

**GUAM VISITORS BUREAU  
(A PUBLIC CORPORATION)**

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

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**SEPTEMBER 30, 2006 AND 2005**

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Table of Contents  
Years Ended September 30, 2006 and 2005

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management Discussion and Analysis	3
III. Financial Statements and Additional Information:	
Statement of Net Assets	7
Statements of Revenue, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
Special Tourist Attraction Fund Projects Balance Sheets	10
Special Tourist Attraction Fund Projects Statements of Operations and Fund Balance	11
Special Tourist Attraction Fund Projects Statements of Cash Flows	12
Notes to Financial Statements	13
Schedule of Supplementary Schedules	21
IV. Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with <i>Government Auditing Standards</i>	23

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Guam Visitors Bureau:

We have audited the accompanying statement of net assets and balance sheets of Guam Visitors Bureau (GVB) and its Special Tourist Attraction Fund Projects as of September 30, 2006 and 2005, 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.

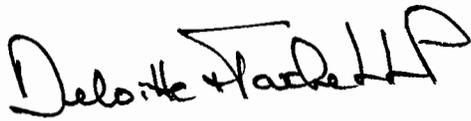
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2006 and 2005, 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 6 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. 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, 2006, 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 April 17, 2007, 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, appearing to read "Deloitte + Touche LLP", with a stylized flourish at the end.

April 17, 2007

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Management's Discussion and Analysis  
Year Ended September 30, 2006

The purpose of this section is to present a narrative overview and analysis of the Guam Visitors Bureau for the fiscal year ended September 30, 2006. This information is presented in conjunction with the Bureau's financial statements which follow.

The following table summarizes the financial condition and operations of the Bureau for fiscal year 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$ 4,496,620	\$ 3,460,382	\$ 5,846,714
Other assets	133,125	133,125	100,543
Property and equipment, at cost, net	<u>7,509,503</u>	<u>7,713,266</u>	<u>7,671,511</u>
	<u>\$ 12,139,248</u>	<u>\$ 11,306,773</u>	<u>\$ 13,618,768</u>
<b>Liabilities:</b>			
Current liabilities	\$ 2,541,737	\$ 1,797,194	\$ 2,082,870
Unfunded pension cost	301,827	204,822	72,776
Accrued annual and sick leave	<u>157,364</u>	<u>165,021</u>	<u>106,569</u>
Total liabilities	<u>3,000,928</u>	<u>2,167,037</u>	<u>2,262,215</u>
<b>Net assets:</b>			
Invested in capital assets	7,509,503	7,713,266	7,671,511
Unrestricted	<u>1,628,817</u>	<u>1,426,470</u>	<u>3,685,042</u>
Total net assets	<u>9,138,320</u>	<u>9,139,736</u>	<u>11,356,553</u>
	<u>\$ 12,139,248</u>	<u>\$ 11,306,773</u>	<u>\$ 13,618,768</u>
Operating revenue	\$ 577,776	\$ 494,332	\$ 378,933
Operating expense	<u>11,610,666</u>	<u>10,627,738</u>	<u>11,007,265</u>
Operating revenues net of operating expenses	(11,032,890)	(10,133,406)	(10,628,332)
Nonoperating revenues, net	<u>11,031,474</u>	<u>7,916,589</u>	<u>9,864,415</u>
Change in net assets	<u>\$ (1,416)</u>	<u>\$ (2,216,817)</u>	<u>\$ (763,917)</u>

**Financial Highlights**

- Total assets exceeded liabilities at the close of the fiscal year by approximately \$9.1 million (Net Assets), a decrease of \$1,416 from the \$9.1 million reported in Fiscal Year 2005. Voluntary austerity measures such as a 10% across the board spending cut and a realignment of marketing and destination initiatives allowed the Bureau to achieve the financial performance.
- Cash increased approximately \$1.1 million from the \$2.0 million reported in Fiscal Year 2005, due in part to the timing and subsequent payment of liabilities (\$844,000), collection on an account previously written off (\$100,000) and consumption tax rebated by the government of Japan (\$232,000).
- Accounts Receivable (Government of Guam), represents outstanding government appropriations. \$1.3 million is due as of the close of the year, a \$77,000 increase from the \$1.2 million reported in Fiscal Year 2005.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Management's Discussion and Analysis  
Year Ended September 30, 2006

- Accounts Receivable (Other) represents outstanding consumption tax receivables from the government of Japan at the close of the respective fiscal years. \$36,000 is due as of the close of the year, \$74,000 less than the \$110,000 reported in Fiscal Year 2005.
- Prepaid Expenses represent advances to the Bureau's Japan overseas office for normal operating expenses. The difference in the balances (approximately \$44,500) as of the close of the respective fiscal years is due primarily to the timing of expenses and other adjustments related to the account's reconciliation.
- Other assets represent security deposits on leased office space. The balance remained unchanged from the prior year.
- Property Plant & Equipment, at cost, net of accumulated depreciation, remained relatively unchanged after allowances for current year depreciation.
- Accounts Payable, as noted earlier, increased from \$1.6 million in Fiscal Year 2005 to \$2.5 million as of the close of the year due primarily to the timing of payments on outstanding obligations.
- Current portion of notes payable - A \$300,000 Term Loan was executed in Fiscal Year 2005 with Citibank, N.A. for the purpose of settling past outstanding debts of the Bureau. The final installment payment was made in Fiscal Year 2006 in the amount of \$100,000.
- FY2006 Revenues surpassed the \$8.4 million generated in Fiscal Year 2005 by approximately \$3.2 million. The Bureau's major source of income, Government appropriations, exceeded the \$9.4 million received in Fiscal Year 2005 by approximately \$1.4 million. The appropriation is derived from an 11% tax on hotel room occupancies, net of debt service payments, on a revenue bond obligation securitized by the tax.

Other sources of revenue to the Bureau comprise membership dues, in-kind contributions and consumption tax refunds, collectively accounting for 5% of annual revenues. A 17% increase from the prior year is due primarily to improved discipline in documenting membership contributions.

- Operating expenditures exceeded prior year's due primarily to increased overseas spending. Japan led all destinations followed by Korea, accounting for 49% and 21% respectively. Advertising, sales promotions and public relations continue to account for the lion's share of expenditures overseas, over 50%, while Guam based expenditures such as personnel and product development and improvement declined over the same period.

### **Overview of the Financial Statements**

This section is intended to serve as an introduction to the Bureau's financial statements which includes:

- 1) Statement of Net Assets which presents information on all of the Bureau's assets and liabilities, with the difference between the two reported as Net Assets.
- 2) Statement of Revenues, Expenses and Changes in Net Assets which presents information on how net assets changed during the year. It is intended to summarize and simplify the readers' analysis of revenues and expenses of the Bureau.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Management's Discussion and Analysis  
Year Ended September 30, 2006

**Analysis of Net Assets**

- As noted earlier, over time, net assets may serve as a useful indicator of the Bureau's financial position. As of Fiscal Year ending 2006, the Bureau's total assets exceed liabilities by \$9.1 million.
- The largest portion of the Bureau's net assets is reflected in investments in capital assets. This investment in capital assets includes land, building and equipment, less any related debt to acquire those assets that is still outstanding. The Bureau uses these capital assets to fulfill its mandate to market and promote Guam as a viable tourist destination.
- Investment in capital assets and unrestricted net assets remain relatively unchanged from the prior year.

**Capital Assets**

- The Bureau's capital assets consist of an office building and the land upon which it is situated. After normal depreciation, their respective carrying values of \$2.5 million and \$5.9 million remained relatively unchanged from the prior fiscal year.

**Debt**

- In January 2005, the Bureau obtained a \$300,000 short term loan for the sole purpose of satisfying certain unpaid contractual obligations. The terms of the loan included an interest rate of 3.25 %, fluctuating at all times 2% below the rate of interest announced publicly by Citibank, N.A. New York, twelve (12) equal monthly installments of \$25,000 and a maturity date of January 2006. The loan was secured by a \$471,226 time certificate of deposit and as of September 30, 2006, the outstanding and unpaid principal balance is \$0.

**Budgetary Highlights**

- Operating expenses (\$11.6 million) exceeded the \$10.6 million expended in Fiscal Year 2005 by approximately \$980,000. Topping the list, by source markets, was Japan at \$5.7 million, followed by Guam Administration at \$1.9 million and Korea at \$880,000. Categorically, advertising and public relations accounted for over 50% of the Bureau's marketing expenditures followed by personnel (15%) and contractual service (8%).
- FY2006 appropriations (\$12.8 million) trailed FY2005 (\$14.0 million) by approximately \$1.2 million. The Bureau received only \$10.8 million of the \$12.8 million but was still able to contain expenses below appropriated levels. Destination management initiatives i.e. Community Development, Sports Tourism, Visitor Relations and Satisfaction absorbed the brunt of the cutbacks in order to focus on marketing priority. Marketing initiatives, however, were not spared from the cutbacks as Hong Kong, Taiwan, Australia, Philippines and Pacific took a combined reduction in excess of 30% in order to minimize cost in our two largest markets by volume and yield. (Japan and Korea).

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Management's Discussion and Analysis  
Year Ended September 30, 2006

**Outlook**

Chronic under funding and uncertainty in incremental funding levels each year continue to plague the Bureau's ability to carry out its mandate. FY 2006 is a year that was about sustaining our market share in an increasingly difficult Japan overseas travel environment, continuing our recovery in Korea, and capitalizing on smaller but emerging opportunities in the region. The year was also about reshaping our destination brand image, to confront the new market realities impacting the demographic mix of our customers, and generating visitor yield improvements. The challenges gleaned to date have become the compelling force in initiating GVB's five-year strategic plan for tourism in Guam. For Guam to sustain the long-term viability of this important economic sector, a longer term strategic plan view must be embraced by the community at large. This long term view has in fact been captured in a GVB strategic plan covering the period FY2007 through FY2011. This next year will be a more difficult year to confront, as Asian destinations compete more aggressively and overseas travelers from Japan and Korea gravitate to less expensive destinations in Asia and the pull of longer haul destinations in Europe. Stimulating demand for the higher priced tour products means improving Guam's image and destination attractions, clearly a longer-term effort addressed in the strategic plan. All this we face in a no growth GVB budget scenario. And although more funding has been appropriated for 2007 than was received in 2006, it is unlikely that we will get more than the \$10.8 million this year. This next year will also focus on unifying our brand, stepping up our internet marketing capabilities, and intensifying destination improvement efforts to better showcase historical and cultural assets, as well as other attractions that give credibility to our marketing message.

Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in the Bureau's report on the audit of the financial statements, which is dated August 10, 2006, and that Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be viewed at the Office of the Public Auditor's website at [www.guamopa.com](http://www.guamopa.com).

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Statements of Net Assets  
September 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 3,143,891	\$ 2,065,951
Accounts receivable - Government of Guam	1,309,846	1,232,622
Accounts receivable - other	36,431	110,809
Prepaid expenses	6,452	51,000
Total current assets	4,496,620	3,460,382
Other assets	133,125	133,125
Property and equipment, at cost, net	7,509,503	7,713,266
	<b>\$ 12,139,248</b>	<b>\$ 11,306,773</b>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of notes payable	\$ -	\$ 100,000
Accounts payable	2,516,737	1,697,194
Accounts payable - TAF special projects	25,000	-
Total current liabilities	2,541,737	1,797,194
Unfunded pension cost	301,827	204,822
Accrued annual leave	94,707	105,803
Accrued sick leave	62,657	59,218
Total liabilities	3,000,928	2,167,037
Commitments and contingencies		
Net assets:		
Invested in capital assets	7,509,503	7,713,266
Unrestricted	1,628,817	1,426,470
Total net assets	9,138,320	9,139,736
	<b>\$ 12,139,248</b>	<b>\$ 11,306,773</b>

See accompanying notes to financial statements.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
In-kind contributions from members and others	\$ 291,928	\$ 112,128
Consumption tax refund	232,823	310,354
Memberships	<u>53,025</u>	<u>71,850</u>
Total revenues	<u>577,776</u>	<u>494,332</u>
Expenses: Guam operations		
Contractual, promotional	1,875,183	1,986,906
Contractual, developmental	1,320,633	1,343,686
Personnel	1,103,530	1,137,087
Contractual, administrative	644,570	740,849
Benefits	413,034	424,266
Travel	316,232	84,181
Promotional in-kind contributions	120,289	112,128
Depreciation	94,119	96,279
Miscellaneous	<u>36,656</u>	<u>10,588</u>
Total Guam operations	<u>5,924,246</u>	<u>5,935,970</u>
Expenses: Japan operations		
Contractual, promotional	4,585,511	3,983,644
Contractual, administrative	331,805	278,131
Personnel	319,763	314,169
Promotional in-kind contributions	171,639	-
Travel	164,802	42,291
Consumption tax expense	71,427	31,535
Benefits	<u>41,473</u>	<u>41,998</u>
Total Japan operations	<u>5,686,420</u>	<u>4,691,768</u>
Total operating expenses	<u>11,610,666</u>	<u>10,627,738</u>
Operating revenues net of operating expenses	<u>(11,032,890)</u>	<u>(10,133,406)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations	10,786,245	9,490,022
Other nonoperating income (expense), net	125,793	(399,544)
Interest income	19,436	10,582
Collection (write-off) of TAF special projects	<u>100,000</u>	<u>(1,184,471)</u>
Total nonoperating revenues, net	<u>11,031,474</u>	<u>7,916,589</u>
Change in net assets	(1,416)	(2,216,817)
Net assets at beginning of year	<u>9,139,736</u>	<u>11,356,553</u>
Net assets at end of year	<u>\$ 9,138,320</u>	<u>\$ 9,139,736</u>

See accompanying notes to financial statements.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Statements of Cash Flows  
Years Ended September 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from members	\$ 53,025	\$ 71,850
Cash received from other sources	432,201	110,883
Cash paid to employees	(1,430,950)	(1,392,804)
Cash paid to suppliers	(8,595,291)	(9,672,775)
Net cash used for operating activities	(9,541,015)	(10,882,846)
Cash flows from noncapital financing activities:		
Government of Guam appropriations	10,709,021	11,377,754
Proceeds from notes payable	-	300,000
Repayments of notes payable	(100,000)	(200,000)
Net cash provided by noncapital financing activities	10,609,021	11,477,754
Cash flows from capital and related financing activities:		
Additions to property and equipment	(9,502)	(138,034)
Net cash used for capital and related financing activities	(9,502)	(138,034)
Cash flows from investing activities:		
Interest income	19,436	10,582
Net cash provided by investing activities	19,436	10,582
Net change in cash and cash equivalents	1,077,940	467,456
Cash and cash equivalents at beginning of year	2,065,951	1,598,495
Cash and cash equivalents at end of year	\$ 3,143,891	\$ 2,065,951
Reconciliation of operating revenues net of operating expenses to net cash used for operating activities:		
Operating revenues net of operating expenses	\$ (11,032,890)	\$ (10,133,406)
Other nonoperating expense, net	125,793	(399,544)
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	(291,928)	(112,128)
Promotional in-kind contributions	291,928	112,128
Fixed asset capitalization expense	119,146	-
Depreciation	94,119	96,279
Decrease (increase) in assets:		
Accounts receivable	74,378	(199,471)
Prepaid expenses	44,548	(18,944)
Other assets	-	(32,582)
Increase (decrease) in liabilities:		
Accounts payable	844,543	(385,676)
Accrued annual and sick leave	(7,657)	58,452
Unfunded pension cost	97,005	132,046
Net cash used for operating activities	\$ (9,541,015)	\$ (10,882,846)

Non-cash transaction:

GVB wrote-off an accounts receivable from the TAF special projects fund of \$1,184,471 during the year ended September 30, 2005 and received \$100,000 of that sum in 2006.

See accompanying notes to financial statements.

## SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets  
September 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Restricted cash	\$ 254,559	\$ 20,133
Interfund receivable - GVB operations	25,000	-
Accounts receivable - Government of Guam	<u>125,000</u>	<u>300,000</u>
	<u>\$ 404,559</u>	<u>\$ 320,133</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 106,823	\$ 73,429
Fund balance:		
Appropriated retained earnings	<u>297,736</u>	<u>246,704</u>
	<u>\$ 404,559</u>	<u>\$ 320,133</u>

See accompanying notes to financial statements.

## SPECIAL TOURIST ATTRACTION FUND PROJECTS

### Statements of Operations and Fund Balance Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Interest	\$ 331	\$ 136
Expenses:		
Tumon and Hagatna Beach Cleaning and Maintenance	202,119	241,304
Tumon Landscaping Maintenance	396,818	224,382
Islandwide Roadway and Beautification	301,330	84,471
Gef Pago	100,000	-
Pa'a Taotao Tano	100,000	-
Tumon Illumination	89,641	-
Guam Museum Design	14,200	-
Tumon Bay Kiosks	-	79,859
Guam Micronesia Island Fair	-	50,603
Tumon Beach Beautification Phase Four	-	1,617
Miscellaneous	3,524	-
Total expenses	<u>1,207,632</u>	<u>682,236</u>
Loss from operations	(1,207,301)	(682,100)
Government of Guam contribution	1,358,333	776,859
(Payment) write-off of interfund balance	<u>(100,000)</u>	<u>1,184,471</u>
Change in fund balance	51,032	1,279,230
Fund balance (deficit) at beginning of year	<u>246,704</u>	<u>(1,032,526)</u>
Fund balance at end of year	<u>\$ 297,736</u>	<u>\$ 246,704</u>

See accompanying notes to financial statements.

## SPECIAL TOURIST ATTRACTION FUND PROJECTS

### Statements of Cash Flows Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from interest	\$ 331	\$ 136
Cash paid to suppliers	<u>(1,299,238)</u>	<u>(608,807)</u>
Net cash used for operating activities	<u>(1,298,907)</u>	<u>(608,671)</u>
Cash flows from noncapital financing activities:		
Government of Guam contribution	<u>1,533,333</u>	<u>576,859</u>
Net cash provided by noncapital financing activities	<u>1,533,333</u>	<u>576,859</u>
Net change in cash	234,426	(31,812)
Cash at beginning of year	<u>20,133</u>	<u>51,945</u>
Cash at end of year	<u>\$ 254,559</u>	<u>\$ 20,133</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (1,207,301)	\$ (682,100)
Payment of interfund	(100,000)	-
Increase in assets:		
Interfund receivable - GVB operations	(25,000)	-
Increase in liabilities:		
Accounts payable	<u>33,394</u>	<u>73,429</u>
Net cash used for operating activities	<u>\$ (1,298,907)</u>	<u>\$ (608,671)</u>

Non-cash transaction:

GVB wrote-off an interfund payable from the GVB operations fund of \$1,184,471 during the year ended September 30, 2005 and paid back \$100,000 of that amount in 2006.

See accompanying notes to financial statements.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

(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.

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, 2006 and 2005.

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

Property and Equipment

Property and equipment with a cost that equals or exceeds \$5,000 in 2006 and \$500 in 2005 were capitalized. Such assets are stated at cost. In 2006, GVB adopted the Government of Guam's capitalization threshold of \$5,000 and expensed any item below the threshold in its 2006 accounts. The adoption of this change resulted in a charge to operating equipment expense of \$116,771 in 2006.

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 asset and balance sheet accounts, and at an average exchange rate for the year for statement of operations accounts.

Cash and Cash Equivalents

For purposes of the statements of net assets, balance sheets and the statements of cash flows, cash is defined as cash and cash equivalents on hand, cash deposits in banks and time certificates of deposit with initial maturities of three months or less.

Compensated Absences

Earned employee vacation due is accrued at year end for financial statement purposes. Included in liabilities at September 30, 2006 and 2005 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.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

(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, 2006 and 2005, GVB has cash deposits in bank accounts that exceed federal depository insurance limits. GVB has not experienced any losses in such accounts.

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.

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.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

(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, 2006 and 2005.

New Accounting Standards

During fiscal year 2006, GVB implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment for capital assets when its service utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying financial statements.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In October 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement No. 48 establishes uniform financial reporting for these types of revenues. The provisions of this Statement are effective for periods beginning after December 15, 2006. In April 2004, GASB issued 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 provisions of this Statement are effective for periods beginning after December 15, 2007. Additionally, in June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of other postemployment benefit expenses and related liabilities, note disclosures, and, if applicable, required supplementary information in the reports of the state and local employers. The provisions of this Statement are effective for periods beginning after December 15, 2006.

Management does not believe that the implementation of these Statements will have a material effect on the financial statements of GVB.

(2) Cash and Cash Equivalents

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 the 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.

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.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

(2) Cash and Cash Equivalents, Continued

Deposits, Continued

As of September 30, 2006 and 2005, the carrying amount of GVB's total cash and cash equivalents was \$3,143,891 and \$2,065,951, respectively, and \$254,559 and \$20,133, respectively, for the Special Tourist Attraction Fund project. The corresponding bank balances were \$3,537,044 and \$2,362,167, respectively. Of the bank balance amounts, \$3,302,460 and \$2,072,870, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, bank deposits in the amount of \$160,888 and \$170,547, 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.

As a result of actuarial valuations performed as of September 30, 2004, 2003 and 2002, contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Normal costs (% of DB Plan payroll)	17.83%	18.30%	17.66%
Unfunded liability costs (% of total payroll)	<u>21.36%</u>	<u>19.93%</u>	<u>16.23%</u>
	39.19%	38.23%	33.89%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as a % of DB Plan payroll	<u>29.63%</u>	<u>28.73%</u>	<u>24.39%</u>
Government contribution as a % of total payroll	<u>26.00%</u>	<u>24.89%</u>	<u>20.81%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	21.81%	20.81%	20.81%
Employee	9.50%	9.50%	9.50%

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

**(3) Employees' Retirement Plan, Continued**

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	<u>2004 and 2003</u> <u>Actuarial Valuation</u>	<u>2002</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll increases	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuations performed as of September 30, 2004, 2003 and 2002, 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, 2006 and 2005 may be materially different than that recorded in the accompanying financial statements.

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.

Statutory employer contributions into the DCRS for the years ended September 30, 2006 and 2005 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.

Retirement expense for the years ended September 30, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash contributions and accruals	\$ 239,754	\$ 223,019	\$ 198,942
Increase in accrued unfunded liability to the retirement fund	<u>97,005</u>	<u>132,046</u>	<u>-</u>
	<u>\$ 336,759</u>	<u>\$ 355,065</u>	<u>\$ 198,942</u>

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 \$62,657 and \$59,218 at September 30, 2006 and 2005, 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.

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.

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

**(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.

A summary of building, improvements and equipment at September 30, 2006 and 2005 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2006</u>
Land	\$ 5,992,415	\$ -	\$ -	\$ 5,992,415
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>
	8,904,268	9,502	(144,305)	8,769,465
Less accumulated depreciation	<u>(1,191,002)</u>	<u>(94,119)</u>	<u>25,159</u>	<u>(1,259,962)</u>
	<u>\$ 7,713,266</u>	<u>\$ (84,617)</u>	<u>\$ (119,146)</u>	<u>\$ 7,509,503</u>
	<u>Beginning Balance</u> <u>October 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2005</u>
Land	\$ 5,992,415	\$ -	\$ -	\$ 5,992,415
Building	2,500,000	-	-	2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	131,725	-	(32,392)	99,333
Equipment	<u>285,190</u>	<u>138,034</u>	<u>(251,550)</u>	<u>171,674</u>
	9,050,176	138,034	(283,942)	8,904,268
Less accumulated depreciation	<u>(1,378,665)</u>	<u>(96,279)</u>	<u>283,942</u>	<u>(1,191,002)</u>
	<u>\$ 7,671,511</u>	<u>\$ 41,755</u>	<u>\$ -</u>	<u>\$ 7,713,266</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>
2007	\$ 114,517
2008	<u>16,281</u>
	<u>\$ 130,798</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**  
(A Public Corporation)

Notes to Financial Statements  
September 30, 2006 and 2005

**(6) Notes Payable**

Notes payable to a bank of \$100,000 at September 30, 2005 are collateralized by a time certificate of deposit and are payable in twelve monthly installments of \$25,000 plus interest at 2% below the stated prime rate (4.75% at September 30, 2005), and matures in January 2006.

A summary of changes in short-term notes payable during fiscal years 2006 and 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Notes payable:				
2006	\$ 100,000	\$ -	\$ 100,000	\$ -
2005	\$ -	\$ 300,000	\$ 200,000	\$ 100,000

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities during fiscal years 2006 and 2005 follows:

	<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>
	<u>Outstanding September 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2005</u>
Unfunded pension cost	\$ 72,776	\$ 132,046	\$ -	\$ 204,822
Accrued annual leave	106,569	8,478	9,244	105,803
Accrued sick leave	<u>-</u>	<u>59,218</u>	<u>-</u>	<u>59,218</u>
	\$ <u>179,345</u>	\$ <u>199,742</u>	\$ <u>9,244</u>	\$ <u>369,843</u>

**(8) Reclassifications**

Certain 2005 balances have been reclassified to conform to the 2006 financial statement presentation.

**(9) Contingencies**

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

**GUAM VISITORS BUREAU**  
(A Public Corporation)

Supplementary Schedule of Operating Expenses  
Year Ended September 30, 2006

Advertising and public relations	\$ 5,939,289
Personnel and benefits	1,877,800
Contractual	964,296
Travel	481,034
Sponsorship	354,102
Grants	337,914
In-Kind	291,928
Lease	273,962
Printing	172,703
Equipment	153,397
Utilities	143,203
Supplies	133,218
Depreciation	94,119
Seminars	77,913
Consumption tax	71,427
Miscellaneous	<u>244,361</u>
	<u>\$ 11,610,666</u>

See accompanying independent auditors' report.

**GUAM VISITORS BUREAU**

(A Public Corporation)

Supplementary Schedule of Contractual Promotions and Development

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Korea Promotions	\$ 885,838	\$ 759,958
Taiwan Promotions	197,711	223,118
North America	177,526	176,723
Hong Kong Promotions	151,278	168,143
Pacific/Australia	90,932	58,009
Philippines Promotion	77,644	106,275
Other	<u>294,254</u>	<u>494,680</u>
 Total Guam contractual promotions	 <u>\$ 1,875,183</u>	 <u>\$ 1,986,906</u>
 Grants in aid and others	 \$ 372,760	 \$ 188,656
Tourist Industry Relations	356,355	405,888
Research and Evaluation	275,975	267,348
Cultural and Heritage	180,964	244,610
Community Development	<u>134,579</u>	<u>237,184</u>
 Total Guam contractual development	 <u>\$ 1,320,633</u>	 <u>\$ 1,343,686</u>

Supplementary Schedule of Employees and Salaries

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Guam office:		
Number of employees	<u>29</u>	<u>28</u>
Annual payroll	<u>\$ 1,103,530</u>	<u>\$ 1,137,087</u>
Japan Office:		
Number of employees	<u>8</u>	<u>5</u>
Annual payroll	<u>\$ 319,763</u>	<u>314,169</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, 2006, and have issued our report thereon dated April 17, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GVB's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **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 April 17, 2007.

This report is intended for the information of the Board of Directors and management of GVB, the Office of the Public Auditor of Guam, and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

*Deloitte Touche LLP*

April 17, 2007