

Grant Thornton 

GUAM VISITORS BUREAU
(A PUBLIC CORPORATION)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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Guam Visitors Bureau
(A Public Corporation)

Financial Statements and Other Financial Information
Years ended September 30, 2003 and 2002

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Visitors Bureau:

We have audited the accompanying statements of net assets of Guam Visitors Bureau (GVB) and its Special Tourist Attraction Fund Projects as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and statements 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 audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Project as of September 30, 2003 and 2002, 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.

As discussed in Note 7 to the financial statements, GVB adopted Governmental Accounting Standards Board (GASB) No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* as amended by GASB No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB No. 38, *Certain Financial Statement Disclosures*.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by GASB. 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.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in pages 19 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of GVB's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated in all material respects, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005 on our consideration of GVB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Grant Thornton, LLP

GRANT THORNTON, LLP

Tamuning, Guam USA

July 29, 2005

Guam Visitors Bureau
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2003

Enabling Statutes and Funding

The management of the Guam Visitors Bureau provides an overview of the corporation's activities and outlines the key challenges faced in fulfilling its enabling charter.

The Guam Visitors Bureau was formally created in July 1970 through Executive Order 70-24, with its predecessor, the Guam Tourism Commission, renamed and thus separated from the Department of Commerce, Government of Guam. In 1983, however, Public Law 17-32 reorganized the Bureau into a non-stock, non-profit membership corporation, to be governed in accordance with the applicable general corporation laws of the Territory of Guam.

The purpose of the Bureau is to promote the island's visitor industry in such manner it deems "most reasonably appropriate, including providing and disseminating information and materials promoting Guam as a visitor destination."

By law, the Bureau is mandated to promote and market destination Guam; promote local resident interest in the tourism industry; assist training and education efforts in tourism based employment and local entrepreneurial development; promote local culture and locally made items; encourage the development of tourist attractions and facilities; assist in enforcing tourism related laws and regulations; and gather, produce, and disseminate visitor industry data.

The Bureau is governed by a Board of Directors comprised of thirteen (13) members and constituted as follows:

- 4 Appointees of the Governor
- 4 Elected from the membership of private companies and individuals
- 1 Representative of the Mayor's Council
- 3 Appointees from the Legislature, one of whom serves as an alternate
- 1 Selected by the eleven appointees and elected members

The Bureau's operation is funded primarily by the "Tourist Attraction Fund", as authorized in the annual government of Guam Executive Budget Act. The Bureau is also trustee for funds that are appropriated for various Tourist Attraction Fund (TAF) projects.

Dues income from the Bureau's membership is a secondary source of revenue, but typically constitutes less than 1% of total income. Expenditures are authorized by the Board of Directors.

Guam Visitors Bureau
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2003

Recent History

Island visitors reached a peak of 1,381,513 in calendar year 1997, followed by a sharp 21.5% drop in 1998 due to the 1997 KAL crash, the Asian currency crisis, and lingering Japan recession. By August 2001, however, the Bureau's various marketing initiatives began paying off and was tracking to match 1997 record arrivals when 9-11 struck and a prolonged slump ensued throughout FY2002, and into FY2003.

Following 9-11, an aggressive and tactical marketing strategy was initiated in Japan and Korea, Guam's two most important source markets comprising 88% of total arrivals in 2002. Progress was made toward recovery by the 2nd and 3rd Quarters of FY2002, but two devastating typhoons (July and December), the bombings in Bali and Indonesia were events that drove down arrivals dramatically. Visitor arrivals decreased from 1,048,813 in the recovering year of 2000 to 659,593 by calendar year end 2003, a whopping 37% contraction from Japan alone, and about 30% overall for all markets combined.

This catastrophic drop in arrivals was also to affect the Bureau's ability to take counter measures because its primary funding source (TAF) plummeted 35% for the same calendar period from about \$20.6 million to \$13.3 million. This situation forced the Bureau to restrict, abandon or otherwise postpone planned marketing and destination improvement programs for the year, focusing much of the effort on market loss mitigation and maintenance of current capacity. Achieving these two objectives was a challenge that the Legislature recognized and authorized the Bureau to secure a line of credit (P.L. 26-83) not to exceed \$6 million.

The purpose of this funding was to pay for tactical marketing initiatives aimed at reversing negative arrivals. About \$5.3 million was earmarked for Japan to reinvigorate the incentive group market, sustain the positive growth of the wedding market, and reassure the family and OL market segments that Guam is a very safe destination.

Because of timing and urgency, the Bureau launched these initiatives, which were to have been paid from the credit line authorized under P.L. 26-83. Unfortunately, this credit facility was never secured and the Bureau became indebted to its Japan advertising agency for about \$3.2 million, an amount that was to be repaid interest free by mutual understanding. The Bureau was not able to secure this credit facility because it was not able to commit first rights to TAF revenues that have already been pledged toward the repayment of bonds for the Tumon Redevelopment Project. Borrowing money from the Guam International Airport Authority was also explored, but did not materialize.

Guam Visitors Bureau
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2003

FINANCIAL ANALYSIS

FY2003 was a very trying period for the Bureau, given the dire economic climate throughout the period, and cost cutting measures were instituted to stay in line with a negative revenue forecast.

In-kind contributions made during FY2003 were not properly documented, reflecting none given in 2003. Although some contributions were made, an accurate figure cannot be established because of inconsistent or unavailable documentation. Bureau employees experienced difficulty in getting in-kind donors to document the value of their contributions, despite the use of a simplified form.

Total revenues in FY2003 were down -17% from FY2002 because of the deterioration in hotel occupancy taxes. The 37% increase from "election driven" membership dues had little impact to total Bureau income in FY2003 because this income source is historically less than 1% of total revenues. FY2003 expenses were 40% below FY2002 because of the austerity measures that were carried forward and the 32-hour work week instituted during the year.

Increase (Decrease) in Balance Sheet Accounts:

1. The \$3,615,705 increases in cash on hand and in banks was due to an allotment of \$5,425,000.00 that was received and recorded on July 31, 2003. This allotment came from bond interest income associated with the Tumon Bay redevelopment project, \$3,000,000.00 of which was put into a time certificate of deposit.
2. The decrease in the accounts receivable from GovGuam of \$2,604,328.00 was primarily due to the setting up of an allowance for doubtful accounts in the amount of \$3,592,519 for fiscal year ending September 30, 2003.
3. Inter fund transfers to the TAF account increased by \$519,915.00 as only \$50,000.00 of the \$640,000.00 FY2003 TAF budgeted amount was released in FY2003.
4. The \$1,607,583.00 improvement in total assets was the combined result of an improved cash position, the reduction in accounts receivable, inter fund transfers, and pre-paid expenses.
5. Improved expense controls contributed to a reduction of \$2,922,619 in accounts payable and \$310,668.00 in accrued liabilities.
6. An increase of \$3,423,444.00 in deferred revenues, coupled with the drop of \$1,856,022.00 in TAF receipts, reflect the deterioration in hotel occupancy tax revenue.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ 4,149,419	\$ 533,714
Accounts receivable - Government of Guam, net of allowance for doubtful accounts of \$3,592,519 and \$2,096,466 in 2003 and 2002 respectively	5,431,595	8,035,923
Accounts receivable - TAF special projects	894,830	374,915
Accounts receivable - other	24,174	750
Prepaid expenses	<u>146,496</u>	<u>32,056</u>
Total current assets	10,646,514	8,977,358
Other assets	217,621	217,621
Property and equipment, at cost, net of accumulated depreciation and amortization	<u>7,758,176</u>	<u>7,819,749</u>
	<u>\$ 18,622,311</u>	<u>\$ 17,014,728</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 3,192,363	\$ 6,114,981
Accrued liabilities	-	310,668
Deferred revenue	<u>6,399,497</u>	<u>2,976,053</u>
Total current liabilities	9,591,860	9,401,702
Unfunded pension cost	72,776	72,776
Accrued annual leave	<u>139,258</u>	<u>198,452</u>
Total liabilities	<u>9,803,894</u>	<u>9,672,930</u>
Net assets:		
Contributed capital:		
Invested in capital assets	7,758,176	7,819,749
Unrestricted	<u>1,060,241</u>	<u>(477,951)</u>
Total net assets	<u>8,818,417</u>	<u>7,341,798</u>
	<u>\$ 18,622,311</u>	<u>\$ 17,014,728</u>

See accompanying notes to financial statements and auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Statement of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	2003		2002
Revenues:			
Grants-in-aid from Government of Guam	\$ 8,707,506		\$ 10,563,528
Consumption tax refund	224,018		280,309
Memberships	71,870		52,800
	9,003,394		10,896,637
Expenses: Guam operations			
Contractual, promotional	1,025,871		1,473,275
Personnel	980,891		1,151,983
Contractual, administrative	501,099		529,640
Benefits	283,179		296,528
Contractual, developmental	230,437		362,400
Depreciation and amortization	92,393		96,899
Travel	64,029		212,153
Miscellaneous	938		7,922
	3,178,837		4,130,800
Expenses: Japan operations			
Contractual, promotional	3,331,118		7,341,816
Personnel	440,397		440,677
Contractual, administrative	439,966		496,479
Travel	58,441		179,833
Consumption tax expense	43,328		28,031
Miscellaneous	-		7,727
	4,313,250		8,494,563
Total expenses	7,492,087		12,625,363
Gain (Loss) from operations	1,511,307	-	(1,728,726)
Other income (expense)	(46,559)		197,809
Interest income	11,871		24,631
	(34,688)		222,440
Total other income and (expense)	(34,688)		222,440
Increase (decrease) in net assets	1,476,619		(1,506,286)
Net assets adjustment	-		(606,288)
Net assets at beginning of year	7,341,798		9,454,372
Net assets at end of year	\$ 8,818,417		\$ 7,341,798

See accompanying notes to financial statements and auditors' report.

GUAM VISITORS BUREAU
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Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from the Government of Guam	\$ 10,768,495	\$ 3,734,121
Cash received from members	71,870	52,800
Cash received from other sources	224,018	228,442
Cash paid to employees and suppliers	<u>(7,417,858)</u>	<u>(7,519,028)</u>
Net cash provided by (used in) operating activities	3,646,525	(3,503,665)
Cash flows from capital activities:		
Additions to equipment	<u>(30,820)</u>	<u>-</u>
Net cash used for capital activities	<u>(30,820)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	3,615,705	(3,503,665)
Cash at beginning of year	<u>533,714</u>	<u>4,037,379</u>
Cash at end of year	<u><u>\$ 4,149,419</u></u>	<u><u>\$ 533,714</u></u>
Reconciliation of excess of revenues over (under) expenses to net cash provided by operating activities:		
Gains (Loss) from operations	\$ 1,511,307	\$ (1,728,726)
Adjustment to reconcile loss from operations to net cash provided by (used in) operating activities:		
Adjustment to net assets	-	(606,288)
Depreciation and amortization	92,393	96,899
Other income and expense	(34,688)	222,440
Decrease (increase) in assets:		
Accounts receivable	2,060,990	(6,881,274)
Prepaid expenses	(114,440)	-
Increase (decrease) in liabilities:		
Accounts payable	(2,890,881)	2,882,449
Accrued liabilities	(401,600)	(465,218)
Deferred Revenue	<u>3,423,444</u>	<u>2,976,053</u>
Net cash provided by (used in) operating activities	<u><u>\$ 3,646,525</u></u>	<u><u>\$ (3,503,665)</u></u>

See accompanying notes to financial statements and auditors' report.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Restricted cash	\$ 23,299	\$ 14,497
Accounts receivable - other, net of allowance for doubtful accounts of \$1,045,905 in 2003	590,000	1,045,905
	<u>\$ 613,299</u>	<u>\$ 1,060,402</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ -	\$ 1,359
Interfund payable - GVB operations	894,830	374,915
Deferred revenue	153,936	609,905
	<u>1,048,766</u>	<u>986,179</u>
Net assets:		
Restricted	(435,467)	74,223
	<u>\$ 613,299</u>	<u>\$ 1,060,402</u>

See accompanying notes to financial statements and auditors' report.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Revenue, Expenses and Net Assets
Years Ended September 30, 2003 and 2002

	2003	2002
Revenues:		
Government of Guam contribution	\$ 50,000	\$ 450,095
Interest	102	1,862
	50,102	451,957
Total revenues		
Expenses:		
Tumon & Hagatna Beach Cleaning & Maintenance	254,046	176,966
Park Improvements	158,526	-
Tumon Landscaping Maintenance	79,920	16,160
Tropical fantasy	50,000	50,000
Two Lovers Point bike and jogging trails	12,300	8,200
Guam Village Beautification Grant Program	5,000	20,000
Smokin' Wheels Race	-	200,000
Guam Micronesian Island Fair	-	86,500
Beach cleaning	-	66,929
Maintenance	-	65,580
Tumon Beautification	-	2,607
	559,792	692,942
Total expenses		
Gain (Loss) from operations	(509,690)	(240,985)
Net assets adjustment	-	(67,120)
Net assets at beginning of year	74,223	382,328
Net assets at end of year	\$ (435,467)	\$ 74,223

See accompanying notes to financial statements and auditors' report.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from the Government of Guam	\$ 50,000	\$ 450,095
Cash received from interest	102	1,862
Cash paid to suppliers	<u>(41,300)</u>	<u>(788,961)</u>
Net cash provided by (used in) operating activities	8,802	(337,004)
Cash at beginning of year	<u>14,497</u>	<u>351,501</u>
Cash at end of year	<u>\$ 23,299</u>	<u>\$ 14,497</u>
Reconciliation of excess of revenues over (under) expenses to net cash provided by (used in) operating activities:		
Excess of revenues over expenses	\$ (509,690)	\$ (240,985)
Adjustment to net assets	-	(67,120)
(Increase) decrease in assets:		
Accounts receivable	455,905	(609,905)
Increase (decrease) in liabilities:		
Due to GVB operations	519,915	52,405
Deferred Revenue	(455,969)	609,905
Accounts payable	<u>(1,359)</u>	<u>(81,304)</u>
Net cash provided by (used in) operating activities	<u>\$ 8,802</u>	<u>\$ (337,004)</u>

See accompanying notes to financial statements and auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2003 and 2002

(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 GASB #14, 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.

Grants-in-Aid from the Government of Guam

GVB received grants-in-aid from the Government of Guam for its operations. These grants are subject to a matching requirement by GVB either in cash or services, as determined by the Governor of Guam. There are separate legislative appropriations to fund GVB's general operations and special tourist attraction fund projects.

According to Governmental Accounting Standards Board (GASB) 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grants-in-aid for a fiscal year received or outstanding more than ninety days after the fiscal year end are recorded as deferred revenues, subsequently recognized as revenues in the fiscal year they are received.

In-Kind Contributions

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

Depreciation and Amortization

Depreciation and amortization of property and equipment are provided over the estimated useful lives of the respective assets on a straight-line basis.

Annual Leave

Annual leave is accrued in the period earned. Unused leave is payable to employees upon termination of employment.

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.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2003 and 2002

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

Cash

For purposes of the 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.

Credit risk associated with deposits is categorized into three levels generally described as follows:

- Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 – Uncollateralized.

GVB and the Special Tourist Attraction Fund Projects, combined, have approximately \$323,299 of deposits insured through the Federal Deposit Insurance Corporation (FDIC) and approximately \$3,849,419 of uninsured and uncollateralized deposits as of September 30, 2003. Japan office operations bank accounts are subject to the banking regulations of Japan.

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.

Accounting Standards

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Facilities that use Proprietary Fund Accounting*, GVB has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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. The costs are included as building maintenance in the contractual administrative expense category.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2003 and 2002

(2) Employees' Retirement Plan

Employees of the Bureau hired before October 1, 1995 are members of the Government of Guam Employee's Retirement System, a defined benefit, contributory pension plan. The Plan is 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 the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2003, a minimum combined employer and employee contribution rate of 40.98% of covered payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 19.675%, respectively, for the year ended September 30, 2003 and 2002.

The defined benefit plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase ranging from 4% per annum (for employees with over 21 years of service) to 8.5% per annum (for employees with less than 6 years of service). The most recent actuarial valuation performed as of September 30, 2001, 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 was performed for the Bureau as a separate sponsor, the accrued unfunded liability at September 30, 2003 and 2002 may be materially different than that recorded in the accompanying financial statements.

On September 29, 1995, the Guam Legislature passed Public Law 23-43 which created the Defined Contribution Retirement System (DCRS). All employees of the Bureau, hired after October 1, 1995, are members of the DCRS, a defined contribution, contributory pension plan. The Board of Trustees of the Government of Guam Retirement Fund is responsible for the administration of the DCRS. Investment management and plan administration services for the DCRS are performed by a private firm contracted by the Board of Trustees.

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.

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. 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 14.675% is contributed towards the unfunded liability of the defined benefit plan.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2003 and 2002

(2) Employees' Retirement Plan, continued

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.

During the year ended September 30, 2001, the Bureau implemented Government Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Government Employees*, in conjunction with all other Government of Guam agencies. However, the amount accrued by the Government of Guam for the Bureau's share of the unfunded retirement liability is not readily determinable.

(3) 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. The total cost of the building was \$2,500,000 which was completed in July of 1994. Depreciation of the building, through 2000, was closed out to contributed capital. In 2001, the Bureau implemented Government Accounting Standard Board Statement No. 33. As a result of this implementation, no further depreciation close outs to contributed capital have occurred.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2003 and 2002

(3) Property and Equipment and Contributed Capital, continued

A summary of contributed capital is as follows:

	<u>Tourist Attraction Fund</u>	
	<u>2003</u>	<u>2002</u>
Contributed capital - building	\$ 2,500,000	\$ 2,500,000
Contributed capital - land	5,992,415	5,992,415
Less: accumulated depreciation, building	<u>(513,888)</u>	<u>(513,888)</u>
	<u>\$ 7,978,527</u>	<u>\$ 7,978,527</u>

A summary of property and equipment and their estimated useful lives as of September 30, 2003 and 2002 are as follows:

<u>Category</u>	<u>Estimated Useful Life</u>	<u>2003</u>	<u>2002</u>
Building	30 years	\$ 2,500,000	\$ 2,500,000
Furniture and fixtures	5 to 10 years	272,570	272,570
Equipment	3 to 7 years	<u>285,191</u>	<u>268,837</u>
		3,057,761	3,041,407
Less accumulated depreciation		<u>(1,292,000)</u>	<u>(1,214,073)</u>
		1,765,761	1,827,334
Land		<u>5,992,415</u>	<u>5,992,415</u>
Total property and equipment		<u>\$ 7,758,176</u>	<u>\$ 7,819,749</u>

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2003 and 2002

(4) Commitments

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

Years Ended September 30,	
2004	\$ 113,202
2005	83,839
	<u>197,041</u>

The Japan lease requires a refundable security deposit in the amount of \$217,621 which is presented as other assets in the accompanying balance sheet.

(5) 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 encumbered funds should revert to the Tourist Attraction Fund.

(6) 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, 2003 and 2002.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2003 and 2002

(7) Adoption of New Accounting Principle

Effective October 1, 2001, GVB adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required supplementary information to the basic financial statements. Statement No. 34 requires as supplementary information, Management's Discussion and Analysis which includes an analytical overview of the Bureau's financial activities.

(8) Typhoon Pongsona Damages

On December 8, 2002, GVB's premises and property were damaged by Typhoon Pongsona. Expenditures for Typhoon Pongsona, net of Federal Emergency Management Agency (FEMA) claims reimbursements, totaled to \$14,054.

(9) Net Assets

Certain items, resulting in both the overstatement and understatement of the previously reported liabilities and expenses of prior years, were corrected during 2002 resulting in the following changes to net assets as of September 30, 2002:

Guam Visitors Bureau:	
Understatement of Accounts Payable	\$ <u>606,288</u>
 Tourist Attraction Fund Projects:	
Understatement of Accounts Payable	\$ <u>67,120</u>

These corrections are the result of adjustments made in previous years. The effect of these adjustments upon any specific year cannot readily be determined. As a result the cumulative adjustments were made to net assets in 2002.

GUAM VISITORS BUREAU
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Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2003 and 2002

Guam office:	<u>2003</u>	<u>2002</u>
Number of employees	<u>27</u>	<u>32</u>
Annual payroll	\$ <u>980,891</u>	\$ <u>1,151,983</u>
Japan office:		
Number of employees	<u>7</u>	<u>7</u>
Annual payroll (dollar equivalent)	\$ <u>379,944</u>	\$ <u>379,838</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
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Supplementary Schedule of Contractual Promotions
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Korea Promotions	\$ 620,787	\$ 891,901
Hong Kong Promotions	144,782	223,408
Taiwan Promotions	139,905	208,747
North America	82,632	95,683
Philippines Promotions	34,464	51,545
Other	<u>3,301</u>	<u>1,991</u>
Total contractual promotions	<u>\$ 1,025,871</u>	<u>\$ 1,473,275</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
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Supplementary Schedule of Guam Contractual Development Expenses
Years Ended September 30, 2003 and 2002

	2003	2002
Cultural and Heritage	\$ 70,423	\$ 188,247
Tourist Industry Relations	69,324	89,260
Community Development	38,263	66,801
Membership Account and others	46,112	13,069
Research and Evaluation	6,315	5,023
Total Guam contractual development	\$ 230,437	\$ 362,400

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Guam Contractual Administrative Expenses
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Printing and Reproduction	\$ 147,822	\$ 183,267
Utilities	73,042	84,173
Supplies	64,739	77,164
Miscellaneous	59,872	63,327
Legal Fees	57,947	36,350
Maintenance	46,385	54,808
Professional Service	19,017	-
Dues and Subscription	16,060	27,483
Advertising	10,407	3,068
Travel	5,808	-
Total Guam contractual administrative	<u>\$ 501,099</u>	<u>\$ 529,640</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A PUBLIC CORPORATION)

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND INTERNAL CONTROL

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS 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 September 30, 2003 and 2002 and for the year then ended, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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*.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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. Reportable conditions are described in the accompanying Schedule of Findings.

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Guam and Micronesia

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Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and management of GVB, federal awarding agencies, pass-through entities, 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.

Grant Thornton, LLP

July 29, 2005

Guam Visitors Bureau
(A Public Corporation)

Schedule of Findings

Year ended September 30, 2003 and 2002

Finding Number 1 - Purchase Orders

Criteria:

GVB policy requires that all expenses be supported by purchase orders.

Condition:

In fiscal year 2001 and 2002, a review of the numerical purchase order logs for the entire year revealed that there were instances where duplicate copies of purchase orders were not accounted for in these sequential logs.

Cause:

The cause of this condition is unknown.

Effect:

Expenditures may not attain the proper approvals for encumbrance, and prior to disbursement. Amounts expensed and disbursed may be in excess of budget due to the absence of proper approvals and without purchase order documentation on file.

Prior Year Finding:

A similar finding relating to purchase orders was included in the fiscal year 2002 findings.

Recommendation:

Although we did not confirm that this condition existed currently, the probable reason for the condition still existed as of September 30, 2003. Therefore, we recommend that a purchase order issuance control log be established to account for the marketing officer responsible for the P.O. and to insure its return. The status of outstanding P.O.s should be regularly investigated.

Auditee Response:

We think the purchase order process as it currently exists is cumbersome, requiring that all expenditures be supported by purchase orders to encumber expenditures. When major programs are implemented, there is board approval for specific programs and amounts for expenditure, which encumbers the funds. Many of these program expenditures are initiated

by signed contracts and agreements. Additionally, marketing officers are responsible for cumulative schedules of these costs, by individual programs, keeping track of budgeted to actual expenditures. These are regularly reviewed by the Board of Directors. It is our intention to revisit the policies and procedures relating to purchase orders, to streamline this administrative process.

Finding Number 2 - Marketing Offices' Agency Fees

Criteria:

The documentation of Agency representation fees would provide a clear record of agency fees for each marketing office.

Condition:

A review of the agency representation agreements for the foreign representative offices revealed that the percentage agency representation fees are not specified in the written agreements, except for the Japan agency representation agreement. These percentage agency fees are included in marketing agency invoices.

Cause:

According to marketing officers, these percentage fees are standardized in the countries and are known to GVB.

Effect:

Should the fees charged on billing invoices from the marketing offices change, disputes could arise as to the propriety of and reason for the change. Unnecessary negotiations and additional unbudgeted costs could result.

Prior Year Finding:

Similar findings were documented in the prior year.

Recommendation:

We recommend that the agency fee structure be documented in all written marketing representation agreements.

Auditee Response:

It has been our understanding that the original first year representation agreements were to have these percentage agency fees documented within them. As it appears that the annual renewals do not document them, we will insure that this subject matter is addressed properly in each renewal, as we do realize each is a separate and new agreement and legal document.

Finding Number 3 – In Kind Contributions:

Criteria:

In Kind contributions should be accurately recorded.

Condition:

In Kind contributions were not recorded by GVB as of the fiscal year end.

Cause:

Marketing officers send In Kind contributions valuation forms to GVB program sponsors to document the nature and value of the contributions. However, for unknown reasons, there are not timely responses to these requests, or the documented responses do not seem to reflect true market value, based on industry knowledge of the services being provided.

Effect:

Possible understatement of revenues and expenses, at gross valuation, could result from this condition.

Prior Year Finding:

Similar findings were documented in the prior year.

Recommendation:

Although total In Kind revenue should be offset by total In Kind Expense, GVB should record all In Kind contributions.

Auditee Response:

Marketing officers follow up on these requests to the sponsoring entities, but the responses are still not received on a timely basis, particularly from off-island. We may need to review the reason for this policy and the method of documentation.

Finding 4 – MIP Fund Accounting Software System

Criteria:

The accounting software should be set up and used in an efficient manner.

Condition:

The general ledger account alpha numeric numbering system is very lengthy and cumbersome. New general ledger expense accounts are created each year for expenses that

are similar in nature. This continually increases the number of general ledger accounts, many of which are never used again.

Cause:

It is our understanding that the software was acquired upon the recommendation of another government agency that uses it. However, there was no direct installation and set up support, or dedicated user training at the time of purchase.

Effect:

Ineffective and inefficient use of the software may result from this condition, requiring the continued preparation of manual schedules.

Recommendation:

We recommend the local support company for the software be contacted to provide additional training and consulting to improve efficiencies.

Auditee Response:

The local support company has been contracted for training information and cost estimates. The intention is to present this to executive management and the Board of Director's for review and approval. The software has been upgraded from 3.5 version to 6.2. Training was completed in August of 2005.

Finding 5 – Fixed Asset Schedule

Criteria:

Detailed Fixed Asset Schedules should be accurate and properly maintained.

Condition:

Fixed assets cost and accumulated depreciation per the detailed schedule did not agree with the general ledger.

Cause:

Due to hardware related problems with the computer system, an incorrect and outdated version of the Fixed Assets Schedule was provided.

Effect:

By not properly maintaining these schedules, the recording of incorrect Fixed Assets cost and depreciation transactions could occur.

Recommendation:

GVB should properly maintain its schedules and keep appropriate backups of the original. In addition, GVB should regularly verify that schedules are accurate and regularly reconciled to the general ledger.

Auditee Response:

Management agrees and will implement administrative procedures accordingly.

Finding 6 – Budget Schedules

Criteria:

Budget schedules should be properly maintained.

Condition:

Several different revenue and expense budget schedules were provided.

Cause:

The final approved legislature budget was initially provided. Subsequent to that, the budget which was reduced by management was found and provided. Management reduced the budget because GVB was not receiving all the approved allotments from the Government of Guam.

Effect:

By not properly managing the budget schedule, comparisons between actual and budgeted revenue and expenses would be incorrect and unreliable.

Recommendation:

We recommend that management maintain the proper final approved legislature budget. In addition, GVB should regularly perform and analyze budget to actual comparisons. This would be a valuable analytical management tool.

Auditee Response

Management agrees and will implement monthly comparisons.

This report is intended solely for the information and use of the Board of Directors and management of the Guam Visitors Bureau.

We wish to express our appreciation for the cooperation of the staff and management of GVB during the course of our audit.

Sincerely,

Grant Thornton, LLP