Financial Highlights
A.B. Won Pat International Airport Authority, Guam Financial Audit
Fiscal Year 2023

June 14, 2024

The Antonio B. Won Pat International Airport Authority, Guam (Airport) received unmodified (clean) opinions on its fiscal year (FY) ended September 30, 2023 financial statements, report on compliance for major federal programs, and report on compliance for the passenger facility charge (PFC) program from independent auditors Ernst & Young LLP (EY). EY also opined that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole. EY did not identify any findings on the Airport's internal control over major federal programs or questioned costs related to federal awards. However, EY identified one significant deficiency regarding the capitalization of Typhoon Mawar costs in its report on internal control over financial reporting and one significant deficiency in its report on compliance for the PFC program related to airline carriers' untimely remittance of the PFC to the Airport despite the Airport's efforts to collect.

In FY 2023, the Airport experienced a significant decrease in net position (net loss) of $31.9 million (M), primarily due to total expenses of $92.9M (51% operating expenses and 49% depreciation and amortization and non-operating expenses) exceeding total revenues of $61M (66% operating revenues and 34% non-operating revenues). This decrease in total revenues was mainly due to a reduction in federal operating and capital grants from the U.S. government, as further discussed below. As a result, the Airport closed FY 2023 with a net position of $249.7M, down from $281.6M in FY 2022.

Total Revenues Decreased by $22.9M
In FY 2023, the Airport generated total revenues of $61M, marking a $22.9M decrease from the total revenues of $83.9M in FY 2022. Total operating revenues amounted to $40.2M, representing 66% of the Airport's total revenues, while the remaining 34% was derived from non-operating revenues totaling $20.8M.

Operating Revenues Increased by $7.0M
The Airport's total operating revenues increased by $7.0M, rising from $33.2M in FY 2022 to $40.2M in FY 2023. This increase in operating revenues is primarily attributed to increases in facilities and systems usage charges by $13.5M, rental income by $1.6M, and miscellaneous revenues by $1.5M. The increases in facilities and systems usage charges and rental income are mainly attributed to increased passenger activity and airline rates and fees. Miscellaneous revenues increased due to the increase in legal reimbursements.

These increases were partially offset by the significant decrease of $9.5M in concession fees, which dropped from $12.7M in FY 2022 to $3.2M in FY 2023. The decline in concession fees is mainly due to the accounting adjustment attributable to the application of Government Accounting Standards Board Statement No. 87, *Leases*, and the associated effect of the COVID-19 rent relief, which decreased concession revenues by $8.0M in FY 2023 in contrast to the increased concession revenues of $4.8M in FY 2022. As the Airport continued to recover from the COVID-19 pandemic and Typhoon Mawar, the Airport's Board of Directors approved the extension of Rent Relief to

Minimum Annual Guarantees (MAG) Concessionaires from October 2022 to July 2023. This extended the financial relief previously provided from October 2021 to September 2022 for concessionaires whose contract payment terms required higher MAG or percentage of sales. During the relief period, MAG rents were waived. Instead of MAG, these tenants were provided terms requiring the greater percentage of gross sales or terminal building rent based on the space they occupied and assessed at the main terminal building rental rate.

Non-Operating Revenues Decreased by $29.9M

The Airport's non-operating revenues saw a significant decrease of $29.9M, which dropped from $50.7M in FY 2022 to $20.8M in FY 2023. This decline was primarily caused by a substantial decrease of $39.2M in federal operating and capital grants from the U.S. Government, which totaled $8.5M in FY 2023 compared to $47.7M in FY 2022. The reduction in federal operating grants by $22.1M is due to the Airport receiving American Rescue Plan (ARP) funds for COVID-19 relief of $23.7M in FY 2022, with the remaining $1.1M allocated to the Airport in FY 2023. Additionally, the decline in federal capital grants by $17.0M was due to FY 2023 mainly involving the planning, design, and architectural and engineering phases for new construction projects, which did not yield similar capital grants revenue as compared to the completion of major construction projects in FY 2022.

These decreases were partially offset by $6.8M in aviation fuel tax (AFT) revenues and a $1.9M increase in passenger facility charge income directly attributed to increased passenger activity. In FY 2023, the Airport recorded its share of the AFT revenues from FY 2018 to FY 2023, amounting to $9.3M with a corresponding estimated allowance of $2.5M. The recording of AFT revenues of $6.8M due to the Airport from the government of Guam (GovGuam) was required to comply with the Federal Aviation Administration (FAA) regulations as updated on November 7, 2014. These regulations clarified that local taxes on aviation fuel collected by GovGuam, except taxes in effect on December 30, 1987, are considered airport revenue subject to the FAA revenue-use requirements. Guam Public Law (P.L.) 34-44 increased the AFT rate from four to eight cents, effective January 1, 2018. Because of this increase, AFT in excess of the grandfathered rate of four cents per gallon falls under the FAA's revenue use policies and is considered airport revenue. The Governor directed the Department of Administration and Bureau of Budget and Management Research Directors to begin remitting the four cents tax increase on aviation fuel effective October 1, 2023. As of FY 2023, the AFT arrearages of $9.3M are currently due from GovGuam and recorded as AFT receivable, net in the financial statements, with a payment plan pending approval from the FAA.

Total Expenses Increased by $8.6M

In FY 2023, the Airport incurred total expenses amounting to $92.9M, an $8.6M increase from $84.3M in FY 2022, with operating expenses of $47.0M constituting 51% of total expenses. Operating expenses included significant allocations for contractual services at $23.6M, personnel services at $22.2M, and materials and supplies at $1.2M in FY 2023. The $4.6M increase in contractual services was attributed to various factors, including a $1.8M rise in power utility rates, a $1.5M arbitrage accrual, a $608 thousand (K) increase in repairs and maintenance, and other contractual increases needed to maintain operations with the FY 2023 passenger activity doubling that of FY 2022. The $3.3M increase in personnel services was primarily driven by a $3.1M increase in retirement contributions due to the year-end pension adjustment to align with the GovGuam Retirement Fund's actuarial report.

The remaining 49% of total expenses comprised of $32.9M in depreciation and amortization and $13.0M in non-operating expenses.

Lease Extension with Primary Concessionaire

The Airport's 10-year lease agreement with its primary concessionaire, Lotte Duty Free Guam, LLC (Lotte), expired on July 20, 2023. In accordance with the Lotte lease agreement, rental income shall be the greater of (1) $15,160,000 for the main and future retail space, and $240,000 for the arrivals retail space plus 1% of other gross revenues, or (2) the sum of the on-site gross revenues multiplied by 30.1% for the main and future retail space, and 25% for the additional retail space. P.L. 37-23 authorized the extension of all concession agreements for a period up to three years, to which the Lotte lease agreement was extended to July 20, 2026. During the extended term, Lotte agrees to pay the (1) annual concession fee of $2,640,000 paid annually in advance on July 21 of each year and (2) a per enplaned passenger fee based on the total number of enplaned passengers from July 21, 2023 to July 20, 2026, on a cumulative basis, which shall be paid in arrears on a monthly basis.

Ongoing DFS Guam L.P. (DFS) Holdover Dispute

The Airport and DFS are in an ongoing legal dispute related to DFS's concession agreement that expired in 2013. In August 2023, the Guam Supreme Court affirmed an order and sent the case back to the Superior Court to determine the amount of DFS's attorney's fees and interest. Under the arbitration award and the Supreme Court's opinion, the Airport is liable for damages, interest, attorney's fees, and costs. DFS has a pending motion for additional attorney's fees and costs before the Superior Court. In September 2023, the Airport filed a motion to stay enforcement of the judgment and a motion for summary judgment in the DFS Government Claim lawsuit, both of which are pending and have yet to be heard by the Court. The Airport has recorded a provision for loss amounting to approximately $4.7M as of FY 2023 as a component of other current liabilities in the financial statements. As of December 2023, the Airport has paid $3.0M towards the judgment.

Major Capital Improvement Projects Completed and Ongoing

During FY 2023, the Airport embarked on capital improvement projects aimed at expanding capacity, mitigating airport noise, and bolstering air service to current and emerging markets. Major capital improvement projects that closed out in FY 2023 include additional costs related to the Aircraft Rescue and Firefighting Facility of $1.1M, Runway 6L/24R Rehabilitation of $28.2M, and cooling tower upgrades of $993K. Additional expenditures for ongoing construction in progress as of FY 2023 include the Terminal Building Roof Replacement Design of $2M, Airport Master Plan of $841K, Typhoon assessments of $787K, Cargo Apron Rehabilitation of $329K, Part 150 Noise Study of $89K, and HVAC upgrades of $45K.

Rising Above Adversity from COVID-19 and Typhoon Mawar

The travel industry has witnessed a decline in passenger activity over the past two years due to the COVID-19 pandemic, particularly in Asia. Stringent travel restrictions imposed by state governments contributed to the slower recovery in Asia compared to other markets. As restrictions gradually relaxed, there was a positive upturn in visitor arrivals during FY 2023, indicating a potential recovery. However, the arrival of Typhoon Mawar in May 2023 caused a temporary setback. Despite the difficulties, the Airport remained committed to becoming a beacon of recovery for the aviation industry in the region, aiming for renewed growth and resurgence, and responded proactively to mitigate the impacts of the storm, enabling the immediate reopening of Guam's sole commercial airport, which is crucial for the region's island economies.

In FY 2023, the total number of passenger movements reached 1.6M, more than twice the activity in FY 2022 of 746K movements. Enplanements, constituting 883K movements, represented 54% of the overall traffic while arriving passengers comprised 46%. According to the Guam Visitors Bureau's FY 2023 statistics, 60% of arriving travelers in FY 2023 originated from South Korea, making it a pivotal market for Guam. Additionally, 26% of arrivals came from Japan, China, Taiwan, and the Philippines. Domestic markets, including Hawaii and the Commonwealth of the Northern Marianas Islands, accounted for 14% of the total arrivals. The Airport also managed 28K aircraft movements versus 19K in the prior year. Airline partners transported over 11K metric tons of cargo and 13K metric tons of mail in FY 2023.

General Revenue Bonds Issued and Debt Service Coverage Ratio at 1.69x

On July 11, 2023, the Airport issued $47,080,000 in General Revenue Bonds, which were obtained for the advanced refunding of the remaining 2013 Bonds with maturities in FY 2028 through FY 2043. The Airport's long-term revenue bonds payable consist of Series 2019, 2021, and 2023 General Revenue Bonds, which totaled $194.4M as of FY 2023. The General Revenue Bonds, including interest, are payable from and are secured by a pledge of revenues under the bond indenture. The indentures include a requirement that net revenues, as defined in the indentures, plus other available monies be equal to at least 125% of the annual debt service.

The Airport achieved a Debt Service Coverage (DSC) ratio of 1.69x for FY 2023, reflecting robust coverage beyond the stipulated DSC ratio of 1.25x under the bond indenture for the issuance of its 2019, 2021, and 2023 General Revenue Bonds. The positive DSC result in FY 2023 is attributed to the Airport's strategic efforts, including the refunding/refinancing of several general revenue bonds in FY 2019, FY 2021, and FY 2023. Additionally, financial support from the federal government, GovGuam, and ARP funds received played a crucial role, providing the Airport with the necessary flexibility to ensure compliance with its bond covenants.

In carrying out its fiduciary responsibilities, the Airport continued to take a proactive stance with cost-cutting initiatives and strict protocols. The prioritization of essential supplies and services ensured uninterrupted operational readiness, even in the aftermath of Typhoon Mawar. This contributed to the Airport's bond rating being upgraded from "Negative" to "Stable" in March 2023 by Moody's Investor Services and the subsequent reaffirmation of its investment grade rating of Baa2 with Stable Outlook in September 2023.

Report on Internal Control Over Financial Reporting

EY identified one significant deficiency in the Airport's internal control over financial reporting related to the capitalization of Typhoon Mawar costs. The Airport recorded construction in progress related to typhoon costs, such as damage repairs and assessments, totaling approximately $780K in FY 2023. However, these expenses are not related to any major restoration aimed at increasing the service capacity of the airport facilities. Therefore, repairs and maintenance costs should be expensed in the period they were incurred. This condition occurred due to a lack of clear guidance on the proper assessment and accounting treatment for typhoon costs.

Report on Compliance for the PFC Program

In its report on compliance for the PFC program, EY identified a significant deficiency regarding the late monthly remittances of the PFC to the Airport from three out of five air carriers tested, resulting in the Airport's noncompliance with the Code of Federal Regulations. This has been a repeat finding noted in the FY 2021 and FY 2022 audits. Despite the Airport's continued efforts to communicate the due dates of monthly PFCs, certain air carriers continued to make late payments. EY recommended that the Airport continue to send a written reminder notice to air carriers.

Management Letter

EY issued a separate management letter noting an issue related to the Airport's Financial Statements Close Process. The auditors observed that numerous post-closing adjusting entries were posted after the FY 2023 trial balance had been provided to EY, which led to delays in the Airport submitting audit schedules and supporting documents. EY recommended that the Airport revisit its Accounting team's size and structure to improve the Financial Statements Close Process and ensure that all transactions are recorded in a timely manner.

For more details, refer to the Airport's FY 2023 Financial Statements, Reports on Compliance for Each Major Federal Program and Internal Control Over Financial Reporting, Report on Compliance for the Passenger Facility Charge Program, Management Letter, and The Auditor's Communication With Those Charged With Governance at www.opaguam.org and www.guamairport.com.