



Guam Visitors Bureau FY 2017 Financial Highlights

April 15, 2018

The Guam Visitors Bureau (GVB) ended fiscal year (FY) 2017 with a decrease in net position (net loss) of \$321 thousand (K). This decreased GVB's cumulative net position to \$17.1 million (M). Certain accounts from the prior year were restated due to the implementation of GASB Statement No. 73 resulting in adjusted net income in FY 2016 of \$1.9M compared to the previously reported surplus of \$2.0M. Independent auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion on GVB's financial statements.

GVB is commended as FY 2017 marks GVB's 8th consecutive year that the auditors did not identify any material weaknesses and significant deficiencies in its Report on Internal Control over Financial Reporting and Compliance. The Chamorro Language Commission is currently assisting the Office of Public Accountability (OPA) with determining the appropriate Chamorro term for "low-risk auditee" that do not receive significant federal funding. Given this accomplishment of having no material weaknesses and significant deficiencies, and issuing their financial audits by March 31st (with FY 2017 being the exception), GVB qualified for the OPA's recognition.

GVB Receives "E" Award

GVB received the President's "E" Award from U.S. Secretary of Commerce Wilbur Ross. The "E" Award is the highest recognition any U.S. entity can receive for making a significant contribution to the expansion of U.S. exports. The "E" Awards Committee appreciated GVB's Tourism 2020 strategic plan which demonstrated exceptional growth in tourism.

In the years ahead, GVB's goal to reach 1.75M visitors will be challenging. About 1,600 rooms are needed to sustain the visitor increases. Although a new hotel development is currently underway, the 350 additional rooms are not enough. The recent issue with H-2 labor has put a roadblock to hotel development.

GVB's Changing Tourism Market

In FY 2017, tourist arrivals grew minimally by 3% from 1.51M in FY 2016 to 1.56M. GVB's once strong Japan market continues to trend negatively from 753K tourists in 2016 to 674K in 2017. Consequently, available airline seats reduced from 972K to 861K due to reduced flights on several carriers. As GVB tries to recapture the Japan market, it faces intense competition among destinations favored by Japanese travelers including Korea, Taiwan, and Hong Kong. However, GVB's biggest hurdle in recapturing the Japan market was the North Korean missile threats aimed at Guam in August 2017. This catapulted cancellations of school groups, MICE trips, and general consumers.

Korean arrivals have significantly grown over the years. In FY 2017, Guam welcomed 649K Korean visitors versus 519K in FY 2016. The 500,000th Korean visitor to Guam was celebrated in December 2016 in a "Hafa Millionth" Event. This marked a strong growth in the Korean market, which composed 41.6% of Guam's total arrivals. Airline seat capacity grew due to the increased demand to travel to Guam.

Revenues and Expenditures

GVB's revenues are primarily appropriations from the Tourist Attraction Fund (TAF) funded by the Hotel Occupancy Tax (HOT). GVB received total TAF appropriations of \$23.9M in FY 2017, of which \$22.8M was for operations and \$1.1M for pass through non-profit organizations. Total revenue of \$25.1M decreased by 24% or \$7.8M from \$32.9M in FY 2016. TAF appropriations were \$2.0M less for GVB operations than in FY 2016, from \$24.8M to \$22.8M.

GVB's operating expenses increased slightly by 8% or from \$21.6M in FY 2016 to \$23.3M in FY 2017. GVB's largest expense, Professional Services, was 66% of total expenses and increased by \$1.2M to \$16.9M. Japan marketing cost GVB \$5.9M in comparison to Korean marketing of \$2.6M, where Korean arrivals have been steadily increasing.

FESTPAC

Guam hosted FESTPAC in 2016 where GVB contracted and paid for FESTPAC related goods and services. The total cost of FESTPAC was \$8.3M. FESTPAC appropriations and collections decreased by \$5.4M as FESTPAC was a one-time event in 2016.

\$1.1M in Pass-through Appropriations

GVB recorded \$1.1M in pass-through appropriations for various non-profit organizations (NPO) ranging from a low of \$5K to a high of \$200K. The top five NPOs received an average of \$96K. These NPOs are (1) Hurao Academy, (2) Learn Chamorro, (3) Humatak Foundation, (4) House of Chamorro, and (5) Haya Cultural Preservation Foundation. NPOs receiving pass-through appropriations are required to provide 10 hours of community service for every \$1K received as well as maintain financial records.

Tumon Bay Beautification Projects

GVB is the trustee of TAF projects for the beautification of Tumon Bay. TAF Projects expenditures increased by \$1.6M, from \$317K in FY 2016 to \$1.9M in FY 2017. The largest expenditure was \$1.8M for the Tumon Bay lighting improvements. Remaining cash of \$605K will fund landscaping and beautification of Tumon Bay and other tourist attraction projects.

Restricted Funds Held In Trust by GVB

The Rainy Day Fund (Public Law 30-116) decreased from \$2.1M in FY 2016 to \$1.6M in FY 2017 due to \$650K paid to airlines and travel agents as incentives to increase Japan tourist arrivals. This fund is used for unanticipated challenges from natural or man-made disasters on Guam or from external economic conditions that severely affect tourism.

The Cultural and Sports Ambassadors Fund (P.L. 33-10) provides grants for transportation expenses for off-island travel by cultural and sports ambassadors. In FY 2017, this fund increased by 25%, or \$379K in FY 2016 to \$475K.

The Korean Visitor Pilot Program (P.L. 33-112) was funded in FY 2016 by a \$250K appropriation for support services for the growing number of first-time Korean visitors to Guam. In FY 2017, GVB expended the appropriation to carry out the program.

The Pale San Vitores Road Project's (P.L. 30-196) remaining fund of \$182K as of FY 2017 will be used to complete repair, resurface, and renovate key intersections along the Pale San Vitores Road.

Report on Internal Control and Management Letter

The auditors did not identify any material weaknesses or significant deficiencies in GVB's Report on Internal Control over Financial Reporting and Compliance. However, the auditors issued a Management Letter that identified four areas of concern: (1) agent services and fees exceeded agreed amounts per contract when invoiced; (2) \$36K revenue collections were not timely deposited; (3) lack of documentation to support sponsorship approval of \$150K and \$3K; and (4) GVB erroneously paid a \$100K invoice twice, but this was identified by the vendor.

A full discussion on GVB's operations can be found in the Management's Discussion and Analysis in the audit report. Visit www.opaguam.org or www.guamvisitorsbureau.com to download the audit report.