



Guam International Airport Authority FY 2017 Financial Highlights

March 29, 2018

For the third consecutive year, the Antonio B. Won Pat International Airport Authority (Airport) qualified as a low-risk auditee. We commend the Airport for maintaining this rare status. Independent auditors Ernst & Young, LLP gave the Airport an unmodified (clean) opinion on its fiscal year (FY) 2017 financial statements and compliance over major federal programs. The Airport closed FY 2017 with an increase in net position (net income) of \$9.6 million (M), which is an increase from FY 2016's restated net income of \$7.1M.

Operating Revenues Increased by \$5.4M

FY 2017 was another record-breaking year for the Airport. Comprised of facilities and systems usage charges, concession fees, rental income, and miscellaneous, the Airport's operating revenues increased by \$4.9M, going from \$65.2M in FY 2016 to \$70.1M in FY 2017. The increase was due mainly to increases in miscellaneous revenues and facilities and systems usage charges. Comprised of an indemnification of legal fees from the Airport's primary concessionaire Lotte Duty Free Guam, LLC (Lotte), miscellaneous revenues increased by \$2.2M, going from \$3M in FY 2016 to \$5.2M in FY 2017. Facilities and systems usage charges increased by \$2M, going from \$27M in FY 2016 to \$29M in FY 2017. Additionally, rental income increased by \$595 thousand (K), going from \$11M in FY 2016 to \$11.6M in FY 2017. Similar to FY 2016, the Airport generated over \$15M from its general merchandise concessions. Lotte's concession agreement with the Airport currently states that Lotte shall pay the greater of the minimum annual guarantee rent of \$15.2M or a percentage of on-site gross revenues.

Operating Costs and Expenses Increased by \$3.8M

The Airport's operating costs and expenses increased to \$43.6M, from \$39.8M in FY 2016, due to increases in contractual services. A \$1.8M increase in contractual services was attributed mainly to professional services for legal, airport consultation, and energy conservation. Power increased by \$1.3M and repairs and maintenance increased by \$866K.

Litigation

The Airport is involved in ongoing disputes with its former concessionaire, DFS Guam L.P. (DFS), over DFS' concession agreement. In December 2014, the Airport submitted itself to arbitration. Both parties have filed claims and counterclaims against each other alleging various breaches of contract. In May 2016, the arbitration panel ruled in favor of DFS to receive \$1.9M plus interest from December 2013, attorney fees of \$388K, and arbitration costs of \$85K plus interest from May 2016. In the same month, the Airport filed with the Superior Court a complaint to invalidate the arbitration decision.

In February 2018, the Superior Court ordered the nearly five-year contract between Lotte and the Airport void. Immediately after the decision was issued, the Airport filed a notice of appeal to the Supreme Court, as well as a motion to stay enforcement on the Superior Court's orders. The Airport stated that it has vigorously defended itself against all claims but has recorded a provision for loss amounting to \$1.9M.

Operations and Capital Improvement Projects

In September 2017, the Airport set the Gold Standard for operations and was once again recognized by the Federal Aviation Administration (FAA) as the only airport in its region to pass its annual certification inspection, with a perfect 100% score with zero discrepancies.

Also in September 2017, the Airport substantially completed a \$32M Hold Bag Screening Relocation project, funded mainly by a \$26M grant from the Transportation Security Administration (TSA). This project involved the relocation and installation of four new, state-of-the-art baggage screening pods to a facility behind the airline check-in counters.

In December 2016, the Airport awarded a \$96.9M contract for the construction of the 3rd floor Concourse Isolation project. Although concourse isolation is required by TSA to separate arriving and departing passengers, the construction project will be funded mainly by the Airport's Series 2013 Bonds and in part by FAA. In July 2017, Phase I of construction commenced with estimated completion scheduled for September 2019.

Reports on Compliance and Internal Control and Management Letters

The Airport received a clean opinion on its compliance over financial reporting and over major federal programs, as well as maintained its low-risk auditee status. However, the auditors identified significant deficiencies pertaining to (1) the lack of documentation that \$1M in painting costs meets the capitalization requirements under applicable authoritative guidance; and (2) one quarter's non-submission of quarterly project financial statements to TSA.

A separate management letter was issued identifying four deficiencies pertaining to (1) improperly capitalizing some costs that should have been expensed; (2) not assessing interest on late customs fee payments from air carriers; (3) not pursuing federal reimbursement for indirect cost; and (4) not formalizing standard operating procedures on federal awards recordkeeping.

While the effects of the Trump tax are adverse on GovGuam operations, the Airport is not affected because it is self-sustaining and does not receive funding from the General Fund.

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