



Guam International Airport Authority FY 2016 Financial Highlights

January 31, 2017

Guam Airport Continues To Be a Low-Risk Auditee

The Antonio B. Won Pat International Airport Authority (Airport) is to be congratulated for qualifying as a low-risk auditee for the second consecutive year. Independent auditors Ernst & Young, LLP gave the Airport an unmodified (clean) opinion on its fiscal year (FY) 2016 financial statements and compliance over major federal programs.

The Airport closed FY 2016 with an increase in net position (net income) of \$8.6 million (M) from \$13.1M in FY 2015. The increase is attributed primarily to the \$14.2M received in capital grants from the United States (U.S.) Government. Were it not for the capital grants, the Airport would have had an operating loss of \$5.7M, in part due to the \$3.6M increase in depreciation and amortization to \$27.8M.

Capital grants from the U.S. Government decreased by \$4.6M, from \$18.8M in FY 2015 to \$14.2M in FY 2016. The decrease resulted mainly from the partial completion of airfield improvements, as well as the extension and rehabilitation of the runway.

Operating Revenues Increased by \$1.5M

Comprised of facilities and systems usage charges, concession fees, and rental income, the Airport's operating revenues increased to \$65.2M, from \$63.7M in FY 2015. The increase was due mainly from facilities and systems usage charges going from \$26.2M in FY 2015 to \$27.0M in FY 2016. This \$782 thousand (K) increase occurred despite decreases in departure fees, arrival fees, immigration inspection fees, and loading bridge use fees. Rate decreases were offset by passenger traffic (originating/destination and connecting), which increased from 3.2M in FY 2015 to 3.4M in FY 2016.

Additionally, concession fees increased by \$226K due mainly to the increases in car rental and food and beverage concessions. Similar to FY 2015, the Airport generated \$15.2M from its general merchandise concessions, for which Lotte Duty Free Guam, LLC (Lotte) is the primary concessionaire. Lotte's concession agreement with the Airport states that Lotte shall pay the greater of the minimum annual guarantee rent of \$15.2M or a percentage of onsite gross revenues. Since Lotte did not exceed \$15.2M in percentage of onsite gross revenues, the minimum rent of \$15.2M still applied in FY 2016.

Operating Costs and Expenses Decreased by \$1.4M

The Airport's operating costs and expenses decreased to \$38.4M, from \$39.7M in FY 2015, due to decreases in contractual services and personnel services. A \$1.6M decrease in contractual services was attributed mainly to decreases in power and miscellaneous contractual services. Power decreased by \$1.4M due to the combination of load shedding and energy initiatives implemented through its energy performance management program. A \$1.7M decrease in miscellaneous contractual services was attributed mainly to the \$1.9M provision for loss that was recorded in the FY 2015 financial statements. These decreases were offset by increases in repairs and maintenance by \$791K, professional services by \$632K, advertising and promotions by \$192K, and travel/training by \$101K.

Litigation

The Airport is involved in ongoing disputes with its former concessionaire, DFS Guam L.P. (DFS), over DFS' former concession agreement. In December 2014, the Airport submitted itself to arbitration. In May 2016, an arbitration panel ruled in favor of DFS to receive \$1.9M plus interest from December 2013, attorney fees of \$388K, and arbitration costs of \$85K plus interest from May 2016. In the same month, the Airport filed with the Superior Court a complaint to invalidate the arbitration decision. Although there has been no resolution between the Airport and DFS, a \$1.9M provision for loss was recorded in the FY 2015 financial statements.

Net Pension Liability of \$32.2M

The implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 (related to reporting for pensions) resulted in the recognition of the Airport's pro rata share of the Government of Guam's \$1.4 billion net pension liability. As of FY 2016, the Airport's pro rata share was \$32.2M, which is a \$1.7M increase from \$30.6M in FY 2015.

Capital Improvement Projects

Receivables from the U.S. Government decreased by \$5.9M, from \$11.2M in FY 2015 to \$5.3M in FY 2016. The \$5.9M decrease may be attributed to the completion of the Airport's airfield infrastructure improvements in FY 2016, which included the extension of a runway and the installation of the corresponding navigation aids. Over \$70M was expended for these projects and other airfield improvements, which were funded through grants by the Federal Aviation Administration (FAA).

In December 2016, the Airport awarded a \$96.9M contract for the construction of the third floor Concourse Isolation project. Although concourse isolation is required by Transportation Security Administration (TSA) to separate arriving and departing passengers, the construction project will be funded mainly by the Airport's Series 2013 Bonds and in part by FAA. Estimated completion of the concourse isolation project is scheduled for September 2019.

Reports on Compliance and Internal Control and Management Letters

The Airport received a clean opinion on its compliance over financial reporting and over major federal programs. However, the auditors identified significant deficiencies pertaining to (1) incomplete information reported in the Airport's schedule of expenditures of federal awards; and (2) a questioned cost of \$70K for repairs not eligible for reimbursement from TSA.

A separate management letter was issued identifying five deficiencies pertaining to (1) excluding an employee's approved overtime from payroll processing; (2) not assessing interest on late customs fee payments from air carriers; (3) not pursuing federal reimbursement for indirect cost; (4) formalizing standard operating procedures on federal awards recordkeeping; and (5) not recording depreciation expense relative to work-in-progress. A separate letter was also provided on the Airport's information technology environment that identified five deficiencies.

Audit Adjustments and Uncorrected Misstatements

Two audit adjustments were made that cumulatively increased the Airport's net position by \$2M. However, three uncorrected misstatements would have increased net position by \$176K.

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