



Tourist Attraction Fund FY 2013 Financial Highlights

March 31, 2014

The Tourist Attraction Fund (TAF) ended fiscal year (FY) 2013 with a significant decrease of \$4.4M million (M) in the fund balance or 7% from \$66.1M in FY 2012 to \$61.7M in FY 2013. The decrease is primarily attributed to the \$6.8M in the capital projects fund. Total revenues of \$29.3M increased by \$3.2M or 12% from \$26.1M in FY 2012 and the total expenditures of \$33.7M also increased by \$1.7M or 5% from \$32M in FY 2012. FY 2013's revenue of \$29.3M was the highest level of Hotel Occupancy Tax (HOT) revenues in over a decade.

Independent Auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion for TAF's financial audit. The auditors identified a material weakness on TAF's internal control over financial reporting and compliance related to the Department of Revenue & Taxation (DRT) has an inadequate document retrieval system. There was an understatement of \$1.5M in hotel occupancy taxes which became an audit adjustment. Additionally, due to the poor document retrieval system, 28 tax returns have yet to be located.

In the management letter, two findings were identified, that affected the capital projects fund, the understatement of encumbrances of \$1.2M and unrecorded liabilities of \$644 thousand (K).

TAF Operation Revenues

TAF's revenues are derived from 11% hotel occupancy taxes levied and imposed on occupants of hotels and similar facilities on Guam. TAF was established to fund various recreational projects and visitor industry activities and is the major source of funding for the Guam Visitors Bureau (GVB).

The TAF's 12% or \$3.2M increase in FY 2013 was mainly due to the 10% increase in hotel room rates and visitors' arrivals by 5% for a total of 1.3M visitors. This was primarily due to the 49% spike in arrivals from Korea with a record setting 233K visitors resulting from the increase in the additional seat capacity provided by Jeju Air which started flights from Incheon in September 2012 and Korean Air flying regularly out of Busan in October 2012. Additionally, Russian travelers more than doubled from 2,933 in FY 2012 to 5,903 in FY 2013. Japan remains Guam's largest visitor market with a total of 908K travelers followed by Korea of 233K and third by Taiwan of 48K. China markets brought in 10K visitors. According to Guam Visitors Bureau the positive trend is expected to continue in 2014.

Expenditures

In FY 2013, total expenditures of \$33.7M increased by \$1.7M or 5% from \$32M in FY 2012. The largest expenditures were payments to GVB of \$16.2M, a decrease of \$51K from previous year's payment of \$16.3M. The \$16.2M included \$14M for GVB operations, \$1.1M for beach maintenance, and \$610K to non-profit organizations.

The second largest expenditure was payment for debt service totaling \$7M, then followed by capital projects totaling \$6.8M which is a 290% increase from prior year of \$1.7M. The TAF also made payments to the Guam Community College for \$1.5M which increased by 6,689% from \$22K in FY 2012. The increase was mainly due to the \$1.5M appropriation per PL 32-061 for GCC's Apprenticeship Program.

HOT Bond Funding

In April 2011, the government issued Series 2011A HOT Revenue Bonds in the amount of \$90.7M to pay-off the 1997 Series A Bonds. Effective FY 2012, debt service amounted to \$7M which is 21% of the total expenditures and represented 24% of TAF's tax revenues.

There is \$57.7M in construction funds available for various projects to enhance tourism. The top 5 capital projects are: Guam and Chamorro Educational Facility (Guam Museum) of \$27M, San Vitores Flooding of \$11.5M, Guam Preservation Trust (GPT) of \$4.3M, Dededo Flea Market relocation of \$3.9M and Reconstruction of Pale San Vitores Road of \$2.1M. Of the \$27M appropriated for the Guam Museum, \$23M was for the construction while the \$4M was for the cost of design and various fees. GPT is expected to assist in the funding of the Guam Legislature Building. The projects for the San Vitores flooding and the Dededo Flea market relocation has just started.

Capital Projects

For FY 2013, payments for capital projects totaled \$6.8M. Among these were for the Guam Museum of \$4.2M, Inarajan Community Center Restoration for \$811K, and Historic Agana Projects for \$777K, and Tumon Bay Improvements of \$561K.

Report on Internal Control over Financial Reporting and Management Letter

The auditors identified a finding in TAF's Internal Control over Financial Reporting which they considered a material weakness. An adequate Point of Sales system was not in place at DRT during FY 2013. This condition created an inability to reconcile tax revenues resulting in an understatement of TAF revenue of \$1.5M. Further, DRT relies primarily on manual tax returns and has not implemented a scanning system to organize the large amount of data which it receives, resulting in an inadequate document retrieval system. DRT has yet to locate 28 tax returns due to its inadequate document retrieval system. There are certain taxpayers who filed but do not pay at the time of filing. On a rolling average, this approximates to \$600K.

In the management letter, two findings were identified that affected the capital projects fund, the understatement of encumbrances of \$1.2M and unrecorded liabilities of \$644K.

For a more detailed commentary of the TAF's operations, refer to the Management Discussion and Analysis in the audit report or visit our website at www.guamopa.org.