

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 1998



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, 1998, and the related statements of operations and retained earnings, operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of GVB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of GVB as of September 30, 1998, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effect, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that GVB is or will become year 2000 compliant, that GVB's year 2000 remediation efforts will be successful in whole or in part, or that parties with which GVB does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 1999, 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.

October 20, 1999

GUAM VISITORS BUREAU
(A Public Corporation)

Balance Sheet
September 30, 1998

ASSETS

Current assets:

Cash	\$ 2,223,652
Accounts receivable - TAF special projects	320,818
Accounts receivable – Government of Guam	4,865,938
Accounts receivable - other	214,137
Prepaid expenses	<u>78,572</u>

Total current assets 7,703,117

Other assets (note 4) 86,488

Property and equipment, at cost, net of accumulated depreciation and
amortization (note 3) 8,269,483

\$ 16,059,088

LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable - other	\$ 4,994,409
Accrued liabilities	<u>12,893</u>

Total current liabilities 5,007,302

Unfunded pension cost (note 2) 441,484

Accrued annual leave 164,522

Total liabilities 5,613,308

Fund equity:

Contributed capital:	
Tourist Attraction Fund (note 3)	<u>8,145,193</u>

Retained earnings:	
Unappropriated retained earnings	170,753
Appropriated retained earnings	<u>2,129,834</u>

Total retained earnings 2,300,587

Total fund equity 10,445,780

Commitments (note 4) \$ 16,059,088

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
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Statement of Operations and Retained Earnings
Year Ended September 30, 1998

Revenues:	
Grants-in-aid from Government of Guam (note 6)	\$ 19,502,632
In-kind contributions from members and others (note 5)	1,459,597
Memberships	<u>62,850</u>
Total revenues	<u>21,025,079</u>
Expenses: Guam operations	
Contractual, promotional	2,610,880
Contractual, administrative	1,539,782
Contractual, developmental	1,341,024
Personnel	1,072,566
Promotional in-kind contributions	348,040
Benefits	254,587
Depreciation and amortization	129,132
Travel	28,719
Miscellaneous	<u>14,270</u>
Total Guam operations	<u>7,339,000</u>
Expenses: Japan operations	
Contractual, promotional	12,359,470
Promotional in-kind contributions	1,111,557
Personnel	295,414
Contractual, administrative	229,231
Benefits	43,521
Travel	<u>41,931</u>
Total Japan operations	<u>14,081,124</u>
Total expenses	<u>21,420,124</u>
Other income	1,547,065
Interest income	<u>92,066</u>
Excess of revenues over expenses	1,244,086
Add depreciation on fixed assets acquired by capital grants that reduces contributed capital from capital grants	83,333
Retained earnings at beginning of year	<u>973,168</u>
Retained earnings at end of year	\$ <u>2,300,587</u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
(A Public Corporation)

Statement of Cash Flows
Year Ended September 30, 1998

Cash flows from operating activities:	
Cash received from the Government of Guam	\$ 19,502,632
Cash received from members	62,850
Cash received from other sources	1,639,131
Cash paid to employees and suppliers	<u>(20,804,661)</u>
Net cash provided by operating activities	<u>399,952</u>
Net increase in cash	399,952
Cash at beginning of year	<u>1,823,700</u>
Cash at end of year	\$ <u><u>2,223,652</u></u>
Reconciliation of excess of revenues over expenses to net cash provided by operating activities:	
Excess of revenues over expenses	\$ 1,244,086
Add back (deduct) expenses (revenues) which do not use cash:	
In-kind contribution from members and others	1,459,597
Depreciation and amortization	129,132
In-kind expenses	<u>(1,459,597)</u>
Decrease (increase) in assets:	
Accounts receivable	(5,382,518)
Prepaid expenses	(25,878)
Other assets	14,581
Increase (decrease) in liabilities:	
Accounts payable	4,412,708
Accrued liabilities	31,077
Unfunded pension cost	<u>(23,236)</u>
Net cash provided by operating activities	\$ <u><u>399,952</u></u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Balance Sheet
September 30, 1998

ASSETS

Restricted cash	\$ 822,867
Accounts receivable	<u>160,000</u>
	\$ <u>982,867</u>

LIABILITIES AND FUND BALANCE

Current liabilities:	
Interfund payable - GVB operations	\$ 320,818
Fund balance:	
Appropriated retained earnings	<u>662,049</u>
	\$ <u>982,867</u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statement of Operations and Fund Balance Year Ended September 30, 1998

Revenues:	
Government of Guam contribution	\$ 1,639,850
Interest	<u>16,580</u>
Total revenues	<u>1,656,430</u>
Expenses:	
Promotional activities	560,303
Beach cleaning	461,138
Maintenance	393,927
Two Lovers Point bike and jogging trails	181,270
Scenic route project	143,140
Tumon Beautification	116,395
Educational promotion	35,729
Donation	<u>4,700</u>
Total expenses	<u>1,896,602</u>
Excess of expenses over revenues	(240,172)
Fund balance at beginning of year	<u>902,221</u>
Fund balance at end of year	\$ <u><u>662,049</u></u>

See accompanying notes to financial statements.

SPECIAL TOURIST ATTRACTION FUND PROJECTS

Statement of Cash Flows Year Ended September 30, 1998

Cash flows from operating activities:	
Cash received from GovGuam	\$ 1,479,850
Cash received from interest	16,580
Cash paid to suppliers	(1,587,426)
Net cash used by operating activities	(90,996)
Cash at beginning of year	<u>913,863</u>
Cash at end of year	\$ <u><u>822,867</u></u>
Reconciliation of excess of expenses over revenues to net cash used by operating activities:	
Excess of expenses over revenues	\$ (240,172)
Increase in assets:	
Accounts receivable	(160,000)
Increase in liabilities:	
Due to GVB operations	<u>309,176</u>
Net cash used by operating activities	\$ <u><u>(90,996)</u></u>

See accompanying notes to financial statements.

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 1998

(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 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 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 \$207,402 of deposits insured through the FDIC and approximately \$1,967,150 of uninsured and uncollateralized deposits as of September 30, 1998.

Contributed Capital. The Bureau has adopted the generally accepted accounting principle of reducing contributed capital for depreciation on related assets acquired through capital grants.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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
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Notes to Financial Statements
September 30, 1998

(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, 1997, it has been determined that for the year ended September 30, 1998, a minimum combined employer and employee contribution rate of 28.01% 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, 1998. The effect of the Bureau's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.51% to an effective rate of 16.43% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 2.17% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 16.43% 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 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1997, 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.

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Notes to Financial Statements
September 30, 1998

(2) Employees' Retirement Plan, Continued

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions in the member's individual annuity account, plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are vested only to the extent of member contributions plus any earnings thereon.

Retirement expense for the year ended September 30, 1998 is as follows:

Cash contribution	\$ 207,482
Reduction of accrued unfunded liability	<u>(23,236)</u>
	\$ <u>184,246</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 is closed out to contributed capital on an annual basis.

A summary of contributed capital is as follows:

	<u>Tourist Attraction Fund</u>
Contributed capital - building	\$ 2,500,000
Contributed capital - land	5,992,415
Less: Accumulated depreciation, building	<u>(347,222)</u>
Contributed capital, September 30, 1998	\$ <u>8,145,193</u>

A summary of property and equipment and their estimated useful lives as of September 30, 1998, is as follows:

<u>Category</u>	<u>Estimated Useful Life</u>	<u>Value</u>
Building	30 years	\$ 2,500,000
Furniture and fixtures	5 to 10 years	272,570
Equipment	3 to 7 years	268,837
Vehicles	3 years	<u>12,468</u>
		3,053,875
Less accumulated depreciation		<u>(776,807)</u>
		2,277,068
Land		<u>5,992,415</u>
Total property and equipment		\$ <u>8,269,483</u>

GUAM VISITORS BUREAU
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Notes to Financial Statements
September 30, 1998

(4) Commitments

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

1999	\$ 88,567
2000	36,902

The Japan future rentals are based on an annual commitment of 12,523,416 yen. The Japan lease also requires a refundable security deposit of \$86,488.

(5) 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.

(6) 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 utilized 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.

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Supplementary Year 2000 Issue Information
September 30, 1999

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Guam Visitors Bureau's (GVB) operations as early as fiscal year 1999. GVB has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue and has not yet determined the ultimate cost to upgrade such systems. GVB is currently in the remediation stage of addressing the Y2K issues.

Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that GVB is or will be year 2000 ready, that GVB's remediation efforts will be successful in whole or in part, or that parties with whom GVB does business will be year 2000 ready.

See Accompanying Independent Auditors' Report.