

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

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULES AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2007 AND 2006**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Guam Visitors Bureau:

We have audited the accompanying statements of net assets and balance sheets of Guam Visitors Bureau (GVB) (a component of the Government of Guam) and its Special Tourist Attraction Fund Projects as of September 30, 2007 and 2006, and the related statements of revenue, expenses, and changes in net assets, operations and fund balance, and cash flows for the years then ended. These financial statements are the responsibility of GVB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

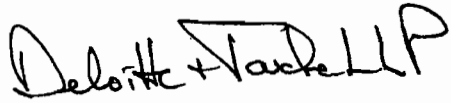
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, such financial statements present fairly, in all material respects, the financial position of GVB and its Special Tourist Attraction Fund Projects as of September 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of the management of GVB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 21 and 22 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of GVB's management. Such information has been subjected to the tests and other auditing procedures applied in our audit of the basic financial statements of GVB for the year ended September 30, 2007, and in our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2008, on our consideration of the GVB's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

May 14, 2008

**GUAM VISITORS BUREAU**  
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Management's Discussion and Analysis  
Year Ended September 30, 2007

The Guam Visitors Bureau is a public, non-stock and non-profit corporation. The Bureau is a unique organization where its members and the people of Guam share an interest in the island's tourist industry. We will overview our financial statements for the fiscal year ending September 30, 2007 in the following discussion.

The following table summarizes the financial condition and operations of the Bureau for the fiscal years ended 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>			
Current assets	\$ 5,711,335	\$ 4,496,620	\$ 3,460,382
Other assets	133,125	133,125	133,125
Property and equipment, at cost, net	<u>7,415,384</u>	<u>7,509,503</u>	<u>7,713,266</u>
Total assets	<u>\$ 13,259,844</u>	<u>\$ 12,139,248</u>	<u>\$ 11,306,773</u>
<b>Liabilities:</b>			
Current liabilities	\$ 2,718,233	\$ 2,541,737	\$ 1,797,194
Unfunded pension cost	348,032	301,827	204,822
Accrued annual and sick leave	<u>176,119</u>	<u>157,364</u>	<u>165,021</u>
Total liabilities	<u>3,242,384</u>	<u>3,000,928</u>	<u>2,167,037</u>
<b>Net assets:</b>			
Invested in capital assets	7,415,384	7,509,503	7,713,266
Unrestricted	<u>2,602,076</u>	<u>1,628,817</u>	<u>1,426,470</u>
Total net assets	<u>10,017,460</u>	<u>9,138,320</u>	<u>9,139,736</u>
	<u>\$ 13,259,844</u>	<u>\$ 12,139,248</u>	<u>\$ 11,306,773</u>
<b>Other revenues:</b>			
In-kind contributions from members and others	\$ 336,566	\$ 291,928	\$ 112,128
Consumption tax refund	229,941	232,823	310,354
Memberships	<u>69,756</u>	<u>53,025</u>	<u>71,850</u>
Total revenues	<u>636,263</u>	<u>577,776</u>	<u>494,332</u>
Operating expenses	<u>11,868,414</u>	<u>11,610,666</u>	<u>10,627,738</u>
Operating revenues net of operating expenses	(11,232,151)	(11,032,890)	(10,133,406)
Nonoperating revenues, net	<u>12,111,291</u>	<u>11,031,474</u>	<u>7,916,589</u>
Change in net assets	<u>\$ 879,140</u>	<u>\$ (1,416)</u>	<u>\$ (2,216,817)</u>

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**FINANCIAL HIGHLIGHTS**

Guam's 11% hotel occupancy tax funds the Bureau's operations as authorized through the Legislature's annual budget appropriations. In fiscal year 2007, Public Law 28-150 appropriated \$13.6 million for GVB operations and \$1.4 million for special projects. However, the Bureau received a total allotment of \$11.9 million for operations and \$1.3 million for special projects. These receipts were short of the authorized levels (PL 28-150) for operations and special projects by 12.5% and 7.1%, respectively. Membership dues, in-kind contributions and foreign exchange transactions represent other sources of revenue; their combined total accounting for 5% or \$636,263 of total income.

The overall increase in expenditures of 2% is attributed to an increase in contractual marketing expenses. Although there was an increase in expenditures, the result of operation was a positive change in net assets of \$879,140 for fiscal year 2007.

The increase in current assets of 27% is due primarily to the timing and subsequent payment of liabilities, receipt of consumption tax rebated by the government of Japan, and an increase in allotments from the Government of Guam. The increase in liabilities of 8% is attributed to the timing of subsequent vendor payments as well as required accruals for payroll, unfunded pension liabilities, and annual and sick leave.

The Bureau is not capital intensive and therefore, significant capital asset activity did not occur in 2007, 2006 and 2005. For additional information regarding capital assets, please refer to note 4 to the financial statements.

Additionally, the Bureau has no long-term borrowings. However, additional information concerning its pension and other long-term liabilities can be found in notes 3 and 7 to the financial statements.

**ANALYSIS**

The Bureau continues to live within its means, and has been financially responsible in managing its expenditures. In doing so, however, drastic measures had to be taken in 2007 to ensure budgetary compliance with cash allotments as required by law. And while cuts were made in all areas of operation, austerity measures affected our variable Japan and Korea budgets the most with a 20% pullback needed to stay within cash receipts. Significant reductions were made in community development (-87%), research (-11%) and cultural heritage (-19%) programs.

The Bureau's cash allotments in 2007 were 12.5% below the authorized budget and seriously hampered our overseas marketing and advertising initiatives. This necessitated an emphasis in P.R. activities to generate maximum free publicity and ad value exposure. In Japan alone, for instance, this effort was tripled and generated \$19,061,994 in advertising exposure value. In total, the Bureau averaged nearly \$6.5 million per month worth of free advertising exposure per \$150,000 in monthly expenditures for all markets, 60% of which was in Japan, 30% in Korea, and 10% in all other markets. For the year, the Bureau invested \$1.8 million in about 70 public relations events, which generated \$77.6 million in publicity coverage for the island, an amount more than the entire combined GVB budgets for the five year period 2003 to 2007.

The Bureau's Five Year Strategic Plan was developed during fiscal year 2007. It was shared with the island's political leadership, village mayors, GVB members, various civic and educational groups, and island media. The plan is a framework for acting on the strategic initiatives needed to sustain and grow Guam's \$1.3 billion tourism industry. Key elements of the plan focus on:

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- Increasing visitor arrivals and their spending;
- Creating a unique brand identity differentiating Guam from other destinations;
- Maximizing use of the island's tourism plant and infrastructure;
- Strengthening strategic alliances;
- Facilitating the development and/or restoration of Guam's cultural, historical natural and man-made attractions; and
- Making institutional and organizational changes to improve destination management and marketing effectiveness.

This past year was a difficult challenge in attracting our core customer base and focusing on destination improvement projects because of budgetary limitations. This impediment is recognized in the strategic plan and several initiatives will be pursued in 2008 to stimulate broad community support and ameliorate funding restrictions.

Additionally, the Chairman's Strategic Advisory Council was established in the second quarter of fiscal year 2008. The Council immediately focused on the following major initiatives which are currently in various stages of progress:

- Branding and Community support;
- Zoning legislation to mitigate or eliminate offensive adult entertainment;
- China market opportunity;
- Private funding support to augment GVB's limited budget for marketing and destination improvements; and
- Proposed tax surcharge to fund the restoration and development of our cultural, historical, and natural assets; and to fund a comprehensive signage program that identifies island villages, attractions and scenic routes as well as interpretive signs.

Funding will always be an issue fulfilling our mission. However, meeting the goals and objectives outlined in our five year strategic plan is our priority.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the Bureau's report on the audit of the financial statements, which is dated April 17, 2007, and that Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the Office of the Public Auditor's website at [www.guamopa.com](http://www.guamopa.com).

## **OUTLOOK**

Rising energy costs, the lingering credit crunch, and consumer driven restructuring of the travel industry infrastructure make it difficult for Guam to expect significant near term growth in arrivals. This situation is exacerbated by the anemic number of outbound Japanese travelers and the proliferation of competitive regional destinations such as Thailand, Bali, Malaysia, Vietnam, and the Philippines.

Longer term, however, we believe that the outlook for tourism is fundamentally optimistic. Recent developments in federal immigration, trade, and defense policies will enable Guam to tap into China and other new markets, enhance the growth of business travel, and generate more military related travelers.

Current efforts to define and strengthen the Guam brand should also diversify our customer base, improve visitor spending, and extend the duration of visits. Guam's proximity to the world's fastest growing regional economies is advantageous in attracting more and more Asian consumers who have improving disposable incomes for leisure travel.

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Finally, the rapid growth of low cost carriers will continue to impact regional air travel and expand or deepen the island's leisure and business travel. All of these factors also play into the underdeveloped cruise market opportunity that Guam has yet to develop.

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Statements of Net Assets  
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 3,769,310	\$ 3,143,891
Accounts receivable - Government of Guam	1,668,200	1,309,846
Accounts receivable - other	267,373	36,431
Prepaid expenses	6,452	6,452
Total current assets	<u>5,711,335</u>	<u>4,496,620</u>
Other assets	133,125	133,125
Property and equipment, at cost, net	<u>7,415,384</u>	<u>7,509,503</u>
	<u>\$ 13,259,844</u>	<u>\$ 12,139,248</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 2,693,233	\$ 2,516,737
Accounts payable - TAF special projects	25,000	25,000
Total current liabilities	<u>2,718,233</u>	<u>2,541,737</u>
Unfunded pension cost	348,032	301,827
Accrued annual leave	100,878	94,707
Accrued sick leave	75,241	62,657
Total liabilities	<u>3,242,384</u>	<u>3,000,928</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	7,415,384	7,509,503
Unrestricted	<u>2,602,076</u>	<u>1,628,817</u>
Total net assets	<u>10,017,460</u>	<u>9,138,320</u>
	<u>\$ 13,259,844</u>	<u>\$ 12,139,248</u>

See accompanying notes to financial statements.



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Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
In-kind contributions from members and others	\$ 336,566	\$ 291,928
Consumption tax refund	229,941	232,823
Memberships	69,756	53,025
Total revenues	<u>636,263</u>	<u>577,776</u>
Expenses: Guam operations		
Contractual, promotional	2,223,874	1,875,183
Personnel	1,133,394	1,103,530
Contractual, developmental	1,022,668	1,320,633
Contractual, administrative	773,896	644,570
Benefits	411,839	413,034
Travel	289,192	316,232
Promotional in-kind contributions	261,688	120,289
Depreciation	94,119	94,119
Miscellaneous	-	36,656
Total Guam operations	<u>6,210,670</u>	<u>5,924,246</u>
Expenses: Japan operations		
Contractual, promotional	4,343,495	4,585,511
Contractual, administrative	888,646	764,468
Travel	350,725	164,802
Promotional in-kind contributions	74,878	171,639
Total Japan operations	<u>5,657,744</u>	<u>5,686,420</u>
Total operating expenses	<u>11,868,414</u>	<u>11,610,666</u>
Operating revenues net of operating expenses	<u>(11,232,151)</u>	<u>(11,032,890)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations	11,956,367	10,786,245
Other nonoperating income (expense), net	127,578	125,793
Interest income	27,346	19,436
Collection of TAF special projects	-	100,000
Total nonoperating revenues, net	<u>12,111,291</u>	<u>11,031,474</u>
Change in net assets	879,140	(1,416)
Net assets at beginning of year	<u>9,138,320</u>	<u>9,139,736</u>
Net assets at end of year	<u>\$ 10,017,460</u>	<u>\$ 9,138,320</u>

See accompanying notes to financial statements.

**GUAM VISITORS BUREAU**  
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Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from members	\$ 69,756	\$ 53,025
Cash (paid) received from other sources	(1,001)	432,201
Cash paid to employees	(1,114,639)	(1,111,187)
Cash paid to suppliers	<u>(9,954,056)</u>	<u>(8,915,054)</u>
Net cash used for operating activities	<u>(10,999,940)</u>	<u>(9,541,015)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations	11,598,013	10,709,021
Repayments of notes payable	<u>-</u>	<u>(100,000)</u>
Net cash provided by noncapital financing activities	<u>11,598,013</u>	<u>10,609,021</u>
Cash flows from capital and related financing activities:		
Additions to property and equipment	<u>-</u>	<u>(9,502)</u>
Net cash used for capital and related financing activities	<u>-</u>	<u>(9,502)</u>
Cash flows from investing activities:		
Interest income	<u>27,346</u>	<u>19,436</u>
Net cash provided by investing activities	<u>27,346</u>	<u>19,436</u>
Net change in cash	625,419	1,077,940
Cash at beginning of year	<u>3,143,891</u>	<u>2,065,951</u>
Cash at end of year	<u>\$ 3,769,310</u>	<u>\$ 3,143,891</u>
Reconciliation of operating revenues net of operating expenses to net cash used for operating activities:		
Operating revenues net of operating expenses	\$ (11,232,151)	\$ (11,032,890)
Other nonoperating expense, net	127,578	125,793
Collection of TAF special projects	-	100,000
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
In-kind contribution from members and others	(336,566)	(291,928)
Promotional in-kind contributions	336,566	291,928
Fixed asset capitalization expense	-	119,146
Depreciation	94,119	94,119
Decrease (increase) in assets:		
Accounts receivable	(230,942)	74,378
Prepaid expenses	-	44,548
Increase (decrease) in liabilities:		
Accounts payable	176,496	844,543
Accrued annual and sick leave	18,755	(7,657)
Unfunded pension cost	<u>46,205</u>	<u>97,005</u>
Net cash used for operating activities	<u>\$ (10,999,940)</u>	<u>\$ (9,541,015)</u>

See accompanying notes to financial statements.

## SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets  
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Restricted cash	\$ 224,712	\$ 254,559
Interfund receivable - GVB operations	25,000	25,000
Accounts receivable - Government of Guam	<u>314,340</u>	<u>125,000</u>
	<u>\$ 564,052</u>	<u>\$ 404,559</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Current liabilities:		
Accounts payable	\$ 195,611	\$ 106,823
Fund balance:		
Appropriated retained earnings	<u>368,441</u>	<u>297,736</u>
	<u>\$ 564,052</u>	<u>\$ 404,559</u>

See accompanying notes to financial statements.

**SPECIAL TOURIST ATTRACTION FUND PROJECTS**

Statements of Operations and Fund Balance  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Interest	\$ 1,249	\$ 331
Others	<u>1,697</u>	<u>-</u>
Total revenues	<u>2,946</u>	<u>331</u>
Expenses:		
Tumon and Hagatna Beach Cleaning and Maintenance	262,140	202,119
Tumon Landscaping Maintenance	351,227	396,818
Islandwide Roadway and Beautification	297,724	301,330
Gef Pago	100,000	100,000
Pa'a Taotao Tano	100,000	100,000
Tumon Illumination	96,150	89,641
Guam Museum Design	41,000	14,200
Miscellaneous	<u>-</u>	<u>3,524</u>
Total expenses	<u>1,248,241</u>	<u>1,207,632</u>
Loss from operations	(1,245,295)	(1,207,301)
Government of Guam contribution	1,316,000	1,358,333
Payment of interfund balance	<u>-</u>	<u>(100,000)</u>
Change in fund balance	70,705	51,032
Fund balance at beginning of year	<u>297,736</u>	<u>246,704</u>
Fund balance at end of year	<u><u>\$ 368,441</u></u>	<u><u>\$ 297,736</u></u>

See accompanying notes to financial statements.

**SPECIAL TOURIST ATTRACTION FUND PROJECTS**

Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from interest	\$ 1,249	\$ 331
Cash received from other sources	1,697	-
Cash paid to suppliers	<u>(1,159,453)</u>	<u>(1,299,238)</u>
Net cash used for operating activities	<u>(1,156,507)</u>	<u>(1,298,907)</u>
Cash flows from noncapital financing activities:		
Government of Guam contribution	<u>1,126,660</u>	<u>1,533,333</u>
Net cash provided by noncapital financing activities	<u>1,126,660</u>	<u>1,533,333</u>
Net change in cash	(29,847)	234,426
Cash at beginning of year	<u>254,559</u>	<u>20,133</u>
Cash at end of year	<u>\$ 224,712</u>	<u>\$ 254,559</u> ✓
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (1,245,295)	\$ (1,207,301)
Payment of interfund	-	(100,000)
Increase in assets:		
Interfund receivable - GVB operations	-	(25,000)
Increase in liabilities:		
Accounts payable	<u>88,788</u>	<u>33,394</u>
Net cash used for operating activities	<u>\$ (1,156,507)</u>	<u>\$ (1,298,907)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements  
September 30, 2007 and 2006

(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 Government Accounting Standards Board Statement No. 14 (GASB), the GVB is a component unit of the Government of Guam. 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 Government 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, 2007 and 2006.

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 assets, 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.

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

The financial transactions of the Japan office are translated in accordance with Statement of Financial Accounting Standards No. 52 at the year end exchange rate for statement of net assets and balance sheet accounts, and at an average exchange rate for the year for statement of operations accounts.

Compensated Absences

Earned unpaid employee vacation leave is accrued at year end for financial statement purposes. Included in liabilities at September 30, 2007 and 2006 are amounts related to compensated absences earned but unused. The amounts are also included as a component of operating expense in the Statement of Revenues, Expenses and Changes in Net Assets.

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Notes to Financial Statements  
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(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 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.

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, 2007 and 2006, 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.

Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. GVB has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GVB has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement Nos. 37 and 38. GASB 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- Invested in capital assets, net of related debt:

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

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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Summary of Significant Accounting Policies, Continued

Accounting Standards, Continued

- Restricted:
  - Nonexpendable – Net assets subject to externally imposed stipulations that require GVB to maintain them permanently.
  - Expendable – Net assets 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 through the passage of time.
- Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

GVB has no nonexpendable restricted net assets at September 30, 2007 and 2006.

New Accounting Standards

During fiscal year 2007, GVB implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The implementation of this Statement did not have a material effect on the financial statements of GVB.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. The effect, if any, of the implementation of this Statement on the financial statements of GVB has not been determined.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GVB.



**GUAM VISITORS BUREAU**  
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Notes to Financial Statements  
September 30, 2007 and 2006

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

New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GVB.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GVB.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. 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. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by GVB or its agent in GVB's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in GVB's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in GVB's name and non-collateralized deposits.

**GUAM VISITORS BUREAU**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(2) Cash, Continued

Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those 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, 2007 and 2006, the carrying amount of GVB's total cash was \$3,769,310 and \$3,143,891, respectively, and \$224,712 and \$254,559, respectively, for the Special Tourist Attraction Fund projects. The corresponding bank balances were \$4,624,237 and \$3,537,044, respectively. Of the bank balances, \$4,228,691 and \$3,302,460, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$154,678 and \$160,888, 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.

(3) Employees' Retirement Plan

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

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

Defined Benefit Plan

As a result of an actuarial valuations performed as of September 30, 2005, 2004 and 2003, contribution rates required to fully fund the Retirement Fund liability as required by Guam law, for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

**GUAM VISITORS BUREAU**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Normal costs (% of DB Plan payroll)	18.21%	17.83%	18.30%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.71%</u>	<u>8.33%</u>	<u>8.80%</u>
Employer portion of normal costs (% of total payroll)	4.26%	4.64%	4.96%
Unfunded liability cost (% of total payroll)	<u>20.66%</u>	<u>21.36%</u>	<u>19.93%</u>
Government contribution as a % of total payroll	<u>24.92%</u>	<u>26.00%</u>	<u>24.89%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>22.94%</u>	<u>21.81%</u>	<u>20.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions for 2005, 2004 and 2003 actuarial valuations were:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuations performed as of September 30, 2005, 2004 and 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GVB as a separate sponsor, the accrued unfunded liability at September 30, 2007 and 2006 may be materially different than that recorded in the accompanying financial statements.

The actuarial valuations and contribution rates are based on estimates and assumptions. Changes in estimates and actuarial assumptions may result in revisions in actuarial valuations and contribution rates. The effects of such revisions are recognized in the period in which the revisions are determined.

Defined Contribution Plan

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.

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Notes to Financial Statements  
September 30, 2007 and 2006

(3) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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.

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 \$75,241 and \$62,657 at September 30, 2007 and 2006, 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.

Retirement Expenses

Retirement expense for the years ended September 30, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash contributions and accruals	\$ 365,634	\$ 239,754	\$ 223,019
Increase in accrued unfunded liability to the retirement fund	<u>46,205</u>	<u>97,005</u>	<u>132,046</u>
	\$ <u>411,839</u>	\$ <u>336,759</u>	\$ <u>355,065</u>

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

(4) 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 the Bureau. 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 the Bureau be dissolved or no longer need the property, then the property, inclusive of any and all improvements, shall revert to the Government of Guam.

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Notes to Financial Statements  
September 30, 2007 and 2006

(4) Property and Equipment, Continued

A summary of building, improvements and equipment at September 30, 2007 and 2006 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2007</u>
Building	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	83,023	-	-	83,023
Equipment	<u>53,181</u>	<u>-</u>	<u>-</u>	<u>53,181</u>
	2,777,050	-	-	2,777,050
Less accumulated depreciation	<u>(1,259,962)</u>	<u>(94,119)</u>	<u>-</u>	<u>(1,354,081)</u>
	1,517,088	(94,119)	-	1,422,969
Land	<u>5,992,415</u>	<u>-</u>	<u>-</u>	<u>5,992,415</u>
	\$ <u>7,509,503</u>	\$ <u>(94,119)</u>	\$ <u>-</u>	\$ <u>7,415,384</u>

	<u>Beginning Balance</u> <u>October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2006</u>
Building	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	99,333	-	(16,310)	83,023
Equipment	<u>171,674</u>	<u>9,502</u>	<u>(127,995)</u>	<u>53,181</u>
	2,911,853	9,502	(144,305)	2,777,050
Less accumulated depreciation	<u>(1,191,002)</u>	<u>(94,119)</u>	<u>25,159</u>	<u>(1,259,962)</u>
	1,720,851	(84,617)	(119,146)	1,517,088
Land	<u>5,992,415</u>	<u>-</u>	<u>-</u>	<u>5,992,415</u>
	\$ <u>7,713,266</u>	\$ <u>(84,617)</u>	\$ <u>(119,146)</u>	\$ <u>7,509,503</u>

(5) Commitments

GVB leases commercial space for its Japan office. A summary of minimum future rental commitments for the Japan office follows:

<u>Year ending September 30,</u>	<u>Total</u>
2008	\$ 123,140
2009	105,160
2010	<u>91,165</u>
	\$ <u>319,465</u>

The Japan lease requires a refundable security deposit in the amount of \$133,125, which is presented as other assets in the accompanying statements of net assets.

**GUAM VISITORS BUREAU**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(6) Notes Payable

Notes payable to a bank of \$100,000 at September 30, 2005 were collateralized by a time certificate of deposit and were payable in monthly installments of \$25,000 plus interest at 2% below the stated prime rate (4.75% at September 30, 2005). The notes matured in January 2006. The note was obtained to fund temporary cash flows needs.

A summary of changes in short-term notes payable during fiscal year 2006 follows:

<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
\$ 100,000	\$ -	\$ 100,000	\$ -

(7) Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2007 and 2006 follows:

	<u>Outstanding September 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2007</u>
Unfunded pension cost	\$ 301,827	\$ 46,205	\$ -	\$ 348,032
Accrued annual leave	94,707	78,582	72,411	100,878
Accrued sick leave	<u>62,657</u>	<u>46,767</u>	<u>34,183</u>	<u>75,241</u>
	<u>\$ 459,191</u>	<u>\$ 171,554</u>	<u>\$ 106,594</u>	<u>\$ 524,151</u>
	<u>Outstanding September 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2006</u>
Unfunded pension cost	\$ 204,822	\$ 97,005	\$ -	\$ 301,827
Accrued annual leave	105,803	80,025	91,121	94,707
Accrued sick leave	<u>59,218</u>	<u>52,066</u>	<u>48,627</u>	<u>62,657</u>
	<u>\$ 369,843</u>	<u>\$ 229,096</u>	<u>\$ 139,748</u>	<u>\$ 459,191</u>

(8) Reclassifications

Certain 2006 balances have been reclassified to conform to the 2007 financial statement presentation.

(9) Contingencies

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

**GUAM VISITORS BUREAU**  
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Supplementary Schedule of Operating Expenses  
Year Ended September 30, 2007

Advertising and public relations	\$ 7,283,973
Personnel and benefits	1,545,233
Contractual	744,730
Travel	639,917
Grants	470,645
In-Kind	336,566
Supplies	149,607
Utilities	120,668
Depreciation	94,119
Repairs and maintenance	70,467
Equipment	27,708
Consumption tax	27,171
Miscellaneous	<u>357,610</u>
	<u>\$ 11,868,414</u>

See accompanying independent auditors' report.

**GUAM VISITORS BUREAU**  
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Supplementary Schedule of Contractual Promotions and Development  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Korea Promotions	\$ 1,071,134	\$ 885,838
Taiwan Promotions	358,824	197,711
North America	204,388	177,526
Hong Kong Promotions	199,361	151,278
China	99,487	-
Philippines Promotion	89,795	77,644
Pacific/Australia	30,342	90,932
Other	<u>170,543</u>	<u>294,254</u>
Total Guam contractual promotions	<u>\$ 2,223,874</u>	<u>\$ 1,875,183</u>
Grants in aid and others	\$ 464,069	\$ 372,760
Tourist Industry Relations	203,939	356,355
Research and Evaluation	219,260	275,975
Cultural and Heritage	76,910	180,964
Community Development	<u>58,490</u>	<u>134,579</u>
Total Guam contractual development	<u>\$ 1,022,668</u>	<u>\$ 1,320,633</u>

Supplementary Schedule of Employees and Salaries  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Guam office:		
Number of employees	<u>29</u>	<u>29</u>
Annual payroll	<u>\$ 1,133,394</u>	<u>\$ 1,103,530</u>

See accompanying independent auditors' report.



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

The Board of Directors  
Guam Visitors Bureau:

We have audited the financial statements of the Guam Visitors Bureau (GVB), as of and for the year ended September 30, 2007, and have issued our report thereon dated May 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered GVB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GVB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GVB's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GVB's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of GVB's financial statements that is more than inconsequential will not be prevented or detected by GVB's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by GVB's internal control.

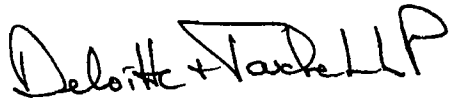
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### 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 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*.

We noted other matters involving the internal control over financial reporting that we have reported to management of GVB in a separate letter dated May 14, 2008.

This report is intended solely for the information and use of the Board of Directors and management of GVB, the Office of the Public Auditor of Guam, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

May 14, 2008