

Guam Visitors Bureau FY 2004 Financial Highlights

March 6, 2006

The Guam Visitor's Bureau (GVB) Fiscal Year 2004 financial audit, conducted by Grant Thornton, LLP, has been issued eight months beyond the June 30th deadline stipulated in 1 G.C.A. §1909. To comply with this mandate, GVB has issued its audited financial statements for six fiscal years (FY 1999 through FY 2004) since May 2004. GVB's FY 2005 audit is due June 30, 2006. GVB's untimely audits have resulted in qualified audit opinions of the overall financial statements of the Government of Guam.

Lagging allotments continue to plague GVB as cash payments to GVB fall short of annual appropriations. GVB was appropriated \$13.4 million in FY 2004, but recorded \$7.5 million in total revenues, \$1.5 million less than revenues of \$9 million in FY 2003. While \$379,000 of total FY 2004 revenues was received from Japan tax refunds and memberships, the Tourist Attraction Fund (TAF) primarily funded GVB revenues (\$7.2 million). The TAF is maintained at the Department of Administration (DOA) and funded by hotel occupancy taxes. The TAF's audited financial statements for FY 2004 show \$17.8 in FY 2004 revenues, an increase of 32% from FY 2003 revenues of \$13.5 million. However, payments to GVB remain below appropriation levels.

As of September 30, 2004, deferred revenues were \$9.3 million, which represent outstanding appropriations since FY 2002 that have not been remitted to GVB. This amount is \$2.9 million higher than FY 2003's \$6.4 million. It is unlikely that these amounts will ever be realized given the TAF's \$12 million deficit fund balance, therefore, \$7 million has been deemed uncollectible. However, the FY 2004 TAF audit does not show outstanding appropriations to GVB and GVB has not reconciled these outstanding amounts with DOA.

The effects of the outstanding appropriations have contributed to other indirect consequences. GVB realized a \$3.9 million loss compared to a \$1.5 million increase in net assets in FY 2003. GVB also incurred a \$722,000 loss from foreign exchange transactions that arise in the course of conducting business in Asian currencies with various vendors.

GVB expenses increased by 47% to \$11 million from \$7.5 million in FY 2003 due to GVB's aggressive marketing and promotional activities. This follows GVB's 41% cut in costs during FY 2003 in response to adverse events such as Typhoon Pongsona, SARS, and the war in Iraq. In FY 2004, Guam expenses nearly doubled with major increases in the contractual categories of Developmental (614%), Promotional (115%) and Administrative (106%). Promotional expenses were targeted to Hong Kong (337%), Taiwan (218%), and North America (237%). Typhoon related expenses were \$248,000 and were reimbursed by funds from the Federal Emergency Management Agency (FEMA).

GVB is the entity assigned for various TAF Projects, which receives separate annual appropriations from the Legislature. In FY 2004, the TAF Projects was appropriated \$410,000 for various beach cleaning and maintenance projects. However, the lack of cash allotments has resulted in a \$1.1 million payable to GVB operations for cash advanced by GVB operations for unfunded TAF Projects.

The Report on Compliance and Internal Controls cited six findings, mainly repeated from prior years that were not resolved as of September 30, 2004. One finding cited a lack of a system to categorize expenses to provide more meaningful data. GVB has routinely listed expenditures in its financial statements by projects and details of the expenses cannot be determined. For example, total travel costs are not presented although GVB frequently travels in its mission to promote Guam overseas. It appears that the financial management system is not utilized to promote this type of reporting. In February 2006, a consultant was hired to assist GVB with its accounting infrastructure including addressing the various problems in its accounting system and policy development.

For more information, see Management's Discussion and Analysis.