



## OFFICE OF PUBLIC ACCOUNTABILITY

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### **A. B. Won Pat International Airport Authority – FY 2019 Financial Highlights**

April 28, 2020

Hagåtña, Guam – The Office of Public Accountability released the Antonio B. Won Pat International Airport Authority’s (Airport) Fiscal Year (FY) 2019 financial statements, reports on compliance and internal control, management letter, auditor’s communication with those charged with governance, and schedule of passenger facility charges collected and expended, and corrective action plans. Independent auditors Ernst & Young, LLP rendered an unmodified (clean) opinion on the Airport’s financial statements and compliance over major federal programs.

The Airport closed FY 2019 with an increase in net position (net income) of \$3.3 million (M), which increased by \$2M from FY 2018’s net income of \$1.2M. The Airport recognizes pension and other post-employment benefits (OPEB) liabilities for the plans it participates in. As of September 30, 2019, total pension and OPEB liabilities amounted to \$78.9M while related expenses totaled \$7.5M.

For FY 2019, the Airport did **not** qualify as a low-risk auditee after four consecutive years of low-risk status. This was due to a material weakness over the FY 2018 financial reporting. For FY 2019, the independent auditors identified one significant deficiency over major federal programs.

#### **Operating Revenues Slightly Increased by \$23K**

Total operating revenues of \$68.9M in FY 2019 slightly increased by \$23 thousand (K). Facilities and systems usage charges of \$31.3M increased by \$3M due to an increase in passenger and airline activities. However, this was offset by a \$3M decrease in Miscellaneous Revenue, due to a \$3M decrease in legal fees reimbursements from the ongoing litigation with DFS Guam L.P. (DFS).

#### **Operating Costs and Expenses Increased by \$2.2M**

Operating costs and expenses increased by \$2.2M, from \$42.7M in FY 2018 to \$44.9M in FY 2019. The increase was attributed primarily to the \$4.2M increase in personnel services, which was offset by the \$2.1M decrease in contractual services. Personnel services increased due to a \$3.7M increase in pension and OPEB expenses, as well as for overtime pay during Category 5 typhoons. Contractual services decreased mainly from the \$3M reduction in legal services paid for ongoing DFS litigation, from \$4.5M in FY 2018 to \$1.5M in FY 2019.

Net non-operating revenue (expenses) significantly decreased by \$4.4M, from a negative \$4.8M in FY 2018 to a negative \$477K in FY 2019. This was due primarily to the \$2.2M decrease in interest expense from a reduction in debt service and liabilities without incurring additional debts.

#### **Litigation**

The Airport is involved in ongoing disputes with its former concessionaire, DFS, over DFS’ concession agreement that expired in 2013. DFS initiated arbitration in 2014, and in 2016, the arbitration panel awarded DFS \$1.9M in damages plus pre-award interest, attorneys’ fees, arbitration costs, and post-award interest. In December 2018, the Superior Court of Guam confirmed the arbitration award, which the Airport appealed. However, because of pending motions



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by the parties in the Superior Court, the Supreme Court of Guam does not yet have jurisdiction to hear the appeal. In January 2019, DFS demanded that the Airport immediately pay \$2.2M due under the arbitration award plus interest. In February 2020, the Airport filed a motion to reverse the Confirmation Order and vacate the arbitration award. In the event the Airport must pay any judgment on the arbitration award, the range of loss amounts to approximately \$1.9M to \$3.4M. As of September 30, 2019, the Airport recorded a provision for loss of approximately \$3.1M.

### **Operational Achievement**

For three consecutive years, the Airport achieved a perfect 100% score in its Federal Aviation Regulations (FAR) Part 139 certification inspection conducted in October 2018. In recognition, it was bestowed the prestigious 2019 Airport Safety Award by the Federal Aviation Administration's Western Pacific Region Office in June 2019.

### **Report on Compliance and Internal Control**

The independent auditors identified one significant deficiency in internal control over compliance of major federal programs. This pertained to six reimbursements totaling \$380K, which were requested by the Airport prior to the actual payment to vendors for program costs. The independent auditors recommended that the Airport modify its internal control procedures to prevent the processing of reimbursements before payment of program costs and ensure compliance with federal requirements.

In a separate Report on Compliance and Internal Control over Passenger Facility Charges (PFC), the independent auditors noted one repeat significant deficiency relative to certain air carriers remitting PFC collections later than the required due date of the last day of the following calendar month when collections were received. These carriers continue to make late payments despite the Airport's efforts to remind them.

### **Management Letter**

A separate management letter was issued identifying two repeat deficiencies in internal control pertaining to the Airport (1) not charging a 10% interest on the air carriers with late remittances and not depositing the collections on custom fees within five days of receipt; as well as (2) not formalizing standard operating procedures on federal awards recordkeeping.

### **FY 2020 Outlook**

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization, declared the novel corona virus (COVID-19) outbreak as "Public Health Emergency of International Concern". As the Airport's main business operations are dependent on visitors primarily from Japan, Korea, and the Philippines, the continued rise of COVID 19 cases in these countries has affected inbound/outbound flights. From February 2020 through April 2020, more than 948 flights (equal to approximately 175,000 seats) had been canceled. The Airport estimates approximately \$9M in revenue loss, which may be exacerbated if the pandemic continues.

For more details, see the Management's Discussion and Analysis in the audit report. These reports may be downloaded at [www.guamairport.com](http://www.guamairport.com) or at [www.opaguam.org](http://www.opaguam.org).