

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2001 AND 2000

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913-3911

Tel: (671)646-3884
Fax: (671)649-4932
www.dttguam.com



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, 2001 and 2000, 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.

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, 2001 and 2000, 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.

During the year ended September 30, 2001, GVB changed its method of accounting for pension costs.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in pages 11 through 13 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 September 24, 2003, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

September 24, 2003

GUAM VISITORS BUREAU
(A Public Corporation)

Balance Sheets
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash	\$ 4,037,379	\$ 2,668,438
Accounts receivable - Government of Guam, net of allowance for doubtful accounts of \$2,096,466 in 2001 and 2000	1,206,516	2,273,050
Accounts receivable - TAF special projects	322,810	3,534
Accounts receivable - other	988	6,663
Prepaid expenses	<u>32,056</u>	<u>45,295</u>
Total current assets	5,599,749	4,996,980
Other assets	217,621	91,038
Property and equipment, at cost, net of accumulated depreciation and amortization	<u>7,916,648</u>	<u>8,023,654</u>
	<u>\$ 13,734,018</u>	<u>\$ 13,111,672</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable - other	\$ 3,232,532	\$ 4,763,696
Accrued liabilities	<u>804,506</u>	<u>60,382</u>
Total current liabilities	4,037,038	4,824,078
Unfunded pension cost	72,776	415,822
Accrued annual leave	<u>169,832</u>	<u>178,419</u>
Total liabilities	<u>4,279,646</u>	<u>5,418,319</u>
Commitments		
Fund equity:		
Contributed capital:		
Tourist Attraction Fund	<u>7,978,527</u>	<u>7,978,527</u>
Retained earnings (deficit):		
Unappropriated deficit	(535,187)	(2,508,904)
Appropriated retained earnings	<u>2,011,032</u>	<u>2,223,730</u>
Total retained earnings (deficit)	<u>1,475,845</u>	<u>(285,174)</u>
Total fund equity	<u>9,454,372</u>	<u>7,693,353</u>
	<u>\$ 13,734,018</u>	<u>\$ 13,111,672</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Operations and Retained Earnings (Deficit)
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenues:		
Grants-in-aid from Government of Guam	\$ 14,663,324	\$ 13,674,324
In-kind contributions from members and others	396,831	653,258
Consumption tax refund	338,499	313,735
Memberships	131,250	45,135
Total revenues	<u>15,529,904</u>	<u>14,686,452</u>
Expenses: Guam operations		
Contractual, promotional	2,335,709	2,179,424
Contractual, administrative	1,169,092	1,043,795
Personnel	1,126,718	1,122,395
Contractual, developmental	1,035,993	979,727
Benefits	353,966	303,963
Travel	191,582	26,233
Promotional in-kind contributions	147,215	338,226
Depreciation and amortization	107,006	121,136
Miscellaneous	15,493	-
Total Guam operations	<u>6,482,774</u>	<u>6,114,899</u>
Expenses: Japan operations		
Contractual, promotional	6,776,633	5,189,186
Contractual, administrative	543,190	238,768
Personnel	409,155	360,192
Promotional in-kind contributions	249,616	315,032
Travel	128,237	37,103
Consumption tax expense	33,850	40,374
Benefits	-	45,153
Miscellaneous	101,019	-
Total Japan operations	<u>8,241,700</u>	<u>6,225,808</u>
Total expenses	14,724,474	12,340,707
Other income (expense)	517,834	(389,931)
Interest income	55,674	53,892
Excess of revenue over expense	1,378,938	2,009,706
Add depreciation on fixed assets acquired by capital grants that reduces contributed capital from capital grants	-	83,333
Retained earnings (deficit) at beginning of year (as restated)	<u>96,907</u>	<u>(2,378,213)</u>
Retained earnings (deficit) at end of year	<u>\$ 1,475,845</u>	<u>\$ (285,174)</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Statements of Cash Flows
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Cash received from the Government of Guam	\$ 15,729,858	\$ 12,758,159
Cash received from members	131,250	45,135
Cash received from other sources	24,898	644,364
Cash paid to employees and suppliers	<u>(14,517,065)</u>	<u>(12,014,968)</u>
Net cash provided by operating activities	1,368,941	1,432,690
Cash at beginning of year	<u>2,668,438</u>	<u>1,235,748</u>
Cash at end of year	<u>\$ 4,037,379</u>	<u>\$ 2,668,438</u>
Reconciliation of excess of revenues over expenses to net cash provided by operating activities:		
Excess of revenues over expenses	\$ 1,378,938	\$ 2,009,706
Add back (deduct) expenses (revenues) which do not use cash:		
In-kind contribution from members and others	(396,831)	(653,258)
In-kind expenses	396,831	653,258
Depreciation and amortization	107,006	121,136
Decrease (increase) in assets:		
Accounts receivable	752,933	(585,536)
Prepaid expenses	13,239	24,860
Other assets	(126,583)	-
Increase (decrease) in liabilities:		
Accounts payable	(1,531,164)	(168,795)
Accrued liabilities	735,537	1,548
Unfunded pension cost	<u>39,035</u>	<u>29,771</u>
Net cash provided by operating activities	<u>\$ 1,368,941</u>	<u>\$ 1,432,690</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheets
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Restricted cash	\$ 351,501	\$ 265,382
Accounts receivable - other	<u>436,000</u>	<u>-</u>
	<u>\$ 787,501</u>	<u>\$ 265,382</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 82,363	\$ -
Interfund payable - GVB operations	<u>322,810</u>	<u>3,534</u>
	405,173	3,534
Fund balance:		
Appropriated retained earnings (deficit)	<u>382,328</u>	<u>261,848</u>
	<u>\$ 787,501</u>	<u>\$ 265,382</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Operations and Fund Balance
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenues:		
Government of Guam contribution	\$ 1,049,000	\$ 966,000
Interest	<u>8,215</u>	<u>2,304</u>
Total revenues	<u>1,057,215</u>	<u>968,304</u>
Expenses		
Beach cleaning	453,633	360,940
Tumon Beautification	131,942	-
Guam Micronesia Island Fair	103,009	88,389
Tumon Landscaping Maintenance	99,091	-
Two Lovers Point bike and jogging trails	59,790	42,166
Tropical fantasy	50,000	100,000
Guam Village Beautification Grant Program	25,000	-
Asia Pacific Council of American Chambers	10,031	2,583
Donations for work	3,795	-
Educational promotion - scenic route project	-	2,367
Maintenance	-	75,300
Miscellaneous	<u>444</u>	<u>-</u>
Total expenses	<u>936,735</u>	<u>671,745</u>
Excess of revenue over expense	120,480	296,559
Fund balance (deficit) at beginning of year	<u>261,848</u>	<u>(34,711)</u>
Fund balance at end of year	<u>\$ 382,328</u>	<u>\$ 261,848</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statements of Cash Flows
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Cash received from the Government of Guam	\$ 613,000	\$ 966,000
Cash received from interest	8,215	2,304
Cash paid to suppliers	<u>(535,096)</u>	<u>(985,666)</u>
Net cash provided by (used in) operating activities	86,119	(17,362)
Cash at beginning of year	<u>265,382</u>	<u>282,744</u>
Cash at end of year	<u><u>\$ 351,501</u></u>	<u><u>\$ 265,382</u></u>
Reconciliation of excess of revenues over expenses to net cash provided by (used in) operating activities:		
Excess of revenues over expenses	\$ 120,480	\$ 296,559
Increase in assets:		
Accounts receivable	(436,000)	-
Increase (decrease) in liabilities:		
Due to GVB operations	319,276	(313,921)
Accounts payable	<u>82,363</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u><u>\$ 86,119</u></u>	<u><u>\$ (17,362)</u></u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2001 and 2000

(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.

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.

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 \$179,996 of deposits insured through the FDIC and approximately \$4,189,523 of uninsured and uncollateralized deposits as of September 30, 2001.

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.

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2001 and 2000

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

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, 2000, it has been determined that for the year ended September 30, 2001, a minimum combined employer and employee contribution rate of 34.64% of covered defined benefit plan 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 18.6%, respectively, for the year ended September 30, 2001. The effect of the Bureau's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 25.14% to an effective rate of 21.26% for the year ended September 30, 2001. In recognition of the above, an accrual of 2.66% of covered payroll is necessary to increase the unfunded liability based on the difference between the effective rate of 21.26% and the employer's statutory rate of 18.6%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 4% to 8.5% per annum. The most recent actuarial valuation performed as of September 30, 2000, 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.

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 are responsible for the administration of the DCRS. Investment management and plan administration services for the DCRS are administered 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 18.6% 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 13.6% is contributed towards the unfunded liability of the defined benefit plan.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 2001 and 2000

(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 in the member's individual annuity account, 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. The effect of this implementation, which was retroactively applied, was a restatement of the beginning deficit of \$285,174 as follows:

Deficit, as originally stated	\$ (285,174)
Effect of restatements	<u>382,081</u>
Retained earnings, as restated	\$ <u>96,907</u>

(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.

A summary of contributed capital is as follows:

	Tourist Attraction Fund	
	2001	2000
Contributed capital - building	\$ 2,500,000	\$ 2,500,000
Contributed capital - land	5,992,415	5,992,415
Less: Accumulated depreciation, building	<u>(513,888)</u>	<u>(513,888)</u>
	<u>\$ 7,978,527</u>	<u>\$ 7,978,527</u>

GUAM VISITORS BUREAU
(A Public Corporation)

Notes to Financial Statements
September 30, 2001 and 2000

(3) Property and Equipment and Contributed Capital, Continued

A summary of property and equipment and their estimated useful lives as of September 30, 2001 and 2000, are as follows:

<u>Category</u>	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</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>268,837</u>	<u>268,838</u>
		3,041,407	3,041,407
Less accumulated depreciation		<u>(1,117,174)</u>	<u>(1,010,168)</u>
		1,924,233	2,031,239
Land		<u>5,992,415</u>	<u>5,992,415</u>
Total property and equipment		\$ <u>7,916,648</u>	\$ <u>8,023,654</u>

(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,	
2002	\$ 186,878
2003	<u>46,719</u>
	\$ <u>233,597</u>

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

(5) Grants-in-Aid Restriction

Funds appropriated to GVB by the Guam Legislature bear certain restrictions. One restriction is that unencumbered funds as of year end revert to the Tourist Attraction Fund. However, the Guam Legislature has not established a legal definition of "encumbrance" and GVB has utilized its historic definition consistently since inception. As a result, until a formal definition of "encumbrance" is established, it is not possible to determine if any unencumbered 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, 2001 and 2000.

GUAM VISITORS BUREAU

Supplementary Schedule of Employees and Salaries
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Guam office:		
Number of employees	<u>29</u>	<u>30</u>
Annual payroll	<u>\$ 1,154,983</u>	<u>\$ 1,175,778</u>
Japan office:		
Number of employees	<u>7</u>	<u>6</u>
Annual payroll (dollar equivalent)	<u>\$ 355,489</u>	<u>\$ 343,446</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU

Supplementary Schedule of Contractual Promotions Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
North America	\$ 334,998	\$ 290,235
Pacific/Australia	71,523	73,487
Taiwan Promotions	444,973	421,791
Korea Promotions	830,130	978,870
Hong Kong Promotions	364,477	325,448
Philippines Promotion	132,621	76,138
Other	<u>156,987</u>	<u>13,455</u>
 Total contractual promotions	 <u>\$ 2,335,709</u>	 <u>\$ 2,179,424</u>

See accompanying independent auditors' report.

GUAM VISITORS BUREAU

Supplementary Schedule of Guam Contractual Development Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Community Development	\$ 267,221	\$ 213,997
Cultural and Heritage	283,220	358,867
Tourist Industry Relations	159,989	88,159
Research and Evaluation	281,724	286,584
Membership Account and others	<u>43,839</u>	<u>32,120</u>
 Total Guam contractual development	 <u>\$ 1,035,993</u>	 <u>\$ 979,727</u>