



OFFICE OF THE PUBLIC AUDITOR

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Guam International Airport Authority – FY 2006 Highlights

The Guam International Airport continues to be the first government of Guam agency to issue its annual financial audit report. The fiscal year (FY) 2006 audit was completed by Ernst and Young LLP (EY) and was submitted on-time as required by the airport's bond covenant requirements and Public Law 13-57. Both require the audit to be submitted no later than 120 days after the close of the fiscal year. EY issued an unqualified or clean opinion on the airport's financial statements.

The airport closed the fiscal year with a positive bottom line or an increase in net assets of \$7.4 million. This brought total net assets from \$211 to \$219 million. An increase in net assets has shown that the airport has been successful in keeping expenses lower than revenues; however, in comparison to prior years, the audit illustrates that airport revenues have dropped and operating expenses are rising.

The airport reported revenues of \$41.4 million in '04, \$42.8 million in '05, and \$40.9 million in '06. The \$40.9 million is nearly a 4% decline from the prior year. In the same years, airport expenses have climbed. Total operating expenses were \$24.5 million in '04, \$24.8 million in '05, and are now reported at \$27.7 million in '06. Were it not for the \$14.7 million received in capital federal grants, the airport would have reported a loss of \$7.6 million.

Since FY '02, the airport has received substantial capital grants from the US government. These grants assist to keep their numbers positive. Over the last five years, grant contributions have increased significantly from a low of \$2.7 million in '02 to a high of \$16.9 million in '05, and now \$14.7 million in '06.

Most of the revenue decline in '06 can be attributed to "facility charges." Facility charges make up 45% of the airport's revenue and are comprised of fees mainly assessed to departure, arrival, landing, and immigration facilities. Income from operations, before depreciation, also dropped by \$4.8 million or 27% from \$17.9 million in '05 to \$13.1 million in '06.

A notable improvement in '06 was the upgrade of the airport's bond rating. In October 2006, Standard and Poor raised the agency's rating from BBB- to BBB. This along with the re-financing of their General Revenue Bonds in '03 illustrates the airport's stable investment climate. Further, interest paid on the General Revenue Bonds fell by 6% or nearly \$700,000, as the airport was afforded lower interest rates following their re-financing.

Operating expenses of \$27.7 million in '06 were the second highest expense figures the airport has seen since '02. The increased expenses were due largely to contractual services which increased by 20% or \$2.5 million. These services mainly comprised utilities and telephone, repairs and maintenance, insurance and professional service costs. Of these, only insurance expenses decreased. Professional services experienced the largest expense increase of over \$1 million. This was due to a new fire installation in the airport hanger, air service expansions, and costs related to other environmental issues and the upgrade of the airport bond rating. The airport's legal fees of \$604,339 in '06 were nearly the same as those reported in '05 of \$603,573.

The auditor's report on Compliance and Internal Control noted four findings for the airport, of which all were considered reportable conditions.¹ Of the reportable conditions, the Airport was cited for untimely fund transfers and failing to recognize income from federal grants in the proper reporting period. None of the four findings resulted in questioned costs.

In a separate management letter, five findings were identified. Among these included the continued delay of custom fees to the Treasurer of Guam, differences in accounts receivable among government entities, specifically the Guam Police Department, and the lack of reconciliation of accounts payable vendor balances not made on a timely basis.

For a detailed analysis see the Management Discussion and Analysis.

¹ Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions made by the entity's management in the financial statements.