

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

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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

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Years Ended September 30, 2012 and 2011

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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, 2012 and 2011, and the related statements of revenue, expenses, and changes in net assets, operations and fund balance, and of 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.

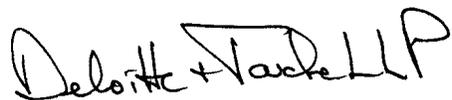
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 26 and 27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

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

February 8, 2013

GUAM VISITORS BUREAU
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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

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

ADMINISTRATIVE HIGHLIGHTS

Hotel Occupancy Tax collections in Fiscal Year (FY) 2012 were up over 12% versus FY2011, and the Bureau's operational budget of \$13,314,823, authorized by Public Law 31-77, was fully funded. However, Special Projects, which includes projects like Tumon and Hågatña beach cleaning, Tumon landscaping and islandwide road maintenance, was underfunded by \$82,096. GVB's board, management and staff maintained a financially conservative philosophy in managing its expenditures to avoid statutory penalties associated with expenditures beyond allotments. Operating expenditures totaled \$11,880,788 for the year, which does not include pass through appropriations, promotional in-kind contributions, community programs, and depreciation.

FY2012 saw the launch of capital improvement projects that use proceeds from Hotel Occupancy Tax (HOT) Revenue Limited Obligation Bonds to fund the building of the Guam Museum as well as upgrade and refurbish some of our island's historic sites, tourist attractions and community projects. Architects Laguana & Cristobal were selected to design the \$27 million Guam Museum, with groundbreaking scheduled for early 2013 with a completion date target of late 2014. Other key projects that were initiated were San Vitores flooding mitigation, the Plaza de España and Inarajan Community Center restoration.

Hotel room inventory (8,285) was down 6% from last year, with the decrease primarily due to GVB's efforts to resurvey the properties to get a more accurate accounting of actual available accommodations. The weighted hotel occupancy rate (78%) was up 8 points versus FY2011, and the average daily room rate rose from \$114 to \$121. This year, the Bureau recognized \$37,600 in membership dues, up 24.5% from the prior year due to it being an election year for membership directors, which occurs every other year.

MARKETING HIGHLIGHTS

Marketing Guam as tourist destination is a top priority for GVB. The Bureau utilizes visitor data and market intelligence to develop innovative programs to grow arrivals and yield. In order to implement its long-term strategic plans, GVB focuses on major marketing areas, collaborates with its global marketing partners, and works with industry stakeholders to create efficient marketing solutions that improve and strengthen the island's tourism economy.

Guam experienced an overall 10.7% increase in total arrivals, ending the year with a combined 1,270,161 visitors from all markets. The Japan market fully recovered from the 3/11 triple disasters, with the island welcoming 907,765 travelers from its largest source market. The Korean market also continued its upward trend with 165,143 visitors (+13.8%), and combined, Japan and Korea represent almost 85% of all arrivals. Taiwan positioned itself as the third largest Asian source market with 49,851 visitors (+22.5%).

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Travel from Chinese markets remained mixed, with Hong Kong slightly down (-1.4%) and China (+46.3%) continuing to see significant gains, but together still account for only 17,436 visitors, or 1.4% of total arrivals. There was positive growth from the U.S. Mainland (53,329 pax, +10.1%), Hawaii (11,437 pax, +2.1%) and Australia (4,071 pax, +11.2%), while the Philippines (10,240 pax -4.7%) declined slightly. Collectively, Micronesia (CNMI, Palau, FSM, RMI) made up 2.5% of total arrivals to Guam, with 32,156 visitors from the region. The biggest percentage increase for the year came from Russia (2,931 pax, +455%), which was granted visa waiver status in January 2012.

JAPAN

Total Japan outbound travel made a full recovery in FY2012, and Guam benefited with a +10.2% increase in Japanese arrivals (907,965 pax) versus FY2011. All areas within Japan with direct flight service to Guam, with the exception of Hokkaido (-2.2%), showed increases. The most significant growth came from the Tohoku Region (+47.5%), the area most affected by the disaster. About half of Guam's arrivals originate from the Kanto Region (Tokyo), which showed a +13.4 increase with 456,492 arrivals.

The strong Yen encouraged more international travel, but despite the increase in arrivals, Guam's market share declined from 4.94% to 4.87% due to strong demand for travel to China and South Korea in the first half of FY 2012. However, later in the year, disputes over the sovereignty of the Senkaku and Takeshima Islands, caused many Japanese to cancel their trips to China and Korea. Guam was able to benefit from this, attracting both leisure and group travel looking for an alternate destination. Efforts to develop the meetings, incentive, conference, and exhibition (MICE) market continue to pay dividends with large corporate groups such as Daihatsu (1,200 pax) and Charle (4,029 pax) choosing Guam.

Improvements in the visitor profile continued in FY2012. On-island expenditures increased from \$558 to \$596, and those in the income brackets of ¥7 million (\$90,000) or higher continued to make up 31% in our visitor profile. Towards the latter part of the fiscal year, the U.S. Dollar gained strength and ended the year with an average exchange rate of ¥77.85. The weaker Yen makes Guam a more expensive destination, but at the same time boosts Japanese export earnings and increases the spending power of GVB's Japan marketing budget.

Based upon the Japan Exit Survey, the main motivations for selecting Guam is the beaches and short travel time. The goal for FY2013 is to continue to focus on the MICE market, improve brand image and increase market share. GVB will continue to work with our industry partners to promote longer stays, increased spending and more group travel.

KOREA

FY2012 proved to be a banner year for South Korean visitors to Guam. With 165,143 arrivals, it is the second best year since 1996, and up almost 14% versus FY2011. This is attributed to several factors, one being the dispute with Japan over the Dokdo Islands, or Takeshima Islands to the Japanese, which resulted in some diverted bookings to Guam instead of Japan. In addition, the ongoing political uncertainty with North Korea provided motivation to travel abroad. Airline partners Korean Air and Jin Air continued to add seat capacity to support this increased demand.

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GVB continued its focus on maintaining and developing relationships with key trade media and travel organizations in Korea. Promotion of Guam as a safe and attractive destination has resulted in a strong family market, with 83% of the visitors being married and 44% traveling with family. Repeat visits are still low, about 15%, but Guam's share of the total Korean outbound market has grown to approximately 2%, up from less than 1% just a few years ago. The forecast looks positive especially with the addition of Jeju Air in late September 2012, and the announcement of Korean Air service from Busan in October 2012. Air seat capacity saw an 11% increase over FY2011, but next year should see an even greater increase of around 50%. On-island spend declined from \$424.40 to \$392.00, but with the increase in arrivals, total economic benefit to the island was a net increase. Average length of stay remained about the same at 3.7 days, up slightly from last year's 3.6 days.

OTHER MARKETS

The Greater China markets made up of Taiwan (+22.5%), Hong Kong (-1.4%) and China (+46.3%) continued to see growth, accounting for 5% of total arrivals. The increase in Taiwanese visits is due in large part to additional seasonal charters by EVA Air and China Airlines. Mainland China reached record levels with 9,040 total visitors, which can be attributed to the Bureau's efforts to support direct charter flights from major Chinese cities. GVB continues to partner with all stakeholders to lobby for the inclusion of China into the Guam-CNMI Visa Waiver program, which is still the greatest opportunity for Guam's tourism industry.

On January 15, 2012, the Secretary of Homeland Security, through her parole authority, announced that Russian tourists were allowed to visit Guam visa free. The Bureau quickly took advantage of this opportunity and initiated its marketing plan for this new source market. In less than nine months, Guam received 2,931 travelers from Russia, a 455% increase. While the Russian outbound market potential is not as large as the Chinese, the Russian visitor typically stays longer and spends more than the average Asian, providing a greater yield per visitor.

The U.S. Mainland (+10.1%), Hawaii (+2.1%) and Australia (+11.2%) each saw positive gains while the Philippines (-4.7%) and CNMI (-3.7%) were slightly down in FY 2012. Sea arrivals (-2.1%) were also slightly lower versus the previous year at 8,526, but GVB, as a founding member of the Micronesian Cruise Association, began to actively market the region to the cruise ship industry.

DESTINATION DEVELOPMENT HIGHLIGHTS

Destination Development's primary responsibility is to ensure that Guam delivers on its brand promise. This requires initiatives that help provide an experience that is unique and enriching, while valuing and perpetuating Guam's natural and cultural resources and honoring its people and heritage. As Guam's visitors industry matures, the importance of this division has grown significantly over the last decade, especially as the Government lacks the funding to maintain the infrastructure that is critical to tourism. Improving our tourism product so visitors have a safe and satisfying experience is key to attracting repeat visits and increasing the yield.

The Destination Management Committee (DMC) focuses on improving tourism infrastructure, safety and satisfaction. Over the years GVB has taken on additional responsibilities originally tasked to other Government of Guam agencies such as San Vitores landscaping and culvert cleaning, grass cutting and trash collection along major highways, and Hågatña and Tumon Bay beach cleaning. A FY2012 highlight was the completion of the San Vitores streetlight project, which was funded with federal ARRA grant monies. The result is a well-lit, safer Tumon area that is enjoyed by both visitors and locals alike.

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The Cultural, Heritage and Community Committee (CHaCO) works to develop the Chamorro culture and share it with visitors. Some of its key programs include cultural presentations for international marketing events, the Guam Chamorro Dance Academy, Guam Island Fiesta Tour (GIFT), village festival support and development grants for cultural, educational, medical and ecotourism. The Guam Brand initiative is the community outreach program designed to build support for improving the destination. This year's highlights include the Håfa Adai Pledge program reaching over 350 participating organizations, a Chamorro Month PDN supplement, the Buy Local Forum and Expo at PHARE and the Guam Brand logo awareness campaign.

Sports and events can enhance Guam's economy, image and quality of life. Recognizing these benefits, GVB's Sports and Events Committee supports activities designed to increase Guam's sports presence to a globally competitive level and create reasons to visit through unique events. The Bureau's two signature events, the Guam Micronesia Island Fair and the Guam Ko'Ko Road Race saw the largest participation in 2012 in either event's history. Other supported events included the GHRA New Year's Eve fireworks display, XTERRA Triathlon, Ladies Pro-am Golf Tournament and Smokin' Wheels Racing Weekend.

FINANCIAL HIGHLIGHTS

We will overview our financial statements for the fiscal years ending September 30, 2012, 2011 and 2010 in the following discussion. The following table summarizes the financial condition and operations of the Bureau for the fiscal years ended 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 13,234,290	\$ 9,202,818	\$ 7,200,536
Security deposit	133,125	133,125	133,125
Property and equipment, at cost, net	<u>6,980,510</u>	<u>7,089,874</u>	<u>7,203,849</u>
	<u>\$ 20,347,925</u>	<u>\$ 16,425,817</u>	<u>\$ 14,537,510</u>
Liabilities:			
Current liabilities	\$ 3,166,630	\$ 2,428,377	\$ 2,162,578
Accrued sick leave	141,766	126,352	102,255
Deferred revenue	<u>43,100</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,351,496</u>	<u>2,554,729</u>	<u>2,264,833</u>
Net assets:			
Invested in capital assets	6,980,510	7,089,874	7,203,849
Unrestricted	9,071,735	6,718,797	5,068,828
Restricted	<u>944,184</u>	<u>62,417</u>	<u>-</u>
Total net assets	<u>16,996,429</u>	<u>13,871,088</u>	<u>12,272,677</u>
	<u>\$ 20,347,925</u>	<u>\$ 16,425,817</u>	<u>\$ 14,537,510</u>

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Operating revenue	\$ 318,208	\$ 1,375,473	\$ 1,251,159
Operating expense	<u>12,767,333</u>	<u>13,618,458</u>	<u>13,837,060</u>
Operating revenues net of operating expenses	(12,449,125)	(12,242,985)	(12,585,901)
Nonoperating revenues, net	<u>15,574,466</u>	<u>13,841,396</u>	<u>12,787,343</u>
Change in net assets	\$ <u>3,125,341</u>	\$ <u>1,598,411</u>	\$ <u>201,442</u>

An 11% hotel occupancy tax funds GVB's operations, authorized through the Legislature's annual budget appropriations. In fiscal year 2012, Public Law 31-77 appropriated \$14,487,625: \$13,314,823 for operations and \$1,172,802 for special projects. The Bureau was able to recognize the full operations appropriation, plus GVB received an additional \$530,376 for pass through appropriations, \$944,184 for Rainy Day fund and FESTPAC Trust Account (restricted), and \$380,221 for prior year appropriations. This totaled \$15,169,604 in allotment revenues. In addition, \$172,243 in Federal revenues was granted to GVB through the American Recovery and Reinvestment Act (ARRA) 2009 for the completion of the Design Build Energy Upgrade project.

Direct appropriations from the Tourist Attraction Fund decreased 32% this year, from \$10,001,716 in FY2011 to \$6,792,247. This was primarily because of the \$2,855,889 reduction in payments due to the Limited Obligation HOT Bond, Series 2011A. Comparing the total FY2012 appropriation from the TAF (\$23,160,586) and the actual collections (\$25,820,086), there was a \$2,659,500 surplus.

Marketing was the largest expenditure at \$7.6 million, almost 5% more than in FY2011. Japan and Korea represented the largest share at a combined \$5,686,784. At \$1,838,358, personnel salaries and benefits increased 6% over last year due to increments, but represent only 16% of all operational expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

The Bureau is not capital intensive and therefore, significant capital asset activity did not occur in 2012, 2011 and 2010. For additional information regarding capital assets, please refer to note 5 to the financial statements.

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

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the Bureau's report on the audit of the financial statements, which is dated February 27, 2012, and that Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be viewed at the Office of the Public Auditor's website at www.guamopa.com.

OUTLOOK

Guam remains well positioned to see continued arrival growth in FY2013 and GVB has set next year's arrival target at 1,310,000 (+3%), assuming no catastrophic events occur. Japan outbound travel is projected to remain strong in 2013, and if Guam can regain some lost market share, Japan arrivals should grow to 930,000 arrivals. Increased air seat capacity from Korea is projected to drive 50% more arrivals, or close to 200,000 Korean visitors, which would be a record for Guam. The forecast for Hotel Occupancy Tax collections, based on increases in hotel occupancy and room rates, is \$26.2 million (+1.7%).

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Years Ended September 30, 2012 and 2011

A major challenge next year will be the shortage of quality hotel room inventory during peak seasons. This creates a bottleneck and hinders growth in new markets that do not have room blockages. GVB continues to work with the industry to mitigate the issue, and the opening of a new hotel, the Dusit Thani, will add 414 rooms. In the off-peak seasons, business (MICE) and group travel can address the historic shoulder periods.

The Bureau will continue to diversify, developing new markets like Russia and China. In mature markets like Japan, GVB will target higher yield, longer staying markets such as the silver, wedding and honeymoon segments. Efforts to improve and develop the destination and promote the island's unique culture will also make Guam more competitive and drive demand for the Guam's tourism product. The China Visa Waiver opportunity is still very possible, and the Bureau stays prepared to take advantage if it is granted.

MANAGEMENT CONTACT

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GUAM VISITORS BUREAU
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Statements of Net Assets
September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 11,302,727	\$ 6,995,138
Accounts receivable - Government of Guam, net	1,779,996	2,059,646
Accounts receivable - Membership	-	8,416
Accounts receivable - others	145,115	133,166
Prepaid expenses	<u>6,452</u>	<u>6,452</u>
Total current assets	13,234,290	9,202,818
Security deposit	133,125	133,125
Property and equipment, at cost, net	<u>6,980,510</u>	<u>7,089,874</u>
	<u>\$ 20,347,925</u>	<u>\$ 16,425,817</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 3,061,715	\$ 2,328,492
Accrued annual leave	104,915	99,885
Deferred revenue	<u>43,100</u>	<u>-</u>
Total current liabilities	3,209,730	2,428,377
Accrued sick leave	<u>141,766</u>	<u>126,352</u>
Total liabilities	<u>3,351,496</u>	<u>2,554,729</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	6,980,510	7,089,874
Unrestricted	9,071,735	6,718,797
Restricted - expendable	<u>944,184</u>	<u>62,417</u>
Total net assets	<u>16,996,429</u>	<u>13,871,088</u>
	<u>\$ 20,347,925</u>	<u>\$ 16,425,817</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
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Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Consumption tax refund	\$ 196,118	\$ 224,468
In-kind contributions from members and others	84,490	1,120,805
Memberships	37,600	30,200
	<u>318,208</u>	<u>1,375,473</u>
Expenses:		
Professional services	7,879,383	7,125,180
Personnel	1,838,358	1,738,183
Pass through appropriations	530,376	1,151,605
Travel	473,445	442,102
Rent/lease	271,488	286,979
Grants	188,850	276,607
Utilities	170,509	154,792
Community programs	162,315	45,735
Material and supplies	152,570	115,706
Depreciation	109,364	113,975
Promotional in-kind contributions	84,490	1,120,805
Equipment	42,039	22,744
Advertising	35,022	77,848
Repair and maintenance	16,437	31,741
Insurance	-	19,940
Miscellaneous	812,687	894,516
	<u>12,767,333</u>	<u>13,618,458</u>
Total operating expenses	<u>12,767,333</u>	<u>13,618,458</u>
Operating revenues net of operating expenses	<u>(12,449,125)</u>	<u>(12,242,985)</u>
Nonoperating revenues (expenses):		
Grants-in-aid from Government of Guam:		
Operations	14,639,228	12,191,179
Pass through	530,376	1,151,605
Federal revenues	172,243	100,000
Other nonoperating income (expense), net	219,694	388,465
Interest income	12,925	10,147
	<u>15,574,466</u>	<u>13,841,396</u>
Total nonoperating revenues, net	<u>15,574,466</u>	<u>13,841,396</u>
Change in net assets	3,125,341	1,598,411
Net assets at beginning of year	<u>13,871,088</u>	<u>12,272,677</u>
Net assets at end of year	<u>\$ 16,996,429</u>	<u>\$ 13,871,088</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
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Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from members	\$ 46,016	\$ 30,260
Cash received from other sources	184,169	343,924
Cash paid to employees	(1,314,326)	(1,245,375)
Cash paid to suppliers	<u>(10,242,692)</u>	<u>(10,459,942)</u>
Net cash used for operating activities	<u>(11,326,833)</u>	<u>(11,331,133)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations	15,449,254	12,238,473
Federal grant	<u>172,243</u>	<u>100,000</u>
Net cash provided by noncapital financing activities	<u>15,621,497</u>	<u>12,338,473</u>
Cash flows from investing activities:		
Interest income	<u>12,925</u>	<u>10,147</u>
Net change in cash	4,307,589	1,017,487
Cash at beginning of year	<u>6,995,138</u>	<u>5,977,651</u>
Cash at end of year	<u>\$ 11,302,727</u>	<u>\$ 6,995,138</u>
Reconciliation of operating revenues net of operating expenses to net cash used for operating activities:		
Operating revenues net of operating expenses	\$ (12,449,125)	\$ (12,242,985)
Other nonoperating income, net	219,694	388,465
Adjustments to reconcile operating revenues net of operating expenses to net cash used for operating activities:		
In-kind contribution from members and others	(84,490)	(1,120,805)
Promotional in-kind contributions	84,490	1,120,805
Depreciation	109,364	113,975
Decrease (increase) in assets:		
Accounts receivable	(3,533)	119,516
Increase in liabilities:		
Accounts payable	733,223	265,758
Accrued annual and sick leave	20,444	24,138
Deferred revenue	<u>43,100</u>	<u>-</u>
Net cash used for operating activities	<u>\$ (11,326,833)</u>	<u>\$ (11,331,133)</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets
September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Restricted cash	\$ 351,945	\$ 364,330
Accounts receivable - Government of Guam	93,824	123,304
Accounts receivable - others	50	176
	<u>445,819</u>	<u>487,810</u>
	\$	\$
<u>LIABILITIES AND FUND BALANCE</u>		
Current liabilities:		
Accounts payable	\$ <u>67,170</u>	\$ <u>103,458</u>
Total liabilities	<u>67,170</u>	<u>103,458</u>
Fund balance:		
Committed - Tourism	<u>378,649</u>	<u>384,352</u>
	<u>445,819</u>	<u>487,810</u>
	\$	\$

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Operations and Fund Balance
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
In-kind contributions	\$ 4,060	\$ 1,830
Others	<u>1,530</u>	<u>1,707</u>
Total revenues	<u>5,590</u>	<u>3,537</u>
Expenses:		
Tumon landscaping maintenance (contract)	271,500	271,500
Islandwide roadway and beautification	270,900	277,400
Tumon and Hagatna Beach cleaning and maintenance	224,889	224,890
Tumon holiday illumination	115,070	81,578
Tumon landscaping maintenance (project management)	80,632	106,000
Utilities	40,455	56,792
In-kind contributions	4,060	1,830
Professional services - legal	2,000	-
Miscellaneous	<u>92,493</u>	<u>2,138</u>
Total expenses	<u>1,101,999</u>	<u>1,022,128</u>
Loss from operations	(1,096,409)	(1,018,591)
Government of Guam contributions	<u>1,090,706</u>	<u>986,446</u>
Change in fund balance	(5,703)	(32,145)
Fund balance at beginning of year	<u>384,352</u>	<u>416,497</u>
Fund balance at end of year	<u>\$ 378,649</u>	<u>\$ 384,352</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Cash Flows Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from other sources	\$ 1,656	\$ 1,531
Cash paid to suppliers	<u>(1,134,227)</u>	<u>(1,080,357)</u>
Net cash used for operating activities	<u>(1,132,571)</u>	<u>(1,078,826)</u>
Cash flows from noncapital financing activities:		
Government of Guam contribution	<u>1,120,186</u>	<u>942,264</u>
Net cash provided by noncapital financing activities	<u>1,120,186</u>	<u>942,264</u>
Net change in cash	(12,385)	(136,562)
Cash at beginning of year	<u>364,330</u>	<u>500,892</u>
Cash at end of year	<u><u>\$ 351,945</u></u>	<u><u>\$ 364,330</u></u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (1,096,409)	\$ (1,018,591)
Decrease (increase) in assets:		
Accounts receivable - others	-	(176)
Interfund receivables	126	-
(Decrease) increase in liabilities:		
Accounts payable	(36,288)	11,154
Interfund payable - GVB operations	<u>-</u>	<u>(71,213)</u>
Net cash used for operating activities	<u><u>\$ (1,132,571)</u></u>	<u><u>\$ (1,078,826)</u></u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2012 and 2011

(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 (GASB) Statement No. 14, 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, 2012 and 2011.

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

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

Compensated Absences

Earned unpaid employee vacation leave is accrued at year end for financial statement purposes. Included in liabilities at September 30, 2012 and 2011 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 Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(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, 2012 and 2011, 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

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

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

Notes to Financial Statements
September 30, 2012 and 2011

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

Accounting Standards, Continued

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

Net Assets

Net assets represent the residual interest in GVB's assets after liabilities are deducted and consist of the following three sections:

- 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.
- 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 with 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.

Fund Balance

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental fund balances are classified as follows:

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

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

Notes to Financial Statements
September 30, 2012 and 2011

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

Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

New Accounting Standards

During fiscal year 2012, GVB implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GVB.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. 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, 2012 and 2011

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

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GVB.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of GVB.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GVB.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GVB.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements 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.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(2) Cash, Continued

Deposits, Continued

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GVB's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GVB does not have a deposit policy for custodial credit risk.

As of September 30, 2012 and 2011, the carrying amount of GVB's total cash was \$11,302,727 and \$6,995,138, respectively, and \$351,945 and \$364,330, respectively, for the Special Tourist Attraction Fund projects. The corresponding bank balances were \$12,026,924 and \$8,029,897, respectively. Of the bank balances, \$11,813,628 and \$7,935,467, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and deposits in the amount of \$561,423 and \$515,742, 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.

Cash and cash equivalents balances are classified as restricted due to the specific nature and purpose of their existence. As of September 30, 2012 and 2011, cash held by GVB in the Special Tourist Attraction Funds Project is \$351,945 and \$364,330, respectively. These funds are for landscaping and beautification of Tumon Bay and other Tourist Attraction Projects.

(3) Other Receivables

At September 30, 2012, other receivables include the Energy Efficient Retrofit Project, which is funded through the American Recovery and Reinvestment Act of 2009, per a memorandum of understanding between the Guam Energy Office and GVB:

Total received	\$ 126,840
Total spent in fiscal year 2012	<u>172,243</u>
Total receivables	\$ <u>45,403</u>

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 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.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(4) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

GVB participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GVB, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
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>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GVB's contributions to the DB Plan for the years ended September 30, 2012, 2011 and 2010 were \$98,812, \$97,294, and \$85,104, respectively, which were equal to the required contributions for the respective years ended.

Defined Contribution Plan

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

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(4) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

Statutory employer contributions into the DCRS for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GVB's contributions to the DCRS plan for the years ended September 30, 2012, 2011 and 2010 were \$273,691, \$261,662 and \$215,537, respectively, which were equal to the required contributions for the respective years ended.

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 \$141,766 and \$126,352 at September 30, 2012 and 2011, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated. During the years ended September 30, 2012, 2011 and 2010, actual contributions paid were \$32,178, \$31,468 and \$53,127, respectively.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(5) Property and Equipment

Public Law 20-221, passed in December of 1990, authorized the Governor to transfer all title, right and interest in Lot No. 5174-C-3, containing an area of 3757+ square meters, to 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, 2012 and 2011 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2012</u>
Depreciable:				
Building	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	83,023	-	-	83,023
Equipment	<u>136,181</u>	<u>-</u>	<u>-</u>	<u>136,181</u>
	2,860,050	-	-	2,860,050
Less accumulated depreciation	<u>(1,762,591)</u>	<u>(109,364)</u>	<u>-</u>	<u>(1,871,955)</u>
Non-depreciable:	1,097,459	(109,364)	-	988,095
Land	<u>5,992,415</u>	<u>-</u>	<u>-</u>	<u>5,992,415</u>
	<u>\$ 7,089,874</u>	<u>\$ (109,364)</u>	<u>\$ -</u>	<u>\$ 6,980,510</u>

	<u>Beginning Balance</u> <u>October 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2011</u>
Depreciable:				
Building	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Leasehold improvements	140,846	-	-	140,846
Furniture and fixtures	83,023	-	-	83,023
Equipment	<u>136,181</u>	<u>-</u>	<u>-</u>	<u>136,181</u>
	2,860,050	-	-	2,860,050
Less accumulated depreciation	<u>(1,648,616)</u>	<u>(113,975)</u>	<u>-</u>	<u>(1,762,591)</u>
Non-depreciable:	1,211,434	(113,975)	-	1,097,459
Land	<u>5,992,415</u>	<u>-</u>	<u>-</u>	<u>5,992,415</u>
	<u>\$ 7,203,849</u>	<u>\$ (113,975)</u>	<u>\$ -</u>	<u>\$ 7,089,874</u>

(6) 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>
2013	\$ 177,628
2014	<u>24,353</u>
	<u>\$ 201,981</u>

The Japan lease requires a refundable security deposit of \$133,125.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(7) Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2012 and 2011 follows:

	Outstanding September 30, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September 30, <u>2012</u>
Accrued sick leave	\$ <u>126,352</u>	\$ <u>32,124</u>	\$ <u>16,710</u>	\$ <u>141,766</u>

	Outstanding September 30, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September 30, <u>2011</u>
Accrued sick leave	\$ <u>102,255</u>	\$ <u>36,134</u>	\$ <u>12,037</u>	\$ <u>126,352</u>

(8) 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.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. GVB has not assessed the impact of the requirements of the law as of September 30, 2012 and 2011. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

(9) Appropriations from the Government of Guam

The Tourist Attraction Fund is a governmental fund of the Government of Guam that was established to fund various recreational projects and visitor industry activities. During the years ended September 30, 2012 and 2011, total appropriations received and receivable by GVB from the Government of Guam are as follows:

	<u>2012</u>	<u>2011</u>
Tourist Attraction Fund:		
Operations	\$ 13,695,044	\$ 12,191,179
Restricted	<u>944,184</u>	<u>-</u>
Total	14,639,228	12,191,179
Special projects	1,090,706	986,446
San Vitores Road Phase II and III	-	480,000
Pass-through to non-profit organizations	530,376	460,000
Rainy Day Fund	<u>-</u>	<u>191,000</u>
	16,260,310	14,308,625

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(9) Appropriations from the Government of Guam, Continued

General Fund:		
Pass-through to non-profit organizations	_____ -	_____ 20,605
	\$ <u>16,260,310</u>	\$ <u>14,329,230</u>

(10) Restricted Net Assets

At September 30, 2012, restricted net assets are for The Rainy Day Fund per Public law 30-116 and for FESTPAC & Folklife Festival Trust Account per Public Law 31-77, Chapter 10, Section 10.

Rainy Day Fund	\$ 195,000
FESTPAC & Folklife Festival Trust Account	<u>749,184</u>
Total restricted	\$ <u>944,184</u>

GUAM VISITORS BUREAU
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Supplementary Schedule of Professional and Advertising Expenses
Years Ended September 30, 2012 and 2011

<u>Professional Services</u>	<u>2012</u>	<u>2011</u>
Japan	\$ 4,326,461	\$ 4,343,242
Destination Management and Improvement	499,093	372,799
Korea	740,065	727,834
Admin., Research, and Printing	742,198	464,358
Taiwan	272,551	184,583
Hong Kong/China	696,218	486,670
Australia, Philippines, and Pacific	90,957	90,343
United States	9,438	8,708
All Markets (Branding)	<u>502,402</u>	<u>446,643</u>
Total Professional Services	<u>\$ 7,879,383</u>	<u>\$ 7,125,180</u>
<u>Advertising Expenses</u>		
United States	\$ 6,010	\$ 27,713
Destination Management and Improvement	963	21,568
Japan	876	-
Australia, Philippines, and Pacific	17,638	1,000
All others	<u>9,535</u>	<u>27,567</u>
Total Advertising Expenses	<u>\$ 35,022</u>	<u>\$ 77,848</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU

(A Component Unit of the Government of Guam)

Supplementary Schedule of Miscellaneous Expenses
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Other	\$ 165,222	\$ 230,996
Food and beverage	90,698	149,624
Printing	105,425	129,778
Consumption tax	24,073	93,473
Sponsorship	222,415	119,466
Fees	25,057	73,592
Dues and membership	49,036	46,778
Postal and courier	17,588	20,377
Gifts and prizes	110,769	28,919
Bank charges	2,404	1,513
	<u>\$ 812,687</u>	<u>\$ 894,516</u>

Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Guam office: Annual payroll	\$ <u>1,334,770</u>	\$ <u>1,269,516</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, 2012, and have issued our report thereon dated February 8, 2013. 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

Management of GVB is responsible for establishing and maintaining effective 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

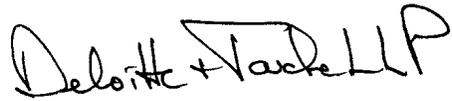
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies 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 certain matters that we reported to management of GVB in a separate letter dated February 8, 2013.

This report is intended solely for the information and use of the Board of Directors and management of GVB, the Office of Public Accountability 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.

February 8, 2013