



Guam International Airport Authority FY 2011 Highlights

January 26, 2012

Although the catastrophic events that devastated Japan in March 2011 adversely impacted passenger activity, the Guam A.B. Won Pat International Airport Authority (Airport) still managed to close Fiscal Year (FY) 2011 with a \$1.3 million (M) increase in net assets (net income). This was mainly attributed to an increase in operating revenues from non-airline revenue streams. The Airport continued to maintain sufficient debt service coverage of 1.53 versus the 1.25 debt service requirement of the 2003 Bond Covenants. Independent auditors Ernst & Young, LLP gave the Airport an unqualified “clean” opinion for its FY 2011 financial statements.

The Airport also received an unqualified opinion on its compliance and internal controls for the fourth year in a row. However, the independent auditors identified two significant deficiencies with respect to the Airport’s major Federal programs. Questioned costs are estimated to be \$50 thousand (K) pertaining to the ineligible cost associated with the installation of the new water system at the Airport. A separate management letter was issued containing nine reportable control deficiencies to include the timeliness of completed projects close outs, timeliness of annual leave worksheets preparations, water system issues, clarification on Davis-Bacon Act rates, custom fees, costs of evaluation studies, and establishing written policies for the processing of federal awards.

Operating Revenues Slightly Increased

While enplanements decreased slightly from the previous year, the Airport’s operating revenues increased by \$2.1M, going from \$47.1M in FY 2010 to \$49.2M in FY 2011. This increase was attributed to the increase in non-airline revenue streams to include the concession fees, rental income and miscellaneous income. Concession fees increased by 6.3% or \$876K to \$14.8M, rental income increased by 12.8% or \$1.2M to \$10.6M, and miscellaneous income increased by 76.2% or \$641K to \$1.5M.

Operating Expenses Increased

The increase in operating income was not enough to offset the increase in operating expenses, which increased by 8.5% or \$2.6M, from \$31.1M in FY 2010 to \$33.7M in FY 2011. Increases in contractual services and personnel services accounted for \$2.1M of the increase. Contractual services increased by 6.6% or \$1.2M, from \$17.5M to \$18.7M, while personnel services increased by 7.8% or \$989K, from \$12.8M to \$13.7M. The main increases in contractual services were from power, which went from \$6.3M to \$6.8M and repairs and maintenance, which went from \$4.1M to \$4.6M. The increase in personnel services was attributed to the implementation of the next phase of the Airport’s Unified Pay Scale for all employees, which amounted to \$593K.

Capital Grants and Federal Awards

Grant receipts from the U.S. government dramatically decreased in FY 2011, going from \$18M in FY 2010 to \$9.5M. The decrease is a result of open grants from prior years that were delayed with substantial drawdowns made and received in FY 2010 and prior years.

Notable Events in FY 2011

The Airport has been working closely with local and federal government stakeholders on a mutually acceptable alignment for the Tiyan Parkway which will also mitigate the impact of the closure of Central Avenue due to runway operations. Consensus has been reached on the Parkway alignment and an action plan is being formulated.

The Airport has also substantially completed the new airport water system and negotiated an operating agreement with the Guam Waterworks Authority. Permitting with Guam Environmental Protection Agency is in process and full operation is expected in FY 2012. The new water system will meet the Airport's demand into the future; would accelerate the remediation of ground water contamination; and fully resolve fire suppression issues at all airport facilities. Due to ineligible costs associated with the installation of the new water system, auditors identified questioned costs of \$50K.

Autonomous Agencies Collection Fund

In March 2011, the Airport received an invoice from the Department of Administration for \$12.2M representing an annual assessment on the Airport of \$875K for years 1998 to 2011. Unlike another autonomous agency that has already recorded a \$700K liability, the Airport is of the position that it is unable to recognize this invoice as a liability as it is prohibited by its 2003 General Revenue Bond Indenture and federal law from transferring any funds from its operating surplus to the Government of Guam General Fund.

Report on Compliance and Internal Control

Independent auditors rendered an unqualified "clean" opinion on the report compliance and internal control, but identified two significant deficiencies to include the previously mentioned questioned costs and the Davis Bacon Act Reporting. The Airport appears to have weak controls over the review of submitted certified payrolls as auditors noted several instances where several certified payroll from vendors were not properly prepared in compliance with the Davis-Bacon Act.

Independent auditors issued a separate document to the Airport's Board of Directors outlining audit strategies, emphasis, required communications, audit differences, and adjustments. See the Management Discussion and Analysis for more details. These reports may be downloaded at www.guamairport.com or at www.guamopa.org.