



Guam Visitors Bureau FY 2009 Financial Highlights

April 5, 2010

The global financial crisis and the outbreak of the H1N1 virus adversely affected Guam's visitor industry in fiscal year (FY) 2009. According to the Guam Visitors' Bureau (GVB), visitor arrivals declined by 10.7% to 1,053,248 the lowest number of arrivals over the last five years. As a result of the ailing travel industry, hotel occupancy taxes declined by 12% from \$22.1M to \$19.4M in FY 2009, the lowest level since 2005. The Bureau of Budget and Management Research allotted only \$10.7 million (M) of GVB's \$13.1(M) annual appropriation due to the decline of hotel occupancy tax. GVB ended the year with a change in net assets totaling \$320 thousand (K), a 77% decline from the \$1.4M reported in the prior year. Independent auditors Deloitte & Touche issued an unqualified or "clean" opinion. Auditors did not identify any material weaknesses but issued a management letter reporting two control deficiencies related to procurement and local questioned costs of \$60K.

Overall Decline in Visitor Arrivals

Guam's total visitor arrivals declined from 1,179,246 to 1,053,248 in FY 2009. GVB expected arrivals to improve during the year; however, the H1N1 epidemic adversely affected Guam's leisure travel market. Concerned by the spread of the epidemic, Guam's larger markets, Japan and Korea, markets experienced significant decreases in arrivals. These markets collectively comprise 85% of all Guam visitors' arrivals.

GVB's outlook for 2010 does not indicate the market conditions will improve. GVB reports arrivals were flat during the first quarter, and expect arrivals to be anemic for the rest of 2010 given Japan's continuing economic problems.

Decrease in Net Assets

GVB closed the year with a change in net assets of \$320K, a significant decrease of 77% from the \$1.4M in net assets in FY 2008. The decrease is primarily due to the notable decline in hotel occupancy taxes, going from \$22.1M to \$19.4M in FY 2009. Tourist Attraction Fund revenues are derived from excise taxes imposed on occupants of hotels and similar facilities on Guam. As a result of the decrease in hotel occupancy revenues, GVB ended the year with a shortfall in Government of Guam Appropriations, which declined by 9% or \$1.2M, from \$13.3M to \$12.1M.

While government of Guam appropriations decreased during the year, GVB's operational expenses increased. GVB's total operating expenses increased by 2.1% or \$268K going from \$12.7M to \$12.9M. The increase in expenses was primarily due to the bad debt expense of \$95K, and the 11% or \$87K, increase in miscellaneous expenditures from \$792K to \$880K.

Bad Debt Forgiveness

GVB's increased bad debt expense resulted from an internet marketing initiative through a website promotion called GOHOUBI, which was established as a cost sharing project between GVB and a private vendor. The GVB Board of Directors agreed that the vendor's outlay of \$700K of the \$1.2M project exceeded the \$100K GVB was expected to be reimbursed for its share of the project. The vendor's Chief Executive Officer is also a board member of GVB.

Tourist Attraction Fund Special Projects

The government of Guam contributed \$950K to the Tourist Attraction Fund Special Projects (TAFSP) in FY 2009. TAFSP projects are primarily funded through legislative appropriations from the TAF. The \$950K is a notable increase compared to the \$0 received in FY 2008. The increase was a result of the GVB receiving a separate operational and special projects appropriation in FY 2009, compared to a combined appropriation (operational and special projects) in FY 2008. In FY 2009, the expenses for the Island-wide Roadway and Beautification totaled \$213K, Tumon Landscaping Maintenance \$206K, and Tumon and Hagatna Beach cleaning \$188K. Total expenses recorded during the year were \$721K leaving a remaining balance of \$229K for projects funding.

Compliance

The independent auditors did not disclose any material weaknesses, but issued a separate Management Letter identifying two control deficiencies relative to procurement resulting in local questioned costs of \$60K. Specifically, auditors found:

- ***No evidence of solicitation for a contract over \$25,000:*** A procurement contract for \$60K lacked the print advertisement for Request For Proposal, and auditors were unable to determine if the appropriate procurement procedures occurred.
- ***No supporting documentation:*** A procurement award in the amount of \$52K was made to a vendor which lacked required proof of a business license. GVB was unable to provide evidence of a business license prior to award.

A separate document to the Board was issued by Deloitte auditors outlining audit strategies, emphasis, required communications, audit differences, and adjustments. See the Management Discussion and Analysis for details. For more details view the reports in its entirety at www.guamopa.org and at www.visitguam.com.