# GUAM VISITORS BUREAU
# (A PUBLIC CORPORATION)

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

## YEARS ENDED SEPTEMBER 30, 2002 AND 2001

SLATER, NAKAMURA & CO, LLP
Certified Public Accountants
Dhonson Plaza, Suite B
790 South Marine Drive
Tamuning, Guam 96913

**Guam Visitors Bureau**
(A Public Corporation)

Financial Statements and Other Financial Information
Years ended September 30, 2002 and 2001

## Contents


Report of Independent Auditors.....1
Management's Discussion and Analysis.....3

Audited Financial Statements
(Guam Visitors Bureau)

Balance Sheet.....6
Statements of Operations and Retained Earnings (Deficit).....7
Statements of Cash Flow.....8

Audited Financial Statements
(Special Tourist Attraction Fund)

Balance Sheet.....9
Statements of Operations and Fund Balance.....10
Statements of Cash Flow.....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.....21
Supplementary Schedule of Guam Contractual Administrative.....22

Compliance and internal controls report.....23

SLATER, NAKAMURA & CO, LLP
Certified Public Accountants

# INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Visitors Bureau:

We have audited the accompanying balance sheets of Guam Visitors Bureau (GVB) and its Special Tourist Attraction Fund Projects as of September 30, 2002, and the related statements of operations and retained earnings (deficit), operations and fund balance, and cash flows for the years then ended. These financial statements are the responsibility of GVB's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of GVB for the year ended September 30, 2001 were audited by other auditors whose report, dated September 24, 2003, expressed an unqualified opinion on those statements.

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, 2002 and 2001, 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



Dhonson Plaza, Suite B, 790 South Marine Drive, Tamuning, Guam 96913
Tel: (671) 649-3800/03/06/07 · Fax: (671) 649-3890
E-Mail: nakamura@iftech.net

methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in pages 13 through 16 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. The supplementary information for the year ended September 30, 2001 was audited by other auditors whose report, dated September 24, 2003, expressed an unqualified opinion on such information.

In accordance with *Government Auditing Standards,* we have also issued our report dated March 7, 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.

Slater, Nakamura & Co, LLP

**SLATER, NAKAMURA & CO, LLP**
**Certified Public Accountants**

Tamuning, Guam USA

March 7, 2005


Dhonson Plaza, Suite B, 790 South Marine Drive, Tamuning, Guam 96913
Tel: (671) 649-3807/00 · Fax: (671) 649-3890
E-Mail: swa@guamcell.net

**Guam Visitors Bureau**
(A Public Corporation)

Management's Discussion and Analysis
Year Ended September 30, 2002

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". Other purposes of the Bureau include:

- Promoting local interest and participation at all levels of the industry,
- Assisting public and private entities in the development, implementation and promotion of educational, training, employment, and entrepreneurial development,
- Assisting other government agencies in the enforcement of laws and regulation pertaining to the visitor industry,
- Working with other entities to collect, analyze, evaluate and regularly publish visitor industry data, and
- Engaging in all lawful activities in the promotion of tourism

The Bureau is governed by a Board of Directors composed of thirteen (13) members 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 member
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.

Dues 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.

Island visitors reached a peak at 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 even beyond FY 2002.

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 FY 2002, but a devastating Supertyphoon in July (Chata'an) and 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 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 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 up to a $6 million line of credit (P.L. 26-83).

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 markets 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 already 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.

## FINANCIAL ANALYSIS

FY 2002 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 the drop in TAF revenues.

Total revenues went down 31% from 2001, most of it coming from the 28% drop in the government's 2002 appropriation for GVB.

In-kind contributions made during FY 2002 were not properly documented, reflecting none given in 2002. Although some contributions were made, an accurate figure cannot be established because of inconsistent or unauthenticated documentation.

Despite a 14.3% decrease in FY 2002 expenses, the Bureau still ended up with an operating deficit of $1,506,284 compared to the positive balance of $1,378,938 the year before. Personnel salaries and benefits were essentially flat to 2001.

Increase (Decrease) in Balance Sheet Accounts:

1. Cash on hand and in banks significantly decreased by $3,503,665 in FY2002 compared to FY 2001. Cash account in FY 2001 shows a balance of $4,037,379 compared to $533,714 in FY 2002.

2. Accounts Receivable from the Government of Guam for FY 2002 amounted to $8,035,923 compared to $1,206,516 in FY 2001. Allowance for doubtful accounts in the amount of $2,096,466 was provided for in FY 2001 which represents the FY 1999 accounts receivable.

3. Accounts payable as of September 30, 2002 was $6,114,981 compared to $3,232,532 in FY 2001, an increase of 89.17% due to post 9-11 and Bali bombing marketing counter measures.

4. Accrued liabilities were down 61.38% in FY 2002 compared to FY 2001.

5. A deferred revenue account was set up in FY 2002. The amount of $2,976,053 represents the balance of the FY 2002 budget allotment which was not yet released to the Bureau.

6. Fund equity for FY 2002 decreased by $2,112,574 compared to FY 2001, the result of the operating deficit and a retained earnings adjustment, as disclosed in note 8 to the financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Balance Sheets
September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 533,714 | $ 4,037,379 |
| Accounts receivable - Government of Guam, net of allowance for doubtful accounts of $ 2,096,466 in 2002 and 2001 | 8,035,923 | 1,206,516 |
| Accounts receivable - TAF special projects | 374,915 | 322,810 |
| Accounts receivable - other | 750 | 988 |
| Prepaid expenses | 32,056 | 32,056 |
| Total current assets | 8,977,358 | 5,599,749 |
| Other assets | 217,621 | 217,621 |
| Property and equipment, at cost, net of accumulated depreciation and amortization | 7,819,749 | 7,916,648 |
| | $ 17,014,728 | $ 13,734,018 |
| LIABILITIES AND FUND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 6,114,981 | $ 3,232,532 |
| Accrued liabilities | 310,668 | 804,506 |
| Deferred revenue | 2,976,053 | - |
| Total current liabilities | 9,401,702 | 4,037,038 |
| Unfunded pension cost | 72,776 | 72,776 |
| Accrued annual leave | 198,452 | 169,832 |
| Total liabilities | 9,672,930 | 4,279,646 |
| Commitments | | |
| Fund equity: | | |
| Contributed capital: | | |
| Tourist Attraction Fund | 7,978,527 | 7,978,527 |
| Retained earnings (deficit): | | |
| Unappropriated deficit | - | (535,187) |
| Appropriated retained earnings (deficit) | (636,729) | 2,011,032 |
| Total retained earnings (deficit) | (636,729) | 1,475,845 |
| Total fund equity | 7,341,798 | 9,454,372 |
| | $ 17,014,728 | $ 13,734,018 |

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Operations and Retained Earnings (Deficit)
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Revenues: | | |
| Grants-in-aid from Government of Guam | $ 10,563,528 | $ 14,663,324 |
| Consumption tax refund | 280,309 | 338,499 |
| Memberships | 52,800 | 131,250 |
| In-kind contributions from members and others | - | 396,831 |
| Total revenues | 10,896,637 | 15,529,904 |
| Expenses: Guam operations | | |
| Contractual, promotional | 1,473,275 | 2,335,709 |
| Personnel | 1,151,983 | 1,126,718 |
| Contractual, administrative | 529,640 | 1,169,092 |
| Contractual, developmental | 362,400 | 1,035,993 |
| Benefits | 296,528 | 353,966 |
| Travel | 212,153 | 191,582 |
| Depreciation and amortization | 96,899 | 107,006 |
| Miscellaneous | 7,922 | 15,493 |
| Promotional in-kind contributions | - | 147,215 |
| Total Guam operations | 4,130,800 | 6,482,774 |
| Expenses: Japan operations | | |
| Contractual, promotional | 7,341,816 | 6,776,633 |
| Contractual, administrative | 496,479 | 543,190 |
| Personnel | 440,677 | 409,155 |
| Travel | 179,833 | 128,237 |
| Consumption tax expense | 28,031 | 33,850 |
| Miscellaneous | 7,727 | 101,019 |
| Promotional in-kind contributions | - | 249,616 |
| Total Japan operations | 8,494,563 | 8,241,700 |
| Total expenses | 12,625,363 | 14,724,474 |
| Other income (expense) | 197,809 | 517,834 |
| Interest income | 24,631 | 55,674 |
| Excess of revenue over (under) expense | (1,506,286) | 1,378,938 |
| Retained Earnings adjustment | (606,288) | - |
| Retained earnings at beginning of year | 1,475,845 | 96,907 |
| Retained earnings (deficit) at end of year | $ (636,729) | $ 1,475,845 |

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from the Government of Guam | $ 3,734,121 | $ 15,729,858 |
| Cash received from members | 52,800 | 131,250 |
| Cash received from other sources | 228,442 | 24,898 |
| Cash paid to employees and suppliers | (7,519,028) | (14,517,065) |
| Net cash provided by (used in) operating activities | (3,503,665) | 1,368,941 |
| Cash at beginning of year | 4,037,379 | 2,668,438 |
| Cash at end of year | $ 533,714 | $ 4,037,379 |
| Reconciliation of excess of revenues over (under) expenses to net cash provided by operating activities: | | |
| Excess of revenues over (under) expenses | $ (1,506,286) | $ 1,378,938 |
| Adjustment to retained earnings | (606,288) | - |
| Add back (deduct) expenses (revenues) which do not use cash: | | |
| In-kind contribution from members and others | - | (396,831) |
| In-kind expenses | - | 396,831 |
| Depreciation and amortization | 96,899 | 107,006 |
| Decrease (increase) in assets: | | |
| Accounts receivable | (6,881,274) | 752,933 |
| Prepaid expenses | - | 13,239 |
| Other assets | - | (126,583) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 2,882,449 | (1,531,164) |
| Accrued liabilities | (465,218) | 735,537 |
| Deferred Revenue | 2,976,053 | - |
| Unfunded pension cost | - | 39,035 |
| Net cash provided by (used in) operating activities | $ (3,503,665) | $ 1,368,941 |

See accompanying notes to financial statements.

# SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets
September 30, 2002 and 2001

| ASSETS | 2002 | 2001 |
|---|---|---|
| Restricted cash | $ 14,497 | $ 351,501 |
| Accounts receivable - other | 1,045,905 | 436,000 |
| | $ 1,060,402 | $ 787,501 |
| **LIABILITIES AND FUND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,359 | $ 82,363 |
| Interfund payable - GVB operations | 374,915 | 322,810 |
| Deferred revenue | 609,905 | - |
| | 986,179 | 405,173 |
| Fund balance: | | |
| Appropriated retained earnings | 74,223 | 382,328 |
| | $ 1,060,402 | $ 787,501 |

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Operations and Fund Balance
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Revenues: | | |
| Government of Guam contribution | $ 450,095 | $ 1,049,000 |
| Interest | 1,862 | 8,215 |
| Total revenues | 451,957 | 1,057,215 |
| Expenses | | |
| Smokin' Wheels Race | 200,000 | - |
| Tumon & Hagatna Beach Cleaning & Maintenance | 176,966 | - |
| Guam Micronesian Island Fair | 86,500 | 103,009 |
| Beach cleaning | 66,929 | 453,633 |
| Maintenance | 65,580 | - |
| Tropical fantasy | 50,000 | 50,000 |
| Guam Village Beautification Grant Program | 20,000 | 25,000 |
| Tumon Landscaping Maintenance | 16,160 | 99,091 |
| Two Lovers Point bike and jogging trails | 8,200 | 59,790 |
| Tumon Beautification | 2,607 | 131,942 |
| Asia Pacific Council of American Chambers | - | 10,031 |
| Donations for work | - | 3,795 |
| Miscellaneous | - | 444 |
| Total expenses | 692,942 | 936,735 |
| Excess of revenues over (under) expense | (240,985) | 120,480 |
| Fund Balance adjustment | (67,120) | - |
| Fund balance at beginning of year | 382,328 | 261,848 |
| Fund balance at end of year | $ 74,223 | $ 382,328 |

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from the Government of Guam | $ 450,095 | $ 613,000 |
| Cash received from interest | 1,862 | 8,215 |
| Cash paid to suppliers | (788,961) | (535,096) |
| Net cash provided by (used in) operating activities | (337,004) | 86,119 |
| Cash at beginning of year | 351,501 | 265,382 |
| Cash at end of year | $ 14,497 | $ 351,501 |
| Reconciliation of excess of revenues over (under) expenses to net cash provided by (used in) operating activities: | | |
| Excess of revenues over expenses | $ (240,985) | $ 120,480 |
| Adjustment to fund balance | (67,120) | - |
| (Increase) in assets: | | |
| Accounts receivable | (609,905) | (436,000) |
| Increase (decrease) in liabilities: | | |
| Due to GVB operations | 52,405 | 319,276 |
| Deferred Revenue | 609,905 | - |
| Accounts payable | (81,304) | 82,363 |
| Net cash provided by (used in) operating activities | $ (337,004) | $ 86,119 |

See accompanying notes to financial statements.

(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.

(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 $306,696 of deposits insured through the Federal Deposit Insurance Corporation (FDIC) and approximately $241,515 of uninsured and uncollateralized deposits as of September 30, 2002. 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.

(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, 2002, 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, 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, 2002 and 2001 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.

(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, in 2000, is 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 will occur.

(3) Property and Equipment and Contributed Capital, continued

A summary of contributed capital is as follows:

| | Tourist Attraction Fund | |
|---|---|---|
| | 2002 | 2001 |
| Contributed capital - building | $ 2,500,000 | $ 2,500,000 |
| Contributed capital - land | 5,992,415 | 5,992,415 |
| Less: accumulated depreciation, building | (513,888) | (513,888) |
| | $ 7,978,527 | $ 7,978,527 |

A summary of property and equipment and their estimated useful lives as of September 30, 2002 and 2001, are as follows:

| Category | Estimated Useful Life | 2002 | 2001 |
|---|---|---|---|
| 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 | 268,837 | 268,837 |
| | | 3,041,407 | 3,041,407 |
| Less accumulated depreciation | | (1,214,073) | (1,117,174) |
| | | 1,827,334 | 1,924,233 |
| Land | | 5,992,415 | 5,992,415 |
| Total property and equipment | | $ 7,819,749 | $ 7,916,648 |

(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, | |
|---|---|
| 2003 | $ 55,908 |
| 2004 | 27,954 |
| | $ 83,862 |

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, 2002 and 2001.

(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) Retained Earnings and Fund Balance

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 retained earnings as of September 30, 2002:

| | |
|---|---|
| Guam Visitors Bureau: | |
| Understatement of Accounts Payable | $ 606,288 |
| Tourist Attraction Fund Projects: | |
| Understatement of Accounts Payable | $ 67,120 |

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 current retained earnings.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Guam office: | | |
| Number of employees | 32 | 29 |
| Annual payroll | $ 1,151,983 | $ 1,154,983 |
| Japan office: | | |
| Number of employees | 7 | 7 |
| Annual payroll (dollar equivalent) | $ 379,838 | $ 355,489 |

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Contractual Promotions
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Korea Promotions | $ 891,901 | $ 830,130 |
| Hong Kong Promotions | 223,408 | 364,477 |
| Taiwan Promotions | 208,747 | 444,973 |
| North America | 95,683 | 334,998 |
| Philippines Promotions | 51,545 | 132,621 |
| Other | 1,991 | 156,987 |
| Pacific/Australia | - | 71,523 |
| Total contractual promotions | $ 1,473,275 | $ 2,335,709 |

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Guam Contractual Development
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Cultural and Heritage | $ 188,247 | $ 283,220 |
| Tourist Industry Relations | 89,260 | 159,989 |
| Community Development | 66,801 | 267,221 |
| Membership Account and others | 13,069 | 43,839 |
| Research and Evaluation | 5,023 | 281,724 |
| Total Guam contractual development | $ 362,400 | $ 1,035,993 |

See accompanying independent auditors' report.

GUAM VISITORS BUREAU
(A Public Corporation)

Supplementary Schedule of Guam Contractual Administrative
Years Ended September 30, 2002 and 2001

| | 2002 | 2001 |
|---|---|---|
| Printing and Reproduction | $ 183,267 | $ 623,193 |
| Utilities | 84,173 | 132,709 |
| Supplies | 77,164 | 125,273 |
| Miscellaneous | 63,327 | 114,965 |
| Maintenance | 54,808 | 70,740 |
| Legal Fees | 36,350 | 65,080 |
| Dues and Subscription | 27,483 | 15,236 |
| Advertising | 3,068 | 4,628 |
| Travel | - | 2,033 |
| Professional Service | - | 15,234 |
| Total Guam contractual development | $ 529,640 | $ 1,169,092 |

See accompanying independent auditors' report.

# GUAM VISITORS BUREAU
(A PUBLIC CORPORATION)

---

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL

---

YEAR ENDED SEPTEMBER 30, 2002

SLATER, NAKAMURA & CO, LLP
Certified Public Accountants

# 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, 2002 and for the year then ended, and have issued our report thereon dated March 7, 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.

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



Dhonson Plaza, Suite B, 790 South Marine Drive, Tamuning, Guam 96913
Tel: (671) 649-3800/03/06/07 · Fax: (671) 649-3890
E-Mail: nakamura@ftech.net

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.

Slater, Nakamura & Co

March 7, 2005



Dhonson Plaza, Suite B, 790 South Marine Drive, Tamuning, Guam 96913
Tel: (671) 649-3807/00 · Fax: (671) 649-3890
E-Mail: swa@guamcell.net

Guam Visitors Bureau
(A Public Corporation)

Schedule of Findings

Year ended September 30, 2002

Finding Number 1 - Expenditures and Accrued Liabilities:

Criteria:

GVB should only record actual expenses, not total budgeted amounts. Expenses should not be accrued until a liability has been incurred.

Condition:

Expenses and liabilities were recorded at year end based upon unexpended budgets. They were not substantiated, as no invoices were received to incur such liabilities.

The following adjustments were made to correct those conditions:

| | Increase (Decrease) | |
|---|---|---|
| Expense Category | Expense | Accrued Liabilities |
| Community Development | $ (125,470) | $ (125,470) |
| Cultural Heritage | (183,224) | (183,224) |
| Administrative | (437,285) | (437,285) |
| Hong Kong Marketing | (122,588) | (122,588) |
| Japan Marketing | 344,421 | 344,421 |
| Korea Marketing | (20,805) | (20,805) |
| North America Marketing | (130,691) | (130,691) |
| Philippines Marketing | (8,775) | (8,775) |
| Research | (287,804) | (287,804) |
| Taiwan Marketing | (152,714) | (152,714) |
| Tourism Indusrty Relations | (52,661) | (52,661) |
| | $ (1,177,596) | $ (1,177,596) |

Cause:

This accrual process was to carry the unused budget to the following year, to allow for expense recordation in 2002 and succeeding invoiced liabilities to be offset against the accrued liability balance. Overspent budgets were initially recorded as credits to current year expense.

Effect:

Amounts recorded as expenses were overstated due to the recording of the unused budgets as accrued liabilities.

Prior Year Finding:

This practice was in effect during the prior year, with adjustments made during the course of the audit, and included in the 2001 findings.

Recommendation:

This practice should be discontinued immediately.

Auditee Response:

This practice was originally implemented at the direction of the general manager at the time. This process is no longer occurring subsequent to the end of fiscal year 2002.

Finding Number 2 - Purchase Orders

Criteria:

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

Condition:

A review of the numerical purchase order logs for the entire year revealed that duplicate copies of 29 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 2001 findings.

Recommendation:

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 3 - 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.

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 4 – 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 5 – 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, often requiring manual reports to be prepared for the board. There is no distinct departmentalization by major market.

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.

Finding 6 – Retained Earnings Adjustment

Criteria:

Auditor adjustments should be recorded properly upon completion of the audit, and ending book retained earnings reconciled to the audited financial statements.

Condition:

Certain items, resulting in both overstatement and understatement of previously reported liabilities and expenses of prior years, were adjusted during this audit. The effect of these adjustments upon any specific year could not readily be determined. The cumulative effect of these adjustments was made to current retained earnings.

The effects were as follows:

| | |
|---|---|
| Guam Visitors Bureau: | |
| Understatement of Accounts Payable | $ 606,288 |
| Tourist Attraction Fund Projects: | |
| Understatement of Accounts Payable | $ 67,120 |

Cause:

There appeared to be situations where adjusting journal entries were entered after the succeeding year was closed, others where there may have been double postings of adjustments as a result of subsequent year reconciliation during the audit. Involved within this were original adjustments dating back to the 1999 audit. There is also a possibility that different modules within the MIP fund accounting software were used at different times to post the adjustments.

Effect:

The closing out of a fiscal year's income and expenses to Retained Earnings could carry over incorrect balances to Retained Earnings, as well as make retained earnings reconciliations very difficult.

Recommendation:

We recommend the local support company for the software be contacted to provide additional training and consulting, to insure the year end closing and posting of adjusting entries are processed in a proper and consistent manner.

Auditee Response:

We have been in contact with the support company and have been provided on site support consulting recently. It is our intention to research support and training possibilities with the provider, with the intention of future budget inclusion.

**********

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,

S/ Stes, Nakamura & Co.