	-	-	-	-
Promotional supplies	-	1,725	-	-	-	-
Prepaid expenses	20,744	(20,744)	-	-	-	-
Increase (decrease) in liabilities and deferred inflows of resources:						
Accounts payable	120,585	154,473	-	-	-	30,927
Due to trust funds administered by GEDA	-	-	-	30,737	-	-
Accrued liabilities	(75,212)	198,559	6,997	8,052	(10,075)	(69,107)
Unearned grant revenue	-	-	4,388,168	(69,657)	-	-
Unearned rental income	(6,656)	1,866	-	-	-	-
Due to GALC	-	-	-	-	-	-
DCRS sick leave liability	4,171	45,317	-	-	-	-
Net cash (used in) provided by operating activities	<u>\$ (198,780)</u>	<u>\$ 164,155</u>	<u>\$ 4,438,817</u>	<u>\$ (37,004)</u>	<u>\$ 2,384,358</u>	<u>\$ 2,899,023</u>

See Accompanying Independent Auditors' Report.

Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

Report on Financial Statements

We have audited the accompanying statements of fiduciary net position of the Guam Development Fund Act and the Agricultural Development Fund (the "Funds") as of September 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements. The Funds are administered by the Guam Economic Development Authority (the "Authority") which is a component unit of the Government of Guam.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Development Fund Act and the Agricultural Development Fund as of September 30, 2016 and 2015, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, the Funds adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of the Funds' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 25, 2017

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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

Statements of Fiduciary Net Position
September 30, 2016 and 2015

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund	
	2016	2015	2016	2015
Cash on hand and in bank	\$ 475,188	\$ 368,702	\$ 252,311	\$ 165,227
Time certificates of deposits	2,005,006	2,000,000	-	-
Investments	8,206,840	7,820,044	711,355	797,453
Notes and accrued interest receivable	1,084,640	1,161,190	38,150	46,634
Less allowance for doubtful receivables	(484,162)	(168,943)	(35,216)	(21,392)
Net notes and accrued interest receivable	600,478	992,247	2,934	25,242
Due from other funds:				
Guam Economic Development Authority			8,161	-
Guam Development Fund Act	-	-	160	110
State Small Business Credit Initiative	30,737	30,737	-	-
Other real estate:				
Leasehold interest, net	130,081	133,117	-	-
Furniture and equipment, net	10,265	6,264	-	-
	171,083	170,118	8,321	110
Total assets	\$ 11,458,595	\$ 11,351,111	\$ 974,921	\$ 988,032
<u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 33,804	\$ 39,644	\$ 21	\$ 7
Due to other funds:				
Guam Economic Development Authority	221,900	69,589	-	22,106
Agricultural Development Program	160	110	-	-
Total liabilities	255,864	109,343	21	22,113
Commitments and Contingencies				
Net position held in trust	11,202,731	11,241,768	974,900	965,919
Total liabilities and net position	\$ 11,458,595	\$ 11,351,111	\$ 974,921	\$ 988,032

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2016 and 2015

	Guam Development Fund Act		Agricultural Development Fund	
	2016	2015	2016	2015
Additions:				
Interest from loans	\$ 22,088	\$ 61,520	\$ 472	\$ 1,312
Investment income, net	650,722	-	25,450	-
Other	3,070	20,337	-	-
Total additions	<u>675,880</u>	<u>81,857</u>	<u>25,922</u>	<u>1,312</u>
Deductions:				
Salaries and benefits	297,553	275,545	-	-
Provision for doubtful notes receivable and accrued interest	296,491	44,953	13,824	14,003
Rent	46,994	64,041	-	-
Bank charges	46,865	73,536	3,117	1,216
Travel	9,865	9,251	-	-
Legal and professional services	8,612	11,973	-	1,511
Depreciation	3,935	3,037	-	-
Investment loss, net	-	319,741	-	3,167
Advertising and promotions	-	405	-	-
Miscellaneous	4,602	4,828	-	-
Total deductions	<u>714,917</u>	<u>807,310</u>	<u>16,941</u>	<u>19,897</u>
Net change in net position	(39,037)	(725,453)	8,981	(18,585)
Net position at beginning of year	<u>11,241,768</u>	<u>11,967,221</u>	<u>965,919</u>	<u>984,504</u>
Net position at end of year	<u>\$ 11,202,731</u>	<u>\$ 11,241,768</u>	<u>\$ 974,900</u>	<u>\$ 965,919</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(1) Purpose and Summary of Significant Accounting Policies

Purpose

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

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

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

Additionally, GEDA administered the Microenterprise Development Program (MDP), the Guam Territorial Aquarium Foundation (GTAF), and the Music and Legends of Guam Fund (MLGF), the Housing and Urban Development Fund (HUD), Agricultural Expense Insurance Fund (AEIF), the Aquacultural Training Fund (ATF), Landowner's Recovery Fund (LRF), the Local Arts Revolving Fund (LARF), and the U.S. Base Realignment and Closure Committee (BRAC) which have no assets, liabilities or net position as of September 30, 2016 and 2015 and have no activities during the years then ended. Therefore, they are not presented in the accompanying financial statements.

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

Basis of Accounting

The Funds are accounted for as Fiduciary Fund Type – Private Purpose Trust Funds and are component units of the Government of Guam.

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

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

Estimates

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

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

Notes to Financial Statements
September 30, 2016 and 2015

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

Cash

For the purpose of the statements of net position, cash includes cash on hand and in banks.

Notes and Accrued Interest Receivable

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

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

Allowance for Doubtful Receivables

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

Expenses

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

New Accounting Standards

During fiscal year 2016, the Trust Funds implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. See note 2.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

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

New Accounting Standards, Continued

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

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

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain items in the 2015 financial statements has been reclassified to correspond with the 2016 financial statement presentation.

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents, time certificates of deposits and investments at September 30, 2016 and 2015 consist the following:

	<u>2016</u>		<u>2015</u>	
	<u>G DFA</u>	<u>ADF</u>	<u>G DFA</u>	<u>ADF</u>
Cash on hand and deposits in banks	\$ <u>475,188</u>	\$ <u>252,311</u>	\$ <u>368,702</u>	\$ <u>165,227</u>
Cash and cash equivalents	475,188	252,311	368,702	165,227
Time certificates of deposits	<u>2,005,006</u>	-	<u>2,000,000</u>	-
Total cash and cash equivalents and time certificates of deposits	\$ <u>2,480,194</u>	\$ <u>252,311</u>	\$ <u>2,368,702</u>	\$ <u>165,227</u>
Total shares in mutual funds	\$ 577,665	-	\$ 572,200	-
Exchange-traded & closed-end funds	6,761,223	-	6,274,840	-
Municipal bonds	867,952	711,355	816,518	669,201
Brokered certificates of deposit (CDs)	-	-	<u>156,486</u>	<u>128,252</u>
Investments	\$ <u>8,206,840</u>	\$ <u>711,355</u>	\$ <u>7,820,044</u>	\$ <u>797,453</u>

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

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

A. Deposits

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

At September 30, 2016 and 2015, the carrying amount of cash and cash equivalents and time certificates of deposits were \$2,732,505 and \$2,533,929, respectively, and the corresponding bank balances were \$2,732,105 and \$2,533,823, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). Cash balances of \$714,334 and \$0 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2016 and 2015, respectively. GEDA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposit levels are exposed to custodial credit risk.

B. Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GEDA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GEDA's investment in shares of mutual funds, exchange-traded and closed-end funds, municipal bonds and U.S. government securities at September 30, 2016 and 2015 is registered in GEDA's name and is held by three and two investment managers, respectively, for GEDA.

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

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

As of September 30, 2016, investments at fair value are as follows:

	<u>Amount</u>			<u>Moody's Rating</u>
	<u>G DFA</u>	<u>A DF</u>	<u>Maturity</u>	
Shares in mutual funds invested in:				
Calamos Market Neutral, Income (CMNIX)	\$ 149,263	\$ -	N/A	N/A
Guggenheim Managed Futures Strategy H Fund (RYMFX)	140,206	-	N/A	N/A
John Hancock Seaport I (JSFDX)	148,859	-	N/A	N/A
Blackrock GLB Long/Short EQ (BDMIX)	67,880	-	N/A	N/A
Blackrock Global L/S Credit (BGCIX)	71,457	-	N/A	N/A
Exchange-traded & closed-end funds:				
ALERIAN MLP ETF (AML P)	186,784	-	N/A	N/A
ISHARES Core U.S. Aggregate (AGG)	149,181	-	N/A	N/A
ISHARES MSCI Japan ETF (EWJ)	186,106	-	N/A	N/A
ISHARES Russell 1000 GRW ETF (IWF)	780,233	-	N/A	N/A
ISHARES Russell 1000 Value ETF (IWD)	976,140	-	N/A	N/A
ISHARES Russel 2000 Grwth ETF (IWO)	40,203	-	N/A	N/A
ISHARES Russell 2000 Value ETF (IWN)	40,643	-	N/A	N/A
ISHARES Russell Midcap G ETF (IWP)	76,825	-	N/A	N/A
ISHARES Russell Midcap V ETF (IWS)	155,229	-	N/A	N/A
ISHARES TIPS Bond ETF (TIP)	292,739	-	N/A	N/A
PIMCO Enhanced SHRT MTRT EXC (MINT)	352,298	-	N/A	N/A
SPDR Barclays Capital Hihg Yie (JNK)	522,893	-	N/A	N/A
Vanguard FTSE Developed Mkts E (VEA)	1,373,209	-	N/A	N/A
Vanguard FTSE Emerging Markets (VWO)	424,429	-	N/A	N/A
Vanguard Short Term Bnd (BSV)	636,617	-	N/A	N/A
Vanguard Total Bond Market (BND)	567,694	-	N/A	N/A
Municipal bonds:				
Arizona St CTFS Partn PFDG-Dept (040588B38)	58,839	48,223	10/01/18	AA3
Conway Ark Sch Dist (212597ZT8)	49,452	40,530	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	37,834	31,008	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	70,576	57,843	10/01/23	AA2
Forth Woith Tex Rfdg Impt (349425V51)	57,835	47,400	03/01/20	AA1
Hawaii St Er Eh (419791Z27)	68,728	56,328	08/01/23	AA2
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	51,494	42,203	11/01/21	AA2
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	47,712	39,103	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	45,925	37,639	01/01/17	AA2
Maryland St Dept Transn Cons Transn (574204XR9)	26,363	21,607	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	42,590	34,906	07/01/19	A3

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

	<u>Amount</u>			<u>Moody's Rating</u>
	<u>G DFA</u>	<u>A DF</u>	<u>Ma turity</u>	
Municipal bonds, Continued:				
Massachusetts St Health Edl Facs Auth (57586EQQ7)	54,575	44,729	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	51,066	41,853	05/15/20	not rated
Metropolitan Transn Auth N Y Rev for (59259YXH7)	90,388	74,080	11/15/21	A1
New York N Y Cith Transitional Fin (64971MW81)	31,045	25,443	11/01/26	AA1
Wisconsin St Clean Wtr Rev Rfdg-Ser 1 (9770092WW8)	48,628	39,855	06/01/25	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	<u>34,902</u>	<u>28,605</u>	05/01/17	AA3
	<u>\$ 8,206,840</u>	<u>\$ 711,355</u>		

As of September 30, 2015, investments at fair value are as follows:

	<u>Amount</u>			<u>Moody's Rating</u>
	<u>G DFA</u>	<u>A DF</u>	<u>Ma turity</u>	
Shares in mutual funds invested in:				
Calamos Market Neutral, Income (CMNIX)	\$ 147,362	\$ -	N/A	N/A
Guggenheim Managed Futures Strategy H Fund (RYMFX)	142,065	-	N/A	N/A
Invesco Treasurer's Series Trust Premier Portfolio Institutional Class (IPPXX)	141,887	-	N/A	N/A
Blackrock GLB Long/Short EQ (BDMIX)	71,127	-	N/A	N/A
Blackrock Global L/S Credit (BGCIX)	69,759	-	N/A	N/A
Exchange-traded & closed-end funds:				
ALERIAN MLP ETF (AML P)	156,299	-	N/A	N/A
ISHARES N Amer Nat Res ETF (IGE)	159,255	-	N/A	N/A
ISHARES Russell 1000 GRW ETF (IWF)	816,540	-	N/A	N/A
ISHARES Russell 1000 Value ETF (IWD)	807,432	-	N/A	N/A
ISHARES Russel 2000 Grwth ETF (IWO)	133,434	-	N/A	N/A
ISHARES Russell 2000 Value ETF (IWN)	138,934	-	N/A	N/A
ISHARES Russell Midcap G ETF (IWP)	168,005	-	N/A	N/A
ISHARES Russell Midcap V ETF (IWS)	168,865	-	N/A	N/A
ISHARES TIPS Bond ETF (TIP)	252,373	-	N/A	N/A
PIMCO Enhanced SHRT MTRT EXC (MINT)	211,374	-	N/A	N/A
SPDR Barclays Capital Hihg Yie (JNK)	419,076	-	N/A	N/A
SPDR Barclays Capital Internat (BW X)	105,806	-	N/A	N/A
Vanguard FTSE Developed Mkts E (VEA)	1,093,471	-	N/A	N/A
Vanguard FTSE Emerging Markets (VWO)	498,104	-	N/A	N/A
Vanguard Short Term Bnd (BSV)	684,360	-	N/A	N/A
Vanguard Total Bond Market (BND)	461,512	-	N/A	N/A
Municipal bonds:				
Arizona St CTFS Partn PFDG-Dept (040588B38)	56,966	46,688	10/01/18	A1
Conway Ark Sch Dist (212597ZT8)	46,528	38,134	02/01/19	AA2
Delaware Transn Auth Transn Sys Rev (246428XZ4)	35,962	29,473	07/01/28	AA2
District Columbia Wtr & Swr Auth Pub (254845AL4)	64,973	53,251	10/01/23	AA2
Forth Wo th Tex Rfdg Impt (349425V51)	55,519	45,502	03/01/20	AA1
Hawaii St Er Eh (419791Z27)	62,938	51,583	08/01/23	AA2

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

	<u>Amount</u>		<u>Maturity</u>	<u>Moody's Rating</u>
	<u>G DFA</u>	<u>ADF</u>		
Municipal bonds, Continued:				
Illinois Fin Auth Rev Rfdg Cent Dupage (45200FD89)	49,028	40,182	11/01/21	AA
Illinois Fin Auth Rev for Issues dtd (45203HJE3)	43,367	35,543	08/15/25	AA3
Jefferson Cnty Ky Sch Dist Fin Corp (472904K83)	45,075	36,943	01/01/17	AA2
Maryland St Dept Transn Cons Transn (574204XR9)	24,360	19,965	02/15/27	AA1
Massachusetts St Dev Fin Agy Rev For (57583UTT5)	40,044	32,819	07/01/19	A2
Massachusetts St Health Edl Facs Auth (57586EQQ7)	51,335	42,073	12/15/21	AAA
Metropolitan Govt Nashville & Davidson (592030ZC7)	48,530	39,774	05/15/20	AA+
Metropolitan Transn Auth N Y Rev for (59259YXH7)	83,825	68,701	11/15/21	A2
New York N Y Cith Transitional Fin (64971MW81)	29,366	24,067	11/01/26	AA1
Wisconsin St Clean Wtr Rev Rfdg-Ser 1 (9770092WW8)	44,547	36,510	06/01/25	AA1
Wisconsin St Gen Fd Annual Appropriation (977100BH8)	34,155	27,993	05/01/17	AA3
Brokered CDs	<u>156,486</u>	<u>128,252</u>	N/A	N/A
	<u>\$ 7,820,044</u>	<u>\$ 797,453</u>		

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

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

GEDA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. GEDA has the following recurring fair value measurements as of September 30, 2016 and 2015:

	September 30, 2016	<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le Inputs (Level 3)
G DFA:				
Investments by fair value level:				
Municipal bonds	\$ 867,952	\$ -	\$ 867,952	\$ -
Exchange-traded and closed-end funds	6,761,223	6,761,223	-	-
Mutual funds	<u>577,665</u>	<u>577,665</u>	-	-
Total investments by fair value level	<u>\$ 8,206,840</u>	<u>\$ 7,338,888</u>	<u>\$ 867,952</u>	<u>\$ -</u>
ADF:				
Investments by fair value level:				
Municipal bonds	\$ 711,355	\$ -	\$ 711,355	\$ -
Exchange-traded and closed-end funds	-	-	-	-
Mutual funds	-	-	-	-
Total investments by fair value level	<u>\$ 711,355</u>	<u>\$ -</u>	<u>\$ 711,355</u>	<u>\$ -</u>

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

	September 30, 2015	<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
G DFA:				
Investments by fair value level:				
Municipal bonds	\$ 816,518	\$ -	\$ 816,518	\$ -
Exchange-traded & closed-end funds	6,274,840	6,274,840	-	-
Mutual funds	<u>572,200</u>	<u>572,200</u>	-	-
Total investments by fair value level	<u>7,663,558</u>	<u>6,847,040</u>	<u>816,518</u>	-
Investments measured at cost:				
Brokered CDs	<u>156,486</u>	-	-	-
Total investments at cost	<u>156,486</u>	-	-	-
	<u>\$ 7,820,044</u>	<u>\$ 6,847,040</u>	<u>\$ 816,518</u>	<u>\$ -</u>
ADF:				
Investments by fair value level:				
Municipal bonds	\$ 669,201	\$ -	\$ 669,201	\$ -
Exchange-traded & closed-end funds	-	-	-	-
Mutual funds	-	-	-	-
Total investments by fair value level	<u>669,201</u>	-	<u>669,201</u>	-
Investments measured at cost:				
Brokered CDs	<u>128,252</u>	-	-	-
Total investments at cost	<u>128,252</u>	-	-	-
	<u>\$ 797,453</u>	<u>\$ -</u>	<u>\$ 669,201</u>	<u>\$ -</u>

Mutual funds and exchange-traded & closed-end funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Municipal bonds classified in Level 2 of the fair value hierarchy are valued using observable inputs other than quoted prices such as interest rates and yield curves.

(3) Other Real Estate

G DFA and ADF have acquired certain land and leasehold interest through loan foreclosure. Leasehold interests are reflected at cost of \$167,000 (net of a valuation allowance of \$333,171) as of September 30, 2016 and 2015, respectively, net of accumulated amortization of \$36,919 and \$33,883 at September 30, 2016 and 2015, respectively.

During the year ended September 30, 2015, ADF sold foreclosed property for a gain of \$270,025 which was recorded in GEDA's operating fund.

(4) Commitments

GEDA has approved a loan guarantee of \$1,000,000 with outstanding balance of \$914,573 as of September 30, 2016. The loan guarantee is in current status as of September 30, 2016.

(5) Contingencies

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

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

The Board of Directors
Guam Economic Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Guam Economic Development Authority (GEDA), which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

April 25, 2017

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

The Board of Directors
Guam Economic Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Guam Development Fund Act and the Agricultural Development Fund, administered by the Guam Economic Development Authority (GEDA), which comprise the respective statements of fiduciary net position as of September 30, 2016 and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon April 25, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

April 25, 2017