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Guam A.B. Won Pat International Airport Authority FY 2009 Highlights

The global economic crisis, combined with the outbreak of the swine flu placed continual economic strain on the airline industry, which resulted in lowered demand for travel and decreased passenger activity. Despite a challenging year, the Guam A.B. Won Pat International Airport Authority (Airport) closed fiscal year (FY) 2009 with an increase in net assets (net income) of 26% or \$24.4 million (M). The Airport received an unqualified “clean” opinion from independent auditors Ernst and Young, LLP for FY 2009 on its financial statements and report on compliance and internal control. Auditors did not identify any material weaknesses; however, there were three significant deficiencies. A separate management letter was issued containing nine reportable control deficiencies.

Revenues Declined Nominally in FY 2009

Airport’s total revenues decreased by \$170,000 (K), from \$41.9M to \$41.7M in FY 2009. The decline in revenues is attributed to the decrease of nearly \$2M in facilities and systems usage charges and concessions fees. This decline in revenue was offset by increases in rental income and miscellaneous revenue. Rental income increased by \$235K going from \$9.1M in FY 2008 to \$9.3M in FY 2009. Miscellaneous revenue increased significantly from \$75K to \$1.6M, due to collections from Guam Police Department totaling approximately \$1M for prior year rental space.

Airport Controls Operating Expenses

Prudent management at the Airport controlled operating costs in FY 2009, allowing the airport to close the year with a decrease in overall operating expenses by \$225K. Nearly every category of expense declined. Total operating expenses declined from \$29.7M in FY 2008 to \$29.5M in FY 2009. Notable decreases include a \$520K decline in Material and Supplies going from \$1.2M to \$684K in FY 2009, and the decline in bad debt expense of \$516K, from \$551K to \$35K.

Contractual services decreased by \$494K going from \$16.6M in FY 2008 to \$16.1M in FY 2009. Expenses for personnel services increased by \$1.3M going from \$11.4M to \$12.7M. The large increase is a result of the implementation of the salary increases for uniformed personnel, and the Airport reserving approximately \$700K related to the compensation of the Authority’s certified, technical, and professional positions promulgated under Public Law 29-154.

Debt Service

As a result of management’s efforts to control cost in FY 2009, the Airport had a debt service ratio of 1.33, which is above the 1.25 debt service requirements of the 2003 Bond Covenants. The debt service is a measure of the Airport’s net revenues versus annual debt service.

Capital Grants and Federal Awards

The Airport continues its aggressive pursuit of federal funding. Capital and Operating Grants from the United States Government increased over \$6M going from \$29.9M to \$36.3M. As of September 30, 2009, the Airport received a total of \$97M in federal awards. The majority of the grants are used for airfield and aviation infrastructure improvements and security enhancement projects. Of the \$97M, the airport received \$4.8M in American Recovery and Reinvestment Act (ARRA) funds for the rehabilitation of runway 6L/24R

Elimination of Unfunded Liability and Prior Period Adjustments

The Airport followed the Department of Administration's rationale for redesignating the Defined Benefit Plan from a single-employer plan to a cost-sharing multiple-employer plan, where the unfunded retirement liability is no longer recognized as a liability but is footnoted in the financial statements. The elimination of the retirement liability totaled \$5.3M resulting in beginning net assets being restated at \$271.8M.

Report on Compliance and Internal Control

Independent auditors rendered an unqualified "clean" opinion on the report on compliance and internal control, but identified three significant deficiencies, and no questioned costs. The three significant deficiencies include:

- **Financial Reporting:** The Airport did not make the required estimate of expected future cash outflows to recognize environmental obligations at the time of closing its year end September 30, 2009 accounting records.
- **Davis Bacon Act Reporting:** The Airport does not have a process to accumulate data relating to the creation and retention of jobs as required by ARRA. As a result, the reported number of jobs may have been overstated.
- **Davis Bacon Act Wage Determination:** The Airport did not obtain approval of wage rates used for several positions not listed in the wage determination. Auditors noted several instances in which actual hourly wages were paid lower than the prevailing wage.

In a separate management letter, the auditors identified nine findings as control deficiencies. These deficiencies are associated with accrued annual leave, reconciliation of accounts, work in progress close-outs, accrued compensation, customs fees, FEMA reporting, and unallowed administrative costs.

In addition, a separate document to the Board was issued by Ernst & Young auditors outlining audit strategies, emphasis, required communications, audit differences, and adjustments.

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