OFFICE OF THE PUBLIC AUDITOR

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Guam International Airport Authority
FY 2008 Highlights

Despite economic uncertainty in the airline industry, the Guam A.B. Won Pat International Airport Authority (Airport) closed the year with an increase in net assets (net income) of $18.7 million (M). The increase in fiscal year (FY) 2008 is primarily due to the Airport's initiatives to increase revenues. Operating revenues increased by $1.8M or 4.6%, however increases in revenues were offset by a larger increase in operating expenses which increased by $2M or 7% during the year. The Airport continues to be the first government entity to issue its financial audit. The Airport received an unqualified (clean) opinion from independent auditors Ernst and Young LLP for FY 2008. Auditors identified two significant deficiencies with respect to Federal Grants. A separate management letter was issued containing eight reportable control deficiencies.

Revenues Increase Despite Slight Decline in Passenger Activity

In FY 2008, Airport's revenues increased by 4.6% from $40M to $41.9M despite the overall decline in passenger activity which decreased by 3.2% from 1.49M to 1.44M. The increase in revenues is attributed to a 14.6% increase in concession fees, a 4.3% increase in facilities and systems usage charges, and the reinstatement of airline landing fees. The airport closed the year with nearly $2M more in operating revenues.

In addition to increasing revenue streams, the airport reserved bad debt allowance due from the Guam Police Department totaling $1.7M. The Airport entered into a memorandum of agreement where the Legislature authorized payments totaling $880 thousand. However, the airport has not received any payment as of January 20, 2009.

Rising Expenses and Declining Capital Grants in FY 2008

Airport's total operating expenses continued to escalate going from $28.3M in FY 2007 to $30.3M in FY 2008, an increase of nearly $2M. Total contractual services increased by 23.7% from $13.4M to $16.6M. The rise in contractual services in FY 2008 was primarily due to the increasing cost for power which increased by 18% from $4.8M to $5.7M. Other notable increases in expenses were the 67% increase for professional services from $2.2M to $3.7M, and the 40% increase for materials and supplies, from $860 thousand to $1.2M. The rises in expenses led to an operating loss of $9.8M, up 37% from the prior year.

Airport closed the year with an increase in net assets of $18.7M, which represents a 36% decrease compared to $29.2M in FY 2007. The decrease was due to depreciation and amortization, and the decline in Capital Grants from the United States Government in FY 2008. During the year, Capital Grants decreased by 19.5%, going from $36.7M to $29.6M.

Property Development Initiatives

In FY 2008, the Airport implemented various revenue enhancement and property development initiatives to enhance non-airline revenue streams. The airport entered into public/private partnerships with four firms to develop over 75,000 square feet of air cargo warehouse space and construct a 140,000 square foot, state of the art integrated air cargo facility. The investments in these properties are expected to generate $35.5M for the Airport.

The Airport also carried out over 109 ongoing projects in various phases of development and continued its pursuit of federal funding for capital improvement projects and was awarded $28.1M in federal grants from the FAA, the Economic Development Agency, and the Department of Interior. The funds will be used for training, developing airport parcels, improving utilities and increasing the Airport's capacity.

Report on Compliance and Internal Control

Independent auditors identified significant deficiencies in FY 2008; one finding is a repeat audit finding related to the Davis-Bacon Act where auditors found differences between actual and prevailing wage rates paid by contractors. Contractors are required to pay prevailing wage rates on federally funded projects. However, auditors found certain contractors were not in compliance.

In a separate management letter, the auditors identified eight findings as control deficiencies. These deficiencies are associated with amortization of additional bond costs, depreciation of cost improvements, unused annual leave credits, work in progress close-outs, information technology, customs fees, accounts receivable and environmental pollution remediation obligations.

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