



OFFICE OF THE PUBLIC AUDITOR

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Guam International Airport Authority – FY 2007 Highlights

The Guam A.B. Won Pat International Airport Authority (Airport) issued its FY 2007 financial audit report timely within four months after the fiscal year end, as required by Public Law 13-57 and the Airport's bond covenants. The Airport was also the first government entity to issue its financial audit for the FY 2007 year. Ernst and Young LLP (EY), the contracted auditing firm, issued an unqualified or clean opinion on the Airport's FY 2007 financial statements and a qualified opinion on the Airport's compliance with requirements to its major federal award programs.

The Airport closed the year with a significant increase in net assets (net income) of \$29.2 million (M) a four-fold increase compared to \$7.4M in FY 2006. Federal Capital Grants were \$36.7M compared to \$14.7M in the prior year and represented 43% of total revenues. Capital grants are the primary component for the increase in net assets.

The Airport was awarded \$115.8M in capital and other grants from the United States Government. Since 2004, the Airport has received \$74.8M. A majority of the capital grants or about 91% is from the U.S. Department of Transportation. Capital grants are to be used for improvements to the Airport's infrastructure, airfield, security and roadway upgrades, and customer service and passenger facilities. Correspondingly capital assets after depreciation increased by \$26.1M in FY 2007.

Notable achievements in FY 2007 were the upgrade of the Airport's bonds by Standard and Poor's from BBB- to BBB and by Moody's Investor Services' from Baa3 to a Baa2. Both rating agencies issued stable outlooks of the Airport's performance. With the anticipated buildup of military activity on Guam, the Airport is poised to meet the projected increase in flights to Guam by embarking on an aggressive Capital Improvement Program (CIP) with over \$150M in projects that are either underway or in the planning phases.

However, over the past four years¹ there has been a steady decline in the Airport's total operating revenues, from \$41.4M in FY 2004 to \$40.1M in FY 2007, a decrease of \$1.3M or 3.2%. Total operating expenses continue to rise over the same period, from \$24.5M in FY 2004 to \$28.3M in FY 2007, an increase of \$3.8M or 1.6%.

Most of the revenue decline can be attributed to declines in "facility charges." Facilities and systems usage charges make up 43.8% of the Airport's revenues. These are

¹ Total airport revenues were reported at \$41.4M in FY 2004, \$42.8M in FY 2005, \$40.9M in FY 2006, and \$40.1M in FY 2007. These figures were obtained from the financial audit reports.

comprised of departure and arrival facilities, passenger loading bridge usage charges, immigration, public apron, fuel flowage fees, landing fees, utility recovery, and other fees. Escalating fuel costs continue to exert pressure on airline profitability; as a result, the Airport has been responsive and attentive to signatory airlines costs prompting downward adjustments to various fees.

Operating expenses, on the other hand, increased to \$28.3M or by 2.3% from \$27.7M in FY 2006. Bad debts increased more than three fold from \$250,000 to \$1,070,963, representing collectibility problems of rental income from government agencies, most notably the Guam Police Department (GPD). As of the fiscal year end, GPD owed the Airport \$1.4M. However, without an appropriation from the Legislature to pay for this outstanding debt, GPD is unable to make regular payments.

Personnel costs have also slowly risen from \$11.1M in FY 2004 to \$13.0M in 2007 with 205 employees, a decline of 2 employees from 2006. According to the Airport officials, the increase in personnel costs was to meet aviation security requirements. These increases were offset by a reduction in contractual services from \$14.6M in FY 2006 to \$13.4M or 8.4% in 2007. Contractual legal fees declined by 3% from the previous year of \$604,339 to \$585,600 in 2007.

Report on Compliance and Internal Control

The number of findings reduced from four in 2006 to one in 2007. While the auditors identified only one finding, this finding is a significant deficiency² related to the Davis-Bacon Act. Although no questioned costs are associated with this finding, it is a repeat finding. Airport officials should continue to work with its contractors and subcontractors to ensure compliance with the Davis-Bacon Act.

In a separate management letter, the auditors identified six findings as control deficiencies. These deficiencies are associated with a trade accounts receivable, a customer accounts receivable, a vendor accounts payable, untimely filing of travel expense report; late remittance of custom fees, and the airport's information systems environment.

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

²A significant deficiency is defined as a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program, resulting in more than a remote likelihood that a material weakness will not be prevented or detected by the Airport's internal control. Source: *Government Auditing Standards*, issued by the U.S. Comptroller General (www.gao.gov).