



Guam International Airport Authority FY 2012 Financial Highlights

January 30, 2013

The Guam A.B. Won Pat International Airport Authority (Airport) closed Fiscal Year (FY) 2012 with passenger enplanements exceeding 1.5 million (M), a record high in comparison to the past 11 years. While operating revenues increased from the prior year, it was insufficient to cover the increase in expenditures and resulted in a \$1.2M decrease in net assets (net loss). The Airport continued to maintain sufficient debt service coverage of 1.66 versus the 1.25 debt service requirement of the 2003 Bond Covenant. Independent auditors Ernst & Young, LLP gave the Airport an unqualified “clean” opinion for its FY 2012 financial statements. However, in its compliance report, the Airport had a material weakness for its failure to record a \$5.6M loan obligation and \$1.5M contractor payable.

Operating Revenues Increased

The Airport’s operating revenues increased by \$3.3M, going from \$49.2M in FY 2011 to \$52.5M in FY 2012. This increase was attributed to the increase in airline and non-airline revenue streams. Facilities and systems usage charges increased by 10% or \$2.2M to \$24.6M, concession fees increased by 8% or \$1.1M to \$15.9M, and rental income increased by 2% or \$243K to \$10.9M.

Expenses Increased

Despite the increase in operating income, it was not enough to offset the increase in operating expenses and depreciation and amortization. Operating expenses increased by \$1.4M, from \$33.7M in FY 2011 to \$35.2M in FY 2012. Depreciation and amortization increased by \$2.3M, going from \$22.6M to \$24.9M. Bad debt expense more than doubled, going from \$491K to \$1.1M as the Airport recorded 100% provision for doubtful accounts for some customers who have outstanding receivable balances over 90 days. Contractual services expense increased by \$288K, going from \$18.7M to \$19M. The main increase in contractual services was from repairs and maintenance, which went from \$4.6M to \$5.5M. The Airport ended FY 2012 with seven less employees than FY 2011, going from 199 to 192 employees, but personnel services expense increased by \$173K from \$13.7M to \$13.9M because of increments due to employees in 2011 that were not paid out until 2012.

Capital Grants and Federal Awards

Grant receipts from the U.S. government decreased by \$2.8M, going from \$9.6M in FY 2011 to \$6.8M in FY 2012. The decrease was due to specific projects placed on hold but are expected to progress in FY 2013.

Pac Air Ground Lease, Lease-Back, and Sublease

In October 2006, Airport entered into a ground lease agreement with Pac Air Properties, LLC and an amended agreement was executed in February 2008, which gave Pac Air an initial lease term of 50 years and the option to renew for an additional 10 years. Pac Air shall make agreed-

upon capital improvements at a cost of no less than \$25M to the leased area of approximately 540,000 square feet. In September 2009, Pac Air obtained beneficial occupancy for the newly built facility. Upon termination or expiration of the lease, the capital improvements will be surrendered to the Airport. Per the agreement, Pac Air pays four cents per square foot (sq. ft.) or forty-three cents per square meter or \$21,600 (540,000 sq. ft. x \$0.04) per month for the leased property. However, this payment has been deferred for five years and is to be paid in equal monthly installments over 10 years, commencing September 1, 2014. As of September 30, 2012, Pac Air owes the Airport \$799,200 of rental income interest-free.

In 2010, the Airport entered into a lease-back agreement with Pac Air for 32,500 square feet of space for an annual rent of \$1,058,400 (\$2.71/sq. ft. per month). In December 2010, the Airport entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency with annual rental income of \$1,024,200 (\$3.41/sq. ft. per month) for 25,000 square feet of the 32,500 leased-back space. The remaining 7,500 square feet of leased-back space is for Airport use. As a result of the lease-back arrangement, the airport has an annual net rental expense of \$34K. Per Airport officials, Pac Air has been authorized to lease space in the facility for non-airport related tenants, and Pac Air currently has lease agreements with such non-airport related tenants.

Merit Bonus

In December 2012, the Department of Administration paid out merit bonuses to line agency employees. The Airport is conducting its due diligence to determine its obligation to pay out merit bonuses. Accordingly, a cost estimate for bonuses to its employees has not been determined at this time.

Report on Compliance and Internal Control

The Airport received an unqualified opinion on its compliance report over major Federal programs in accordance with Office of Management and Budget (OMB) Circular A-133. However, the independent auditors identified one material weakness in the Airport's report on internal controls over financial reporting, which pertained to a bank loan with an outstanding balance of \$5.6M and a contractor billing of approximately \$1.5M that were not discovered by the Airport's internal controls and were not recorded accordingly. As such, audit adjustments were recorded to account for the bank loan obligation (\$5.6M), accrued liability (\$1.5M), and work-in-progress (\$7.1M). The Airport is recommended to strengthen its internal controls over its financial statement close process to minimize the possibility that material misstatements will not be prevented, detected, and corrected on a timely basis.

Separate management letters for financial reporting and information technology systems were issued containing 10 reportable control deficiencies to include a formal policy to identify accounts requiring an allowance, the timeliness of project close-outs, maintenance of annual leave schedule and supporting documents, custom fees, costs of evaluation studies, and establishing written policies for the processing of federal awards. Of the 10 conditions, four were repeat conditions from the prior year.

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