

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

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

**YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(AS RESTATED)**

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

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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Economic Development Authority (the "Authority"), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2017 and 2016, 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, 2017 and 2016, 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, in 2017, the Authority adopted Governmental Accounting Standards Board (GASB) 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*. As a result of adopting this standard, the Authority has elected to restate its 2016 financial statements to reflect the adoption of this standard. 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 17 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 50, the Schedules of Proportional Share of the Net Pension Liability on pages 51 through 53, and the Schedule of Pension Contributions on page 54, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental divisional information on pages 18 through 20, the supplemental schedule of salaries and wages on page 55 and the supplemental comparative divisional schedules on pages 56 through 58 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 May 2, 2018, 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

May 2, 2018

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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 over 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 regularly focuses on key areas which are the core of GEDA's regular activities. These activities include industry development activities, compliance monitoring, commercial loan programs, real property management, and serves as the Central Financial Manager for the Government of Guam by assisting with coordinating and monitoring Financial Advisory Services.

At its core GEDA will remain focused on assisting in the development of 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.

With that, the accomplishments and strides achieved have been milestones for both GEDA and Guam overall. The 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.

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 Singapore, Philippines, China, Taiwan, Japan and Korea in 2017.

- Singapore - Hotel Investment Conference Asia Pacific (HICAP) Update, March 13-16, 2017
- Philippines – March 16-18, 2017
- China – Asia Pacific Council of American Chamber of Commerce (APCAC) Asia Pacific Business Summit, April 17-22, 2017
- Korea/Japan Trade Mission – September 3-11, 2017
- Taiwan Trade Mission – October 24-31, 2017

BDD attended a HICAP UPDATE 2017 in Singapore to further 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 to ensure continued growth as we compete against other world-class destinations.

The trip to Singapore also included a two-day stay in the Philippines which comprised of meetings with the Makati Chamber of Commerce, United Laboratories, Inc. (UNILAB), and the Guam Visitors Bureau (GVB's) Philippines Office. The meeting with the Makati Chamber of Commerce was to continue dialog and relations on bi-lateral investment opportunities. Their members are interested in banking and real estate and have made numerous visits on Guam in 2016 and 2017.

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The UNILAB meeting was intended to continue to encourage them to develop a small manufacturing lab on Guam. They have visited Guam on several occasions as part of their research. They are not completely sold on the opportunity and will continue to investigate.

Governor Calvo was invited to be a speaker at the 2017 APCAC Asia Pacific Business Summit in Guangzhou, China in April 2017. The Governor and GEDA attended the business summit, which presented an opportunity to network with senior executives of over 600 businesses and industry leaders of which 300 were large Chinese companies.

Governor Calvo and GEDA Administrator, Jay Rojas, led a delegation to Seoul, South Korea from September 3-7, 2017 and Tokyo, Japan from September 8-11, 2017 to promote Guam as a safe place to visit and invest. In Korea, the Guam delegation met with senior officials of JeJu Air, Hyundai Corporation, SC Sung Min Holdings, Korea Telecom, Aju Hotels, Mode Tours, iK Investments, Shin Chang Jo Company, KEB Hana Bank, Dohai Ship Builders and also had government meetings with the mayors of Gwangmyeong City, Gwacheon City and the Charge D' Affaires of the U.S. Embassy in Korea.

In Japan, meetings were held with senior executives of PHR Ken Corp, Japan Airlines, Korean Air (Tokyo office), and members of the Japan House of Representatives. The delegation also attended the Asia Pacific Investment meeting to explore investment opportunities in the Asia Pacific Region.

Investment interest was positive and there was little concern expressed about recent headline news related to North Korea and Guam. The Guam delegation met with businesses interested in power generation, affordable housing, telecommunications and energy efficient technology, tourism, hotel development and airlines. Governor Calvo reassured Korean residents and businesses that Guam continues to be a safe destination.

Governor Calvo also led a delegation to Taipei, Taiwan from October 24-31, 2017 with GEDA Administrator, Jay Rojas, to continue to promote Guam as a safe destination. The trade mission was a joint effort among the GVB, Guam International Airport Authority (GIAA), GEDA and members of the Guam business community.

The Guam delegation met with senior officials of China Airlines, Eva Airlines, Evergreen Resort Hotel, Polaris AM/LGI, Lih Pao Construction and Investments, China Medical University Hospital, Yeshealth IFarm, Minister of Foreign Affairs, Mayor of Taoyuan City, and attended the Taipei 2017 International Travel Fair. The delegation also made a courtesy visit to the President of Taiwan.

Governor Calvo's message was clear, "Guam is a safe destination." In addition, the Governor also needed to provide a status of the H2B foreign labor situation.

Qualifying Certificates (QC) Program

The Legislature recognizes that the Qualifying Certificate program of GEDA 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 in 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. The first step to improve the QC program was the passage of P.L. 32-233 which established the Special Hotel QC, which addressed the need for additional hotel rooms as well as balanced the tax incentives provided to the QC beneficiary.

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Governor Calvo recently issued Executive Order 2018-02, which placed a 90-day moratorium on the renewal of any existing QC's. He has also indicated that until the financial situation of the Government of Guam improves, he does not anticipate that he will approve any QC. In order to adapt the QC program to the recent financial developments of the Government of Guam and to ensure that the QC remains a viable incentive tool even after the government's current financial situation, GEDA has been placing more priority on improving the program for both the new economic reality and the government financial situation.

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.

As of the end of 2017, GEDA issued 79 Guam Product Seal Permits covering a range of products from snacks foods, souvenir items, clothing and art. Each year GEDA hosts the "Made in Guam" Product Fair. In 2017, the fair was held on December 2 at the Agana Shopping Center. Thousands of customers visited the center during the day, with hundreds visiting the fair that was located at in the center court. Over 20 GPS members participated in the all-day affair.

Film Industry – Guam Film Office

Since the enactment of P.L. 31-159, GEDA has been working to establish the Guam Film Office. GEDA has been mandated to develop and organize Guam's Film Industry overseeing all film, video and photographic projects and activities on Guam. In FY2017, BDD has conducted and compiled research, statistics and information from various film jurisdictions around the world, which were used to strengthen the draft rules and regulations that were updated during the year.

SPECIAL PROJECTS

Chamorro Village

Since 2016, 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. Unfortunately, efforts to enter into a Memorandum of Understanding as well as an Executive Order to provide GEDA more authority to be involved with operational aspects of the Chamorro Village have been unsuccessful due to legal concerns. In the interim, BDD has been actively supporting and networking with the staff and vendors of CV to provide guidance and assistance for their operations.

Department of Public Work (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 Realtors, various Rotary Organizations, Health Insurance forums are to name a few. BDD has also become more involved with the Guam Chamber of Commerce and other business chambers and associations in 2017, and looks to continue this involvement throughout 2018.

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PUBLIC FINANCE DIVISION

\$21.7 Million University of Guam (UOG) Endowment Loan (December 2016)

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 (SSC) and a new School of Engineering. The existing UOG Student Center will be expanded and renovated into a SSC that will serve as a one-stop shop by fully integrating vital services into one facility.

The current Student Services Center building was constructed in 1970 with 17,400 net-assignable square feet. The building's gross square footage is 27,817 sq. ft. The proposed new SSC will be 70,000 sq. ft. The School of Engineering facility will be built adjacent to the existing College of Agriculture and Life Sciences (CALs).

In December 2016, United States Department of Agriculture (USDA) approved a direct loan to the University of Guam Endowment Foundation, Inc. (UOGEFI) at an interest rate of 2.375%.

\$5.0 Million Guam Community College (GCC) Loan (December 2016)

Also under the authorization of PL 32-120, the GCC was able to secure a \$5.0 million USDA loan to finance the construction, expansion renovation and/or hardening of the GCC Crime Lab and Building #100 (December 2016).

In December 2016, USDA approved a direct loan to the GCC for the projects at an interest rate of 2.375%.

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, GEDA Administrator, Jay Rojas, requested the ratings be withdrawn.

On July 11, 2017, Standard & Poors Global, affirmed its A rating on the BPT bonds, even with the PROMESA legislation.

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 provided an opportunity for bond investors to experience first-hand 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 also helped alleviate concerns with the PROMESA which raised the concerns about Guam's ability to further participate in the municipal markets.

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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.

- Guam International Airport Authority (GIAA) Revenue Bonds: Moody's has reaffirmed its Baa2 rating with a Stable outlook (1/11/17)
- Guam Waterworks Authority (GWA) Revenue Bonds: Fitch reaffirmed the rating at BBB- with a Stable outlook (2/24/17).
- Guam Power Authority (GPA) Bonds: Fitch rating at BBB- with a Stable outlook (1/05/17) and Moody's rating affirmed at Baa2 with a Stable outlook (6/14/17).
- Government of Guam General Obligation (GO) and Certificate of Participation (COP) Bond Ratings: S&P affirmed its BB- rating on the GO Bonds and a B+ rating on the COP's with a stable outlook for both (8/30/17).
- Business Privilege Bonds Series A, B & C: S&P reaffirmed at an investment grade A with a Stable outlook (8/30/17).
- Government of Guam Hotel Occupancy Tax Revenue Bonds: S&P affirmed its rating of A- with a stable outlook (8/31/17).
- Government of Guam Issuer Rating: Moody's assigned an Issuer Rating of Ba1 with a stable outlook on the Government of Guam. This is the first time Moody's has issued this rating, which is now part of their methodology. The rating now serves as a reference point for the other credits they rate to include GWA, GPA and GIAA (9/22/17).

Bond Disclosure Services (FY2017)

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) 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; \$248,407,234 will be available during the year for any of the designated types of bonds.

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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 (MOU) with the Guam Ancestral Lands Commission (GALC), to manage leases on the Spanish Crown properties. For the period October 2007 to September 2017, GEDA collected over \$5.5 million in ground lease rents and participation rents of which over \$4.7 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. Although this MOU expired on April 24, 2016, GEDA and CLTC continue to negotiate a new MOU for property management services. Overall, Industrial Parks along with GEDA's share of GALC leases revenues generate approximately \$1.3 million per year of GEDA's operating revenues.

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 2017, 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 2018 include new Pedestrian Safety features in Tumon, completion of the Hagatna Master Plan, lighting improvements at Ypao Park and mitigation of flooding in Tumon and completion of improvements to the Fisherman's Cooperative facility along with reinforcement of the seawall at Paseo.

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In March of 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 possessed 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 completed contract negotiations with the selected firm issued a Notice to Proceed on September 25, 2017.

COMMERCE AND ECONOMIC DEVELOPMENT (CED)

The CED division 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;
- 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. land use, asset location, hotel industry expansion, Chamorro Land Trust Commission commercial lease program 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; and
- Grant management for Federal Award #07-69-07392 provided by the U.S. Department of Commerce, Economic Development Administration's Planning and Local Technical Assistance Grant Program. Scope of administration action include:
 - Preparation a Comprehensive Economic Development Strategy
 - Establishment of a CED Strategy Committee inclusive of public and private sector partnerships
 - Establishment of a plan of action to network with local cooperative groups (i.e. farmers', fishermen's, agriculture and local manufacturers)
 - Planning and execution of a CEDS Economic Forum

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The CED Division is completing a review of all existing master plans within the government of Guam. The division has also allocated time and resources to the task of integrated Capital Improvement Projects (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 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.

LOAN PROGRAMS

Agriculture Development Fund (ADF)

The ADF program's target market is limited to individuals, corporations and partnerships that engage in commercial agriculture businesses. Activities include the areas of agriculture, aquaculture, horticulture, mariculture, 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)

The GDFA 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 \$13,168,350 in funding from the U.S. Treasury for the Guam SSBCI Program which provides 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.

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 has proven to be more successful than we anticipated. To date, the Loan Guaranty Program has deployed \$8.8 million to support loans to 70 small businesses and circulated \$12 million in new money into Guam's economy through lending activities. These 70 new ventures are 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.

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FINANCIAL HIGHLIGHTS

The following table summarizes the Statements of Net Position and operations of Guam Economic Development Authority for 2017, 2016 and 2015:

	2017	2016 (As Restated)	2015 (As Restated)
Assets:			
Current assets	\$ 22,279,199	\$ 21,843,442	\$ 17,001,785
Non-current assets:			
Notes receivables, net of current portion	-	-	93,808
Capital assets, at cost, net	459,901	490,378	526,049
Other assets	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	22,742,600	22,337,320	17,625,142
Deferred outflows of resources	<u>628,550</u>	<u>687,466</u>	<u>765,108</u>
	<u>\$ 23,371,150</u>	<u>\$ 23,024,786</u>	<u>\$ 18,390,250</u>
Liabilities and net position:			
Current liabilities	3,182,138	16,896,109	12,071,143
Non-current liabilities	<u>34,628,078</u>	<u>33,671,755</u>	<u>33,634,174</u>
	37,810,216	50,567,864	45,705,317
Deferred inflows of resources	<u>61,529</u>	<u>21,964</u>	<u>353,251</u>
Net position:			
Net investment in capital assets	459,901	490,378	526,049
Restricted	9,377,364	(3,520,376)	(3,556,995)
Unrestricted	<u>(24,337,860)</u>	<u>(24,535,044)</u>	<u>(24,637,372)</u>
	<u>(14,500,595)</u>	<u>(27,565,042)</u>	<u>(27,668,318)</u>
	<u>\$ 23,371,150</u>	<u>\$ 23,024,786</u>	<u>\$ 18,390,250</u>
Revenues, Expenses and Changes in Net Position:			
Revenues:			
Operating revenues	\$ 2,642,070	\$ 3,066,460	\$ 2,341,726
SSBCI grants revenue	12,858,755	118,071	73,334
Tobacco settlement revenue	2,393,542	2,441,209	2,968,356
Provision for bad debts	<u>(26,762)</u>	<u>(876)</u>	<u>-</u>
	17,867,605	5,624,864	5,383,416
Expenses:			
Operating Expenses	<u>(3,268,435)</u>	<u>(3,545,844)</u>	<u>(3,263,798)</u>
Operating income	14,599,170	2,079,020	2,119,618
Other income (expense), net	<u>(1,534,723)</u>	<u>(1,975,744)</u>	<u>(1,305,343)</u>
Change in net position	13,064,447	103,276	814,275
Net position at beginning of year, as restated	<u>(27,565,042)</u>	<u>(27,668,318)</u>	<u>(28,482,593)</u>
Net position at end of year, as restated	<u>\$ (14,500,595)</u>	<u>\$ (27,565,042)</u>	<u>\$ (27,668,318)</u>

**** Financial Statements represents Divisional Information for GEDA, SSBCI and TSA, as reflected on pgs. 18-20.**

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Operating Revenues

In FY17, GEDA recorded operating revenues of \$2,642,070 compared to \$3,066,460 in FY16. The year-to-year change of \$424,390 represents a decrease of 13.84%. This is mainly due to a decrease in the number of bonds issued in FY17. GEDA generates its own revenues to sustain annual operations from three primary sources. The first is the rental income from Industrial Parks, the second is application and surveillance fees from QC beneficiaries and the third source is from the management of the GALC Lease properties under the current MOU. Bond fees and other federal and local grants 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 manages three 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 15,000-sq. meters Cabras Island.

Rental income decreased by \$11,677 or 1% from \$1,183,006 in FY16 to \$1,171,329 in FY17. There were no significant changes in lease terms during the fiscal year.

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 now serve a critical role in supporting the growth of new and emerging industries. QC revenues decreased by \$226,855 or 25.96% from \$873,765 in FY16 to \$646,910 in FY17. This is mainly attributed to additional community contribution allocated from Public Investment contribution from QC#252 and QC#254 in FY2017.

Bond Fees

GEDA's mandate establishes GEDA as the Central Financial Manager for the Government of Guam. This role is facilitated through the Financial Services Division, which assists with, coordinates and monitors, Capital Financing Debt Management and the Capital Markets. GEDA is authorized to receive fees when Government of Guam bonds are issued, based on a recognized formula. Bond fees decreased by \$678,499 or 73.12% from \$927,877 in FY16 to \$249,378 in FY17. This is due to a decrease in the number of bonds issued in FY17.

Capital Assets and Long-Term Debt

Land, building, improvements and equipment decreased by \$29,944 from \$489,845 in FY16 to \$459,901 in FY17. The decrease is the accumulated depreciation for the year. There were no significant capital transactions during the year. For additional information concerning capital assets, please refer to note 3 to the financial statements. No additions to long-term debt occurred in FY17. For additional information concerning long-term debt, please refer to notes 4 and 5 to the financial statements.

Operating Expense

GEDA's operating expense in FY17 was \$3,145,441, a decrease of \$235,556 or 6.97% over FY16 of \$3,380,997.

Personnel Expenses

Salaries and benefits (including allocation to trust funds) increased by \$26,736 or .91% from \$2,951,370 in FY16 to \$2,978,106 in FY17. This increase is mainly attributed to the amortized pension benefits. For additional information concerning pension, please refer to the notes to financial statements.

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Legal and Professional Services

Legal and Professional service expense decreased by \$84,503 or 26.21% from \$322,463 in FY16 to \$237,960 in FY17. This decrease is due to expenses incurred from Imagine Guam Project that was completed in FY16.

Office Space and Equipment Rental

Total office space and equipment rental (including allocation to trust funds) decreased by \$67,330 or 24.29% from \$277,136 in FY16 to \$209,806 in FY17. This is attributed to the credit applied per office lease agreement.

Travel

Travel expense decreased by \$31,054 or 25.19% from \$123,292 in FY16 to \$92,238 in FY17. This decrease is attributed to the number of trade missions GEDA partook in FY17.

FY2018 INITIATIVES

Qualifying Certificate

BDD has begun to hold regular meetings with the Compliance Division and members of the GEDA Board to formulate strategies to improve the QC program by granting targeted, controlled tax incentives to specific industries and activities. These strategies will also take into account the current financial situation of the Government of Guam as well as current economic trends. BDD hopes to have strategies in place by the fourth quarter of 2018.

Guam Film Office

BDD will update the prepared draft Rules & Regulations for the Guam Film Office, and will empanel the requisite advisory committee as per PL 31-159. Once GEDA management as well as the Board of Directors review the draft rules and regulations, they will be submitted to the Guam Legislature, with an anticipated adoption by August 2018.

Economic Development Trade Missions

BDD will develop and lead trade missions and business trips to the U.S. and Asia to market Guam's economic opportunities. Not only will BDD focus on enticing investment in key industries such as tourism, medical services and agriculture, but we will also try to secure investment into new and burgeoning industries such as manufacturing and possible technology. In addition, BDD plans to attend the International Economic Development Council (IEDC) annual conference. GEDA has been a member of IEDC since 2016, and attending the conference will provide a singular opportunity to interact with a broad spectrum of economic development specialists. Planned trade missions for 2018 include:

June 2018 – Manila, Philippines

July 2018 – Taipei, Taiwan

August 2018 – Shenzhen, China

October 2018 – IEDC Annual Conference, Atlanta Georgia

Guam Product Seal

BDD will continue to drive membership by seeking out companies that manufacture locally, with a goal to have 90 GPS permit holders by the end of 2018. Additionally, plans for two GPS events in 2018 are underway, the first being a spring event to be held at the Tumon Sands Plaza on May 4. The details of the 2018 Made in Guam Holiday Fair are being finalized, with the date and location yet to be determined. This is the first year that GEDA will hold two GPS events in one year, and is a testament to GEDA's commitment to support local manufacturers.

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In addition, GEDA will provide sponsorship, via the utilization of Special Hotel QC community contributions, to the Guam Visitors Bureau for their 2018 #InstaGuam Fair in Manila, Philippines on June 1-3, 2018. A bulk of the sponsorship money will be used to provide assistance to Guam Product Seal permit holders to participate as vendors at the event, as well as to provide GEDA a prominent presence in the fairgrounds itself.

\$107.8M Guam Waterworks Authority (GWA) Bond Refinancing (December 2017)

GWA and GEDA successfully refinanced \$107,815,000 of the 2010 Series-A bonds saving over \$14.8M in gross savings through 2040. The pricing of the bonds followed two weeks of meetings with 10 institutional investors in Chicago, Boston, New York, and the Philadelphia area, each of whom placed orders during the order period.

In total, 29 investors placed over \$1.1 Billion in orders, which is over ten times the offered amount of bonds. This substantial demand allowed the further lowering of bond yields to an all in True Interest Cost (TIC) of 4.06 percent. The savings from this refunding offers GWA an average annual savings of \$640,000 in debt service payments.

\$148.7M Guam Power Authority (GPA) Bond Refunding (December 2017)

Based on a review of market conditions and the bond indenture, GEDA determined that there is savings in refunding all or a portion of the GPA 2010A Bonds with estimated par at an amount up to \$150 million and net present value savings estimated at \$6.7 million or 4.5%. The refunding was authorized by Public Law 34-69, passed by the Legislature on December 4th.

In total, investors placed over \$593 million in orders, which is over four times the offered amount of bonds. This substantial demand allowed the further lowering of bond yields to an all in True Interest Cost (TIC) of 4.12 percent. The savings from this refunding offers GPA an average annual savings of \$501,236 in debt service payments. This was despite the fact that there was a rush to market due to the federal plan to eliminate advance refunding in 2018 which led to interest rates in general, to rise by 4 basis points during the day of pricing.

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%. An RFP for interim financing was issued twice during FY2017 but GEDA was not successful in coming to terms with the proposer. GEDA had send USDA a request for a waiver of the interim financing but this request was denied. GEDA will issue the RFP once again in FY 2018 in hopes of securing a financier, either on or off-island.

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 other 34 public school facilities as well as to provide collateral equipment, maintenance and insurance.

After a protest on 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 which has placed the procurement on hold.

Port Authority of Guam – Estimated \$72.6 million New Money

The Port Authority of Guam (PAG) 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. GEDA will be assisting in securing a revenue bond financing in an amount not to exceed \$72.6 million for refinancing of existing debt and the funding of critical capital improvement projects as authorized by Public Law 34-70.

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PAG anticipates meeting with rating agency analysts in May 2018 subject to PUC approval and to close the bonds by the end of June 2018.

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).

GEDA and DLM were not able to secure the loan through Bank of Guam due to stringent requirements. GEDA will continue to work with DLM on possibly approaching the USDA for assistance.

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 March 2018. 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.

Please note that the GovGuam Debt Abstract is a publication issued by GEDA's Public Finance Department and is updated every October and March.

B. GovGuam Debt Management Plan: As part of the Office of the Public Accountability (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. The final plan was finalized and approved by the GEDA Board on August 24, 2017 and is also available on GEDA's website. It is our intent to have this plan updated every five (5) years.

Challenges affecting GEDA

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

- 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, impose 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.
- 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

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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. but 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 millions 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 developer 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, 2016, is set forth in GEDA's report on the audit of financial statements which is dated, April 25, 2017. That Discussion and Analysis explains in more detail major factors impacting the 2016 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.

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Statements of Net Position
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<u>ASSETS</u>	<u>Divisional Information</u>			<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
	<u>GEDA</u>	<u>SSBCI</u>	<u>TSA</u>		
Current assets:					
Cash and cash equivalents	\$ 531,999	\$ 8,327,664	\$ 107,895	\$ 8,967,558	\$ 10,480,896
Cash and cash equivalents - restricted	-	1,572,041	3,495,428	5,067,469	5,063,216
Investments	3,214,708	2,992,572	-	6,207,280	5,213,078
Due from trust funds administered by GEDA:					
Agricultural Development Fund	27	-	-	27	-
Guam Development Fund Act	25,773	-	-	25,773	221,900
Reimbursable expense	4,954	(4,954)	-	-	-
Other receivables, net of an allowance for doubtful receivables of \$101,879 in 2017 and \$114,111 in 2016	1,997,656	30	-	1,997,686	856,646
Promotional supplies	7,706	-	-	7,706	7,706
Prepaid expenses	5,700	-	-	5,700	-
Total current assets	<u>5,788,523</u>	<u>12,887,353</u>	<u>3,603,323</u>	<u>22,279,199</u>	<u>21,843,442</u>
Equity investment	3,500	-	-	3,500	3,500
Capital assets, at cost, net	459,901	-	-	459,901	490,378
Total assets	<u>6,251,924</u>	<u>12,887,353</u>	<u>3,603,323</u>	<u>22,742,600</u>	<u>22,337,320</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Pension	628,550	-	-	628,550	687,466
	<u>\$ 6,880,474</u>	<u>\$ 12,887,353</u>	<u>\$ 3,603,323</u>	<u>\$ 23,371,150</u>	<u>\$ 23,024,786</u>
<u>LIABILITIES AND NET POSITION</u>					
Current liabilities:					
Current portion of bonds payable	\$ -	\$ -	\$ 1,115,000	\$ 1,115,000	\$ 2,430,000
Accounts payable	443,453	-	-	443,453	517,836
Due to trust funds administered by GEDA:					
Agricultural Development Fund	-	-	-	-	8,161
Guam Development Fund Act	-	-	-	-	30,737
Accrued liabilities	1,122,618	14,561	(53,306)	1,083,873	534,862
Interest payable	-	-	441,000	441,000	458,000
Unearned grant revenues	-	-	-	-	12,824,715
Unearned rental income	98,812	-	-	98,812	91,798
Total current liabilities	<u>1,664,883</u>	<u>14,561</u>	<u>1,502,694</u>	<u>3,182,138</u>	<u>16,896,109</u>
Non-current liabilities:					
Bonds payable, net of current portion and discount	-	-	29,076,329	29,076,329	28,175,029
DCRS sick leave liability	187,540	-	-	187,540	162,218
Deposits	18,322	-	-	18,322	18,322
Deposits due to GALC	77,410	-	-	77,410	149,410
Net pension liability	5,268,477	-	-	5,268,477	5,166,776
Total non-current liabilities	<u>5,551,749</u>	<u>-</u>	<u>29,076,329</u>	<u>34,628,078</u>	<u>33,671,755</u>
Total liabilities	<u>7,216,632</u>	<u>14,561</u>	<u>30,579,023</u>	<u>37,810,216</u>	<u>50,567,864</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Pension	61,529	-	-	61,529	21,964
Commitments and contingencies					
Net position:					
Net investment in capital assets	459,901	-	-	459,901	490,378
Restricted	-	12,872,792	(3,495,428)	9,377,364	(3,520,376)
Unrestricted	(857,588)	-	(23,480,272)	(24,337,860)	(24,535,044)
Net position	<u>(397,687)</u>	<u>12,872,792</u>	<u>(26,975,700)</u>	<u>(14,500,595)</u>	<u>(27,565,042)</u>
	<u>\$ 6,880,474</u>	<u>\$ 12,887,353</u>	<u>\$ 3,603,323</u>	<u>\$ 23,371,150</u>	<u>\$ 23,024,786</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	Divisional Information			2017	2016 As Restated
	GEDA	SSBCI	TSA		
Revenues:					
Rental income	\$ 1,171,329	\$ -	\$ -	\$ 1,171,329	\$ 1,183,006
Tobacco Settlement revenue	-	-	2,393,542	2,393,542	2,441,209
Qualifying certificate application, surveillance and other	646,910	-	-	646,910	873,765
Bond fees earned	249,378	-	-	249,378	927,877
Grants revenue	-	12,824,715	-	12,824,715	90,662
GALC lease commission	105,278	-	-	105,278	80,221
Others	469,175	34,040	-	503,215	29,000
Total operating revenues	2,642,070	12,858,755	2,393,542	17,894,367	5,625,740
Provision for bad debts	(26,762)	-	-	(26,762)	(876)
Net operating revenues	2,615,308	12,858,755	2,393,542	17,867,605	5,624,864
Operating expenses:					
Salaries and benefits	2,536,231	83,256	-	2,619,487	2,653,817
Legal and professional services	237,960	1,101	12,105	251,166	354,841
Office space and equipment rent	169,490	-	-	169,490	230,142
Travel	92,238	-	-	92,238	138,254
Depreciation and amortization	40,099	533	-	40,632	44,514
Advertising and promotions	19,041	-	-	19,041	34,289
Loss on loan guaranty	-	-	-	-	26,028
Supplies	6,819	-	-	6,819	5,390
Insurance	2,756	-	-	2,756	4,160
Utilities, telephone and communication	3,495	-	-	3,495	2,927
Repairs and maintenance	4,111	-	-	4,111	266
Miscellaneous	33,201	121	25,878	59,200	51,216
	3,145,441	85,011	37,983	3,268,435	3,545,844
Operating (loss) income	(530,133)	12,773,744	2,355,559	14,599,170	2,079,020
Other income (expense):					
Interest income (expense), net	1,402	15,177	(1,921,669)	(1,905,090)	(2,143,624)
Investment income	297,625	18,646	5,587	321,858	61,719
Net increase (decrease) in the fair value of investments	(79,321)	3,421	-	(75,900)	24,920
Other income, net	111,957	-	12,452	124,409	81,241
Other income (expense), net	331,663	37,244	(1,903,630)	(1,534,723)	(1,975,744)
Change in net position	(198,470)	12,810,988	451,929	13,064,447	103,276
Net position at beginning of year	(199,217)	61,804	(27,427,629)	(27,565,042)	(27,668,318)
Net position at end of year	\$ (397,687)	\$ 12,872,792	\$ (26,975,700)	\$ (14,500,595)	\$ (27,565,042)

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	Divisional Information			2017	2016 As Restated
	GEDA	SSBCI	TSA		
Cash flows from operating activities:					
Cash received on grants and contracts	\$ -	\$ 34,040	\$ -	\$ 34,040	\$ 4,506,209
Cash received from customers	2,320,477	-	2,405,994	4,726,471	5,313,543
Cash paid to suppliers for goods and services	(704,506)	(34,074)	(12,105)	(750,685)	(741,322)
Cash paid to employees for services	(2,220,244)	(113,993)	-	(2,334,237)	(2,395,859)
Cash paid for retirement benefits	(90,484)	-	-	(90,484)	(58,176)
Net cash (used in) provided by operating activities	<u>(694,757)</u>	<u>(114,027)</u>	<u>2,393,889</u>	<u>1,585,105</u>	<u>6,624,395</u>
Cash flows from investing activities:					
Interest and investment income	218,304	22,067	5,587	245,958	86,639
Rollover of interest into investment	(218,304)	(22,067)	(5,587)	(245,958)	(86,639)
Maturity (purchase) of investment securities, net	(753,832)	-	5,587	(748,245)	650,623
Net cash provided by (used in) investing activities	<u>(753,832)</u>	<u>-</u>	<u>5,587</u>	<u>(748,245)</u>	<u>650,623</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(10,155)	-	-	(10,155)	(8,843)
Net cash used in capital and related financing activities	<u>(10,155)</u>	<u>-</u>	<u>-</u>	<u>(10,155)</u>	<u>(8,843)</u>
Cash flows from noncapital financing activities:					
Repayment of bond payable	-	-	(980,000)	(980,000)	(1,005,000)
Net interest received (paid) on deposit accounts and bonds payable	1,402	15,177	(1,372,369)	(1,355,790)	(1,411,470)
Net cash provided by (used in) noncapital financing activities	<u>1,402</u>	<u>15,177</u>	<u>(2,352,369)</u>	<u>(2,335,790)</u>	<u>(2,416,470)</u>
Net change in cash and cash equivalents	<u>(1,457,342)</u>	<u>(98,850)</u>	<u>47,107</u>	<u>(1,509,085)</u>	<u>4,849,705</u>
Cash and cash equivalents at beginning 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>
Cash and cash equivalents at end of year	<u>\$ 531,999</u>	<u>\$ 9,899,705</u>	<u>\$ 3,603,323</u>	<u>\$ 14,035,027</u>	<u>\$ 15,544,112</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:					
Operating (loss) income	\$ (530,133)	\$ 12,773,744	\$ 2,355,559	\$ 14,599,170	\$ 2,079,020
Other income, net	111,957	-	12,452	124,409	81,241
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:					
Noncash pension cost	200,182	-	-	200,182	195,611
Depreciation and amortization	40,099	533	-	40,632	44,514
Provision for bad debts	26,762	-	-	26,762	876
(Increase) decrease in assets:					
Due from trust funds administered by GEDA	191,147	-	-	191,147	(161,511)
Reimbursable expense	39,467	(34,513)	-	4,954	39,467
Other receivables	(599,177)	-	-	(599,177)	(203,545)
Note receivable	-	-	-	-	100,000
Promotional supplies	-	-	-	-	-
Prepaid expenses	(5,700)	-	-	(5,700)	20,744
Increase (decrease) in liabilities:					
Accounts payable	(74,383)	-	79,184	4,801	120,585
Due to trust funds administered by GEDA	(8,161)	(30,737)	-	(38,898)	-
Accrued liabilities	(47,152)	1,661	(53,306)	(98,797)	(78,290)
Unearned grant revenue	-	(12,824,715)	-	(12,824,715)	4,388,168
Deferred rental income	7,013	-	-	7,013	(6,656)
Due to GALC	(72,000)	-	-	(72,000)	-
DCRS sick leave liability	25,322	-	-	25,322	4,171
Net cash (used in) provided by operating activities	<u>\$ (694,757)</u>	<u>\$ (114,027)</u>	<u>\$ 2,393,889</u>	<u>\$ 1,585,105</u>	<u>\$ 6,624,395</u>

See accompanying notes to financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2017 and 2016

(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 expired on March 31, 2017 (see note 11).

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2017 and 2016

(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 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.

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Notes to Financial Statements
September 30, 2017 and 2016

(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

Vesting annual leave is accrued and reported as an expense and a liability in the period earned. No liability is accrued for non-vesting sick leave benefits. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. The maximum accumulation of annual leave convertible to pay upon termination of employment is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (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 (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. A liability is accrued for estimated sick leave to be paid out to DCRS members 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 defined benefit 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 defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes GEDA's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity (SA) payments that are anticipated to be made to defined benefit plan members and for anticipated future COLA to DCRS members. 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 are 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:

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Notes to Financial Statements
September 30, 2017 and 2016

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

Operating Revenues, Continued

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

Qualifying Certificate (QC) application and surveillance fees are earned based on contractual terms and when collectibility is reasonably assured.

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.

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

Risk Management

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

Concentrations of Credit Risk

Financial instruments which potentially subject GEDA to concentrations of credit risk consist principally of cash demand deposits and accounts receivable. At September 30, 2017 and 2016, 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 2017, GEDA implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of GEDA's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated, as follows, due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan:

	As Previously <u>Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2015:			
Net position	\$ (27,428,746)	\$ (239,572)	\$ (27,668,318)
For the year ended September 30, 2016:			
Operating expenses	\$ <u>3,381,212</u>	\$ <u>164,632</u>	\$ <u>3,545,844</u>
Change in net position	\$ <u>267,908</u>	\$ <u>(164,632)</u>	\$ <u>103,276</u>
As of September 30, 2016:			
Deferred outflows from pensions	\$ <u>571,955</u>	\$ <u>115,511</u>	\$ <u>687,466</u>
Net pension liability	\$ <u>(4,668,169)</u>	\$ <u>(498,607)</u>	\$ <u>(5,166,776)</u>
Net position	\$ <u>(27,160,838)</u>	\$ <u>(404,204)</u>	\$ <u>(27,565,042)</u>

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

New Accounting Standards, Continued

- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.
- GASB 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.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on GEDA's 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 Statement 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. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that GEDA will record upon implementation of Statement 75 is anticipated to be \$2,057,131 as of September 30, 2017.

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.

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

New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain items in the 2016 financial statements has been reclassified to correspond with the 2017 financial statement presentation.

**GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
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(2) Deposits and Investments

Investments are carried at fair value. Cash and cash equivalents and investments at September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand and deposits in banks	\$ 10,431,704	\$ 11,987,896
Money market accounts	<u>3,603,323</u>	<u>3,556,216</u>
Cash and cash equivalents	\$ <u>14,035,027</u>	\$ <u>15,544,112</u>
Total shares in mutual funds	\$ 3,758,152	\$ 2,970,506
Exchange-traded & closed-end funds	2,449,128	-
Municipal bonds	<u>-</u>	<u>2,242,572</u>
Investments	\$ <u>6,207,280</u>	\$ <u>5,213,078</u>

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

A. Deposits

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

At September 30, 2017 and 2016, the carrying amount of cash was \$10,431,704 and \$11,987,896, respectively, and the corresponding bank balances were \$12,408,786 and \$12,102,780, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance. Cash balances of \$500,000 and \$1,285,989 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2017 and 2016, 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, 2017 and 2016, cash and cash equivalents of \$3,495,428 and \$3,520,376, 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.

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

A. Deposits, Continued

In accordance with the terms of Lender Participation Agreements under the SSBCI program (see note 11), cash and cash equivalents of \$1,572,041 and \$1,542,840, at September 30, 2017 and 2016, respectively, deposited with the Lender banks are restricted for terms of guarantees.

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, 2017 and 2016 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.

As of September 30, 2017, 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)	\$ 2,992,572	N/A	N/A
Morgan Stanley Instl High Yield Cl1 (MSYIX)	190,617	N/A	N/A
Goldman Sachs Emrg Markets Debt Instl (GSDIX)	174,657	N/A	N/A
Allianzgi Short Duration Hi Inc Cl A (ASHAX)	141,045	N/A	N/A
Fidelity Advisor Int L Small Cap Opp Cl I (FOPIX)	132,324	N/A	N/A
Jpmorgan Global Bond Opportunities Cl1 (GBOSX)	126,937	N/A	N/A
Exchange-traded & closed-end funds:			
Ishares Core S&p 500 Etf (IVV)	1,257,821	N/A	N/A
Ishares Trust Core Msci Eafe Etf (IEFA)	277,856	N/A	N/A
Dbx Etf Trust X-trackers Msci Eafe Hdq Equity Fund (DBEF)	273,343	N/A	N/A
Ishares Inc Core Msci Emerging Mkts Etf (IEMG)	252,490	N/A	N/A
Ishares Core S&p Mid-cap Etf (IJH)	207,882	N/A	N/A
Ishares Inc Msci Jpn Etf New (EWJ)	90,027	N/A	N/A
Ishares Europe Etf (IEF)	<u>89,709</u>	N/A	N/A
	<u>\$ 6,207,280</u>		

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Notes to Financial Statements
September 30, 2017 and 2016

(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>		

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, 2017 and 2016:

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(2) Deposits and Investments, Continued

B. Investments, Continued

	<u>Fair Value Measurements Using</u>			
	September 30, 2017	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:				
Exchange-traded & closed-end funds	\$ 2,449,128	\$ 2,449,128	\$ -	\$ -
Mutual funds	<u>3,758,152</u>	<u>3,758,152</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>6,207,280</u>	<u>6,207,280</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,207,280</u>	<u>\$ 6,207,280</u>	<u>\$ -</u>	<u>\$ -</u>

	<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>

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) Capital Assets

A summary of capital assets at September 30, 2017 and 2016 is as follows:

	<u>Beginning Balance October 1, 2016</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2017</u>
Leasehold improvements	\$ 792,537	\$ -	\$ -	\$ 792,537
Buildings	546,603	-	-	546,603
Furniture and equipment	504,657	10,155	63,723	578,535
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>
	2,417,404	10,155	63,723	2,491,282
Less accumulated depreciation and amortization	<u>(1,927,026)</u>	<u>(40,632)</u>	<u>(63,723)</u>	<u>(2,031,381)</u>
	<u>\$ 490,378</u>	<u>\$ (30,477)</u>	<u>\$ -</u>	<u>\$ 459,901</u>

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(3) Building, Improvements and Equipment, Continued

	Beginning Balance <u>October 1, 2015</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>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>

(4) Long-Term Obligations

Bonds Payable

Bonds payable at September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</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).	\$ 24,025,000	\$ 25,005,000

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>
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(4) Long-Term Obligations, Continued

Bonds Payable, Continued

	<u>2017</u>	<u>2016</u>
Total	40,798,618	41,778,618
Less current portion	<u>(1,115,000)</u>	<u>(2,430,000)</u>
	39,683,618	39,348,618
Less discount on Series B capital appreciation turbo term bonds	(9,965,238)	(10,433,985)
Less discount on issuance	<u>(642,051)</u>	<u>(739,604)</u>
	<u>\$ 29,076,329</u>	<u>\$ 28,175,029</u>

The annual payments on series 2007 bonds payable, assuming that turbo redemption occurs, subsequent to September 30, 2017 and thereafter are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
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	1,480,000	587,461	2,067,461
2023 through 2027	11,889,588	1,479,867	13,369,455
2028 through 2032	10,473,733	-	10,473,733
2033 through 2034	<u>11,975,297</u>	<u>-</u>	<u>11,975,297</u>
	<u>\$ 40,798,618</u>	<u>\$ 5,161,384</u>	<u>\$ 45,960,002</u>

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, which was been fully amortized as of September 30, 2016.

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(4) Long-Term Obligations, Continued

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 accredited 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 \$2,352,369 and \$2,429,869 for the years ended September 30, 2017 and 2016, respectively, or approximately 98% and 97% of pledged revenues the years ended September 30, 2017 and 2016, respectively.

During the years ended September 30, 2017 and 2016, the following changes occurred in liabilities reported as part of GEDA's long-term liabilities in the statements of net position:

	Balance October 1, 2016 <u>(As Restated)</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2017	Due within <u>one year</u>
Bonds payable	\$ 41,778,618	\$ -	\$ (980,000)	\$ 40,798,618	\$ 1,115,000
Deferred amount:					
Unamortized discount on bonds issued	(11,173,589)	-	566,300	(10,607,289)	-
	<u>30,605,029</u>	-	(413,700)	<u>30,191,329</u>	<u>1,115,000</u>
Other liabilities:					
DCRS sick leave liability	162,218	25,322	-	187,540	-
Deposits due to GALC	149,410	-	(72,000)	77,410	-
Deposits	18,322	-	-	18,322	-
Net pension liability	<u>5,166,776</u>	<u>601,072</u>	<u>(499,371)</u>	<u>5,268,477</u>	-
	<u>5,496,726</u>	<u>626,394</u>	<u>(571,371)</u>	<u>5,551,749</u>	-
	<u>\$ 36,101,755</u>	<u>\$ 626,394</u>	<u>\$ (985,071)</u>	<u>\$ 35,743,078</u>	<u>\$ 1,115,000</u>

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(4) Long-Term Obligations, Continued

	Balance October 1, 2015 <u>(As Restated)</u>	Additions <u>(As Restated)</u>	Reductions <u>(As Restated)</u>	Balance September 30, 2016 <u>(As Restated)</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	<u>(11,728,465)</u>	<u>-</u>	<u>554,876</u>	<u>(11,173,589)</u>	<u>-</u>
	<u>31,055,153</u>	<u>-</u>	<u>(450,124)</u>	<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>4,523,242</u>	<u>1,182,841</u>	<u>(539,307)</u>	<u>5,166,776</u>	<u>-</u>
	<u>4,849,021</u>	<u>1,187,012</u>	<u>(539,307)</u>	<u>5,496,726</u>	<u>-</u>
	<u>\$ 35,904,174</u>	<u>\$ 1,187,012</u>	<u>\$ (989,431)</u>	<u>\$ 36,101,755</u>	<u>\$ 2,430,000</u>

(5) Employees' Retirement Plans

A. General Information About the Pension Plans:

Defined Benefit 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, 2016, the date of the most recent valuation, plan membership consisted of the following:

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

Retirees and beneficiaries currently receiving benefits	7,298
Terminated employees entitled to benefits but not yet receiving them	4,463
Current members	<u>2,208</u>
	<u>13,969</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.

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 with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon 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 with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

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 with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon 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, 2015 actuarial valuation was used for determining the year ended September 30, 2017 statutory contributions. Member contributions are required at 9.55% of base pay (9.54% in 2016).

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

As a result of actuarial valuations performed as of September 30, 2015, 2014, and 2013, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2017, 2016 and 2015, respectively, have been determined as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Normal costs (% of DB Plan payroll)	16.27%	15.86%	15.92%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.72%</u>	<u>6.32%</u>	<u>6.37%</u>
Employer portion of normal costs (% of total payroll)	1.87%	1.94%	2.05%
Unfunded liability cost (% of total payroll)	<u>21.60%</u>	<u>22.42%</u>	<u>24.09%</u>
Government contribution as a % of total payroll	<u>23.47%</u>	<u>24.36%</u>	<u>26.14%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.41%</u>	<u>28.16%</u>	<u>29.85%</u>
Employee	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>

GEDA's contributions to the DB Plan for the years ended September 30, 2017, 2016 and 2015 were \$109,101, \$100,791 and \$160,912, respectively, which were equal to the required contributions for the respective year ended.

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, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	14.58 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%

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

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.

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 (7.0%) in measuring the 2016 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>5,988,550</u>	\$ <u>4,911,548</u>	\$ <u>3,984,542</u>

Pension Liability: At September 30, 2017 and 2016, GEDA reported a liability of \$4,911,548 and \$4,895,210, 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, 2017 and 2016, GEDA's proportion was 0.36% and 0.34%, respectively.

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

Plan Description: GEDA participates in the GovGuam ad hoc COLA/supplemental annuity plan for DB retirees, a single-employer defined benefit pension plan administered by the GGRF. GEDA considers this as a separate pension plan for DB retirees. A single actuarial calculation 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 this 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: The plan membership is the same as the DB plan described above.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA and supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. Ad hoc COLAs are made through annual allocations to provide DB Plan retired members and spouse survivors with COLA payments of \$2,000 per year. In addition, DB Plan retired members and survivors whose benefits commenced prior to October 1, 1995, have received supplemental annuity payments in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

GEDA's contributions to the Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees for each of the three years ended September 30, 2017, 2016 and 2015 was \$30,713, which was equal to the statutorily required contributions.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	3.058%

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued:

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

Discount Rate: The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
	<u>2.058%</u>	<u>3.058%</u>	<u>4.058%</u>
Net Pension Liability	\$ <u>316,318</u>	\$ <u>293,970</u>	\$ <u>274,187</u>

Ad Hoc COLA Plan for DCRS Retirees

Plan Description: GEDA participates in the GovGuam ad hoc COLA plan for DCRS retirees, a single-employer defined benefit pension plan administered by the GGRF. GEDA considers this as a separate pension plan for DCRS retirees. A single actuarial calculation 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 this 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, 2016, the most recent measurement date, plan membership consisted of 8,858 active DCRS participants.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA benefits, contributions and funding policy are the same as those for DB retirees.

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA Plan for DCRS Retirees, Continued:

GEDA's contributions to the Ad Hoc COLA Plan for DCRS Retirees for the years ended September 30, 2017, 2016 and 2015 were \$6,000, \$8,000 and \$4,000, respectively, which were equal to the statutorily required contributions.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	3.058%
Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to age 74, 100% at age 75
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.

Discount Rate: The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

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(5) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA Plan for DCRS Retirees, Continued:

	1% Decrease in Discount Rate <u>2.058%</u>	Current Discount Rate <u>3.058%</u>	1% Increase in Discount Rate <u>4.058%</u>
Net Pension Liability	\$ <u>297,427</u>	\$ <u>260,379</u>	\$ <u>228,855</u>

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

Pension Liability: At September 30, 2017 and 2016, GEDA reported a net pension liability for its proportionate shares of the GovGuam net pension liabilities which comprised of the following.

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 4,911,548	\$ 4,895,210
Ad hoc COLA/supplemental annuity plan for DB retirees	293,970	295,035
Ad hoc COLA plan for DCRS retirees	<u>260,379</u>	<u>173,951</u>
Subtotal	5,465,897	5,364,196
Discount rate variance	<u>(197,420)</u>	<u>(197,420)</u>
	\$ <u>5,268,477</u>	\$ <u>5,166,776</u>

GEDA's proportion of the GovGuam net pension liabilities was based on projection of GEDA's long-term share of contributions to the pension plans relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2017 and 2016, GEDA's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	0.36%	0.34%
Ad hoc COLA/supplemental annuity plan for DB retirees	0.13%	0.13%
Ad hoc COLA plan for DCRS retirees	0.42%	0.33%

Pension Expense: For the years ended September 30, 2017 and 2016, GEDA recognized pension expense from the above pension plans as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 608,885	\$ 606,583
Ad hoc COLA/supplemental annuity plan for DB retirees	30,202	27,790
Ad hoc COLA plan for DCRS retirees	<u>24,260</u>	<u>14,277</u>
	\$ <u>663,347</u>	\$ <u>648,650</u>

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(5) Employees' Retirement Plans, Continued

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

Deferred Outflows and Inflows of Resources: At September 30, 2017 and 2016, GEDA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA Plan for DB</u>		<u>Ad Hoc COLA Plan for DCRS</u>	
	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 16,180	\$ 23	\$ -	\$ 5,026	\$ 2,192
Net difference between projected and actual earnings on pension plan investments	-	25,690	-	-	-	-
Changes of assumptions	13,985	-	303	-	28,436	-
Contributions subsequent to the measurement date	442,603	-	30,713	-	6,000	-
Changes in proportion and difference between GEDA contributions and proportionate share of contributions	<u>58,049</u>	<u>-</u>	<u>1,616</u>	<u>-</u>	<u>41,796</u>	<u>17,467</u>
	<u>\$ 514,637</u>	<u>\$ 41,870</u>	<u>\$ 32,655</u>	<u>\$ -</u>	<u>\$ 81,258</u>	<u>\$ 19,659</u>
	2016					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA Plan for DB</u>		<u>Ad Hoc COLA Plan for DCRS</u>	
	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
	Difference between expected and actual experience	\$ 58,545	\$ -	\$ -	\$ 645	\$ -
Net difference between projected and actual earnings on pension plan investments	52,752	-	-	-	-	-
Changes of assumptions	65,763	-	1,499	-	7,894	-
Contributions subsequent to the measurement date	460,658	-	30,713	-	8,000	-
Changes in proportion and difference between GEDA contributions and proportionate share of contributions	<u>-</u>	<u>856</u>	<u>1,642</u>	<u>-</u>	<u>-</u>	<u>18,616</u>
	<u>\$ 637,718</u>	<u>\$ 856</u>	<u>\$ 33,854</u>	<u>\$ 645</u>	<u>\$ 15,894</u>	<u>\$ 20,463</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as 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, 2017 will be recognized in pension expense as follows:

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(5) Employees' Retirement Plans, Continued

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

<u>Year Ending</u> <u>September 30</u>	<u>Defined</u> <u>Benefit Plan</u>	<u>Ad Hoc COLA/SA</u> <u>Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan</u> <u>for DCRS Retirees</u>
2018	\$ (1,022)	\$ 1,941	\$ 3,467
2019	13,043	-	3,467
2020	45,727	-	3,467
2021	(27,617)	-	3,467
2022	-	-	3,467
Thereafter	-	-	<u>38,298</u>
	<u>\$ 30,131</u>	<u>\$ 1,941</u>	<u>\$ 55,633</u>

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, 2017 and 2016 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GEDA's contributions to the DCRS plan for the years ended September 30, 2017, 2016 and 2015 were \$407,732, \$437,344 and \$412,807, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$333,502, \$359,867 and \$343,682 were contributed toward the unfunded liability of the DB Plan at September 30, 2017, 2016 and 2015, 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 \$187,540 and \$162,218 at September 30, 2017 and 2016, 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.

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(5) Employees' Retirement Plans, Continued

Other Post-Employment Benefits

Plan Description: 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 postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. 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.

Funding Policy: GovGuam contributes to the Plan a portion of the medical and dental premiums based on a schedule of semi-monthly rates provided through insurance companies, with GovGuam's contribution amount set each year at renewal. Retirees are also required to pay a portion of the medical and dental insurance premiums. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. Retirees and covered spouses are eligible for a \$10,000 life insurance benefit. Retirees do not share in the cost of this benefit. Monthly life insurance premium is \$15.52 per covered life.

For the years ended September 30, 2017, 2016 and 2015, GEDA reimbursed GovGuam for its contributions to the abovementioned Plan of \$90,484, \$58,176 and \$52,259, respectively, which were equal to the statutorily required contributions.

GEDA net OPEB obligation at September 30, 2017, 2016 and 2015 for the above mentioned Plan is as follows:

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ <u>2,057,131</u>	\$ <u>1,756,972</u>	\$ <u>1,470,000</u>

(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:

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(6) Rental Income, Continued

Years ending September 30:

2018	\$ 1,202,400
2019	1,180,000
2020	1,027,700
2021	691,600
2022	403,700
2023 - 2027	432,900
2028 - 2032	25,000
2033 - 2037	25,000
2038 - 2042	25,000
2043 - 2047	25,000
2048 - 2052	25,000
2053 - 2057	25,000
2058 - 2062	25,000
2063	400
	<u>\$ 5,113,700</u>

(7) Commitments

Lease Commitments

GEDA has an operating lease for office space expiring on 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, 2017, annual lease commitment and reimbursement from GHC under the MOU are \$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, 2017 and 2016, was \$186,696 and \$252,160, respectively, of which \$40,316 and \$46,994, respectively, was allocated to trust funds administered by GEDA. At September 30, 2017 and 2016, reimbursement receivable from GHC, included as a component of other receivables in the accompanying statements of net position, is \$0 and \$23,544, respectively.

Contract Commitments

GEDA is under two professional services contracts, currently expiring on February 28, 2019, which require monthly payments of \$14,540. At September 30, 2017, annual commitments for the years ending September 30, 2018 and 2019 are \$148,000 and \$16,000, 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, 2017 and 2016, GEDA has not provided any grants or loans under the Program.

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Notes to Financial Statements
September 30, 2017 and 2016

(8) Related Party Transactions

Trust Funds Administered by GEDA

At September 30, 2017 and 2016, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>2017</u>	<u>2016</u>
Guam Development Fund Act (GDFA)	\$ 11,735,738	\$ 11,458,595
Agricultural Development Fund (ADF)	1,045,912	974,921

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, 2017 and 2016, GEDA earned related commission income of \$105,278 and \$80,221, respectively. At September 30, 2017 and 2016, there was no collected rent net of commissions withheld payable to GALC.

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, 2017 and 2016, security deposits in the amount of \$77,410 and \$149,410, respectively, are maintained by GEDA on behalf of the GALC.

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, 2017 and 2016, GEDA has recorded reimburseable expenses of \$97,834 and \$271,346, respectively, which are included as a component of other receivables in the accompanying statements of net position.

GEDA is under a MOA with the OOG as the designated Program Management Office (PMO) to manage and coordinate the implementation of programs such as the capital improvements programs established under Public Law 30-228 funded by the Hotel Occupancy Tax (HOT) Revenue Bonds. In 2017, GEDA received \$682,000 as reimbursements for managing the HOT bond projects, of which \$469,175 was recorded as other revenue, \$118,844 was for collection of reimbursable expenses and other receivable and the remaining \$100,980 recorded as unearned revenue.

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(8) Related Party Transactions, Continued

GovGuam and Others, Continued

In addition, GEDA has recorded payables to different GovGuam agencies of \$185,947 and \$125,274 as of September 30, 2017 and 2016, respectively.

(9) Qualifying Certificates

In addition to the application, filing and annual surveillance fees required of QCs, certain QCs include contributions for community, investment and economic development purposes. Additionally, GEDA acts as custodian for disbursements of certain QC receipts. During the years ended September 30, 2017 and 2016, \$887,250 and \$250,000, respectively, were due from QC recipients, of which \$887,250 and \$250,000 were recorded as part of other receivables. At September 30, 2017 and 2016, \$737,005 and \$250,000, respectively, are included in accrued liabilities and represent approved allocated contributions not yet disbursed or specific recipients not yet identified. Additionally, at September 30, 2017 and 2016, \$139,766 and \$93,162 included in accounts payable represent QC receipts to be disbursed to designated GovGuam agencies or programs pending proof of expenditures for eligible purposes.

(10) Contingencies

Tobacco Settlement Bonds Reserve Fund Agreement

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

Claims and Litigation

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

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(11) 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, 2017 and 2016, GEDA had incurred administrative costs of \$85,011 and \$118,071, 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 20% of the total enrolled loan amount.

At September 30, 2017 and 2016, outstanding loans under the guaranty program had total principal balances of \$5,527,931 and \$5,805,899, respectively. At September 30, 2017 and 2016, loans totaling \$32,297 and \$0, respectively, were in default status. In 2017 and 2016, GEDA paid out defaulted loans totaling \$0 and \$26,028, respectively, and recorded a loss in loan guaranty in the accompanying statements of revenues, expenses and changes in net position.

On March 31, 2017, the Allocation Agreement expired. The expiration results in certain changes including the termination of the authorities and duties of the United States Department of Treasury to implement and administer the SSBCI program and termination of certain reporting requirements, the restrictions set forth in the enabling act and policy guidelines will remain in effect and govern the original use of funds disbursed by the SSBCI program. GEDA intends to maintain the same SSBCI program and has not made any modifications relating to the Agreements with the participating lenders.

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Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2016, 2015, 2011, and 2007 for the GEDA's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 2,135,000	\$ 2,135,000	0.0%	\$ 904,590	236.0%
October 1, 2011	\$ -	\$ 1,877,000	\$ 1,877,000	0.0%	\$ 1,375,250	136.5%
October 1, 2015	\$ -	\$ 3,029,369	\$ 3,029,369	0.0%	\$ 1,770,679	171.1%
October 1, 2016*	\$ -	\$ 3,287,868	\$ 3,287,868	0.0%	\$ 1,841,506	178.5%

*Projected

See Accompanying Independent Auditors' Report.

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

Defined Benefit Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total net pension liability	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
GEDA's proportionate share of the net pension liability	\$ 4,911,548	\$ 4,895,210	\$ 4,248,957	\$ 4,532,851
GEDA's proportion of the net pension liability	0.36%	0.34%	0.34%	0.35%
GEDA's covered-employee payroll**	\$ 1,816,999	\$ 1,742,220	\$ 1,721,471	\$ 1,601,075
GEDA's proportionate share of the net pension liability as percentage of its covered employee payroll	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	54.62%	52.32%	56.60%	53.94%

* 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.

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 229,486,687	\$ 235,799,709
GEDA's proportionate share of the net pension liability	\$ 293,970	\$ 295,035
GEDA's proportion of the net pension liability	0.13%	0.13%
GEDA's covered-employee payroll**	\$ 648,593	\$ 639,827
GEDA's proportionate share of the net pension liability as percentage of its covered employee payroll	45.32%	46.11%

* 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.

*** No assets accumulated in a trust to pay benefits.

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

Ad Hoc COLA Plan for DCRS Retirees

	2017	2016
Total net pension liability***	\$ 61,688,067	\$ 52,115,736
GEDA's proportionate share of the net pension liability	\$ 260,379	\$ 173,951
GEDA's proportion of the net pension liability	0.42%	0.33%
GEDA's covered-employee payroll**	\$ 1,540,921	\$ 1,187,902
GEDA's proportionate share of the net pension liability as percentage of its covered employee payroll	16.90%	14.64%

* 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.

*** No assets accumulated in a trust to pay benefits.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily determined contribution	\$ 446,494	\$ 458,262	\$ 457,202	\$ 430,282
Contribution in relation to the statutorily determined contribution	<u>460,658</u>	<u>504,594</u>	<u>476,077</u>	<u>452,725</u>
Contribution deficiency (excess)	<u>\$ (14,164)</u>	<u>\$ (46,332)</u>	<u>\$ (18,875)</u>	<u>\$ (22,443)</u>
GEDA's covered-employee payroll **	<u>\$ 1,816,999</u>	<u>\$ 1,742,220</u>	<u>\$ 1,721,471</u>	<u>\$ 1,601,075</u>
Contribution as a percentage of covered-employee payroll	25.35%	28.96%	27.66%	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
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Schedule 1
Schedule of Salaries and Wages (Including Trust Funds)
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016 As Restated</u>
Salaries and wages:		
Salaries	\$ 1,729,006	\$ 1,705,087
Benefits	<u>1,249,100</u>	<u>1,246,283</u>
Total salaries and wages	\$ <u><u>2,978,106</u></u>	\$ <u><u>2,951,370</u></u>
 Employees at end of year	 32	 32

See Accompanying Independent Auditors' Report.

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Comparative Divisional Schedules of Net Position
September 30, 2017 and 2016

	GEDA		SSBCI		TSA	
	2017	2016 As Restated	2017	2016	2017	2016
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 531,999	\$ 1,989,341	\$ 8,327,664	\$ 8,455,715	\$ 107,895	\$ 35,840
Cash and cash equivalents - restricted	-	-	1,572,041	1,542,840	3,495,428	3,520,376
Investments	3,214,708	2,242,572	2,992,572	2,970,506	-	-
Due from trust funds administered by GEDA:						
Agricultural Development Fund	27	-	-	-	-	-
Guam Development Fund Act	25,773	221,900	-	-	-	-
Reimbursable expense	4,954	39,467	(4,954)	(39,467)	-	-
Other receivables, net	1,997,656	856,616	30	30	-	-
Promotional supplies	7,706	7,706	-	-	-	-
Prepaid expense	5,700	-	-	-	-	-
Total current assets	<u>5,788,523</u>	<u>5,357,602</u>	<u>12,887,353</u>	<u>12,929,624</u>	<u>3,603,323</u>	<u>3,556,216</u>
Equity investment	3,500	3,500	-	-	-	-
Capital assets, at cost, net	459,901	489,845	-	533	-	-
Total assets	<u>6,251,924</u>	<u>5,850,947</u>	<u>12,887,353</u>	<u>12,930,157</u>	<u>3,603,323</u>	<u>3,556,216</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension	628,550	687,466	-	-	-	-
	<u>\$ 6,880,474</u>	<u>\$ 6,538,413</u>	<u>\$ 12,887,353</u>	<u>\$ 12,930,157</u>	<u>\$ 3,603,323</u>	<u>\$ 3,556,216</u>
LIABILITIES AND NET POSITION						
Current liabilities:						
Current portion of bonds payable	\$ -	\$ -	\$ -	\$ -	\$ 1,115,000	\$ 2,430,000
Accounts payable	443,453	517,836	-	-	-	-
Due to trust funds administered by GEDA:						
Agricultural Development Fund	-	8,161	-	-	-	-
Guam Development Fund Act	-	-	-	30,737	-	-
Accrued liabilities	1,122,618	601,145	14,561	12,901	(53,306)	(79,184)
Interest payable	-	-	-	-	441,000	458,000
Unearned grant revenues	-	-	-	12,824,715	-	-
Unearned rental income	98,812	91,798	-	-	-	-
Total current liabilities	<u>1,664,883</u>	<u>1,218,940</u>	<u>14,561</u>	<u>12,868,353</u>	<u>1,502,694</u>	<u>2,808,816</u>
Non-current liabilities:						
Bonds payable, net of current portion and discount	-	-	-	-	29,076,329	28,175,029
DCRS sick leave liability	187,540	162,218	-	-	-	-
Deposits	18,322	18,322	-	-	-	-
Deposits due to GALC	77,410	149,410	-	-	-	-
Net pension liability	5,268,477	5,166,776	-	-	-	-
Total non-current liabilities	<u>5,551,749</u>	<u>5,496,726</u>	<u>-</u>	<u>-</u>	<u>29,076,329</u>	<u>28,175,029</u>
Total liabilities	<u>7,216,632</u>	<u>6,715,666</u>	<u>14,561</u>	<u>12,868,353</u>	<u>30,579,023</u>	<u>30,983,845</u>
DEFERRED INFLOWS OF RESOURCES						
Pension	61,529	21,964	-	-	-	-
Net position:						
Net investment in capital assets	459,901	489,845	-	533	-	-
Restricted	-	-	12,872,792	-	(3,495,428)	(3,520,376)
Unrestricted	(857,588)	(689,062)	-	61,271	(23,480,272)	(23,907,253)
Net position	<u>(397,687)</u>	<u>(199,217)</u>	<u>12,872,792</u>	<u>61,804</u>	<u>(26,975,700)</u>	<u>(27,427,629)</u>
	<u>\$ 6,880,474</u>	<u>\$ 6,538,413</u>	<u>\$ 12,887,353</u>	<u>\$ 12,930,157</u>	<u>\$ 3,603,323</u>	<u>\$ 3,556,216</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, 2017 and 2016

	GEDA		SSBCI		TSA	
	2016		2017	2016	2017	2016
	2017	(As Restated)				
Revenues:						
Rental income	\$ 1,171,329	\$ 1,183,006	\$ -	\$ -	\$ -	\$ -
Tobacco Settlement revenue	-	-	-	-	2,393,542	2,441,209
Qualifying certificate application, surveillance and other	646,910	873,765	-	-	-	-
Bond fees earned	249,378	927,877	-	-	-	-
Grants revenue	-	1,591	12,824,715	89,071	-	-
GALC lease commission	105,278	80,221	-	-	-	-
Others	469,175	-	34,040	29,000	-	-
Total operating revenues	2,642,070	3,066,460	12,858,755	118,071	2,393,542	2,441,209
Provision for bad debts	(26,762)	(876)	-	-	-	-
Net operating revenues	2,615,308	3,065,584	12,858,755	118,071	2,393,542	2,441,209
Operating expenses:						
Salaries and benefits	2,536,231	2,577,913	83,256	75,904	-	-
Legal and professional services	237,960	322,463	1,101	647	12,105	31,731
Office space and equipment rent	169,490	230,142	-	-	-	-
Advertising and promotions	19,041	34,289	-	-	-	-
Travel	92,238	123,292	-	14,962	-	-
Depreciation and amortization	40,099	43,984	533	530	-	-
Supplies	6,819	5,390	-	-	-	-
Utilities, telephone and communication	3,495	2,927	-	-	-	-
Insurance	2,756	4,160	-	-	-	-
Repairs and maintenance	4,111	266	-	-	-	-
Loss on loan guaranty	-	-	-	26,028	-	-
Miscellaneous	33,201	36,171	121	-	25,878	15,045
	3,145,441	3,380,997	85,011	118,071	37,983	46,776
Operating (loss) income	(530,133)	(315,413)	12,773,744	-	2,355,559	2,394,433
Other income (expense):						
Interest income (expense), net	1,402	609	15,177	12,790	(1,921,669)	(2,157,023)
Investment income	297,625	22,662	18,646	39,047	5,587	10
Net (decrease) increase in the fair value of investments	(79,321)	66,883	3,421	(41,963)	-	-
Other income, net	111,957	81,241	-	-	12,452	-
Other income (expense), net	331,663	171,395	37,244	9,874	(1,903,630)	(2,157,013)
Change in net position	(198,470)	(144,018)	12,810,988	9,874	451,929	237,420
Net position at beginning of year	(199,217)	(55,199)	61,804	51,930	(27,427,629)	(27,665,049)
Net position at end of year	\$ (397,687)	\$ (199,217)	\$ 12,872,792	\$ 61,804	\$ (26,975,700)	\$ (27,427,629)

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, 2017 and 2016

	GEDA		SSBCI		TSA	
	2016		2017	2016	2017	2016
	2017	(As Restated)				
Cash flows from operating activities:						
Cash received on grants and contracts	\$ -	\$ -	\$ 34,040	\$ 4,506,209	\$ -	\$ -
Cash received from customers	2,320,477	2,872,334	-	-	2,405,994	2,441,209
Cash paid to suppliers for goods and services	(704,506)	(692,983)	(34,074)	8,512	(12,105)	(56,851)
Cash paid to employees for services	(2,220,244)	(2,319,955)	(113,993)	(75,904)	-	-
Cash paid for retiree benefits	(90,484)	(58,176)	-	-	-	-
Net cash (used in) provided by operating activities	<u>(694,757)</u>	<u>(198,780)</u>	<u>(114,027)</u>	<u>4,438,817</u>	<u>2,393,889</u>	<u>2,384,358</u>
Cash flows from investing activities:						
Interest and investment income	218,304	89,545	22,067	(2,916)	5,587	10
Rollover of interest into investment	(218,304)	(89,545)	(22,067)	2,916	(5,587)	(10)
Maturity (purchase) of investment securities, net	<u>(753,832)</u>	<u>650,615</u>	<u>-</u>	<u>-</u>	<u>5,587</u>	<u>8</u>
Net cash (used in) provided by investing activities	<u>(753,832)</u>	<u>650,615</u>	<u>-</u>	<u>-</u>	<u>5,587</u>	<u>8</u>
Cash flows from capital and related financing activities:						
Purchase of capital assets	<u>(10,155)</u>	<u>(8,843)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(10,155)</u>	<u>(8,843)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities:						
Repayment of bond payable	-	-	-	-	(980,000)	(1,005,000)
Net interest received (paid) on deposit accounts and bonds payable	<u>1,402</u>	<u>609</u>	<u>15,177</u>	<u>12,790</u>	<u>(1,372,369)</u>	<u>(1,424,869)</u>
Net cash provided by (used in) noncapital financing activities	<u>1,402</u>	<u>609</u>	<u>15,177</u>	<u>12,790</u>	<u>(2,352,369)</u>	<u>(2,429,869)</u>
Net change in cash and cash equivalents	(1,457,342)	443,601	(98,850)	4,451,607	47,107	(45,503)
Cash and cash equivalents at beginning 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>
Cash and cash equivalents at end of year	<u>\$ 531,999</u>	<u>\$ 1,989,341</u>	<u>\$ 9,899,705</u>	<u>\$ 9,998,555</u>	<u>\$ 3,603,323</u>	<u>\$ 3,556,216</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	\$ (530,133)	\$ (315,413)	\$ 12,773,744	\$ -	\$ 2,355,559	\$ 2,394,433
Other income, net	111,957	81,241	-	-	12,452	-
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	40,099	43,984	533	530	-	-
Noncash pension cost	200,182	195,611	-	-	-	-
Provision for bad debts	26,762	876	-	-	-	-
(Increase) decrease in assets and deferred outflows of resources:						
Due from trust funds administered by GEDA	191,147	(161,511)	-	-	-	-
Reimbursable expense	39,467	(3,685)	(34,513)	43,152	-	-
Other receivables	(599,177)	(203,515)	-	(30)	-	-
Note receivable	-	100,000	-	-	-	-
Promotional supplies	-	-	-	-	-	-
Prepaid expenses	(5,700)	20,744	-	-	-	-
Increase (decrease) in liabilities and deferred inflows of resources:						
Accounts payable	(74,383)	120,585	-	-	79,184	-
Due to trust funds administered by GEDA	(8,161)	-	(30,737)	-	-	-
Accrued liabilities	(47,152)	(75,212)	1,661	6,997	(53,306)	(10,075)
Unearned grant revenue	-	-	(12,824,715)	4,388,168	-	-
Unearned rental income	7,013	(6,656)	-	-	-	-
Due to GALC	(72,000)	-	-	-	-	-
DCRS sick leave liability	25,322	4,171	-	-	-	-
Net cash (used in) provided by operating activities	<u>\$ (694,757)</u>	<u>\$ (198,780)</u>	<u>\$ (114,027)</u>	<u>\$ 4,438,817</u>	<u>\$ 2,393,889</u>	<u>\$ 2,384,358</u>

See Accompanying Independent Auditors' Report.

**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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018, 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

May 2, 2018

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

Statements of Fiduciary Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	Guam Development Fund Act		Agricultural Development Fund	
	2017	2016	2017	2016
Cash on hand and in bank	\$ 127,595	\$ 475,188	\$ 19,795	\$ 252,311
Time certificates of deposits	2,012,069	2,005,006	-	-
Investments	8,878,169	8,206,840	1,020,005	711,355
Notes and accrued interest receivable	1,061,057	1,084,640	19,228	38,150
Less allowance for doubtful receivables	(564,499)	(484,162)	(13,116)	(35,216)
Net notes and accrued interest receivable	496,558	600,478	6,112	2,934
Due from other funds:				
Guam Economic Development Authority	-	-	-	8,161
Guam Development Fund Act	-	-	-	160
State Small Business Credit Initiative	-	30,737	-	-
Other real estate:				
Leasehold interest, net	127,044	130,081	-	-
Capital assets, net	8,033	10,265	-	-
Other asset	86,270	-	-	-
	221,347	171,083	-	8,321
Total assets	\$ 11,735,738	\$ 11,458,595	\$ 1,045,912	\$ 974,921
<u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 41,061	\$ 33,804	\$ 22	\$ 21
Due to other funds:				
Guam Economic Development Authority	25,773	221,900	27	-
Agricultural Development Program	-	160	-	-
Total liabilities	66,834	255,864	49	21
Commitments and Contingencies				
Net position held in trust	11,668,904	11,202,731	1,045,863	974,900
Total liabilities and net position	\$ 11,735,738	\$ 11,458,595	\$ 1,045,912	\$ 974,921

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, 2017 and 2016

	Guam Development Fund Act		Agricultural Development Fund	
	2017	2016	2017	2016
Additions:				
Interest from loans	\$ 23,244	\$ 22,088	\$ -	\$ 472
Investment income, net	960,516	650,722	68,656	25,450
Other	4,548	3,070	(634)	-
Total additions	<u>988,308</u>	<u>675,880</u>	<u>68,022</u>	<u>25,922</u>
Deductions:				
Salaries and benefits	358,619	297,553	-	-
Provision for doubtful notes receivable and accrued interest	80,337	296,491	(7,661)	13,824
Rent	40,316	46,994	-	-
Bank charges	16,575	46,865	4,720	3,117
Travel	6,496	9,865	-	-
Legal and professional services	9,026	8,612	-	-
Depreciation	5,269	3,935	-	-
Miscellaneous	5,497	4,602	-	-
Total deductions	<u>522,135</u>	<u>714,917</u>	<u>(2,941)</u>	<u>16,941</u>
Net change in net position	466,173	(39,037)	70,963	8,981
Net position at beginning of year	<u>11,202,731</u>	<u>11,241,768</u>	<u>974,900</u>	<u>965,919</u>
Net position at end of year	<u>\$ 11,668,904</u>	<u>\$ 11,202,731</u>	<u>\$ 1,045,863</u>	<u>\$ 974,900</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, 2017 and 2016

(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, 2017 and 2016 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, 2017 and 2016

(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 2017, the Trust Funds implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

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

Notes to Financial Statements
September 30, 2017 and 2016

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

New Accounting Standards, Continued

- GASB 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*.
- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying 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 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. 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
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Notes to Financial Statements
September 30, 2017 and 2016

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

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(2) Deposits and Investments

Investments are carried at market value. Cash and cash equivalents, time certificates of deposits and investments at September 30, 2017 and 2016 consist the following:

	<u>2017</u>		<u>2016</u>	
	<u>G DFA</u>	<u>ADF</u>	<u>G DFA</u>	<u>ADF</u>
Cash on hand and deposits in banks	\$ <u>127,595</u>	\$ <u>19,795</u>	\$ <u>475,188</u>	\$ <u>252,311</u>
Cash and cash equivalents	127,595	19,795	475,188	252,311
Time certificates of deposits	<u>2,012,069</u>	-	<u>2,005,006</u>	-
Total cash and cash equivalents and time certificates of deposits	\$ <u>2,139,664</u>	\$ <u>19,795</u>	\$ <u>2,480,194</u>	\$ <u>252,311</u>
Total shares in mutual funds	\$ 2,127,538	\$ 242,781	\$ 577,665	-
Exchange-traded & closed-end funds	6,750,631	777,224	6,761,223	-
Municipal bonds	-	-	<u>867,952</u>	<u>711,355</u>
Investments	\$ <u>8,878,169</u>	\$ <u>1,020,005</u>	\$ <u>8,206,840</u>	\$ <u>711,355</u>

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Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, the carrying amount of cash and cash equivalents and time certificates of deposits were \$2,159,459 and \$2,732,505, respectively, and the corresponding bank balances were \$2,159,459 and \$2,732,105, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation insurance (FDIC). Cash balances of \$49,672 and \$714,334 are insured by the Federal Deposit Insurance Corporation (FDIC) at September 30, 2017 and 2016, 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, 2017 and 2016 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
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Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017, investments at fair value are as follows:

	<u>Amount</u>			<u>Moody's Rating</u>
	<u>GDEA</u>	<u>ADF</u>	<u>Maturity</u>	
Shares in mutual funds invested in:				
Fidelity Advisor Int L Small Cap Opp CI I (FOPIX)	\$ 358,706	\$ 41,948	N/A	N/A
Allianzgi Short Duration Hi Inc CI A (ASHAX)	398,083	44,731	N/A	N/A
Goldman Sachs Emrg Markets Debt Instl (GSDIX)	485,636	55,391	N/A	N/A
JPMorgan Global Bond Opportunities CI1 (GBOSX)	353,795	40,257	N/A	N/A
Morgan Stanley Instl High Yield CI1 (MSYIX)	531,318	60,453	N/A	N/A
Exchange-traded & closed-end funds:				
Dbx Etf Trust X-trackers Msci Eafe Hdg Equity Fund (DBEF)	756,946	86,729	N/A	N/A
Ishares Core S&p 500 Etf (IVV)	3,472,982	399,124	N/A	N/A
Ishares Core S&p Mid-cap Etf (IJH)	578,026	66,014	N/A	N/A
Ishares Europe Etf (IEV)	245,927	28,497	N/A	N/A
Ishares Trust Core Msci Eafe Etf (IEFA)	758,810	88,170	N/A	N/A
Ishares Inc Core Msci Emerging Mkts Etf (IEMG)	694,265	80,112	N/A	N/A
Ishares Inc Msci Jpn Etf New (EWJ)	<u>243,675</u>	<u>28,579</u>	N/A	N/A
	\$ <u>8,878,169</u>	\$ <u>1,020,005</u>		

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

	<u>Amount</u>			<u>Moody's Rating</u>
	<u>GDEA</u>	<u>ADF</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 (AMLPE)	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

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Notes to Financial Statements
September 30, 2017 and 2016

ISHARES TIPS Bond ETF (TIP)	292,739	-	N/A	N/A
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(2) Deposits and Investments, Continued

B. Investments, Continued

	<u>Amount</u>			<u>Moody's Rating</u>
	<u>G DFA</u>	<u>ADF</u>	<u>Maturity</u>	
Exchange-traded & closed-end funds, Continued:				
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
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>		

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, 2017 and 2016:

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Notes to Financial Statements
September 30, 2017 and 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

	September 30, 2017	Fair Value Measurements Using		
		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:				
Exchange-traded and closed-end funds	\$ 6,750,631	\$ 6,750,631	\$ -	\$ -
Mutual funds	<u>2,127,538</u>	<u>2,127,538</u>	-	-
Total investments by fair value level	\$ <u>8,878,169</u>	\$ <u>8,878,169</u>	\$ -	\$ -
A DF:				
Investments by fair value level:				
Exchange-traded and closed-end funds	\$ 777,224	\$ 777,224	\$ -	\$ -
Mutual funds	<u>242,781</u>	<u>242,781</u>	-	-
Total investments by fair value level	\$ <u>1,020,005</u>	\$ <u>1,020,005</u>	\$ -	\$ -

	September 30, 2016	Fair Value Measurements Using		
		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>	\$ -
A DF:				
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>711,355</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 has 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, 2017 and 2016, respectively, net of accumulated amortization of \$39,956 and \$36,919 at September 30, 2017 and 2016, respectively.

(4) Contingencies

G EDA 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, 2017, 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 May 2, 2018.

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
May 2, 2018

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, 2017 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 May 2, 2018.

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

May 2, 2018