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Tourist Attraction Fund – FY 2021 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Government of Guam (GovGuam) Tourist Attraction Fund’s (TAF) financial statements, report on compliance and internal control, and auditor communication with those charged with governance for fiscal year (FY) 2021. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion on TAF’s financial statements. However, they identified two material weaknesses.

The TAF was created to help fund various recreational projects and tourist activities with revenues derived from Hotel Occupancy Taxes (HOT) generated by the visitor industry. TAF comprises three governmental funds: (1) Tourist Attraction Special Revenue Fund, (2) Capital Projects Fund, and (3) Debt Service Fund. The Capital Projects Fund accounts for the construction of capital improvement projects from bond proceeds. The Debt Service Fund accounts for funds required by the bond indenture to redeem the bond principal and pay bond interest as it becomes due.

Revenues and Expenditures Cut in Half

Total combined revenues decreased by \$14.3 million (M) (or 54%) from \$26.7M in FY 2020 to \$12.4M in FY 2021 due primarily to the pandemic, which continues to discourage inbound travel. This resulted in a 53% decrease in HOT revenue collections, which amounted to \$12.4M in FY 2021, compared to the \$26.4M in FY 2020. These revenues fund the expenditures of the TAF, along with residual bond proceeds. Similarly, total combined expenditures decreased by \$16.8M (or 47%) from \$35.7M in FY 2020 to \$18.9M in FY 2021.

\$3.8M Decrease in Fund Balance

The Tourist Attraction Special Revenue Fund, Capital Projects Fund and the Debt Service Fund ended FY 2021 with a fund balance of \$0, \$8.0M and \$8.8M respectively. However, altogether TAF's ending fund balance decreased by \$4.0M (or 19%), from \$20.8M in FY 2020 to \$16.8M in FY 2021.

HOT Revenue Bonds: Series 2021A

The Debt Service Fund accounts for the principal and interest due on the HOT Revenue Bonds. In FY 2021, TAF paid \$8.8M in principal and interest on the Series 2021A HOT Bonds. This amount included the portion of the 2011 HOT Bond that was paid in FY 2021. This was due to the timing of the release of the financial statements for FY 2020, which was after the refinancing of the bonds and did not include the 2011 portion of future payments not included in the financial statements.

However, to reiterate, the issuance of the Series 2021A bonds included revised annual debt service requirements to maturity up to FY 2041. The details of the schedule include no principal paid for the first five fiscal years (FY 2021 - FY 2025) and an interest of \$253K in FY 2021 and \$2.9M for years 2022-2025. Principal plus interest on the Series 2021A bonds totals about

\$100M, which is a \$29.6M savings from the \$129.5M remainder of the 2011 Series A bonds. This is due to the \$14.2M reduction in principal and \$15.4M reduction in interest.

Report on Internal Control Over Financial Reporting

Independent auditors identified two findings that were considered to be material weaknesses. Expenditures from the TAF exceeded the amount appropriated to the Department of Administration (DOA) by Public Law 35-99. The TAF had an expenditures total of \$9M to DOA, which was \$1.8M over the appropriated amount of \$7.2M. The auditors recommended that internal controls are set in place to ensure that total expenditures are periodically compared to total appropriations to ensure that over expenditures do not occur, as well as obtain and document approvals in cases where they need to expend amounts greater than appropriations.

The second finding found that a liability had not been promptly recognized at fiscal year-end. An adjustment was included in the summary of uncorrected misstatements to record the understatement caused by the finding. The auditors recommended that fund management should implement controls to ensure timely receipt of vendor statements for services received to ensure accruals are complete and recorded in the proper accounting period. DOA has advised vendors in a press release to send invoices to the DOA/Division of Accounts.

FY 2021 Books Not Closed on a Timely Basis

In a separately issued management letter, independent auditors noted TAF's FY 2021 books were not closed in a timely manner. Additional man-hours incurred could have been avoided if an updated financial management system was in place. This is a repeat occurrence from last year and has been an issue as far as FY 2019. DOA has been in the process of procuring a new financial management system to address this issue but is currently still in the evaluation phase of the procurement.

Coronavirus (COVID-19) Pandemic Impact and Outlook

On March 11, 2020, the World Health Organization (WHO) categorized the novel coronavirus (COVID-19) as a global pandemic. As a preventative measure, GovGuam implemented travel and business restrictions and quarantines. Unfortunately, this severely impacted its tourism-based economy. Prior to the WHO announcement, Guam experienced an all-time high of 1.6M visitors. However, the island experienced a reduction and eventual standstill in tourism, closing with 757K tourists in FY 2020. Continued efforts to combat the virus brought visitors numbers down significantly to 61K tourists in FY 2021, resulting in a decrease of 695K (or 92%).

Amidst economic uncertainty, the pandemic may adversely impact the operation of the Funds. Although, it is impossible to precisely determine the severity of its impact on the financial statements. While there is significant uncertainty around the breadth and duration of COVID-related disruptions, Guam must continue promoting itself as a safe destination. With its vaccinated population on the rise and a community ready to welcome tourists, a promising future lies ahead.

For more details on the use of TAF, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.