

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 1999 AND 1998

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)

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Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying consolidated balance sheets of the Guam Economic Development Authority (a public corporation) and subsidiaries, a component unit of the Government of Guam, as of September 30, 1999 and 1998, and the related consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Guam Economic Development Authority and subsidiaries at September 30, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated December 17, 1999, on our consideration of the Guam Economic Development Authority's and subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 17, 1999

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)
AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 1999 and 1998

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>
Cash	\$ 148,747	\$ 184,951
Notes and accrued interest receivable thereon, net of an allowance for doubtful receivables of \$5,035 in 1999 and 1998	11,386	14,749
Due from other funds and governmental agencies :		
Guam Development Fund Act	-	19,404
Agricultural Development Fund	14,087	12,475
Landowner's Recovery Fund	392,553	189,760
U.S. Base Relocation and Closure Commission	220,234	567,932
Microenterprise Development Program	127,207	51,825
Housing and Urban Development Program	29,482	-
Other receivables	547,562	1,216,978
Inventory	62,899	82,871
Prepays and other assets	14,912	9,722
Investments:		
Stock (note 11)	3,500	65,200
Other (note 3)	152,929	122,685
Other real estate:		
Land (note 4)	425,164	425,164
Building, improvements and equipment, at cost, net (note 5)	<u>1,281,790</u>	<u>1,367,451</u>
	<u>\$ 3,432,452</u>	<u>\$ 4,331,167</u>
 <u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>		
Liabilities:		
Notes payable to GDFA (note 10)	\$ 2,091,363	\$ 1,223,089
Accounts payable	155,137	273,948
Due to other funds and governmental agencies:		
Guam Development Fund Act	340,452	230,722
Agricultural Expense Insurance Fund	7,659	7,659
Local Arts Revolving Fund	48,774	48,774
Music and Legends of Guam Fund	41,773	41,866
Guam Territorial Aquarium Foundation	107,549	107,549
Aquacultural Training Fund	31,907	31,907
Housing Urban Development Fund	-	38,079
U.S. Base Relocation and Closure Commission	703	4,064
Accrued liabilities	237,938	171,957
Accrued Retirement Fund contributions (note 6)	842,375	892,838
Deferred rental income	<u>219,113</u>	<u>230,402</u>
Total liabilities	<u>4,124,743</u>	<u>3,302,854</u>
Fund equity (deficiency):		
Contributions:		
Government of Guam:		
General Fund	1,236,943	1,236,943
Economic Stimulus Fund	50,000	50,000
U.S. Economic Development Administration	59,885	59,885
Rehabilitation Act funds	354,035	354,035
Other	450,000	400,000
Deficit	<u>(2,843,154)</u>	<u>(1,072,550)</u>
Total fund equity (deficiency)	<u>(692,291)</u>	<u>1,028,313</u>
Commitment and contingency (note 8)		
	<u>\$ 3,432,452</u>	<u>\$ 4,331,167</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)
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Consolidated Statements of Loss and Deficit
Years Ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Revenues:		
Rental income (note 7)	\$ 1,691,113	\$ 1,653,762
Qualifying certificate application and surveillance fees	274,975	211,855
Bond service fee	<u>315,000</u>	<u>424,000</u>
	<u>2,281,088</u>	<u>2,289,617</u>
Operating expenses:		
Salaries and benefits	1,402,604	1,095,915
Special projects	901,534	3,790
Professional services	505,020	985,665
Rent	250,867	218,359
Depreciation and amortization	158,020	128,612
Travel	152,735	279,966
Grants	77,020	31,042
Provision for doubtful notes and accrued interest receivable	68,500	83,250
Utilities, telephone and communication	55,972	59,417
Advertising and promotions	27,920	102,342
Repairs and maintenance	16,915	23,529
Supplies	16,012	20,826
Insurance	4,943	81,442
Directors' fees	3,150	3,550
Miscellaneous	<u>86,050</u>	<u>33,231</u>
	<u>3,727,262</u>	<u>3,150,936</u>
Operating loss	<u>(1,446,174)</u>	<u>(861,319)</u>
Other (expense) income:		
Interest expense, net	(41,565)	(15,754)
Other, net	(220,910)	512,625
Loss on investments (note 11)	<u>(61,955)</u>	<u>(200,506)</u>
Other (expense) income, net	<u>(324,430)</u>	<u>296,365</u>
Net loss	<u>(1,770,604)</u>	<u>(564,954)</u>
Deficit at beginning of year	<u>(1,072,550)</u>	<u>(507,596)</u>
Deficit at end of year	\$ <u>(2,843,154)</u>	\$ <u>(1,072,550)</u>

See accompanying notes to consolidated financial statements.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Consolidated Statements of Cash Flows
Years Ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Operating loss	\$ (1,446,174)	\$ (861,319)
Other (loss) income, net	(220,910)	512,625
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	158,020	128,612
Provision for doubtful receivables	-	83,250
Unrealized loss on investments	61,700	200,000
(Increase) decrease in assets:		
Notes receivable	3,363	(13,879)
Due from other funds and governmental agencies	57,833	(394,638)
Other receivables	669,416	(729,945)
Inventory and other	14,782	(22,599)
Increase (decrease) in liabilities:		
Note payable to GDFA	868,274	5,274
Accounts payable	(118,811)	(6,213)
Due to other funds and governmental agencies	68,197	340,064
Accrued liabilities	65,981	28,436
Accrued Retirement Fund contributions	(50,463)	(50,571)
Deferred rental income	<u>(11,289)</u>	<u>(60,614)</u>
Net cash provided by (used for) operating activities	<u>119,919</u>	<u>(841,517)</u>
Cash flows from investing activities:		
(Purchase) sale of marketable investment securities	(30,244)	1,277,472
Purchase of property and equipment	(72,359)	(71,210)
Purchase of stock	-	(61,700)
Loss on investments	<u>(61,955)</u>	<u>(200,506)</u>
Net cash (used for) provided by investing activities	<u>(164,558)</u>	<u>944,056</u>
Cash flows from noncapital related financing activities:		
Contributions received from Interpacific Resorts Corporation	50,000	-
Interest expense, net	<u>(41,565)</u>	<u>(15,754)</u>
Net cash provided by (used for) noncapital related financing activities	<u>8,435</u>	<u>(15,754)</u>
Net (decrease) increase in cash	(36,204)	86,785
Cash at beginning of year	<u>184,951</u>	<u>98,166</u>
Cash at end of year	\$ <u>148,747</u>	\$ <u>184,951</u>

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

(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 the Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Agricultural Expense Insurance Fund (AEIF), the Landowner's Recovery Fund (LRF), Microenterprise Development Program (MDP), Housing and Urban Development (HUD), the Local Arts Revolving Fund (LARF), the Guam Territorial Aquarium Foundation (GTAF), the Aquacultural Training Fund (ATF), the Music and Legends of Guam Fund (MLGF), and the U.S. Base Realignment and Closure Committee (BRAC) to accomplish certain of the stated purposes.

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of GEDA and its wholly-owned subsidiaries, Guam Business Development Corporation (GBDC) and the Chamorro Heritage Foundation (CHF). GBDC was formed on October 18, 1988, for the purpose of acquiring and developing tourist-related property and protecting the various interests of GEDA and Funds administered by GEDA. CHF was formed on February 5, 1992, for the purpose of preserving, developing and enhancing the Chamorro culture and heritage of the indigenous people of the island of Guam. All significant intercompany balances and transactions have been eliminated in consolidation.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

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

Basis of Accounting

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

Notes and Accrued Interest Receivable

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications

Certain reclassifications have been made to the 1998 balances to conform to classifications adopted in 1999.

Investments

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

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

In 1999 and 1998, GEDA's investments and subsidiaries are stated at fair market value in accordance with Government Accounting Standards Board Statement No. 31, which also requires investment income, dividends and unrealized gains and losses to be included in earnings.

Investment in a 72% owned company is accounted for using the equity method.

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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

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

Vacation and Sick Leave

Vacation of not more than 480 hours vests and is accrued each bi-weekly pay period in which an employee is in a pay status for the entire ten (10) days. Sick leave does not vest and is not accrued. The aggregate amount of the sick leave liability is not estimable.

Depreciation and Amortization

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

Inventories

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

Operating Expenses

Virtually all general and administrative expenses of the Funds administrated 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.

GEDA allocates a percentage of payroll expense to each Fund based upon actual time personnel spend on the respective Fund.

Risk Management

GEDA purchases automobile insurance covering \$300,000 for general single limited liability, inclusive of \$3,000 per person medical. GEDA is self-insured against all other potential risks and losses.

(2) Cash

At September 30, 1999 and 1998, GEDA has cash balances of \$148,247 and \$184,451, respectively, deposited in checking accounts. Of the total deposits, \$100,000 in 1999 and 1998, are insured by the Federal Deposit Insurance Corporation. The remaining balances are not insured or collateralized.

(3) Investments

On October 1, 1996, GEDA adopted Government Accounting Standards Board (GASB) Statement No. 31.

Other investments consist of money market funds and securities in Pacific Century Trust (PCT). At September 30, 1999 and 1998, the investments are carried at a market value of \$152,929 and \$122,685, respectively.

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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

(4) Other Real Estate

GEDA has acquired land carried at \$425,164 through loan foreclosure.

(5) Building, Improvements and Equipment

A summary of building, improvements and equipment at September 30, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
Building	\$ 1,207,031	\$ 1,207,031
Other improvements	526,395	526,395
Equipment	476,127	403,768
Land improvements	129,642	129,642
Automobiles	<u>118,902</u>	<u>118,902</u>
	2,458,097	2,385,738
Less accumulated depreciation and amortization	<u>(1,176,307)</u>	<u>(1,018,287)</u>
	\$ <u>1,281,790</u>	\$ <u>1,367,451</u>

(6) Employees' Retirement Plan

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

As a result of actuarial valuations performed as of September 30, 1997 and 1995, respectively, it has been determined that for the years ended September 30, 1999 and 1998, a minimum combined employer and employee contribution rate of 28.01% of covered payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory rates for employee and employer contributions were 9.5% and 18.6%, for the years ended September 30, 1999 and 1998. The effect of GEDA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.51% to effective rates of 13.32% and 13.65%, respectively, for the years ended September 30, 1999 and 1998. In recognition of the above, accrual reductions of 5.28% and 4.95%, respectively, of covered payroll are necessary to reduce the unfunded liability based on the difference between the effective rate of 13.32% and 13.65%, respectively, and the employer's statutory rate of 18.6%.

The defined benefit plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1997, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

(6) Employees' Retirement Plan, Continued

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

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

Employer contributions into the DCRS are based on a statutory amount of 18.51% of the member's regular base pay during fiscal year 1999 and 1998, respectively. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.51% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

The cost to GEDA for retirement contributions for the years ended September 30, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
Cash contributions	\$ 177,921	\$ 189,825
Accruals	<u>(50,463)</u>	<u>(50,571)</u>
	\$ <u>127,458</u>	\$ <u>139,254</u>

(7) Rental Income

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

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

(7) Rental Income, Continued

Future minimum rentals to be received under noncancelable subleases as of September 30, 1999, are as follows:

Years ending September 30:	
2000	\$ 1,341,102
2001	962,017
2002	796,225
2003	715,282
2004	665,103
Thereafter	<u>4,200,372</u>
	\$ <u>8,680,101</u>

(8) Commitment and Contingency

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

The Guam Legislature appropriated \$550,000 to GEDA during the year ended September 30, 1998. As of September 30, 1998, GEDA received and recorded \$105,095. The remaining appropriation will be recorded upon receipt of the funds.

Future minimum lease payments under a noncancelable operating lease are as follows:

2000	\$ 189,913
2001	<u>189,913</u>
	\$ <u>379,826</u>

(9) Related Parties

At September 30, 1999 and 1998, the following trust funds were administered by GEDA:

<u>Fund</u>	<u>Total Assets</u>	
	<u>1999</u>	<u>1998</u>
Guam Development Fund Act (GDFA)	\$ 12,672,968	\$ 12,667,687
Agricultural Development Fund (ADF)	2,122,985	2,242,211
Agricultural Expense Insurance Fund (AEIF)	7,659	7,659
Landowner's Recovery Fund (LRF)	10,611	10,611
Local Arts Revolving Fund (LARF)	42,757	51,460
Guam Territorial Aquarium Foundation (GTAF)	136,357	136,090
Agricultural Training Fund (ATF)	31,907	38,039
Music and Legends of Guam Fund (MLGF)	58,226	58,795
Base Realignment and Closure Commission (BRAC)	264,570	609,274
Housing Urban Development Fund (HUD)	445	38,524
Microenterprise Development Program (MDP)	230,759	47,009

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Notes to Consolidated Financial Statements
September 30, 1999 and 1998

(10) Notes Payable

The notes payable to GDFA, is summarized as follows:

Term loan, bears interest at 4.5%, payable in monthly installments of \$8,785, including interest, collateralized by real property with final payment due in 2019.	\$ 1,196,202
Line of credit, bears interest at 5%, principal and interest due in 2001, collateralized by a drydock.	<u>895,161</u>
	\$ <u>2,091,363</u>

The annual principal payments for the five years subsequent to September 30, 1999, and thereafter are as follows:

2000	\$ 53,702
2001	1,000,582
2002	105,421
2003	105,421
2004	105,421
Thereafter	<u>720,816</u>
	\$ <u>2,091,363</u>

(11) Investment in Stock

During the years ended September 30, 1998 and 1996, GEDA paid \$61,700 and \$200,000, respectively, for 61,700 shares (a 72% interest) and 200,000 shares (a 40% interest), respectively, of preferred stock in Heli-Guam, Inc. (HGI) and Guam Institute of Aviation Technology (GIAT), respectively. These investments are carried using the equity method. As of September 30, 1998, HGI and GIAT have deficits of \$427,445 and \$1,519,172, respectively.

As of September 30, 1999 and 1998, the carrying value of these investments have been adjusted for their prorata share of losses. As of September 30, 1999, the GIAT investment was written off.

A summary of investment in stock at September 30, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
Bank of Guam	\$ 3,500	\$ 3,500
Guam Institute of Aviation Technology	-	200,000
Heli-Guam, Inc	<u>61,700</u>	<u>61,700</u>
	65,200	265,200
Less allowance for investments:		
Heli-Guam, Inc.	(61,700)	-
Guam Institute of Aviation Technology	<u>-</u>	<u>(200,000)</u>
	\$ <u>3,500</u>	\$ <u>65,200</u>

GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Consolidated Financial Statements
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(11) Investment in Stock, Continued

A summary of loss on investment at September 30, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
Provision for GIAT	\$ -	\$ 200,000
Provision for HGI	61,700	-
Loss on investment securities	<u>255</u>	<u>506</u>
	\$ <u>61,955</u>	\$ <u>200,506</u>

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 1999 AND 1998



Independent Auditors' Report

The Board of Directors
Guam Economic Development Authority:

We have audited the accompanying balance sheets of the Guam Development Fund Act, the Agricultural Development Fund, the Agricultural Expense Insurance Fund, the Landowner's Recovery Fund, the Housing and Urban Development Fund, the Local Arts Revolving Fund, the Guam Aquarium Fund, the Aquacultural Training Fund, the Music and Legends of Guam Fund, and the U.S. Base Realignment and Closure Committee (the Funds) as of September 30, 1999 and 1998, and the related statements of revenues, expenditures and changes in fund balances (deficit) for the years then ended. The Funds are administered by the Guam Economic Development Authority (a public corporation) which is a component unit of the Government of Guam. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at September 30, 1999 and 1998, and the results of their operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated December 17, 1999 on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 17, 1999

TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Pubic Corporation)

Balance Sheets
September 30, 1999 and 1998

<u>ASSETS</u>	Guam Development <u>Fund Act</u>		Agricultural Development <u>Fund</u>		Agricultural Expense Insurance <u>Fund</u>		Landowner's Recovery <u>Fund</u>		Microenterprise Development <u>Program</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Cash on hand and in bank (note 2)	\$ 68,372	\$ 31,138	\$ 11,098	\$ 4,651	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accrued interest receivable thereon	11,588,529	10,273,191	1,098,119	937,771	-	-	-	-	179,923	15,273
Less allowance for doubtful receivables	<u>(3,897,206)</u>	<u>(3,897,206)</u>	<u>(244,082)</u>	<u>(244,082)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net notes and accrued interest receivable	<u>7,691,323</u>	<u>6,375,985</u>	<u>854,037</u>	<u>693,689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,923</u>	<u>15,273</u>
Due from other funds:										
Guam Economic Development Authority	340,452	230,722	-	-	7,659	7,659	-	-	-	-
Guam Development Fund Act	-	-	-	344,965	-	-	10,611	10,611	-	-
Agricultural Development Fund	3,294	-	-	-	-	-	-	-	150	-
Local Arts Revolving Fund	8,703	8,703	-	-	-	-	-	-	-	-
U.S. Base Realignment and Closure Committee	10,142	10,142	-	-	-	-	-	-	-	-
Microenterprise Development Program	155	4,126	-	-	-	-	-	-	-	-
Other receivables	-	-	341	-	-	-	-	-	49,083	29,606
Investments (note 3)	4,102,614	5,551,237	918,830	859,456	-	-	-	-	-	-
Other real estate:										
Land (note 4)	433,375	433,375	-	-	-	-	-	-	1,603	-
Other assets (note 5)	<u>14,538</u>	<u>22,259</u>	<u>338,679</u>	<u>339,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,130</u>
	<u>4,913,273</u>	<u>6,260,564</u>	<u>1,257,850</u>	<u>1,543,871</u>	<u>7,659</u>	<u>7,659</u>	<u>10,611</u>	<u>10,611</u>	<u>50,836</u>	<u>31,736</u>
	<u>\$ 12,672,968</u>	<u>\$ 12,667,687</u>	<u>\$ 2,122,985</u>	<u>\$ 2,242,211</u>	<u>\$ 7,659</u>	<u>\$ 7,659</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 230,759</u>	<u>\$ 47,009</u>

See accompanying notes to financial statements.

TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Pubic Corporation)

Balance Sheets, Continued
September 30, 1999 and 1998

	Guam Development Fund Act		Agricultural Development Fund		Agricultural Expense Insurance Fund		Landowner's Recovery Fund		Microenterprise Development Program	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
<u>LIABILITIES AND FUND EQUITY</u>										
Liabilities:										
Accounts payable and accrued expenses	\$ 5,274	\$ 13,456	\$ -	\$ 1,347	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,858
Due to other funds:										
Guam Economic Development Authority	-	19,404	14,087	12,475	-	-	392,553	189,760	127,207	51,825
Agricultural Development Fund	-	344,965	-	-	-	-	-	-	-	-
Guam Development Fund Act	-	-	3,294	-	-	-	-	-	155	4,126
Guam Territorial Aquarium Foundation	-	11,438	-	-	-	-	1,086	1,086	-	-
Landowner's Recovery Fund	10,611	10,611	-	-	-	-	-	-	-	-
Microenterprise Development Program	-	-	150	-	-	-	-	-	-	-
Total liabilities	<u>15,885</u>	<u>399,874</u>	<u>17,531</u>	<u>13,822</u>	<u>-</u>	<u>-</u>	<u>393,639</u>	<u>190,846</u>	<u>127,362</u>	<u>65,809</u>
Fund equity:										
Contributions	6,992,443	6,992,443	1,796,000	1,796,000	75,000	75,000	1,043,672	1,043,672	-	-
Fund balances (deficits)	<u>5,664,640</u>	<u>5,275,370</u>	<u>309,454</u>	<u>432,389</u>	<u>(67,341)</u>	<u>(67,341)</u>	<u>(1,426,700)</u>	<u>(1,223,907)</u>	<u>103,397</u>	<u>(18,800)</u>
Total fund equity	<u>12,657,083</u>	<u>12,267,813</u>	<u>2,105,454</u>	<u>2,228,389</u>	<u>7,659</u>	<u>7,659</u>	<u>(383,028)</u>	<u>(180,235)</u>	<u>103,397</u>	<u>(18,800)</u>
Contingency (note 6)	<u>\$ 12,672,968</u>	<u>\$ 12,667,687</u>	<u>\$ 2,122,985</u>	<u>\$ 2,242,211</u>	<u>\$ 7,659</u>	<u>\$ 7,659</u>	<u>\$ 10,611</u>	<u>\$ 10,611</u>	<u>\$ 230,759</u>	<u>\$ 47,009</u>

See accompanying notes to financial statements.

TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Pubic Corporation)

Balance Sheets
September 30, 1999 and 1998

	Housing and Urban Development		Local Arts Revolving Fund		Guam Territorial Aquarium Foundation		Aquacultural Training Fund		Music and Legends of Guam		Base Realignment and Closure Commission	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
<u>ASSETS</u>												
Cash on hand and in bank (note 2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 500
Notes and accrued interest receivable thereon	-	-	14,953	14,953	-	-	-	-	-	-	-	-
Less allowance for doubtful receivables	-	-	(12,267)	(12,267)	-	-	-	-	-	-	-	-
Net notes and accrued interest receivable	-	-	2,686	2,686	-	-	-	-	-	-	-	-
Government of Guam appropriations receivable	-	-	-	-	12,155	12,155	-	-	-	-	-	-
Due from other funds:												
Guam Economic Development Authority	-	38,079	48,774	48,774	107,549	107,549	31,907	31,907	41,773	41,866	703	4,064
Guam Development Fund Act	-	-	-	-	-	11,438	-	-	-	-	-	-
Landowner's Recovery Fund	-	-	-	-	1,086	1,086	-	-	-	-	-	-
Other receivables	445	445	-	-	-	-	-	-	-	-	247,765	582,323
Investments (note 3)	-	-	-	-	15,567	3,862	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	16,453	16,929	-	-
Equipment, at cost less accumulated depreciation	-	-	-	-	-	-	-	6,132	-	-	16,082	22,387
	<u>445</u>	<u>38,524</u>	<u>48,774</u>	<u>48,774</u>	<u>136,357</u>	<u>136,090</u>	<u>31,907</u>	<u>38,039</u>	<u>58,226</u>	<u>58,795</u>	<u>264,550</u>	<u>608,774</u>
	<u>\$ 445</u>	<u>\$ 38,524</u>	<u>\$ 51,460</u>	<u>\$ 51,460</u>	<u>\$ 136,357</u>	<u>\$ 136,090</u>	<u>\$ 31,907</u>	<u>\$ 38,039</u>	<u>\$ 58,226</u>	<u>\$ 58,795</u>	<u>\$ 265,050</u>	<u>\$ 609,274</u>
<u>LIABILITIES AND FUND EQUITY</u>												
Liabilities:												
Account payable and accrued expenses	\$ 43,989	\$ 43,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,476	\$ 8,791
Due to other funds:												
Guam Economic Development Authority	29,482	-	-	-	-	-	-	-	-	-	220,234	567,932
Guam Development Fund Act	-	-	8,703	8,703	-	-	-	-	-	-	10,142	10,142
Total liabilities	<u>73,471</u>	<u>43,989</u>	<u>8,703</u>	<u>8,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239,852</u>	<u>586,865</u>
Fund equity:												
Contributions	-	-	100,000	100,000	524,368	524,368	54,217	54,217	75,900	75,900	-	-
Fund balances (deficits)	<u>(73,026)</u>	<u>(5,465)</u>	<u>(57,243)</u>	<u>(57,243)</u>	<u>(388,011)</u>	<u>(388,278)</u>	<u>(22,310)</u>	<u>(16,178)</u>	<u>(17,674)</u>	<u>(17,105)</u>	<u>25,198</u>	<u>22,409</u>
Net fund equity	<u>(73,026)</u>	<u>(5,465)</u>	<u>42,757</u>	<u>42,757</u>	<u>136,357</u>	<u>136,090</u>	<u>31,907</u>	<u>38,039</u>	<u>58,226</u>	<u>58,795</u>	<u>25,198</u>	<u>22,409</u>
	<u>\$ 445</u>	<u>\$ 38,524</u>	<u>\$ 51,460</u>	<u>\$ 51,460</u>	<u>\$ 136,357</u>	<u>\$ 136,090</u>	<u>\$ 31,907</u>	<u>\$ 38,039</u>	<u>\$ 58,226</u>	<u>\$ 58,795</u>	<u>\$ 265,050</u>	<u>\$ 609,274</u>

See accompanying notes to financial statements.

TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Pubic Corporation)

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Years Ended September 30, 1999 and 1998

	Guam Development <u>Fund Act</u>		Agricultural Development <u>Fund</u>		Agricultural Expense Insurance <u>Fund</u>		Landowner's Recovery <u>Fund</u>		Microenterprise Development <u>Program</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Revenues:										
Interest	\$ 772,405	\$ 792,236	\$ 67,482	\$ 89,192	\$ -	\$ -	\$ -	\$ -	\$ 9,264	\$ 130
Gain on investments	-	-	-	-	-	-	-	-	-	-
Other	5,350	47,935	15	19,626	-	-	-	-	182,110	44,749
	<u>777,755</u>	<u>840,171</u>	<u>67,497</u>	<u>108,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,374</u>	<u>44,879</u>
Total revenues										
Expenditures:										
Provision for doubtful notes and accrued interest	-	1,421,696	-	112,512	-	-	-	-	-	-
Salaries	302,618	310,623	163,086	146,540	-	-	-	-	63,938	48,266
Professional services	12,435	32,511	3,497	2,140	-	-	202,793	122,604	826	3,700
Rent	35,006	-	16,336	-	-	-	-	-	3,200	-
Bank charges	6,637	9,767	1,183	1,595	-	-	-	137	426	-
Depreciation	6,999	6,354	1,094	660	-	-	-	-	-	-
Travel	-	9,775	-	6,064	-	-	-	-	-	2,686
Promotions	-	12,174	-	-	-	-	-	-	-	8,575
Loss on investments	20,975	7,883	4,586	1,317	-	-	-	-	-	-
Miscellaneous	3,815	11,973	650	11,788	-	-	-	-	787	452
	<u>388,485</u>	<u>1,822,756</u>	<u>190,432</u>	<u>282,616</u>	<u>-</u>	<u>-</u>	<u>202,793</u>	<u>122,741</u>	<u>69,177</u>	<u>63,679</u>
Total expenditures										
Revenues (under) over expenditures	389,270	(982,585)	(122,935)	(173,798)	-	-	(202,793)	(122,741)	122,197	(18,800)
Fund balances (deficits) at beginning of year	<u>5,275,370</u>	<u>6,257,955</u>	<u>432,389</u>	<u>606,187</u>	<u>(67,341)</u>	<u>(67,341)</u>	<u>(1,223,907)</u>	<u>(1,101,166)</u>	<u>(18,800)</u>	<u>-</u>
Fund balances (deficits) at end of year	<u>\$ 5,664,640</u>	<u>\$ 5,275,370</u>	<u>\$ 309,454</u>	<u>\$ 432,389</u>	<u>\$ (67,341)</u>	<u>\$ (67,341)</u>	<u>\$ (1,426,700)</u>	<u>\$ (1,223,907)</u>	<u>\$ 103,397</u>	<u>\$ (18,800)</u>

See accompanying notes to financial statements.

TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Pubic Corporation)

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Years Ended September 30, 1999 and 1998

	<u>Housing and Urban Development</u>		<u>Local Arts Revolving Fund</u>		<u>Guam Territorial Aquarium Foundation</u>		<u>Aquacultural Training Fund</u>		<u>Music and Legends of Guam</u>		<u>Base Realignment and Closure Commission</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Revenues:												
Net sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132	\$ 90	\$ -	\$ -
Grant funds	-	-	-	-	-	-	-	-	-	-	361,883	1,024,215
Other	-	-	-	-	275	3,603	-	-	-	17	171,741	46,668
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>275</u>	<u>3,603</u>	<u>-</u>	<u>-</u>	<u>132</u>	<u>107</u>	<u>533,624</u>	<u>1,070,883</u>
Total revenues	-	-	-	-	275	3,603	-	-	132	107	533,624	1,070,883
Expenditures:												
Special projects	-	-	-	-	-	-	-	-	-	-	-	256,391
Salaries and benefits	-	-	-	-	-	-	-	-	-	-	359,757	362,770
Travel	-	-	-	-	-	-	-	-	-	-	24,701	68,035
Professional services	-	-	-	-	-	-	-	-	225	38	122,318	337,426
Rent	-	5,000	-	-	-	-	-	-	-	-	1,548	3,117
Promotions	1,781	-	-	-	-	-	-	-	476	2,357	766	1,922
Repair and maintenance	63,820	425	-	-	-	-	-	-	-	-	87	3,952
Depreciation	1,960	-	-	-	-	-	6,132	-	-	-	6,304	5,153
Provision for doubtful notes and accrued interest	-	-	-	44,200	-	-	-	-	-	-	-	-
Loss on investment	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	40	-	-	8	1,031	-	-	-	-	15,354	30,293
	<u>67,561</u>	<u>5,465</u>	<u>-</u>	<u>44,200</u>	<u>8</u>	<u>1,031</u>	<u>6,132</u>	<u>-</u>	<u>701</u>	<u>2,395</u>	<u>530,835</u>	<u>1,069,059</u>
Total expenditures	67,561	5,465	-	44,200	8	1,031	6,132	-	701	2,395	530,835	1,069,059
Revenues (under) over expenditures	(67,561)	(5,465)	-	(44,200)	267	2,572	(6,132)	-	(569)	(2,288)	2,789	1,824
(Deficits) fund balances at beginning of year	<u>(5,465)</u>	<u>-</u>	<u>(57,243)</u>	<u>(13,043)</u>	<u>(388,278)</u>	<u>(390,850)</u>	<u>(16,178)</u>	<u>(16,178)</u>	<u>(17,105)</u>	<u>(14,817)</u>	<u>22,409</u>	<u>20,585</u>
(Deficits) fund balances at end of year	\$ <u>(73,026)</u>	\$ <u>(5,465)</u>	\$ <u>(57,243)</u>	\$ <u>(57,243)</u>	\$ <u>(388,011)</u>	\$ <u>(388,278)</u>	\$ <u>(22,310)</u>	\$ <u>(16,178)</u>	\$ <u>(17,674)</u>	\$ <u>(17,105)</u>	\$ <u>25,198</u>	\$ <u>22,409</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 1999 and 1998

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Guam Development Fund Act (GDFA), the Agricultural Development Fund (ADF), the Agricultural Expense Insurance Fund (AEIF), the Landowner's Recovery Fund (LRF), the Housing and Urban Development Fund (HUD), the Local Arts Revolving Fund (LARF), the Guam Territorial Aquarium Foundation (GTAF), the Aquacultural Training Fund (ATF), the Music and Legends of Guam Fund (MLGF), and the U.S. Base Realignment and Closure Committee (BRAC) 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 component units of the Government of Guam. The specific purpose of each fund is as follows:

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

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

AEIF - AEIF was created to insure or to reinsure insurers of farmers, livestock producers and commercial fishermen against losses due to natural disasters. The premiums are collected at rates sufficient to cover claims for losses and to provide a reasonable reserve against unforeseen losses. Initial funding was by an appropriation from the Government of Guam. There were no insurance policies issued in 1999 and 1998 nor were there any policies outstanding at September 30, 1999.

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

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

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

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

TRUST FUNDS ADMINISTERED BY THE
GUAM ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 1999 and 1998

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

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

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

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

During the year ended September 30, 1994, the Small Business Development Fund (SBDF) was created by Public Law 21-42 to encourage, assist, develop and expand the small business private sector in Guam's economy. This is done primarily through direct loans to individuals, small corporations and partnerships at an interest rate deemed reasonable by GEDA. This fund was also created to provide for equity participation in a new company or in an existing company for the purpose of expansion. All contributions to this fund have been appropriated by the Guam Legislature. No transactions were entered into by SBDF during the years ended September 30, 1999 and 1998.

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

Basis of Accounting

The trust funds account for assets under the terms of formal trust agreements. They are classified as expendable trust funds and are accounted for in essentially the same manner as governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

Cash

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

At September 30, 1999 and 1998, the Funds have cash balances of \$106,645 and \$35,389, respectively, deposited in checking accounts. Of the total deposits, \$100,000 and \$35,389 in 1999 and 1998, respectively, are insured by the Federal Deposit Insurance Corporation. The remaining balances are not insured or collateralized.

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

Notes to Financial Statements
September 30, 1999 and 1998

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications

Certain reclassifications have been made to the 1998 balances to conform to classifications adopted in 1999.

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 U.S. treasury rate. All loans are secured by collateral with any long-term loans being secured by real property.

Included in notes receivable for GDFA as of September 30, 1999 and 1998, are notes due from GEDA for \$2,091,363. The notes of \$1,196,202 and \$895,161 bear interest at 4.5% and 5%, respectively, and are due in 2019 and 2001, respectively.

The annual principal payments for the GEDA note receivable for the five years subsequent to September 30, 1999, and thereafter are as follows:

2000	\$ 53,702
2001	1,000,582
2002	105,421
2003	105,421
2004	105,421
Thereafter	<u>720,816</u>
	\$ <u>2,091,363</u>

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

Inventories

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

TRUST FUNDS ADMINISTERED BY THE
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(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

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

Investments

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

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

Expenditures

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

Each Fund is charged a percentage of GEDA's payroll expense based upon actual time personnel spend on the respective Fund.

(2) Cash Deposits

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

(3) Investments

At October 1, 1996, GEDA adopted GASB Statement No. 31.

Investments consist of money market funds and securities in Pacific Century Trust (PCT). At September 30, 1999 and 1998, the investments are stated at market value of \$5,037,011 and \$6,414,555, respectively.

GDFA has \$311,200 and \$0 in restricted investments at September 30, 1999 and 1998, respectively.

(4) Other Real Estate

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

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

Notes to Financial Statements
September 30, 1999 and 1998

(5) Other Assets

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

(6) Contingency

At September 30, 1999 and 1998, GDFA was contingently liable as guarantor for loans in the amount of \$1,980,700 and \$1,669,500, respectively, and any related collection costs. In accordance with Section 4 of the Guam Development Fund Act of 1968; GDFA is required to maintain reserves of not less than 25% of the loan guarantee.

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



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

The Board of Directors
Guam Economic Development Authority:

We have audited the financial statements of the Guam Economic Development Authority (GEDA), as of September 30, 1999, and for the year then ended, and have issued our report thereon dated December 17, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

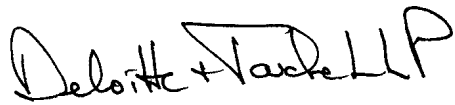
As part of obtaining reasonable assurance about whether GEDA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination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

Internal Control Over Financial Reporting

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

However, we noted other matters involving the internal control over financial reporting that we have reported to management of GEDA in a separate letter dated December 17, 1999.

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

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

December 17, 1999



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

The Board of Directors
Guam Economic Development Authority:

Compliance

We have audited the compliance of the Guam Economic Development Authority (GEDA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 1999. GEDA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of GEDA's management. Our responsibility is to express an opinion on GEDA's compliance based on our audit.

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

In our opinion, GEDA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 1999.

Internal Control Over Financial Reporting

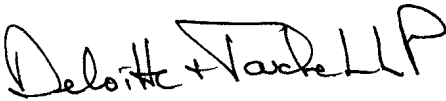
The management of GEDA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered GEDA's internal control over compliance with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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Economic Development Authority (GEDA), as of and for the year ended September 30, 1999, and have issued our report thereon dated December 17, 1999. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of GEDA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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

A handwritten signature in black ink, appearing to read "Deloitte + Nauck LLP", is written over a faint, larger, stylized signature.

December 17, 1999

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 1999

<u>Federal grantor/ program title/ project designation</u>	<u>Catalog of Federal Assistance number</u>	<u>Project amount</u>	<u>Balance at beginning of year</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>(Payable) receivable at end of year</u>
Community Development Block Grant/Special Purpose	14.225	\$ <u>123,071</u>	\$ <u>(43,989)</u>	\$ <u>67,561</u>	\$ <u>67,561</u>	\$ <u>(43,989)</u>
Office of Economic Adjustment/ Department of Defense - Community Planning Assistance	12.607	\$ <u>3,425,023</u>	\$ <u>582,323</u>	\$ <u>865,393</u>	\$ <u>530,835*</u>	\$ <u>247,765</u>
Other federal assistance: Guam Development Fund Act	N/A(1)	\$ <u>6,240,000</u>	\$ <u>9,991,406</u>	\$ <u>453,828</u>	\$ <u>1,670,280*</u>	\$ <u>11,207,858</u>

*Denotes a major federal award program.

(1) Other federal assistance:

- (a) The Guam Economic Development Fund Act of 1968, U.S. Public Law 90-601, authorized funding to establish a Revolving Loan Fund which would be used to develop private industry on Guam by providing loans and loan guarantees to qualified businesses. Subsequently, Public Law 95-134, authorized additional appropriations to supplement the Revolving Fund. As a result of these two public laws, the Government of Guam received a total of \$6,240,000 for the Revolving Fund.
- (b) The federal grant above is classified as "other federal assistance" as it has not been assigned a "Catalog of Federal Domestic Assistance Number".
- (c) The \$11,207,858 above reflects the Revolving Loan Fund receivable balance at September 30, 1999. The difference between the September 30, 1999 balance and the project amount represents interest income.
- (d) The \$11,207,858 principal balance above, plus accrued interest receivable of \$380,671 at September 30, 1999, reconciles to the Guam Economic Development Fund \$11,588,529 notes and accrued interest receivable balance per the September 30, 1999 financial statements.
- (e) Per the Guam Economic Development Fund Act, \$6,240,000 was received directly from the federal agency. Subsequent contributions have been made by the Guam Legislature.

(2) The abovementioned Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

(3) All programs are received in a direct capacity.

GUAM ECONOMIC DEVELOPMENT AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Part I - Summary of Auditors' Results

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

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Community Planning Assistance	12.607
Guam Development Fund Act	N/A

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

Part II - Financial Statement Findings Section

No matters are reportable.

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.