



Guam International Airport Authority FY 2014 Financial Highlights

January 30, 2015

In fiscal year (FY) 2014, the Guam A.B. Won Pat International Airport Authority (Airport) sustained its trend of 1.7 million (M) total enplanements. The Airport ended FY 2014 with an increase in net position of \$11.5M, although this amount was down \$3.6M from \$15.1M in FY 2013. The Airport continued to maintain sufficient debt service coverage of 1.52 versus the 1.25 debt service requirement of the former 2003 and new 2013 bond covenants.

Independent auditors Ernst & Young, LLP gave the Airport an unmodified (clean) opinion for its FY 2014 financial statements and compliance over major federal programs. The Airport continues to be the first agency to issue its financial audit within four months after the end of fiscal year. For the report on internal control over financial reporting, the auditors identified one significant deficiency pertaining to the reclassification of fixed assets and corresponding service dates.

Increase in Operating Revenues Off-set by Decline in Non-Operating Revenues

Overall, total revenues of \$85.5M declined by \$1.3M from \$86.8M in FY 2013. The \$85.5M was comprised of operating revenues of \$62M and \$23.5M in non-operating revenues. Operating revenues represented a 3.7% (or \$2.2M) increase from the previous year; however, this amount was off-set by the 13% (or \$3.5M) decline in non-operating revenues from FY 2013.

Operating Revenues Increased

While facilities and systems usage charges declined by \$1.7M to \$25.4M due to the slight decline in passenger related fees, non-aeronautical revenue streams accounted for 57% of operating revenues, which contributed to the overall increase. Specifically, concession fees increased by \$5.3M, from \$18M in FY 2013 to \$23.3M in FY 2014. This can be attributed to the 62% (or \$5.7M) rise in general merchandise revenue whereby there was an increase in the minimum annual guarantee from the new concessionaire, Lotte Duty Free Guam, LLC (Lotte).

Under the new agreement, the minimum annual guarantee is \$15.4M compared to \$4M, nearly a four-fold increase. Lotte was selected as the primary concessionaire for the Airport for a 10-year term beginning July 2013. The selection of Lotte is being protested and the case is pending before the Supreme Court of Guam.

Non-Operating Revenues Declined

The Airport received \$3.8M as a onetime payment for a grant of easement to the Department of Public Works to facilitate construction of Phase I of the Tiyan Parkway. This non-recurring income, however, was off-set by the \$4.8M decline in grants from the federal government, which amounted to \$12.6M compared to \$17.4M in FY 2013. Interest income also significantly declined, by \$2.3M to \$637 thousand (K).

Expenses Increased

Operating expenses increased slightly to \$38.6M compared to \$38.4M in the prior year. Within operating expenses, contractual services increased by \$893K from \$19.4M to \$20.3M. However, this increase was off-set by a decline in personnel services of \$440K and bad debt of \$335K. Within contractual services, the top five categories were (1) Power at \$6.3M, (2) Repairs and Maintenance at \$5.5M, (3) Professional services at \$4.2M, (4) Miscellaneous at \$1.8M, and (5) Insurance at \$1.1M. Professional services increased significantly by 50%, going from \$2.8M to \$4.2M. This increase was due to the accrual of future pollution remediation and monitoring costs and legal expenses.

Series 2013 Airport Bonds and Capital Improvements

In September 2013, the Airport issued 2013 Bonds totaling \$247.3M. These bonds were obtained to refund the outstanding 2003 Bonds and finance improvements in Airport. With \$110M of the bond proceeds for capital improvement projects, the Airport has begun the design of the new international arrivals corridor leading from the loading bridges to the federal inspection area and the design for parking expansion, added 10,000 barrels of fuel storage capacity for the fueling system, upgraded preconditioned air units for passenger loading bridges, and started manufacturing of key components of the baggage handling system.

Government Accounting Statement – Pension Liability

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement No. 68 related to the *Financial Reporting for Pensions* will result in a significant change as the Airport will be required to report its pro rata share of \$30.9M of the government of Guam's pension liability, which was \$1.3 billion as of FY 2013. This long-term liability of \$30.9M will be reflected in the Airport's financial statements in FY 2015.

Report on Compliance and Internal Control, Management Letter, and IT Letter

The Airport received an unmodified (clean) opinion on its compliance report over major federal programs. One significant deficiency, however, was identified in the auditor's report on internal control over financial reporting. The auditors found that two out of nineteen completed projects were not timely reclassified out of the work-in-progress general ledger account and that the service date for approximately \$19M worth of fixed assets was incorrect. This resulted in the under depreciation of fixed assets by \$657K.

A separate management letter was issued containing five deficiencies to include (1) numerous post-closing journal entries, (2) lack of written conflicts checks procedures, (3) the non-reimbursement of indirect costs, (4) delays in the preparation of annual leave worksheets and related documents, and (5) uncollated operating procedures on recordkeeping over federal awards. A separate letter was also provided on its information technology environment that identified six deficiencies.

See the Management Discussion and Analysis for more details. These reports may be downloaded at www.guamairport.com or at www.opaguam.org.