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A.B. Won Pat International Airport Authority – FY 2022 Financial Highlights

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Hagåtña, Guam –The Antonio B. Won Pat International Airport Authority (Airport) closed fiscal year (FY) 2022 with a decrease in net position (net loss) of $322 thousand (K), which was a decrease of $1.9 million (M) from FY 2021's net gain of $1.6M. The Airport's net position at the end of FY 2022 was $281.6M. The Airport maintained a similar financial position from FY 2021 through the refinancing and restructuring of the Airport's revenue bonds, and receipt of grants from the United States federal government.

Independent auditors Ernst & Young LLP (EY) rendered an unmodified (clean) opinion on the Airport's financial statements and compliance over major federal programs. The report on compliance and internal control over financial reporting noted two findings concerning the Airport's (1) implementation of a new government accounting standard for leases and (2) general ledger and financial statement close process. The report on internal control over major federal programs noted two findings related to the Airport Improvement Program grant from the United States Department of Transportation, Federal Aviation Administration (FAA). The report on compliance for the program noted one finding related to the Airport's remittance of passenger facility charges (PFC). The Airport is commended for qualifying as a low-risk auditee for the second consecutive year.

Increase in Operating Revenues and Expenses
The Airport's operating revenues increased in FY 2022 by $10M, going from $23.2M in FY 2021 to $33.2M in FY 2022. The largest increase was from concession fees, which increased by $7.2M, going from $5.5M in FY 2021 to $12.7M in FY 2022. A total of $4.8M in concession fees is attributed to the Airport's implementation of GASB Statement No. 87, Leases, for its lease agreements as a lessor. Facilities and systems usage charges increased by $5.2M. Rental income decreased by $1.2M, going from $10.6M in FY 2021 to $9.4M in FY 2022. Miscellaneous revenue decreased by $1.3M, going from $1.8M in FY 2021 to $509K in FY 2022.

Total operating costs and expenses for FY 2022 increased by $4.6M, going from $34.5M in FY 2021 to $39.2M in FY 2022. The $4.1M increase in contractual services primarily contributed to the overall increase in total operating costs and expenses, followed by increases in personnel services and materials and supplies expenses of $21K and $500K, respectively.

Implementation of New Government Accounting Standard for Leases
In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The implementation of GASB 87 involved the Airport's evaluation of dozens of leases to determine applicability under GASB 87 reporting standards. Because the Airport is the only commercial airport on Guam and is both a lessee and lessor to numerous parties, and many of its leases included multiple components, both aeronautical and non-aeronautical, along with multi-year, variable terms, and rate escalations—the evaluation process undertaken was unlike many other agencies of the

government of Guam, and the Airport was able to successfully implement GASB 87. At October 1, 2021, the Airport recorded lease receivable and related deferred inflow of resources of $24.9M for its lease agreements as a lessor.

Completion of Major Capital Improvement Projects

FY 2022 saw the completion of several of the Airport's capital improvement projects focused on enhancing the safety and security for the community and the traveling public, increasing capacity, reducing airport noise, and generating or sustaining air service to current or new markets. This included the Third Floor International Arrivals Corridor with Seismic Upgrades; Aircraft Rescue and Firefighting Facility; Runway 6L/24R Rehabilitation (Phases 1a and 1b); and the Master Plan Update. Federal funding primarily funded these capital improvement projects. Aside from the Master Plan Update, the completion of these capital improvement projects accounted for $325.1M invested in capital assets, net of related debt; and $64.9M expended from unrestricted assets.

Focus on Recovery from Impacts of COVID-19 and Typhoon Mawar

To attract and encourage air service in the Asia-Pacific region, from May to September 2022, the Airport introduced the Airline Recovery Assistance and Incentivizing Service Program, which provided discounts on operational rates for qualified airlines. Financial relief was also provided for concessionaires whose contract payment terms required the higher of Minimum Annual Guarantees or percentage of sales for FY 2022.

The Airport also saw a significant increase in passenger movements during FY 2022 compared to FY 2021, as Guam and the United States, along with Japan, South Korea, Taiwan, and the Philippines, relaxed and/or eliminated its COVID-19-related travel restrictions. Passenger movements during FY 2022 totaled 746K, a 234% increase from FY 2021's total passenger movements of 224K. The lifting of travel restrictions in Guam's source markets contributed to the update of the Airport's General Revenue Bonds outlook by Standard & Poor (S&P) from "negative" to "stable" at the beginning of FY 2022. The Airport's credit rating by Moody's Investor Services (Moody's) also received a similar revision from "negative" to "stable" in FY 2023.

On May 24, 2023, Category 4 Typhoon Mawar made a direct passage over Guam, which impacted both the island and the Airport. Despite the associated damages from the typhoon, the Airport became fully operational shortly after the typhoon's passage. Due to temporary impacts on passenger traffic caused by Typhoon Mawar, S&P revised the Airport's rating back to "negative," and Moody's placed the Airport's ratings under review. The Airport expects continued passenger traffic recovery to occur in the months after June 2023.

Debt Service Coverage Ratio at 1.76x

The Airport achieved a Debt Service Coverage (DSC) ratio of 1.76x for FY 2022, which provides sufficient coverage of the required DSC ratio of 1.25x under the bond indenture for the issuance of its 2019, 2021, and 2022 General Revenue Bonds. This was attributed to the Airport's refunding/refinancing of its bonds in FY 2019 and FY 2021; financial assistance received from the federal and local governments; and ARP funding.

Report on Internal Control Over Financial Reporting; Compliance for Federal Programs; Passenger Facility Charge Program

In separate compliance reports for internal control over financial reporting, major federal programs, and schedule of PFCs, EY found no questioned costs but noted the following significant deficiencies:

Financial Reporting

1. In the Airport's implementation of GASB 87, misstatements were identified in the opening balance of lease receivables and deferred inflow of resources due to the incorrect (1) determination of lease term and (2) misapplication of discount rate to certain leases. A revised amortization worksheet and trial balance were provided to correct these errors.
2. Numerous journal entries were posted after the September 30, 2022 trial balance was provided to EY as a result of grants receivable balances not reconciling between the Schedule of Expenditures of Federal Awards (SEFA) and the Airport's books. The Airport noted that the difference between the SEFA and the Airport's books was corrected.

Federal Programs

1. The Airport was not in compliance with applicable matching, level of effort, and earmarking requirements for one out of 25 transactions tested for $525K in expenditures incurred between December 2021 and January 2022 charged to the FAA Airport Improvement Program grant. The Airport subsequently corresponded with and received guidance from the FAA for corrective action, and provided sufficient documentation to demonstrate that the sampled invoice total of $583K and $525K in federal expenditures now represent allowable costs incurred prior to the grant's expiration date.
2. For this same transaction described above, the Airport was also non-compliant with applicable period of performance (POP) requirements because they did not receive a written amendment from the FAA to amend the POP end and liquidation dates to after 2021. As this finding was related to the same invoice affected in the first finding, the corrective action applied by the Airport in the above finding on federal programs also corrected this finding.

Passenger Facility Charge Program

PFCs generate income to be expended by the Airport for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. Air carriers collect PFCs from passengers on behalf of the Airport at the time of air travel ticket issuance. The air carriers are responsible for all PFC funds from the time of collection to remittance to the Airport. In addition, the air carriers must provide quarterly reports to the Airport showing the total amounts of PFC revenues collected and refunded, as well as any amounts withheld by the air carrier as collection compensation. The completeness of the PFC receipts reflected in the quarterly schedule is the responsibility of the air carrier.

EY noted that the Airport continued to receive delayed monthly remittance of PFCs from air carriers, which was in noncompliance with the Code of Federal Regulations. Despite the Airport's continued efforts to communicate the due dates of monthly PFCs, certain air carriers continued to make late payments.

For more details on the Airport's operations, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.