

Grant Thornton 

GUAM VISITORS BUREAU
(A PUBLIC CORPORATION)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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Guam Visitors Bureau
(A Public Corporation)

Financial Statements and Other Financial Information
Years ended September 30, 2004 and 2003

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis.....	3
Audited Financial Statements (Guam Visitors Bureau)	
Statements of Net Assets.....	6
Statements of Revenues, Expenses and Changes in Net Assets.....	7
Statements of Cash Flows.....	8
Audited Financial Statements (Special Tourist Attraction Fund)	
Statements of Net Assets.....	9
Statements of Revenues, Expenses and Net Assets.....	10
Statements of Cash Flows.....	11
Notes to Financial Statements.....	12
Other Financial Information	
Supplementary Schedule of Employees and Salaries.....	19
Supplementary Schedule of Contractual Promotions.....	20
Supplementary Schedule of Guam Contractual Development Expenses.....	21
Supplementary Schedule of Guam Contractual Administrative Expenses.....	22
Compliance and internal controls report.....	23

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, 2004 and 2003, 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, 2004 and 2003, 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 January 26, 2006 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

January 26, 2006

Guam Visitors Bureau
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2004

This Management's Discussion and Analysis (MD&A) provides an overview of the Bureau's FY2004 activities and financial results in comparison to FY2003.

Introduction

The Bureau is a public corporation first established in 1970 through an Executive order of the Governor, and subsequently by Public Law 17-32 in 1983 as a non-stock, non-profit membership corporation in accordance with the applicable general corporation laws of Guam. The corporation prepares and files its financial statement using U.S. dollars, but transacts business with companies and other vendors using various Asian currencies.

By law, the Bureau is mandated to promote and market destination Guam; promote local interest in tourism; assist training and education efforts in tourism based employment and entrepreneurship; promote local culture and locally made items; encourage the development of tourist attractions and facilities; assist in the regulatory aspects of tourism; and gather, produce, and disseminate visitor industry information.

The Bureau is also a trustee of funds for various tourist attraction projects as provided for under Public Law 23-45.

Revenue

An eleven per cent hotel occupancy tax is the revenue source for GovGuam's "Tourist Attraction Fund" and this fund is the Bureau's primary source of income, after satisfying the deduction of \$7,428,000.00 in annual debt service for the 1997 Tumon infrastructure improvement bonds. Consumption tax refunds from Japan Advertising expenditures are another source of revenue. Dues from the Bureau's membership is also an income source, but constitute less than 1% of total revenues.

Total TAF revenues were \$17,653,670.00, up 34% from 2003, and reflected the 35% increase in visitors who came to Guam in 2004. Unfortunately, the \$10,225,670 balance, after debt service on the bonds, was not sufficient to fund the Bureau's budget of \$13,670,830, as authorized in the FY2004 Executive Budget (PL 27-29). This \$3.4 million difference adversely impacted the Bureau's ability to plan and carry out various marketing and community programs throughout the year. Refunds from consumption taxes paid in Japan totaled \$322,033 and membership dues income was \$56,900.

The Bureau's income of \$7,544,885 in 2004 was down 16% from 2003, mainly due to the \$1.5 million (rounded) reduction in government TAF grants and \$14,970 less in membership dues collections. An improvement of +44% in Japan consumption tax refunds was not enough to cover the substantial shortfall, however, in TAF receipts.

Guam Visitors Bureau
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2004

The year's reduced operating income does not take into consideration the significant foreign exchange loss of \$721,600, which amount is the equivalent of nearly 20% in Japan's marketing and promotion budget alone. Given this significance, it will be in the Bureau's interest to institute a currency risk reduction program in future overseas transactions.

Expenses

Total Expenses in 2004 jumped 47% based on a very aggressive plan to grow visitor arrivals in a recovering overseas travel environment. About 84% of the \$11.0 million in expenses this year were in marketing and promotional activities. This amount was 66% over the \$5.5 million spent in 2003 when only \$13.2 million in total hotel occupancy taxes collected were the lowest in recent memory, and when available funding for GVB and TAF projects was just under \$5.8 million, or about a third the amount available just two years prior in 2001.

Significant arrivals did in fact materialize from Japan with total visitors up 48%, but Korean arrivals were down 2% following the termination of Asiana's service. Improvements were also noted, however, in visitors from Taiwan (+40%), the U.S. (+6%), Philippines (+12%), and Australia (+41%).

The combined effects of underfunding from TAF allotments, the burst of marketing and promotional activities previously held near idle for a year, and the carry over of doubtful TAF receivables, resulted in a 57% drop in net assets, from last year's \$8,818,417 to \$4,957,057 in 2004, and a 61% deterioration in the Bureau's year end cash position from \$4,149,419 to \$1,598,594. It should be noted that the 2003 net asset improvement over the previous year (2002) was the result of an aggressive cost containment posture anticipating the immediate adverse aftermath of super typhoon Pongsona, SARS, the war in Iraq, and North Korea's sabre rattling.

The widening gap between budget authorized spending, and what the Bureau was actually receiving in allotment receipts during the year, was an alarming trend that prompted management and the Board to plan down marketing and other expenditures during the year. Had this measure not been taken, the Bureau's cash and net asset positions would have been worse than the -61% and -57% decreases, respectively. This policy direction was to be carried into 2005 when the Bureau was expected to operate under a self imposed 10% reduced budget.

A major concern lingers regarding the use of TAF money and the order in which funding is allocated to GVB and other GovGuam departments and agencies. The disbursement of TAF funds to other entities, junior in standing to the GVB as described in the December 1, 1997 bond indenture, would appear to be a technical violation and must be rectified. Resolving this concern will not only avoid negative consequences that can arise from this violation, but will ameliorate the chronic cash flow problem that continues to adversely impact the Bureau's operational and financial performance.

Guam Visitors Bureau
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2004

Financial Highlights

1. Cash on hand and in banks decreased by \$2,550,824 in FY2004 compared to FY2003. It is primarily due to payment of FY 2002 Asatsu invoices in Fiscal Year 2004. Correspondingly, this resulted in the decrease of accounts payable by \$1,126,686 in FY2004.
2. Accounts receivable from the Government of Guam increased by \$546,195 despite an increase in the allowance for doubtful accounts for the year in the amount of \$7,015,962 compared to \$3,592,519 in Fiscal Year 2003. The increase in doubtful account is primarily due to the release of only \$10,663,395 out of the \$13,670,830 FY2004 budget. Accounts receivable for TAF special projects decreased by \$440,000 compared to FY2003 due to the increase in the allowance for doubtful accounts.
3. Other assets decreased by \$117,078 due to the refund of a security deposit when the GVB Japan Office reduced its rented office space. Likewise prepaid expenses related to the reduction of rented office space decreased by \$114,440.
4. Deferred revenue increased in FY2004 by \$2,857,434 compared to FY2003 due to FY2004 funds not being remitted to GVB by GovGuam.
5. Accrued annual leave decreased by \$32,689 due to the retirement of two (2) employees and the adjustment of annual leave dollar balance at the end of the year based on the allowable 320 hours accumulated leave balance.
6. Fiscal year 2004 revenues declined by \$1,458,509 compared to the revenue generated in FY2003. This decline was due to decreased GovGuam grants-in-aid (\$1,541,554) and a decrease in membership collections (\$14,970).
7. Total expenses in FY2004 increased by \$3,515,178 compared to FY2003, due to increases in promotional, development and contractual expenses associated with various marketing initiatives. Personnel and benefits, however, declined by \$157,558 in FY 2004 compared to FY 2003 expenses.
8. Increase of nonrecurring income registered in FY2004 of \$294,972 compared to FY2004 was due to refunds from damages suffered during Typhoon Pongsona and Chataan, respectively.
9. Unrestricted fund balance is showing a negative balance of \$2,714,454 in FY2004 compared to FY2003 positive balance of \$1,060,241 due to decrease in overall net assets as of September 30, 2004.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Net Assets
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 1,598,595	\$ 4,149,419
Accounts receivable - Government of Guam, net of allowance for doubtful accounts of \$7,015,962 and \$3,592,519 in 2004 and 2003	5,977,790	5,431,595
Accounts receivable - TAF special projects	1,084,471	894,830
Accounts receivable - other	11,238	24,174
Prepaid expenses	32,056	146,496
Total current assets	8,704,150	10,646,514
Other assets	100,543	217,621
Property and equipment, at cost, net of accumulated depreciation and amortization	7,671,511	7,758,176
	\$ 16,476,203	\$ 18,622,311
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 2,082,870	\$ 3,192,363
Deferred revenue	9,256,931	6,399,497
Total current liabilities	11,339,801	9,591,860
Unfunded pension cost	72,776	72,776
Accrued annual leave	106,569	139,258
Total liabilities	11,519,146	9,803,894
Net assets:		
Contributed capital:		
Invested in capital assets	7,671,511	7,758,176
Unrestricted	(2,714,454)	1,060,241
Total net assets	4,957,057	8,818,417
	\$ 16,476,203	\$ 18,622,311

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, 2004 and 2003

	2004	2003
Revenues:		
Grants-in-aid from Government of Guam	\$ 7,165,952	\$ 8,707,506
Consumption tax refund	322,033	224,018
Memberships	56,900	71,870
Total revenues	7,544,885	9,003,394
Expenses: Guam operations		
Contractual, promotional	2,207,363	1,025,871
Contractual, developmental	1,645,483	230,437
Contractual, administrative	1,034,624	501,099
Personnel	919,943	980,891
Benefits	257,035	283,179
Travel	131,267	64,029
Depreciation and amortization	86,664	92,393
Miscellaneous	14,253	938
Total Guam operations	6,296,632	3,178,837
Expenses: Japan operations		
Contractual, promotional	4,004,746	3,331,118
Personnel	369,931	440,397
Contractual, administrative	263,539	439,966
Consumption tax expense	42,602	43,328
Travel	29,815	58,441
Total Japan operations	4,710,633	4,313,250
Total expenses	11,007,265	7,492,087
Gain (Loss) from operations	(3,462,380)	1,511,307
Other income (expense)		
Insurance claims	294,972	-
Interest income	17,153	11,871
Miscellaneous income	10,495	5,167
Loss on foreign exchange transactions	(721,600)	(51,726)
Total other expense	(398,980)	(34,688)
Increase (decrease) in net assets	(3,861,360)	1,476,619
Net assets at beginning of year	8,818,417	7,341,798
Net assets at end of year	\$ 4,957,057	\$ 8,818,417

See accompanying notes to financial statements and auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from the Government of Guam	\$ 6,443,052	\$ 10,768,495
Cash received from members	56,900	71,870
Cash received from other sources	322,033	224,018
Cash paid to employees and suppliers	<u>(9,489,888)</u>	<u>(7,417,858)</u>
Net cash provided by (used in) operating activities	(2,667,903)	3,646,525
Cash flows from capital activities:		
Decrease in other assets	117,078	-
Additions to equipment	<u>-</u>	<u>(30,820)</u>
Net cash provided by (used in) capital activities	<u>117,078</u>	<u>(30,820)</u>
Net increase (decrease) in cash and cash equivalents	(2,550,825)	3,615,705
Cash at beginning of year	<u>4,149,419</u>	<u>533,714</u>
Cash at end of year	<u><u>\$ 1,598,594</u></u>	<u><u>\$ 4,149,419</u></u>
Reconciliation of excess of revenues over (under) expenses to net cash provided by operating activities:		
Gains (Loss) from operations	\$ (3,462,380)	\$ 1,511,307
Depreciation and amortization	86,664	92,393
Other income and expense	(398,980)	(34,688)
Decrease (increase) in assets:		
Accounts receivable	(722,900)	2,060,990
Prepaid expenses	114,440	(114,440)
Increase (decrease) in liabilities:		
Accounts payable	(1,126,686)	(2,890,881)
Accrued liabilities	(15,495)	(401,600)
Deferred Revenue	<u>2,857,434</u>	<u>3,423,444</u>
Net cash provided by (used in) operating activities	<u><u>\$ (2,667,903)</u></u>	<u><u>\$ 3,646,525</u></u>

See accompanying notes to financial statements and auditors' report.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Net Assets
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Restricted cash	\$ 51,945	\$ 23,299
Accounts receivable - other, net of allowance for doubtful accounts of \$1,635,905 and \$1,045,905 in 2004 and 2003, respectively	150,000	590,000
	<u>\$ 201,945</u>	<u>\$ 613,299</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Interfund payable - GVB operations	\$ 1,084,471	\$ 894,830
Deferred revenue	-	153,936
	<u>1,084,471</u>	<u>1,048,766</u>
Net assets:		
Restricted	(882,526)	(435,467)
	<u>\$ 201,945</u>	<u>\$ 613,299</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, 2004 and 2003

	2004	2003
Revenues:		
Government of Guam contribution	\$ -	\$ 50,000
Interest	194	102
Total revenues	194	50,102
Expenses:		
Tumon & Hagatna Beach Cleaning & Maintenance	297,993	254,046
Tumon Landscaping Maintenance	73,260	79,920
Tropical fantasy	50,000	50,000
Park Improvements	-	158,526
Two Lovers Point bike and jogging trails	-	12,300
Guam Village Beautification Grant Program	-	5,000
Total expenses	421,253	559,792
Loss from operations	(421,059)	(509,690)
Retained Earnings adjustment	(26,000)	-
Net assets at beginning of year	(435,467)	74,223
Net assets at end of year	\$ (882,526)	\$ (435,467)

See accompanying notes to financial statements and auditors' report.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from the Government of Guam	\$ -	\$ 50,000
Cash received from interest	194	102
Cash paid to suppliers	28,452	(41,300)
Net cash provided by operating activities	28,646	8,802
Cash at beginning of year	23,299	14,497
Cash at end of year	\$ 51,945	\$ 23,299
Reconciliation of excess of revenues over (under) expenses to net cash provided by (used in) operating activities:		
Excess of expenses over revenues	\$ (421,059)	\$ (509,690)
Adjustment to net assets	(26,000)	-
(Increase) decrease in assets:		
Accounts receivable	440,000	455,905
Increase (decrease) in liabilities:		
Due to GVB operations	189,641	519,915
Deferred Revenue	(153,936)	(455,969)
Accounts payable	-	(1,359)
Net cash provided by operating activities	\$ 28,646	\$ 8,802

See accompanying notes to financial statements and auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2004 and 2003

(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 and Sick Leave

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

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GVB has estimated potential future sick leave payments as a result of this law, but has not recorded this since it is not considered material. Actual payout may be materially different than estimated and are not readily determinable at present.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2004 and 2003

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

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

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 \$351,495 of deposits insured through the Federal Deposit Insurance Corporation (FDIC) and approximately \$1,298,495 of uninsured and uncollateralized deposits as of September 30, 2004. 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.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2004 and 2003

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

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.

(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, 2004, it has been determined that for the year ended September 30, 2004, a minimum combined employer and employee contribution rate of 33.89% 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 employer and employee contributions were 20.81% and 9.5%, respectively, for the years ended September 30, 2004.

The defined benefit plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7% and an assumed salary scale increase ranging from 3.5% per annum. The most recent actuarial valuation performed as of September 30, 2004, 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, 2004 and 2003 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.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2004 and 2003

(2) Employees' Retirement Plan, continued

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, 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 14.675% 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.

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, 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, 2004 and 2003

(3) Property and Equipment and Contributed Capital, continued

A summary of contributed capital is as follows:

	<u>Tourist Attraction Fund</u>	
	<u>2004</u>	<u>2003</u>
Contributed capital - land	\$ 5,992,415	\$ 5,992,415
Contributed capital - building	2,500,000	2,500,000
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, 2004 and 2003 are as follows:

<u>Category</u>	<u>Estimated Useful Life</u>	<u>2004</u>	<u>2003</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>285,191</u>
		3,057,761	3,057,761
Less accumulated depreciation		<u>(1,378,665)</u>	<u>(1,292,000)</u>
		1,679,096	1,765,761
Land		<u>5,992,415</u>	<u>5,992,415</u>
Total property and equipment		<u>\$ 7,671,511</u>	<u>\$ 7,758,176</u>

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2004 and 2003

(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,	
2005	\$ 83,800
	<u>\$ 83,800</u>

The Japan lease requires a refundable security deposit in the amount of \$100,543 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, 2004 and 2003.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2004 and 2003

(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 as of September 30, 2003. In 2004, GVB received \$294,972 from FEMA as reimbursements for Typhoon Pongsona and Typhoon Chata'an damages.

(9) Tourist Attraction Fund Projects - Net Assets Adjustment

In 2004, an allowance for doubtful receivables was established for 2003 receivables which had not been received from the Government of Guam. According to the requirement of GASB 33 and 34, the allowance was offset against deferred revenue and 2004 revenue, respectively. The remaining balance was recorded against restricted net assets.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Guam office:		
Number of employees	<u>24</u>	<u>27</u>
Annual payroll	\$ <u>919,943</u>	\$ <u>980,891</u>
Japan office:		
Number of employees	<u>8</u>	<u>7</u>
Annual payroll (dollar equivalent)	\$ <u>325,129</u>	\$ <u>379,944</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Guam Contractual Promotions
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Korea Promotions	\$ 807,474	\$ 620,787
Hong Kong Promotions	633,432	144,782
Taiwan Promotions	444,352	139,905
North America	278,225	82,632
Philippines Promotions	43,880	34,464
Other	<u>-</u>	<u>3,301</u>
Total Guam contractual promotions	<u>\$ 2,207,363</u>	<u>\$ 1,025,871</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Guam Contractual Development Expenses
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Research and Evaluation	\$ 575,802	\$ 6,315
Community Development	447,916	38,263
Tourist Industry Relations	350,440	69,324
Cultural and Heritage	225,576	70,423
Membership Account and others	45,749	46,112
Total Guam contractual development	<u>\$ 1,645,483</u>	<u>\$ 230,437</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Guam Contractual Administrative Expenses
Years Ended September 30, 2004 and 2003

	2004	2003
Printing and Reproduction	\$ 247,683	\$ 147,822
Typhoon Restoration	247,663	-
Advertising	102,994	10,407
Legal Fees	91,824	57,947
Utilities	87,525	73,042
Maintenance	71,532	46,385
Supplies	62,890	64,739
Miscellaneous	52,505	59,872
Professional Service	36,914	19,017
Dues and Subscription	33,094	16,060
Travel	-	5,808
Total Guam contractual administrative	\$ 1,034,624	\$ 501,099

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A PUBLIC CORPORATION)

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND INTERNAL CONTROL

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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, 2004 and 2003 and for the year then ended, and have issued our report thereon dated January 26, 2006. 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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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

January 26, 2006

Guam Visitors Bureau
(A Public Corporation)

Schedule of Findings

Year ended September 30, 2004 and 2003

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, 2004 and 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, as well as to re-define responsibility for the tracking of the actual to budgeted expenditures by program and visitor market.

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 and effective 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. Additionally, expenses are categorized on a project basis, not on a categorical basis.

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. A consultant has been hired recently to review, restructure and enhance the financial reporting system to provide more meaningful information.

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

