

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

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

SEPTEMBER 30, 2005 AND 2004

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Visitors Bureau:

We have audited the accompanying statement of net assets and balance sheet of Guam Visitors Bureau (GVB) and its Special Tourist Attraction Fund Projects as of September 30, 2005, and the related statements of revenue, expenses, and changes in net assets, operations and fund balance, and cash flows for the year 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 audit. The 2004 financial statements were audited by other auditors, whose report dated January 26, 2006, expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

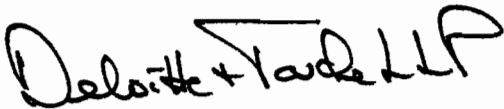
In our opinion, such financial statements present fairly, in all material respects, the financial position of GVB and its Special Tourist Attraction Fund Projects as of September 30, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 11 that were applied to restate the 2004 financial statements to correct an error. In our opinion, such adjustments are appropriate and have been properly applied.

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, 2005, 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 August 10, 2006, on our consideration of the GVB's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

August 10, 2006

GUAM VISITORS BUREAU
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2005

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, 2005. 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 2005 and 2004:

	<u>2005</u>	<u>2004</u> (As Restated)
Assets:		
Current assets	\$ 3,460,382	\$ 5,846,714
Other assets	133,125	100,543
Property and equipment, at cost, net	<u>7,713,266</u>	<u>7,671,511</u>
	<u>\$ 11,306,773</u>	<u>\$ 13,618,768</u>
Liabilities:		
Current liabilities	\$ 1,797,194	\$ 2,082,870
Unfunded pension cost	204,822	72,776
Accrued annual and sick leave	<u>165,021</u>	<u>106,569</u>
Total liabilities	<u>2,167,037</u>	<u>2,262,215</u>
Net assets:		
Invested in capital assets	7,713,266	7,671,511
Unrestricted	<u>1,426,470</u>	<u>3,685,042</u>
Total net assets	<u>9,139,736</u>	<u>11,356,553</u>
	<u>\$ 11,306,773</u>	<u>\$ 13,618,768</u>
Operating revenues	\$ 494,332	\$ 378,933
Operating expenses	<u>10,627,738</u>	<u>11,007,265</u>
Operating revenues net of operating expenses	(10,133,406)	(10,628,332)
Nonoperating revenues, net	<u>7,916,589</u>	<u>9,864,915</u>
Decrease in net assets	<u>\$ (2,216,817)</u>	<u>\$ (763,917)</u>

Financial Highlights

- Total Assets exceeded liabilities at the close of the fiscal year by approximately \$9.2 million (Net Assets). This year's increase, \$4.2 million, is due in part to the \$6.5 million restatement of the previous year's deferred revenues and the current year's operating loss of approximately \$2.2 million.
- Cash increased approximately \$467,000 from the previous year. A key element in the increase was the receipt of \$1.0 million in cash allotments above the previous year's level of \$7.2 million.
- Accounts receivable decreased due to the timing of receipts from the Government of Guam. Fiscal year 2004's balance represents the last three months of allotments while fiscal year 2005's balance represents the last month's allotment. \$1.2 million of accounts receivable from the Special Tourist Attraction Fund Projects was determined to be uncollectible and written off. This

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Management's Discussion and Analysis
Year Ended September 30, 2005

account represents advances from GVB's operating fund to pay for continuing beach cleaning and landscaping maintenance.

- Accounts payable, reported at \$1.6 million, decreased \$460,000 from the previous fiscal year total of \$2.1 million. The reduction is attributed to increased cash allotments received as noted earlier.
- Accrued liabilities increased because of accrued salaries and benefits for nine (9) days of pay period ending 10/01/05.
- Deferred revenues of \$9.3 million from the previous fiscal period was re-classified and resulted in restating beginning Net Assets and Accounts Receivable—Government of Guam in the amounts of \$6.5 and \$2.9 million, respectively. The amounts represent unfunded appropriations from the previous and current years.
- 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 12 month term loan matured in January 2006 and \$100,000 remained unpaid as of September 30, 2005.
- Total revenues for the Bureau were approximately \$9.5 million for the current fiscal year, an increase of approximately 32% from the previous fiscal period. Visitor arrivals increased 5% from the previous period and, with improved room rates, contributed to the additional revenues received by the Bureau.
- Expenditures exceeded revenues by \$2.2 million, but represented a \$1.6 million decrease from the \$3.8 million loss reported in Fiscal Year 2004. A major contributing factor to this decrease was the fiscal constraints imposed by management in view of the volatility of hotel occupancy tax revenues and timing of allotment receipts. This measure was undertaken in addition to the 10% budget cut that the GVB Board had already put in effect at the beginning of the year. By September 30, 2005, the Bureau had expended only 75% of the total amount it was authorized by law to spend.

Overview of the Financial Statements

This section is intended to serve as an introduction to the Bureau's financial statements and 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.

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 2005, the Bureau's total assets exceed liabilities by \$9.2 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 carry out its mandate of marketing and promoting Guam as a viable tourist destination.

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Year Ended September 30, 2005

Capital Assets

The Bureau's capital assets consist of an office building and the land upon which it is situated. There were no changes in their respective cost of \$2.5 million and \$5.9 million from the previous fiscal period. The decrease in the value of the building of \$83,333 attributed to depreciation.

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 at 2% below the rate of interest announced publicly by Citibank, N.A. New York, payable in twelve (12) equal monthly principal installments of \$25,000 and a maturity date of January 2006. The loan was collateralized by a \$471,226 time certificate of deposit. As of September 30, 2005, the outstanding and unpaid principal balance was \$100,000.

Budgetary Highlights

Differences between the Bureau's original budget and the final budget reflect adjustments to deal with changes in the state of the industry as summarized below:

- Total operating expenses, approximately \$10.5 million, is \$3,631,481 below the budget of \$14,131,481 approved for the operations of the Bureau by the Guam Legislature
- Appropriated expenditures for the operations of the Bureau decreased 3%, or \$409,041 below the previous fiscal period's approved budget of \$14,540,522.
- Hotel occupancy taxes, the major source of revenue for the Bureau, increased \$1,337,561 from the previous fiscal year total of \$17,653,670. This is attributed to a 5% increase in visitor arrivals over the same period last year, coupled with improvement in hotel room rates.
- Total revenues increased \$2,440,000 (inclusive of consumption tax and membership dues revenues), or 32% above the prior fiscal period total of \$7,543,000.

Outlook

Guam's tourism industry has recovered progressively following the aftermath of two super typhoons in 2002 and devastating global events, both man made and natural (i.e. Iraq war, SARS). Since FY 2003, when total island visitors were the lowest recorded in more than a decade at 856,931, the number of arrivals improved dramatically to 1,210,147 by FY 2005, and an increase of 5% from the previous year's total of 1,156,199.

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Improving arrivals have allowed the upgrading and renovation of Guam's invested plant capacity, thereby improving the island's competitiveness as a leisure destination in East Asia. And while much can still be done to improve the island's hospitality services, several initiatives are being undertaken by industry stakeholders to revitalize and (or) create new attractions, reawaken the spirit and display of our cultural heritage, and improve the visual appearance and safety of our island.

Despite improving trends of the industry, however, several issues of concern loom ahead, not the least of which include:

1. Rising fuel and other costs, which put yield and price pressures to those who generate and service our customers;
2. Chronic problems associated with competing uses for hotel occupancy tax revenues and the untimely or insufficient budget allotments to the Bureau and
3. Tightening or reduced air seat capacity between Guam and the nine (9) gateway cities in Japan.

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Statements of Net Assets
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u> (As Restated)
Current assets:		
Cash and cash equivalents	\$ 2,065,951	\$ 1,598,495
Accounts receivable - Government of Guam	1,232,622	3,120,354
Accounts receivable - TAF special projects	-	1,084,471
Accounts receivable - other	110,809	11,338
Prepaid expenses	<u>51,000</u>	<u>32,056</u>
Total current assets	3,460,382	5,846,714
Other assets		
Property and equipment, at cost, net	<u>133,125</u>	<u>100,543</u>
	<u>7,713,266</u>	<u>7,671,511</u>
	<u>\$ 11,306,773</u>	<u>\$ 13,618,768</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 1,697,194	\$ 2,082,870
Current portion of notes payable	<u>100,000</u>	<u>-</u>
Total current liabilities	1,797,194	2,082,870
Unfunded pension cost	204,822	72,776
Accrued annual leave	105,803	106,569
Accrued sick leave	<u>59,218</u>	<u>-</u>
Total liabilities	<u>2,167,037</u>	<u>2,262,215</u>
Commitments		
Net assets:		
Invested in capital assets	7,713,266	7,671,511
Unrestricted	<u>1,426,470</u>	<u>3,685,042</u>
Total net assets	<u>9,139,736</u>	<u>11,356,553</u>
	<u>\$ 11,306,773</u>	<u>\$ 13,618,768</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, 2005 and 2004

	<u>2005</u>	<u>2004</u> (As Restated)
Revenues:		
In-kind contributions from members and others	\$ 112,128	\$ -
Consumption tax refund	310,354	322,033
Memberships	<u>71,850</u>	<u>56,900</u>
Total revenues	<u>494,332</u>	<u>378,933</u>
Expenses: Guam operations		
Contractual, promotional	1,986,906	2,207,363
Contractual, developmental	1,343,686	1,645,483
Personnel	1,137,087	919,943
Contractual, administrative	740,849	1,034,624
Benefits	424,266	257,035
Promotional in-kind contributions	112,128	-
Depreciation	96,279	86,664
Travel	84,181	131,267
Miscellaneous	<u>10,588</u>	<u>14,253</u>
Total Guam operations	<u>5,935,970</u>	<u>6,296,632</u>
Expenses: Japan operations		
Contractual, promotional	3,983,644	4,004,746
Personnel	314,169	325,130
Contractual, administrative	278,131	263,539
Travel	42,291	29,815
Benefits	41,998	44,801
Consumption tax expense	<u>31,535</u>	<u>42,602</u>
Total Japan operations	<u>4,691,768</u>	<u>4,710,633</u>
Total operating expenses	<u>10,627,738</u>	<u>11,007,265</u>
Operating revenues net of operating expenses	<u>(10,133,406)</u>	<u>(10,628,332)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations	9,490,022	10,263,395
Other nonoperating expense, net	(399,544)	(711,105)
Interest income	10,582	17,153
Insurance claim	-	294,972
Write-off of accounts receivable - TAF special projects	<u>(1,184,471)</u>	<u>-</u>
Total nonoperating revenues, net	<u>7,916,589</u>	<u>9,864,415</u>
Decrease in net assets	(2,216,817)	(763,917)
Total net assets at beginning of year	<u>11,356,553</u>	<u>12,120,470</u>
Total net assets at end of year	<u>\$ 9,139,736</u>	<u>\$ 11,356,553</u>

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u> (As Restated)
Cash flows from operating activities:		
Cash received from members	\$ 71,850	\$ 56,900
Cash received from other sources	110,883	440,200
Cash paid to employees and suppliers	<u>(11,065,579)</u>	<u>(12,542,370)</u>
Net cash used for operating activities	<u>(10,882,846)</u>	<u>(12,045,270)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations	11,377,754	9,477,193
Proceeds from notes payable	300,000	-
Repayments of notes payable	<u>(200,000)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>11,477,754</u>	<u>9,477,193</u>
Cash flows from capital and related financing activities:		
Additions to property and equipment	<u>(138,034)</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(138,034)</u>	<u>-</u>
Cash flows from investing activities:		
Interest income	<u>10,582</u>	<u>17,153</u>
Net cash provided by investing activities	<u>10,582</u>	<u>17,153</u>
Net change in cash and cash equivalents	467,456	(2,550,924)
Cash and cash equivalents at beginning of year	<u>1,598,495</u>	<u>4,149,419</u>
Cash and cash equivalents at end of year	<u>\$ 2,065,951</u>	<u>\$ 1,598,495</u>
Reconciliation of loss from operations to net cash use for operating activities:		
Operating revenues net of operating expenses	\$ (10,133,406)	\$ (10,628,332)
Other nonoperating expense, net	(399,544)	(711,105)
Insurance claim	-	294,972
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
In-kind contribution from members and others	(112,128)	-
Promotional in-kind contributions	112,128	-
Depreciation	96,279	86,664
Decrease (increase) in assets:		
Accounts receivable	(199,471)	(176,805)
Prepaid expenses	(18,944)	114,440
Other assets	(32,582)	117,078
Increase (decrease) in liabilities:		
Accounts payable	(385,676)	(1,109,493)
Accrued annual and sick leave	58,452	(32,689)
Unfunded pension cost	<u>132,046</u>	<u>-</u>
Net cash used for operating activities	<u>\$ (10,882,846)</u>	<u>\$ (12,045,270)</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 5,047</u>	<u>\$ -</u>

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.

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>
Current assets:		
Restricted cash	\$ 20,133	\$ 51,945
Accounts receivable - Government of Guam	<u>300,000</u>	<u>-</u>
	<u>\$ 320,133</u>	<u>\$ 51,945</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 73,429	\$ -
Interfund payable - GVB operations	<u>-</u>	<u>1,084,471</u>
	73,429	1,084,471
Fund balance:		
Appropriated retained earnings (deficit)	<u>246,704</u>	<u>(1,032,526)</u>
	<u>\$ 320,133</u>	<u>\$ 51,945</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Operations and Fund Balance (Deficit) Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u> (As Restated)
Revenues:		
Interest	\$ 136	\$ 194
Expenses:		
Tumon and Hagatna Beach Cleaning and Maintenance	241,304	297,993
Tumon Landscaping Maintenance	224,382	73,260
Islandwide Roadway and Beautification	84,471	-
Tumon Bay Kiosks	79,859	-
Guam Micronesia Island Fair	50,603	-
Tumon Beach Beautification Phase Four	1,617	-
Tropical fantasy	-	50,000
Total expenses	<u>682,236</u>	<u>421,253</u>
Loss from operations	(682,100)	(421,059)
Government of Guam contribution	776,859	400,000
Write-off of interfund payable-GVB operations	<u>1,184,471</u>	<u>-</u>
Excess of revenue over expense	1,279,230	(21,059)
Deficit at beginning of year	<u>(1,032,526)</u>	<u>(1,011,467)</u>
Fund balance (deficit) at end of year	<u>\$ 246,704</u>	<u>\$ (1,032,526)</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u> (As Restated)
Cash flows from operating activities:		
Cash received from interest	\$ 136	\$ 194
Cash paid to suppliers	<u>(608,807)</u>	<u>(561,189)</u>
Net cash used for operating activities	<u>(608,671)</u>	<u>(560,995)</u>
Cash flows from noncapital financing activities:		
Government of Guam contribution	<u>576,859</u>	<u>589,641</u>
Net cash provided by noncapital financing activities	576,859	589,641
Net change in cash	(31,812)	28,646
Cash at beginning of year	<u>51,945</u>	<u>23,299</u>
Cash at end of year	<u>\$ 20,133</u>	<u>\$ 51,945</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (682,100)	\$ (421,059)
Increase (decrease) in liabilities:		
Accounts payable	<u>73,429</u>	<u>(139,936)</u>
Net cash used for operating activities	<u>\$ (608,671)</u>	<u>\$ (560,995)</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.		

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2005 and 2004

(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, 2005 and 2004.

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

Depreciation

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 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 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 the accounts payable and accrued liabilities at September 30, 2005 and 2004 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 and Changes in Net Assets.

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Notes to Financial Statements
September 30, 2005 and 2004

(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, 2005 and 2004, 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 receivables 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.

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Notes to Financial Statements
September 30, 2005 and 2004

(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, 2005 and 2004.

New Accounting Standard

For fiscal year 2005, GVB implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. The impact of GASB Statement No. 40 was not significant to the financial statements.

(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.

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Notes to Financial Statements
September 30, 2005 and 2004

(2) Cash and Cash Equivalents, Continued

Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GVB's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GVB does not have a deposit policy for custodial credit risk.

As of September 30, 2005 and 2004, the carrying amount of GVB's total cash and cash equivalents was \$2,065,951 and \$1,598,495, respectively, and \$20,133 and \$51,945, respectively, for the Special Tourist Attraction Fund project. The corresponding bank balances were \$1,884,805 and \$1,408,309, respectively. Of the bank balance amounts, \$1,595,508 and \$1,271,635, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, bank deposits in the amount of \$170,547 and \$186,180, 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, 2003, 2002 and 2001, contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal costs (% of DB Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs (% of total payroll)	19.93%	16.23%	22.94%
	38.23%	33.89%	39.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	28.73%	24.39%	29.86%
Agency specific adjustments	- %	- %	1.62%
Government contribution as a % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>31.48%</u>
Government contribution as a % of total payroll	<u>24.89%</u>	<u>20.81%</u>	<u>29.25%</u>

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Notes to Financial Statements
September 30, 2005 and 2004

(3) Employees' Retirement Plan, Continued

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, for each of the years ended September 30, 2005 and 2004.

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

	<u>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 valuation performed as of September 30, 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GVB as a separate sponsor, the accrued unfunded liability at September 30, 2005 and 2004 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, 2005 and 2004 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GVB has accrued an estimated liability of \$59,218 and \$0 at September 30, 2005 and 2004, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Retirement expense for the years ended September 30, 2005, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash contributions and accruals	\$ 223,019	\$ 198,942	\$ 214,785
Increase in accrued unfunded liability to the retirement fund	<u>132,046</u>	<u>-</u>	<u>-</u>
	<u>\$ 355,065</u>	<u>\$ 198,942</u>	<u>\$ 214,785</u>

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2005 and 2004

(3) Employees' Retirement Plan, Continued

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

(4) Property and Equipment and Contributed Capital

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, 2005 and 2004 is as follows:

	<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>
	<u>Beginning Balance</u> <u>October 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2004</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	-	-	131,725
Equipment	<u>285,190</u>	<u>-</u>	<u>-</u>	<u>285,190</u>
	9,050,176	-	-	9,050,176
Less accumulated depreciation	<u>(1,292,001)</u>	<u>(86,664)</u>	<u>-</u>	<u>(1,378,665)</u>
	<u>\$ 7,758,175</u>	<u>\$ (86,664)</u>	<u>\$ -</u>	<u>\$ 7,671,511</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>
2006	\$ 32,514
2007	<u>14,231</u>
	<u>\$ 46,745</u>

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2005 and 2004

(5) Commitments

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.

(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.

During the year ended September 30, 2005, the following changes occurred in short-term notes payable.

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

(7) Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2005 and 2004 follows:

	<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	-	59,218	-	59,218
	<u>\$ 179,345</u>	<u>\$ 199,742</u>	<u>\$ 9,244</u>	<u>\$ 369,845</u>
	<u>Outstanding September 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2004</u>
Unfunded pension cost	\$ 72,776	\$ -	\$ -	\$ 72,776
Accrued annual leave	139,258	8,941	41,630	106,569
	<u>\$ 212,034</u>	<u>\$ 8,941</u>	<u>\$ 41,630</u>	<u>\$ 179,345</u>

(8) Grants-in-Aid Restriction

Funds appropriated to GVB by the Guam Legislature bear certain restrictions. One restriction is that unencumbered funds as of year end revert to the Tourist Attraction Fund. However, the Guam Legislature has not established a legal definition of "encumbrance" and GVB has utilized its historic definition consistently since inception. As a result, until a formal definition of "encumbrance" is established, it is not possible to determine if any unencumbered funds should revert to the Tourist Attraction Fund.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2005 and 2004

(9) Reclassification

Certain 2004 balances have been reclassified to conform to the 2005 financial statement presentation.

(10) Prior Period Adjustment

Various 2004 financial statement balances have been restated as follows:

	<u>As previously stated</u>	<u>As restated</u>
Accounts receivable – Government of Guam	\$ 5,977,790	\$ 3,120,354
Deferred revenue	9,256,931	-
Net assets at beginning of year	8,848,417	12,120,470
Grants-in-aid from Government of Guam	7,165,952	10,263,395
Special Tourist Attraction Fund Projects:		
Accounts receivable – Government of Guam	\$ 150,000	\$ -
Appropriated deficit	461,466	1,011,466
Government of Guam contribution	-	400,000

GUAM VISITORS BUREAU

**Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Guam office:		
Number of employees	<u>28</u>	<u>24</u>
Annual payroll	<u>\$ 1,137,087</u>	<u>\$ 919,943</u>
Japan office:		
Number of employees	<u>5</u>	<u>8</u>
Annual payroll (U.S. dollar equivalent)	<u>\$ 314,169</u>	<u>\$ 325,130</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU

Supplementary Schedule of Contractual Promotions and Development Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Korea Promotions	\$ 759,958	\$ 807,474
Taiwan Promotions	223,118	344,584
North America	176,723	278,225
Hong Kong Promotions	168,143	273,154
Philippines Promotion	106,275	43,880
Pacific/Australia	58,009	37,131
Other	<u>494,680</u>	<u>422,915</u>
Total Guam contractual promotions	<u>\$ 1,986,906</u>	<u>\$ 2,207,363</u>
Tourist Industry Relations	\$ 405,888	\$ 350,440
Research and Evaluation	267,348	575,802
Cultural and Heritage	244,610	240,576
Community Development	237,184	432,916
Membership Account and others	<u>188,656</u>	<u>45,749</u>
Total Guam contractual development	<u>\$ 1,343,686</u>	<u>\$ 1,645,483</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, 2005, and have issued our report thereon dated August 10, 2006. 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 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.

We also noted other matters involving the internal control over financial reporting that we have reported to management of GVB in a separate letter date August 10, 2006.

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*.

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

August 10, 2006