



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagåtña, Guam 96910

Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)

www.opaguam.org

Guam Visitors Bureau – Fiscal Year 2018 Financial Highlights

April 15, 2019

Hagåtña, Guam – The Office of Public Accountability released the Guam Visitors Bureau (GVB) Financial Statements and Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance for fiscal year (FY) 2018. Independent auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion on GVB's financial statements and identified four deficiencies in its internal control.

GVB closed FY 2018 with a net position (net income) of \$1.7 million (M). This increased GVB's cumulative net position to \$13.7M. The implementation of the Governmental Accounting Standards Board (GASB) Statement No. 75 resulted in adjustments of FY 2017 financial statements with the net position decreasing by \$5.1M.

Success in Tourism Growth

GVB continues its efforts in promoting the Guam brand. The most successful periods in Guam's tourism history were in the last three fiscal years with visitor arrivals surpassing 1.5M annually. The South Korea market continues its strong growth in tourist arrivals becoming Guam's top source market for the second year in a row. In FY 2018, Guam welcomed 753 thousand (K) Korean visitors compared to 649K in the previous year. Several airlines increased the number of flights to accommodate the growing demand from Korean tourists. The Korean Concierge Program and the Korean Visitors Market Pilot Program were created to sustain the growth in the Korean market.

GVB continues to face a declining Japan tourist arrival. In FY 2018, tourist arrivals decreased by 144K from 674K in FY 2017. As a result, the number of flights from Japan reduced. However, through incentive programs of more than \$1.0M for Japan flights and media campaigns, GVB achieved its goal of bringing in over 530K Japanese tourists.

GVB's programs in ensuring a safe and satisfying experience for Guam's visitors include the Visitor Safety Office Program, Tour Guide Certification Program, Airport Ambassador Program, and Welcome Service Program.

Overseas Marketing Activities Helped Increase Arrivals

GVB's participation in overseas marketing campaigns resulted in increased tourist arrivals. Russian tourist arrivals increased by 884 from 3K in FY 2017 to 4K through GVB's involvement in an online expo. GVB's partnership with a leading advertising firm in North America increased visitor arrivals to 89K from 76K in the previous year. GVB spent \$320K in advertising as compared to \$31K in FY 2017.

Efforts in Enhancing Guam's Tourist Experience

GVB works closely with other government of Guam (GovGuam) agencies and the private sector to enhance the image of our island. GVB maintains the Tourist Attraction Fund (TAF) Projects for

landscaping and beautification of Tumon Bay including beach clean-up and Island Road maintenance. Cash of \$521K in the TAF Projects will continue to fund beautification and landscaping projects.

In FY 2018, GVB received \$176K for the initial planning and construction costs of the Palacio Building. GVB will manage the construction project through a Memorandum of Understanding with the Guam Economic Development Authority.

Revenues and Expenses

GVB's revenues are primarily appropriations from the TAF, funded by the Hotel Occupancy Tax. In FY 2018, GVB received total appropriations of \$27.0M, of which \$4.0M was for the Korean Visitors Market Pilot Program and \$21.8M for its operations. GVB received \$614K less for its operations compared to the previous year of \$1.7M decrease.

GVB's operating expenses minimally increased by 3.8% from \$23.6M in FY 2017 to \$24.5M. In FY 2018, GVB made computer and server upgrades, partly for the redesign of GVB's global website, which significantly increased equipment expense by \$104K from \$37K in FY 2017. Advertising expense increased by \$289K from \$31K in FY 2017. GVB placed ads on heavy traffic platforms to draw potential visitors. GVB's largest expense, Professional Services, slightly decreased by \$29K.

FY 2017 Financial Statements Restatement and Other Post-Employment Benefits (OPEB)

GASB No. 75 pertains to post-employment benefits other than pensions. These benefits provided by GovGuam include medical, dental, and life insurance to GVB retirees, spouses, children, and survivors. For FY 2018, GVB's proportionate share of GovGuam's OPEB liability of approximately \$2.4 billion amounted to \$5.7M or 0.23%.

The implementation of GASB No. 75 resulted in a restatement of GVB's FY 2017 financial statements. The beginning net position decreased by \$4.7M resulting in an ending net position of \$11.9M from \$17.1M. GVB's OPEB expenses for FY 2018 amounted to \$479K.

2020 Visitor Arrivals Outlook

GVB anticipates 1.75M tourist arrivals by 2020, which requires 10,000 rooms. Currently, there are 8,883 available rooms for Guam's visitors with occupancy rates averaging 87% reaching its limits in accommodations. With the pace of hotel development and the H-2 labor force issue, Guam may not be able to accommodate the increase in arrivals by 2020. Another significant challenge is the declining infrastructure of Guam to include our parks, roads, and hotels. Guam must provide updated and easily accessible spectacles and sights for the visitor's unique experiences.

Report on Internal Control and Management Letter

The auditors did not identify any material weaknesses in GVB's Report on Internal Control over Financial Reporting and Compliance. However, the auditors issued a Management Letter that identified: (1) agent services and fees exceeded agreed amounts per contract when invoiced; (2) \$21K in cash and checks not timely deposited; (3) no Board approval available to support \$240K in sponsorships; and (4) \$1.2M of in-kind donations not timely recorded and no acknowledgment receipt of \$718K in in-kind donations.

For more details, refer to the Management's Discussion and Analysis in the audit report at www.opaguam.org and www.guamvisitorsbureau.com.