

**GUAM VISITORS BUREAU
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

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

**YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(AS RESTATED)**

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

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Years Ended September 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Visitors Bureau:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Visitors Bureau (GVB), (a component of the Government of Guam) and its Special Tourist Attraction Fund Projects, which comprise the statements of net position/balance sheets as of September 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, of operations and changes in fund balance, 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 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 respective financial position of GVB and its Special Tourist Attraction Fund Projects as of September 30, 2015 and 2014, and the respective changes in net position/fund balance and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, in 2015, GVB adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting these standards, GVB has elected to restate its 2014 financial statements to reflect the adoption of these standards. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

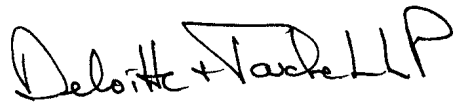
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 as well as the Schedule of Funding Progress on page 31, the Schedule of Proportional Share of the Net Pension Liability on page 32, and the Schedule of Pension Contributions on page 33, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of GVB's management. 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of GVB's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the 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 February 22, 2016 on our consideration of GVB'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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GVB's internal control over financial reporting and compliance.

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

February 22, 2016

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

ABOUT THE GUAM VISITORS BUREAU

The Guam Visitors Bureau (GVB), a non-profit membership corporation, is the official tourism agency for the U.S. Territory of Guam. Among its responsibilities, GVB is charged with setting tourism policy and direction; developing and implementing Guam's tourism strategic and marketing plans; managing programs and activities that enhance and showcase Guam's people, place and culture in order to deliver an incomparable visitor experience; and coordinating tourism-related research, planning, events and outreach activities. GVB serves as a critical bridge linking government, the tourism industry, visitors and the local community, and aims to contribute successfully to a good quality of life for residents through tourism.

ADMINISTRATIVE HIGHLIGHTS

In December of 2014, Karl Pangelinan resigned as General Manager of GVB effective February 2015. The Board of Directors named Deputy General Manager Jon Nathan Denight as Acting General Manager until a replacement could be found. On February 01, 2015, the Board of Directors unanimously approved the selection of Denight to fill the General Manager's position. Additionally, the GVB GM Denight named former Senator and Special Assistant to Governor Eddie Baza Calvo as the new Deputy General Manager.

In FY2015, Denight led the Bureau and the island's tourism industry in welcoming the most visitors to Guam in its tourism history. Much of this accomplishment was due to GVB's focus on Visitor Safety Projects, Capital Improvement Projects and increased Marketing efforts to include promotion of GVB signature events and refocusing the Bureau's marketing strategy to showcase the local community.

MARKETING HIGHLIGHTS

GVB is the organization responsible for marketing Guam to the world as a premier tourist destination. To achieve maximum yield for the tourism industry from limited resources, GVB's marketing activity is carefully focused on a number of key markets and a select group of consumers within those key markets. As well as marketing to consumers, our trade training, marketing and media programs are designed to ensure that those who sell Guam have the knowledge and resources to be successful.

Visitor Arrivals in fiscal year 2015 soared to a 2.3% increase over FY2014. FY 2015 is the second top fiscal year in Guam's tourism history, beating out arrivals from almost 20 years ago. Guam achieved another fiscal year milestone welcoming 1,372,531 visitors, making this the top arrivals in a year this century, and the second highest in nearly 20 years. In fact, August and March 2015 were recorded as the third and sixth best months respectively for arrivals ever. This also marks three consecutive years that we have broken the 1.3 million mark. Guam's top banner year was FY1997 with 1,411,447 visitors recorded. The increase in arrivals was primarily due to the increased air capacity coming from Korea. In FY2015, Guam saw the inaugural flight of Air Busan as well as T'way Air. Additionally, Jeju Air, which has been servicing the Incheon – Guam route for several years expanded their gateway cities to include Busan, Korea's second largest city.

Japan arrivals saw a decrease (-5.6%) versus the previous year at 779,405 arrivals. Arrivals from our largest source market have dropped in recent years due to the declining outbound travelers from Japan making up 57% of Guam's total arrival mix – down from a high of almost 80%. This is in large part to domestic issues affecting travel internationally and the increased focus on domestic visits within Japan. Total outbound travel from Japan in FY2015 saw a decrease of 5.0% versus FY2014. GVB continues to strategically target segments such as business groups, students, and the senior market. This past month, GVB launched the "Toshi-chan" campaign in Japan to attract more Japanese travelers and encourage them to share their "Only on Guam" experiences.

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Korea Arrivals for FY2015 increased to the highest levels Guam has ever experienced. Arrivals totaled 384,112 visitors, making this past fiscal year the top banner year for Korea arrivals ever. Additional support from T'way and Air Busan during the tail end of the fiscal year has undoubtedly augmented availability of flights into Guam to help arrivals grow. Special attention was paid to attract an increased number of Meeting, Incentive, Exhibition and Conference (MICE) groups from Korea. Arrivals for MICE groups on Guam increased over FY2014, welcoming 35,610 participants to Guam.

Arrivals from the People's Republic of China also grew significantly with a 62.2% increase over FY2014 numbers. Guam welcomed about 23,589 visitors from the People's Republic of China, which surpassed GVB's goal of 20,000 visitors for the fiscal year. The continuous support of airline carriers, such as United Airlines, is a major part of the contributing success of visitors from China.

Other visitor markets continue to grow and diversify. The Philippines increased by 20.6% and Palau increased by 54.9%. Additional markets that also grew in September include Canada by 72.4%, Europe by 29.2% and Hong Kong by 13.3%.

In FY2015, GVB implemented a change in marketing strategy; focusing on events and things a visitor can do Only On Guam. In July 2015, GVB held a Visit Guam 2015 Expo at the Micronesia Mall for local residents. At this event, GVB hosted close to a hundred media to promote Guam events throughout our villages such as the Agat Mango Festival and Merizo Crab Festival; the much anticipated 12th Festival of the Pacific Arts; and other great things to do. At this Expo, Governor Eddie Baza Calvo proclaimed 2016 as Visit Guam Year. GVB has seen continued success over this campaign throughout the island and in our overseas source markets. For FY2017, GVB will continue to build on this success.

Other highlights include the global implementation of GVB's new consumer website and customer relationship management system to more effectively communicate with GVB's members and overseas partners.

DESTINATION DEVELOPMENT HIGHLIGHTS

Destination Development's mission is to support the development and enhancement of tourism attractions and experiences that build on our competitive product strengths, ensuring that Guam delivers on its brand promise. The importance of this division has been growing in need as the Government lacks the resources to maintain infrastructure that is critical to tourism. Guam must improve its quality in order to attract a high spending visitor and thereby improve yield. GVB's Destination Development Division is comprised of three committees: Destination Management, Cultural Heritage and Community Outreach, Visitor Safety and Satisfaction and Sports and Events.

The Destination Management Committee (DMC) focuses on improving tourism infrastructure, safety and satisfaction. Over the years GVB has taken on additional responsibilities originally tasked to other Government of Guam agencies such as San Vitores landscaping, grass cutting and trash collection along major highways, and Hågatña and Tumon Bay beach cleaning. In FY2015, GVB utilized funding from its Capital Improvement budget to fix sidewalks and crosswalks throughout Pale San Vitores Road.

For tourism to be thriving and sustainable, the community must have a sense of ownership and share a stake in industry processes and outcomes. The Cultural Heritage and Community Outreach Committee (CHaCO) supports the development and promotion of the Chamorro culture and other community outreach projects. Its key programs include cultural presentations for international marketing events, the Guam Chamorro Dance Academy, village festival support and development grants for cultural, educational, medical and ecotourism. The cornerstone of the Guam Brand initiative is the Håfa Adai Pledge program now reaching over 500 participating organizations.

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GVB's mission is to promote Guam as a safe and satisfying destination, and to seek maximum benefits of the tourism industry for the people of Guam. In order to meet the need to maintain this aspect Guam is known for, GVB launched a number of different projects aimed at keeping our community and visitors safe throughout the Tumon Tourist District. This includes the Visitor Safety Officers and Beach Safety Program (VSO). During fiscal year 2015, VSOs responded to over 800 safety and security related issues that include homelessness, public intoxication, water related incidents, stray animals and other cases. In addition, they have provided over 12,500 concierge services that include traffic assistance, giving directions, taking photos, recovering lost property and escorting island residents and visitors.

Sports and events can draw new visitors, provide publicity in key source markets, enhance the image of Guam and improve the quality of life for residents. Recognizing these benefits, GVB's Sports and Events Committee supports the development and promotion of local sports and events that drive visitors to our island. GVB's Signature events include the Guam International Marathon, Guam Live International Music Festival, Guam Micronesia Island Fair, Guam BBQ Block Party, and the Guam Ko'ko' Half Marathon and Ekiden Relay.

FINANCIAL HIGHLIGHTS

The following table summarizes the financial condition and Operations of the Bureau for the fiscal years ended 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>	<u>2013</u> <u>(As Restated)</u>
Assets:			
Current assets	\$ 17,164,698	\$ 12,944,589	\$ 14,951,531
Other assets	118,202	1,665,000	1,268,321
Property and equipment, at cost, net	<u>6,736,923</u>	<u>6,824,454</u>	<u>6,895,193</u>
Total assets	24,019,823	21,434,043	23,115,045
Deferred outflows from pension	<u>549,170</u>	<u>415,911</u>	<u>356,516</u>
Total assets and deferred outflows	\$ <u>24,568,993</u>	\$ <u>21,849,954</u>	\$ <u>23,471,561</u>
Liabilities:			
Current liabilities	\$ 4,516,524	\$ 4,455,086	\$ 5,402,119
Net pension liability	3,826,415	3,783,577	4,122,286
Accrued sick leave	<u>155,338</u>	<u>149,927</u>	<u>148,448</u>
Total liabilities	8,498,277	8,388,590	9,672,853
Deferred inflows from pension	<u>291,234</u>	<u>226,147</u>	<u>-</u>
Total liabilities and deferred inflows	<u>8,789,511</u>	<u>8,614,737</u>	<u>9,672,853</u>
Net Position:			
Net investment in capital assets	6,736,923	6,824,454	6,895,193
Unrestricted	4,041,449	2,995,389	5,478,801
Restricted	<u>5,001,110</u>	<u>3,415,374</u>	<u>1,424,714</u>
Total net position	<u>15,779,482</u>	<u>13,235,217</u>	<u>13,798,708</u>
Total liabilities, deferred inflows and net position	\$ <u>24,568,993</u>	\$ <u>21,849,954</u>	\$ <u>23,471,561</u>

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	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>	<u>2013</u> <u>(As Restated)</u>
Operating revenues	\$ 1,373,972	\$ 1,104,760	\$ 852,543
Operating expenses	<u>20,934,412</u>	<u>17,605,619</u>	<u>15,048,175</u>
Operating revenues net of operating expenses	(19,560,440)	(16,500,859)	(14,195,632)
Nonoperating revenues, net	<u>22,104,705</u>	<u>15,937,368</u>	<u>15,120,197</u>
Change in net position	\$ <u>2,544,265</u>	\$ <u>(563,491)</u>	\$ <u>924,565</u>

An 11% hotel occupancy tax funds the Bureau's operations, authorized through the Legislature's annual budget appropriations. In fiscal year 2015, Public Law 32-181 appropriated \$22,612,696; \$20,115,000 for GVB operations, \$1,085,000 for Special Projects, and \$1,412,696 for Capital Improvement Projects. The Bureau was able to recognize \$19,380,088 of its appropriation for Operations, of which \$73,313 was from FY 2014 appropriations; \$1,053,624 for Special Projects, of which \$50,000 was from FY 2014 appropriations; and \$1,317,042 for Capital Improvement Projects.

PL 32-181 also appropriated \$835,000 to the Guam Visitors Bureau for pass-thru entities, \$200,000 to the Rainy Day Fund, and \$200,000 for FESTPAC. The Bureau was able to recognize \$942,000 for pass-thru appropriations, of which \$155,000 was for FY 2014 appropriations; \$220,000 for the Rainy Day Fund, of which \$20,000 was for FY 2014 appropriations; and \$1,190,000 for FESTPAC, of which \$1,020,000 was for FY 2014 appropriations.

In FY 2015, four other public laws appropriated additional monies to the GVB from the FY 2014 unappropriated, unallotted fund balance of the Tourist Attraction Fund and the HOT (Hotel Occupancy Tax) Surplus Fund. PL 33-10 created the Cultural and Sports Ambassador Fund and appropriated \$200,000 to it; PL 33-43 appropriated an additional \$2,000,000 to FESTPAC; PL 33-49 appropriated \$900,000 for operations and to help with the cost of hosting the PATA Annual Summit, which will be held on Guam in May of 2016; and PL 33-73 appropriated \$200,000 for the upkeep of the village parks and murals.

Total uncollected appropriations as of 09/30/15 were \$4,193,655: \$808,625 for Operations, \$81,376 for Special Projects, \$95,654 for Capital Improvement Projects, \$48,000 for Pass-thru entities, \$2,030,000 for FESTPAC, \$30,000 for the Cultural and Sports Ambassador Fund, all of the Operations & PATA appropriation of \$900,000, and all of the parks appropriation of \$200,000.

The Bureau also recognized \$215,561 in Federal revenues, of which \$210,184 was part of an MOU with the Department of Public Health and Social Services to host the WHO (World Health Organization) conference, held October 12 – 16, 2015. The remaining \$5,377 was a FEMA reimbursement related to Typhoon Halong.

The FY15 unaudited TAF collections were 6.2% higher than the previous year, totaling \$36,589,070. While hotel occupancy fell to 74% in FY2015, the increase in TAF collections was mainly due to average room rates increasing from \$146 in FY14 to \$158 in FY15. For FY16, the increasing room rate is projected to continue while occupancy is expected to increase over FY15 as well. Moreover, the June 2015 Employment Report from Department of Labor noted that the hotel industry added 670 additional jobs compared to the previous year, a good sign of a growing tourism industry.

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Direct appropriations from the Tourist Attraction Fund increased about 2% in FY 2015, from \$10,150,774 in FY 2014 to \$10,330,357. In PL 32-181, TAF revenue projections for FY 2015 was \$34,500,000 and total appropriations from the TAF were \$34,178,053. Comparing the total FY2015 appropriation from the TAF (\$34,178,053) and the actual unaudited collections (\$36,589,070), there was a surplus of \$2,411,017.

Membership dues increased almost 100% to \$70,710 from \$35,400 in FY 2014. This large increase was due to the January 2015 membership election. In-kind contributions increased about 22% to \$409,087 from \$335,736 in FY 2014.

Marketing was the largest expenditure at \$13.6 million in Professional Services, with Japan and Hong Kong/China representing the largest share at a combined \$7.6 million. At \$2,477,382, personnel salaries and benefits increased 14% over last year largely due to the addition of one unclassified position and one FTE, but still only 12% of total expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

The Bureau is not capital intensive and therefore, significant capital asset activity did not occur in 2015, 2014 and 2013. For additional information regarding capital assets, please refer to note 5 to the financial statements.

Additionally, the Bureau has no long-term borrowings. However, additional information concerning other long-term liabilities can be found in the notes to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Bureau's report on the audit of the financial statements, which is dated January 29, 2015, and that Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the Office of Public Accountability website at www.opaguam.org.

OUTLOOK

The Bureau's efforts to diversify were clearly apparent in 2015, with the Korean market now a strong number two market representing 28% of total arrivals to Guam. Moderate growth of around 2% is expected for FY2015 with an increase in flights from the Philippines and opening of new gateway cities in Korea, which is important, since total outbound travel from Japan is expected to decline in 2016. While Guam has traditionally been a leisure destination for Japanese, GVB is working to attract higher yield segments such as the MICE (meetings, incentives, conferences, exhibitions), weddings and the silver (senior) markets.

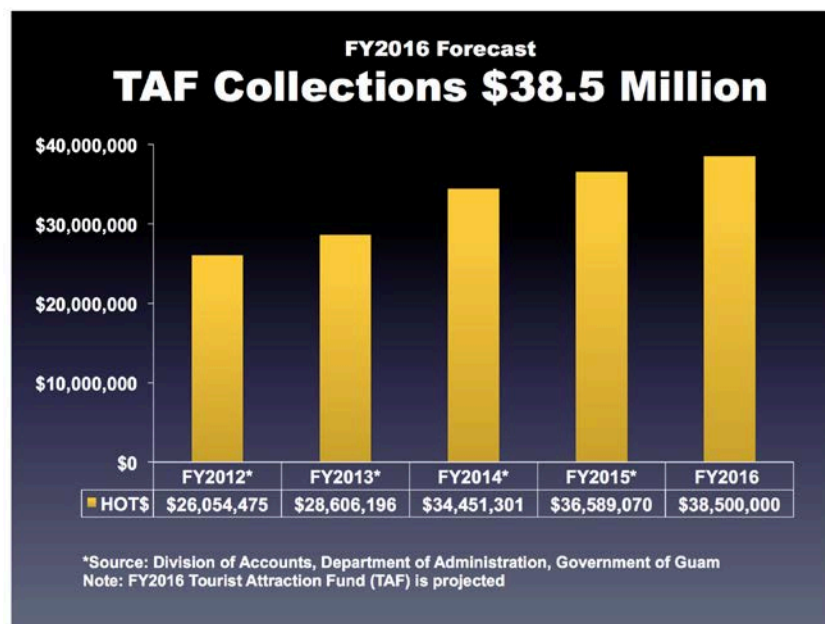
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In addition to all the efforts in our primary source markets, the GVB Board is committed to improving the destination and has several projects planned in 2016, foremost of which is a Tumon surveillance system that will provide video to the Frankie Smith Precinct. Other major planned improvements include bus shelters, landscape improvements, lighting and sidewalk renovations and graffiti removal. In order for Guam to improve its image and attract higher yield visitors, we must improve our brand and that starts at home.

GVB's TAF projection for FY2016 is \$38,623,119, a conservative 5.6% increase over the previous year. This is certainly achievable, especially with the opening of the Dusit Thani Guam Resort.



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Statements of Net Position
September 30, 2015 and 2014

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2015</u>	<u>2014</u> (As Restated)
Current assets:		
Cash - unrestricted	\$ 9,513,048	\$ 7,939,858
Cash - restricted	4,835,126	1,872,412
Investments	2,516,723	2,511,793
Accounts receivable - Government of Guam	-	450,000
Accounts receivable - others	293,349	164,074
Prepaid expenses	6,452	6,452
Total current assets	<u>17,164,698</u>	<u>12,944,589</u>
Cash - restricted	-	1,546,798
Security deposit	118,202	118,202
Capital assets:		
Nondepreciable capital assets	5,992,415	5,992,415
Depreciable capital assets, net of accumulated depreciation	744,508	832,039
Total assets	<u>24,019,823</u>	<u>21,434,043</u>
Deferred outflows of resources:		
Deferred outflows from pension	549,170	415,911
	<u>\$ 24,568,993</u>	<u>\$ 21,849,954</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 4,362,491	\$ 4,294,617
Accrued annual leave	142,433	141,969
Unearned income	11,600	18,500
Total current liabilities	<u>4,516,524</u>	<u>4,455,086</u>
Net pension liability	3,826,415	3,783,577
Accrued sick leave	155,338	149,927
Total liabilities	<u>8,498,277</u>	<u>8,388,590</u>
Deferred inflows of resources:		
Deferred inflows from pension	291,234	226,147
Commitments and contingencies		
Net position:		
Net investment in capital assets	6,736,923	6,824,454
Unrestricted	4,041,449	2,995,389
Restricted - expendable	5,001,110	3,415,374
Total net position	<u>15,779,482</u>	<u>13,235,217</u>
	<u>\$ 24,568,993</u>	<u>\$ 21,849,954</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014 (As Restated)
Revenues:		
Other income	\$ 428,610	\$ 421,198
In-kind contributions from members and others	409,087	335,736
Consumption tax refund	465,565	312,426
Memberships	70,710	35,400
Total operating revenues	1,373,972	1,104,760
Expenses:		
Professional services	13,647,257	11,995,304
Personnel	2,477,382	2,180,435
Pass through appropriations	942,000	436,550
Travel	865,235	797,542
Promotional in-kind contributions	409,087	335,736
Grants	204,300	255,304
Rent/lease	201,253	226,098
Material and supplies	173,133	166,856
Utilities	124,122	135,668
Repairs and maintenance	95,508	51,117
Depreciation	87,531	83,333
Advertising	57,517	12,151
Equipment	48,364	63,582
Community programs	-	1,888
Miscellaneous	1,601,723	864,055
Total operating expenses	20,934,412	17,605,619
Operating revenues net of operating expenses	(19,560,440)	(16,500,859)
Nonoperating revenues (expenses):		
Grants-in-aid from Government of Guam:		
Operations	20,960,088	15,520,904
Pass through	942,000	436,550
Federal revenues	215,561	-
Other nonoperating expense	(27,809)	(34,066)
Interest income	14,865	13,980
Total nonoperating revenues (expenses), net	22,104,705	15,937,368
Change in net position	2,544,265	(563,491)
Net position at beginning of year	13,235,217	13,798,708
Net position at end of year	\$ 15,779,482	\$ 13,235,217

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (As Restated)
Cash flows from operating activities:		
Cash received from members	\$ 63,810	\$ 35,400
Cash received from other sources	764,899	609,430
Cash paid to employees	(1,752,509)	(1,601,612)
Cash paid to suppliers	<u>(18,664,678)</u>	<u>(16,721,592)</u>
Net cash used for operating activities	<u>(19,588,478)</u>	<u>(17,678,374)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations	22,352,088	15,526,974
Federal grant	<u>215,561</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>22,567,649</u>	<u>15,526,974</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>-</u>	<u>(12,594)</u>
Cash flows from investing activities:		
Investment in time certificates of deposit	(4,930)	(3,497)
Interest income	<u>14,865</u>	<u>13,980</u>
Net cash provided by capital and related financing activities	<u>9,935</u>	<u>10,483</u>
Net change in cash	2,989,106	(2,153,511)
Cash at beginning of year	<u>11,359,068</u>	<u>13,512,579</u>
Cash at end of year	<u>\$ 14,348,174</u>	<u>\$ 11,359,068</u>
Consisting of:		
Unrestricted	\$ 9,513,048	\$ 7,939,858
Restricted	<u>4,835,126</u>	<u>3,419,210</u>
Cash at end of year	<u>\$ 14,348,174</u>	<u>\$ 11,359,068</u>
Reconciliation of operating revenues net of operating expenses to net cash used for operating activities:		
Operating revenues net of operating expenses	\$ (19,560,440)	\$ (16,500,859)
Other nonoperating expense	(27,809)	(34,066)
Adjustments to reconcile operating revenues net of operating expenses to net cash used for operating activities:		
In-kind contributions from members and others	(409,087)	(335,736)
Promotional in-kind contributions	409,087	335,736
Depreciation	87,531	83,333
Non-cash pension costs	(25,334)	(171,957)
Increase in assets:		
Accounts receivable	(129,275)	(109,271)
Increase (decrease) in liabilities:		
Accounts payable	67,874	(974,656)
Accrued annual and sick leave	5,875	19,802
Unearned income	<u>(6,900)</u>	<u>9,300</u>
Net cash used for operating activities	<u>\$ (19,588,478)</u>	<u>\$ (17,678,374)</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets
September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Restricted cash	\$ <u>1,908,644</u>	\$ <u>1,562,981</u>
	<u>\$ 1,908,644</u>	<u>\$ 1,562,981</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 381,678	\$ 249,559
Fund balance:		
Committed - Tourism	<u>1,526,966</u>	<u>1,313,422</u>
	<u>\$ 1,908,644</u>	<u>\$ 1,562,981</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Operations and Changes in Fund Balance
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Others	\$ 2,608	\$ 266,367
Total revenues	<u>2,608</u>	<u>266,367</u>
Expenditures:		
Tumon Bay lighting improvements	423,668	84,382
Tumon landscaping maintenance (contract)	355,313	488,892
Islandwide roadway and beautification	291,814	273,349
Holiday illumination	290,000	200,000
Tumon Bay sidewalk, crosswalk and retaining wall improvements	251,880	-
Tumon and Hagatna Beach cleaning and maintenance	218,872	197,581
Typhoon debris cleanup	102,068	-
Utilities	70,523	70,452
Project management:		
Tumon Bay sidewalk, crosswalk and retaining wall improvements	24,065	-
Tumon landscaping, island roadway, and beach cleaning	56,600	87,129
Tumon Bay lighting improvements	35,580	14,420
Bus shelters	35,088	-
Miscellaneous projects	-	11,700
Miscellaneous	4,259	255
Total expenditures	<u>2,159,730</u>	<u>1,428,160</u>
Deficiency from operations	(2,157,122)	(1,161,793)
Government of Guam contributions	<u>2,370,666</u>	<u>2,132,378</u>
Changes in fund balance	213,544	970,585
Fund balance at beginning of year	<u>1,313,422</u>	<u>342,837</u>
Fund balance at end of year	<u>\$ 1,526,966</u>	<u>\$ 1,313,422</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies

Organization

The Guam Visitors Bureau (GVB) is a public corporation established for the purpose of promoting the visitor industry in Guam. As a result of the application of Governmental Accounting Standards Board (GASB) Statement No. 14, GVB is a component unit of the Government of Guam (GovGuam). GVB receives operating appropriations that derive from the Tourist Attraction Fund, as appropriated by the Guam Legislature.

Tourist Attraction Fund Projects

GVB is a trustee of funds, as provided for under Public Law 23-45, for landscaping and beautification of Tumon Bay and for other Tourist Attraction projects. GVB is responsible for the receipt, disbursement, and accounting of these funds and, accordingly, maintains a separate cash account for these funds.

In-Kind Contributions

GVB receives in-kind contributions from its members and records such as of the date of receipt of the attendant goods or services. Title 12 of the Guam Code Annotated states that the Legislature may condition payment of grants-in-aid to a matching requirement of in-kind contributions at a rate of no more than 20 cents for every 80 cents appropriated. However, this requirement was not imposed during the years ended September 30, 2015 and 2014.

GVB records in-kind contributions in the period received based on the value assigned by the grantor.

Cash

For purposes of the statements of net position, balance sheets and the statements of cash flows, cash is defined as cash on hand, cash deposits in banks, and time certificates of deposit with initial maturities of three months or less. Investments in time certificates of deposit with original maturity dates greater than three months are separately classified on the statements of net position.

Property and Equipment

Property and equipment with a cost that equals or exceeds \$5,000 are capitalized. Such assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the exchange rate in effect on the transaction date. Amounts receivable and payable in foreign currencies are translated to U.S. dollars at the exchange rate in effect on the statement of net position date.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

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

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. GVB has determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, pension contributions made subsequent to the measurement date and changes in proportion and differences between GVB pension contributions and proportionate share of contributions 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. GVB has determined the differences between projected and actual earnings on pension plan investments qualify for reporting in this category.

Compensated Absences

Earned unpaid employee vacation leave is accrued at year end for financial statement purposes. Included in liabilities at September 30, 2015 and 2014 are amounts related to compensated absences earned but unused. The amounts are also included as a component of operating expense in the Statements of Revenues, Expenses, and Changes in Net Position.

Pensions

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

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

Concentrations of Credit Risk

Financial instruments which potentially subject GVB to concentrations of credit risk consist principally of cash demand deposits and accounts receivable.

At September 30, 2015 and 2014, GVB has cash deposits in bank accounts that exceed federal depository insurance limits. GVB has not experienced any losses as a result of this practice.

Substantially all of GVB's accounts receivable are due from companies and government agencies based in Guam. GVB establishes an allowance for doubtful accounts based on management's evaluation of potential uncollectibility.

Risk Management

GVB is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from such matters. No losses as a result of this practice have occurred during the past three years.

Basis of Accounting

GVB utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GVB's revenues are derived primarily from in-kind contributions and memberships and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues/expenses. Revenue is recognized on the accrual basis. All expenses related to operating GVB are reported as operating expenses.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

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

Net Position

Net position represents the residual interest in GVB's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of the following three sections:

- Net investment in capital assets:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that require GVB to maintain them permanently.

Expendable – Net position whose use by GVB is subject to externally imposed stipulations that can be fulfilled by actions of GVB pursuant to those stipulations or that expire with the passage of time.

- Unrestricted:

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

Fund Balance

Governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and do not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

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

02/12 Memorial Fund

In fiscal year 2013, GVB created the GVB 02/12 Memorial Fund. This fund consists of contributions/donations from the community to assist families of victims, who were affected by the catastrophic incident in Tumon. Total collections as of September 30, 2013 were \$127,255. No additional collections occurred during fiscal years 2014 and 2015. Total related expenses as of September 30, 2014 was \$126,574. As of September 30, 2015, the remaining \$681 was transferred to the Rainy Day Fund.

New Accounting Standards

During fiscal year 2015, GVB implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did have a material effect on the accompanying financial statements resulting in the restatement of GVB's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. The implementation of GASB Statement No. 68 results in GVB reporting deferred inflows of resources of \$356,516 and a net pension liability of \$4,122,286 as of October 1, 2013. GVB's net position as of October 1, 2013 and GVB's statement of revenues, expenses and changes in net position for the year ended September 30, 2014 have been restated to reflect the required adjustments as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2013:			
Net position	\$ <u>17,564,478</u>	\$ <u>(3,765,770)</u>	\$ <u>13,798,708</u>
For the year ended September 30:			
Personnel expense	\$ <u>2,352,392</u>	\$ <u>(171,957)</u>	\$ <u>2,180,435</u>
Change in net position	\$ <u>(735,448)</u>	\$ <u>171,957</u>	\$ <u>(563,491)</u>
As of September 30:			
Deferred outflows of from pension	\$ <u>-</u>	\$ <u>415,911</u>	\$ <u>415,911</u>
Net pension liability	\$ <u>-</u>	\$ <u>(3,783,577)</u>	\$ <u>(3,783,577)</u>
Deferred inflows of from pension	\$ <u>-</u>	\$ <u>(226,147)</u>	\$ <u>(226,147)</u>
Net position	\$ <u>16,829,030</u>	\$ <u>(3,593,813)</u>	\$ <u>13,235,217</u>

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

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

New Accounting Standards, Continued

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of GVB.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 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 provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements of GVB.

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

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 has not evaluated the impact that the implementation of this statement will have on the financial statements of GVB.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2015 and 2014

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GVB.

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

(2) Cash

Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GVB's deposits may not be returned to it. 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. GVB does not have a deposit policy for custodial credit risk.

As of September 30, 2015 and 2014, the carrying amount of GVB's total cash was \$14,348,174 and \$11,359,068, respectively, and \$1,908,644 and \$1,562,981, respectively, for the Special Tourist Attraction Fund projects. The corresponding bank balances were \$16,273,716 and \$13,023,789, respectively. Of the bank balances, \$16,273,716 and \$12,876,671, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and deposits in the amount of \$335,855 and \$315,002, respectively, were FDIC insured. GVB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

(2) Cash, Continued

Deposits, Continued

Cash and cash equivalents balances are classified as restricted due to the specific nature and purpose of their existence. As of September 30, 2015 and 2014, cash held by GVB in the Special Tourist Attraction Funds Project is \$1,908,644 and \$1,562,981, respectively. These funds are for landscaping and beautification of Tumon Bay and other Tourist Attraction Projects.

As of September 30, 2015 and 2014, cash held by GVB in the Rainy Day Fund is \$2,095,490 and \$1,872,412, respectively. These funds are used to support identified activities to meet unforeseen or unanticipated challenges resulting from a natural or man-made disaster that has occurred on Guam or from external economic conditions that severely affect tourism.

As of September 30, 2015 and 2014, cash held by GVB in the FESTPAC & Folklife Festival Trust Account is \$2,739,636 and \$1,546,798, respectively. These funds are to be used for FESTPAC 2016.

(3) Short-term Investments

Short-term investments at September 30, 2015 and 2014, include time certificates of deposit in the amount of \$2,403,886 and \$980,516, respectively, which are fully FDIC insured, and money market funds in the amount of \$112,837 and \$1,531,277, respectively, which are subject to Securities Investor Protection Corporation insurance.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GVB will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2015 and 2014, GVB's short-term investments are held and administered by investment managers in the name of GVB in accordance with GVB's investment policy.

(4) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: GVB 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 GVB, 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.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2014, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,226
Terminated employees entitled to benefits but not yet receiving them	4,941
Current members	<u>2,692</u>
	<u>14,859</u>

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

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

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

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

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

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2015 and 2014

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2013 actuarial valuation was used for determining the year ended September 30, 2015 statutory contributions. Member contributions are required at 9.5% of base pay.

As a result of actuarial valuations performed as of September 30, 2013, 2012, and 2011, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2015, 2014 and 2013, respectively, have been determined as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Normal costs (% of DB Plan payroll)	15.92%	16.61%	17.52%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.37%</u>	<u>7.11%</u>	<u>8.02%</u>
Employer portion of normal costs (% of total payroll)	2.05%	2.39%	3.00%
Unfunded liability cost (% of total payroll)	<u>24.09%</u>	<u>24.01%</u>	<u>24.33%</u>
Government contribution as a % of total payroll	<u>26.14%</u>	<u>26.40%</u>	<u>27.33%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>29.85%</u>	<u>30.03%</u>	<u>30.09%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GVB's contributions to the DB Plan for the years ending September 30, 2015, 2014 and 2013 were \$119,343, \$98,134 and \$97,753, respectively, which were equal to the required contributions for the respective years then 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, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	16.58 years

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2015 and 2014

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2014 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>4,904,178</u>	\$ <u>3,826,415</u>	\$ <u>3,012,562</u>

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Pension Liability: At September 30, 2015 and 2014, GVB reported a liability of \$3,826,415 and \$3,783,577, respectively, for its proportionate share of the net pension liability. GVB's proportion of the net pension liability was based on projection of GVB'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, 2015 and 2014, GVB's proportion was .31% and .29%, respectively.

Pension Expense: For the years ended September 30, 2015 and 2014, GVB recognized pension expense of \$405,641 and \$241,440, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2015 and 2014, GVB reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2015</u>		<u>2014</u>	
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
Difference between expected and actual experience	\$ 28,388	\$ -	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	-	291,234	-	226,147
Contributions subsequent to the measurement date	448,171	-	415,911	-
Changes in proportion and difference between GVB contributions and proportionate share of contributions	<u>72,611</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 549,170</u>	<u>\$ 291,234</u>	<u>\$ 415,911</u>	<u>\$ 226,147</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

Year Ended <u>September 30</u>	
2016	\$ (28,189)
2017	\$ 72,808
2018	\$ 72,808
2019	\$ 72,808

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2015 and 2014

(4) Employees' Retirement Plan, Continued

Defined Contribution Plan

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

Statutory employer contributions into the DCRS for the years ended September 30, 2015 and 2014 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GVB's contributions to the DCRS plan for the years ended September 30, 2015, 2014 and 2013 were \$394,947, \$381,293 and \$310,264, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts \$328,828, \$317,777 and \$258,763 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2015, 2014 and 2013, 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. GVB has accrued an estimated liability of \$155,338 and \$149,927 at September 30, 2015 and 2014, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated. During the years ended September 30, 2015, 2014 and 2013, actual contributions paid were \$47,426, \$35,578 and \$21,103, respectively.

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2015 and 2014

(5) Property and Equipment

Public Law 20-221, passed in December of 1990, authorized the Governor to transfer all title, right and interest in Lot No. 5174-C-3, containing an area of 3757+ square meters, to GVB. The Governor transferred the property in April of 1991 through a Grant Deed filed with the Department of Land Management. The value of the land is based on estimated fair value at the date of transfer. Public Law 20-221 states that should GVB be dissolved or no longer need the property, then the property, inclusive of any and all improvements, shall revert back to GovGuam.

A summary of building, improvements and equipment at September 30, 2015 and 2014 is as follows:

	Beginning Balance <u>October 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>September 30, 2015</u>
Depreciable:				
Building	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	83,023	-	-	83,023
Equipment	<u>148,775</u>	<u>-</u>	<u>-</u>	<u>148,775</u>
	2,872,644	-	-	2,872,644
Less accumulated depreciation	<u>(2,040,605)</u>	<u>(87,531)</u>	<u>-</u>	<u>(2,128,136)</u>
	832,039	(87,531)	-	744,508
Non-depreciable:				
Land	<u>5,992,415</u>	<u>-</u>	<u>-</u>	<u>5,992,415</u>
	<u>\$ 6,824,454</u>	<u>\$ (87,531)</u>	<u>\$ -</u>	<u>\$ 6,736,923</u>

	Beginning Balance <u>October 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>September 30, 2014</u>
Depreciable:				
Building	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	83,023	-	-	83,023
Equipment	<u>136,181</u>	<u>12,594</u>	<u>-</u>	<u>148,775</u>
	2,860,050	12,594	-	2,872,644
Less accumulated depreciation	<u>(1,957,272)</u>	<u>(83,333)</u>	<u>-</u>	<u>(2,040,605)</u>
	902,778	(70,739)	-	832,039
Non-depreciable:				
Land	<u>5,992,415</u>	<u>-</u>	<u>-</u>	<u>5,992,415</u>
	<u>\$ 6,895,193</u>	<u>\$ (70,739)</u>	<u>\$ -</u>	<u>\$ 6,824,454</u>

(6) Commitments

GVB leases commercial space for its Japan office with an annual rental commitment through September 30, 2016 of \$128,495.

The Japan office leases require a refundable security deposit. As of September 30, 2015 and 2014, security deposits were \$118,202 and \$118,202, respectively.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2015 and 2014

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2015 and 2014 follows:

	Outstanding October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September 30, <u>2015</u>
Accrued sick leave	\$ 149,927	\$ 48,671	\$ (43,260)	\$ 155,338
Net pension liability	<u>3,783,577</u>	<u>260,418</u>	<u>(217,580)</u>	<u>3,826,415</u>
	<u>\$ 3,933,504</u>	<u>\$ 309,089</u>	<u>\$ (260,840)</u>	<u>\$ 3,981,753</u>
	Outstanding October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September 30, <u>2014</u>
Accrued sick leave	\$ 148,448	\$ 37,346	\$ (35,867)	\$ 149,927
Net pension liability	<u>4,122,286</u>	<u>241,440</u>	<u>(580,149)</u>	<u>3,783,577</u>
	<u>\$ 4,270,734</u>	<u>\$ 278,786</u>	<u>\$ (616,016)</u>	<u>\$ 3,933,504</u>

(8) Contingencies

GVB is exposed to various litigation inherent to its operations. However, there are no known cases pending in which GVB is exposed to liability.

(9) Appropriations from the Government of Guam

The Tourist Attraction Fund is a governmental fund of GovGuam that was established to fund various recreational projects and visitor industry activities. During the years ended September 30, 2015 and 2014, total appropriations received and receivable by GVB from GovGuam are as follows:

	<u>2015</u>	<u>2014</u>
Tourist Attraction Fund:		
Operations	\$ 19,380,088	\$ 14,900,904
Restricted	<u>1,580,000</u>	<u>620,000</u>
Total	20,960,088	15,520,904
Special projects	2,370,666	2,132,378
Pass-through to non-profit organizations	<u>942,000</u>	<u>436,550</u>
	<u>\$ 24,272,754</u>	<u>\$ 18,089,832</u>

Total appropriations uncollected for the operations, restricted funds, special projects and pass-through to non-profit organizations are \$1,708,625, \$2,260,000, \$177,030 and \$48,000 respectively. These amounts will be recorded as revenue upon collection and have not been recorded in the financial statements as of and the year ended September 30, 2015.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2015 and 2014

(10) Restricted Net Position

As of September 30, 2015 and 2014, restricted net position is for The Rainy Day Fund per Public Law 30-116, FESTPAC & Folklife Festival Trust Account per Public Law 31-77, Chapter 10, Section 10, Public Law 31-233, Chapter 10, Section 13 and Cultural and Sports Ambassadors Fund per Public Law 33-10.

	<u>2015</u>	<u>2014</u>
Rainy Day Fund	\$ 2,095,310	\$ 1,872,412
FESTPAC & Folklife Festival Trust Account	2,735,800	1,542,962
Cultural and Sports Ambassadors Fund	<u>170,000</u>	<u>-</u>
Total restricted	<u>\$ 5,001,110</u>	<u>\$ 3,415,374</u>

The changes in the restricted net position for the Rainy Day Fund, FESTPAC Folklife & Festival Trust Account and Cultural and Sports Ambassadors Fund are as follows:

	<u>2015</u>	<u>2014</u>
Rainy Day Fund:		
Beginning of year	\$ 1,872,412	\$ 1,660,291
Appropriations	220,000	210,000
Disbursements	(180)	-
Transfer from unrestricted	681	-
Interest	<u>2,397</u>	<u>2,121</u>
End of year	<u>\$ 2,095,310</u>	<u>\$ 1,872,412</u>
FESTPAC Folklife & Festival Trust Account:		
Beginning of year	\$ 1,542,962	\$ 1,045,714
Appropriations	1,190,000	410,000
Other income	-	84,184
Interest	<u>2,838</u>	<u>3,064</u>
End of year	<u>\$ 2,735,800</u>	<u>\$ 1,542,962</u>
Cultural and Sports Ambassadors Fund:		
Beginning of year	\$ -	\$ -
Appropriations	<u>170,000</u>	<u>-</u>
End of year	<u>\$ 170,000</u>	<u>\$ -</u>

GUAM VISITORS BUREAU
(A Component Unit of the Government of Guam)

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, 2011, 2009, and 2007 for the Guam Visitors Bureau'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	\$ -	\$ 2,145,000	\$ 2,145,000	0.0%	\$ 1,118,000	192%
October 1, 2009	\$ -	\$ 3,878,000 *	\$ 3,878,000 *	0.0%	\$ 1,134,000	342%
October 1, 2011	\$ -	\$ 4,371,000	\$ 4,371,000	0.0%	\$ 1,335,000	327%

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

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

See Accompanying Independent Auditors' Report.

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

	2015	2014
Total net pension liability	\$ 1,246,306,754	\$ 1,303,304,636
GVB's proportionate share of the net pension liability	\$ 3,826,415	\$ 3,783,577
GVB's proportion of the net pension liability	0.31%	0.29%
GVB's covered-employee payroll**	\$ 399,808	\$ 324,561
GVB's proportionate share of the net pension liability as percentage of its covered employee payroll	957.06%	1165.75%
Plan fiduciary net position as a percentage of the total pension liability	56.60%	53.45%

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

	2015	2014
Actuarially determined contribution	\$ 414,109	\$ 359,157
Contribution in relation to the actuarially determined contribution	415,911	356,516
Contribution deficiency (excess)	\$ (1,802)	\$ 2,641
GVB's covered-employee payroll **	\$ 399,808	\$ 324,561
Contribution as a percentage of covered-employee payroll	104.03%	109.85%

* 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 VISITORS BUREAU
(A Component Unit of the Government of Guam)

Special Tourist Attraction Fund Projects
Supplementary Schedule of the Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from other sources	\$ 2,608	\$ 266,367
Cash paid to suppliers	<u>(2,027,611)</u>	<u>(1,434,390)</u>
Net cash used for operating activities	<u>(2,025,003)</u>	<u>(1,168,023)</u>
Cash flows from noncapital financing activities:		
Government of Guam contributions	<u>2,370,666</u>	<u>2,132,378</u>
Net change in cash	345,663	964,355
Cash at beginning of year	<u>1,562,981</u>	<u>598,626</u>
Cash at end of year	<u>\$ 1,908,644</u>	<u>\$ 1,562,981</u>
Reconciliation of deficiency from operations to net cash used for operating activities:		
Deficiency from operations	\$ (2,157,122)	\$ (1,161,793)
(Decrease) increase in liabilities:		
Accounts payable	<u>132,119</u>	<u>(6,230)</u>
Net cash used for operating activities	<u>\$ (2,025,003)</u>	<u>\$ (1,168,023)</u>

See Accompanying Independent Auditors' Report.

GUAM VISITORS BUREAU

(A Component Unit of the Government of Guam)

Supplementary Schedule of Professional and Advertising Expenses
Years Ended September 30, 2015 and 2014

<u>Professional Services</u>	<u>2015</u>	<u>2014</u>
Japan	\$ 5,782,019	\$ 5,212,273
Hong Kong/China	1,794,419	1,651,366
Korea	1,780,838	1,253,650
All Markets (Branding)	661,837	1,033,946
Destination Management and Improvement	1,512,256	980,384
Admin., Research, and Printing	701,954	579,110
Russia	419,848	469,255
Taiwan	385,658	348,354
Website	300,500	300,000
Australia, Philippines, and Pacific	191,979	118,326
United States	115,949	48,640
Total Professional Services	<u>\$ 13,647,257</u>	<u>\$ 11,995,304</u>
<u>Advertising Expenses</u>		
All others	\$ 30,676	\$ 2,876
Australia, Philippines, and Pacific	19,250	-
United States	3,750	-
Japan	2,933	3,982
Destination Management and Improvement	908	5,293
Total Advertising Expenses	<u>\$ 57,517</u>	<u>\$ 12,151</u>

See Accompanying Independent Auditors' Report.

GUAM VISITORS BUREAU

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Supplementary Schedule of Miscellaneous Expenses
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Sponsorship	\$ 1,119,823	\$ 337,270
Other	164,203	143,868
Food and beverage	110,682	115,878
Printing	90,963	114,781
Dues and membership	33,494	39,651
Consumption tax	25,871	19,930
Postal and courier	24,751	39,243
Fees	23,031	48,486
Bank charges	5,837	2,605
Gifts and prizes	3,068	2,343
	<u>\$ 1,601,723</u>	<u>\$ 864,055</u>

Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Guam office:		
Annual payroll	<u>\$ 1,758,383</u>	<u>\$ 1,621,414</u>
Number of employees	<u>36</u>	<u>34</u>
Japan office:		
Annual payroll	<u>\$ 373,134</u>	<u>\$ 396,182</u>
Number of employees	<u>9</u>	<u>8</u>

See Accompanying Independent Auditors' Report.



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**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 Visitors Bureau:

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 Visitors Bureau (GVB) and its Special Tourist Attraction Fund Projects, which comprise the statement of net position/balance sheet as of September 30, 2015, and the related statements of revenues, expenses and changes in net position, of operations and changes in fund balance and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered GVB'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 GVB's internal control. Accordingly, we do not express an opinion on the effectiveness of GVB'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.

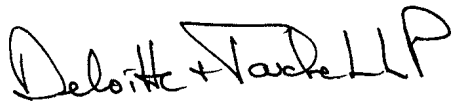
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 GVB's financial statements are free of 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.

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

February 22, 2016