



*Financial Statements and  
Other Financial Information*

**Antonio B. Won Pat International Airport  
Authority, Guam**

*Years ended September 30, 2009 and 2008  
with Report of Independent Auditors*

Ernst & Young

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and  
Other Financial Information

Years ended September 30, 2009 and 2008

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## Report of Independent Auditors

The Board of Directors  
Antonio B. Won Pat International Airport Authority, Guam

We have audited the accompanying statements of net assets of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Antonio B. Won Pat International Airport Authority, Guam as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 12, the Authority restated its 2008 financial statements to reflect the effects of the redesignation of the Government of Guam Defined Benefit Pension Plan from a single-employer plan to a cost-sharing multiple-employer plan, in conformity with the accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2010, on our consideration of the Antonio B. Won Pat International Airport Authority, Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 to 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These schedules are the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ernst + Young LLP*

January 28, 2010

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis

Year ended September 30, 2009

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam (the Authority) activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year (FY) ended September 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Airport Terminal (the Terminal).

The Authority is a self-sustaining autonomous government agency, and operates and maintains the Terminal. The Terminal provides facilities for commuter and domestic overseas flights, and international flights for destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the Terminal's services and properties to generate revenues to fund operating expenses. The 2003 Airport Bonds issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program.

### **A. Mission Statement**

The Authority strives to ensure the safety and security of the traveling public, is dedicated to maintaining a superior and reliable level of airport services for our island residents and tourists, and is committed to supporting the development of air linkages and facilities which are integral parts of the island's future economic growth. The Authority's vision is to advance Guam further as the first class premier air transportation hub of the region.

### **B. Using the Financial Statements**

The Authority utilizes the flow of economic resources measurement focus. Financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has implemented GASB 20 and elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

The Statement of Revenues, Expenses and Changes in Net Assets replaces the Statement of Revenues, Expenses and Changes in Retained Earnings. Revenues are now categorized as either operating or non-operating based upon definitions provided by GASB 34. Significant recurring sources of the Authority's revenues, including federal grants are reported as non-operating revenues.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### C. Authority Activities and Highlights

FY2009 proved to be another challenging year for the Authority and its airline partners. The global economic crisis of 2008 exacerbated the conditions of an extremely fragile airline industry reeling from the astronomical rise of fuel prices in FY2008. In addition, the onset of the H1N1 Swine Flu Pandemic in April 2009 further stressed an already constrained operating environment for airline and aviation businesses. The fall-out from these events have resulted in depressed global demand for travel and decreased passenger activity while conversely resulting in increases in global airline capacity.

The weakened demand for travel due to the global economic crisis had major implications on the airlines. Corporate business travel was heavily impacted as companies limited their travel budgets while leisure travelers opted for "staycations" and other activities closer to home that did not involve air travel. In addition, fluctuating fuel prices continued to take its toll on airline operating expenses, while increased competition due to excess capacity continued to drive airline yields downward. According to the International Air Transport Association, the aviation industry is expected to suffer \$11 billion in losses in 2009 after absorbing \$16.8 billion in 2008.

To cope with these losses, airlines implemented cost-cutting measures and continued to reduce capacity to improve load factors in the hopes of driving up yields. In addition, U.S. legacy carriers refined their ancillary fee structures for checked bags, food and other amenities that were once part of the ticket fee structure, initiating a trend that is beginning to take hold with other global airlines. Moreover, many airlines are building up their cash reserves and have limited their capital expenditures given the tight financial markets, on-going economic uncertainty and geo-political issues in certain countries, further constraining any type of rapid recovery for the industry. Despite these measures, the stabilization of oil prices in the early part of FY2009, and the airlines' efforts to stimulate travel, passenger activity remained stagnant for most of 2009 (see following table).

#### ENPLANEMENT PASSENGER ACTIVITY\*

	Fiscal Year Activity (in millions)			Variance	
	<u>2007</u>	<u>2008</u>	<u>2009*</u>	<u>'08 vs. '07</u>	<u>'09 vs. '08</u>
<b>Guam</b>	1.49	1.44	1.3	(3.4)%	(9.7)%
<b>Anchorage, Alaska</b>	2.3	2.4	2.2	4.3%	(8.3)%
<b>Honolulu, Hawaii</b>	10.2	9.5	8.6	(6.9)%	(9.5)%
<b>Los Angeles, California</b>	29.9	29.4	27.8	(1.7)%	(5.4)%
<b>San Diego, California</b>	9.0	9.2	8.4	2.2%	(8.7)%
<b>San Francisco, California</b>	16.9	18.4	18.2	8.9%	(1.1)%
<b>Saipan, CNMI</b>	0.4	0.4	0.4	0.0%	0.0%
<b>Totals</b>	70.2	70.7	66.9	0.8%	(5.5)%

\*2009 figures are based on FAA's 2008-2030 Terminal Area Forecast ([www.http://aspm.faa.gov/main/taf.asp](http://aspm.faa.gov/main/taf.asp)) and are also based on actual enplanement activity as reported by Airport Authorities

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### C. Authority Activities and Highlights, continued

The current condition of the aviation and airline industry is reflected in the Authority's passenger activity as enplanements for FY2009 totaling 1.30 million reveal a 9.7% decline year-over-year versus enplanement activity for FY2008, which equaled 1.44 million. This was the third straight year the Authority experienced a decline since FY2006, our highest year of enplanement activity since 9/11 that totaled 1.53 million passengers.

Activity for the Authority for the years ended September 30, 2009, 2008, and 2007 is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	2009 % Increase (Decrease) from 2008
Major revenue sources:				
Landing fees (a)	\$ 1,218,711	\$ 898,065	\$ 118,103	35.7%
Terminal Lease	9,338,787	9,104,113	8,957,927	2.6%
Concessions and parking	<u>12,943,555</u>	<u>14,419,937</u>	<u>12,583,963</u>	(10.2)%
Total	<u>\$23,501,053</u>	<u>\$24,422,115</u>	<u>\$21,659,993</u>	(3.8)%
Passenger (enplanements) activity:				
Signatory airlines	1,281,018	1,377,538	1,420,824	(7.0)%
Non signatory and Other airlines	<u>24,191</u>	<u>65,272</u>	<u>70,364</u>	(62.9)%
Total enplanements	<u>1,305,209</u>	<u>1,442,810</u>	<u>1,491,188</u>	(9.5)%
Aircraft operations	<u>40,276</u>	<u>39,299</u>	<u>37,499</u>	2.5%
Aircraft landed weights (000,000)	<u>3,017,815</u>	<u>3,322,467</u>	<u>3,465,833</u>	(9.2)%
O & D passengers	2,322,422	2,515,003	2,616,719	(7.7)%
Transfer passengers	<u>146,457</u>	<u>189,041</u>	<u>182,581</u>	(22.5)%
Total passengers	<u>2,468,879</u>	<u>2,704,044</u>	<u>2,799,300</u>	(8.7)%

Note (s):

(a) Landing fees:

FY2007 signatory = waived fees

FY2008 signatory = reinstated landing fees 04/08 – 07/08

Despite the decreased enplaned passenger activity, the Authority remained steadfast in its efforts to maintain a low-cost business model for its airline partners. The Authority prudently manages its operating expenses while vigilantly working to diversify and enhance its revenue streams. The Authority remained proactive in administering its fiduciary responsibilities, proceeding only with capital improvement projects (CIP) and infrastructure improvements that would increase airport activities, maximize airport capacity, enhance security, or are federally funded.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **C. Authority Activities and Highlights, continued**

The Authority's cost per enplaned passenger (CPE), which is a method used by airlines to measure its total cost of operations at an airport, amounted to \$15.29 for FY2009. This reflects a 3.4% increase versus the 2009 budgeted CPE of \$14.78 and a 12.7% increase in comparison to FY2008's figure of \$13.56. In spite of the increase, the Authority's CPE remained 20.4% below the Authority's record high of \$19.22 in FY2003.

While the Authority's CPE appears to be relatively high by U.S. airports standards, 90% of passenger activity that passes through Guam is international traffic from origin and destination (O&D) markets. Another method that may be used would be the turnaround charge approach. This method is expressed as the cost to turn an aircraft on a per-enplaned passenger basis. Only aeronautical costs associated with the operations or activities of an aircraft are assessed. Considering the composition of its traffic, the Authority's CPE is in-line with other U.S. airports that handle international passengers. Using the turnaround methodology, the Authority's rates and charges are comparable and competitive to other international airports within the region.

Considering the financial challenges due to the decline in passenger activity, the Authority managed to surpass the 1.25 debt service requirements of the 2003 Bond Covenants by achieving 1.33 net debt service coverage (DSC) for FY2009. The Authority's DSC is in-line and within the 1.33 to 1.72 range of projections prepared by Leigh Fisher and Associates as reflected in the Authority's Official Statement for the 2003 Bond Indenture. The Authority has consistently met its DSC year-over-year notwithstanding the last few years of economic adversity. Moreover, the Authority has continued to maintain a superior and reliable level of airport services without compromising the safety and security of traveling public while promoting commerce and connectivity to our neighboring islands and countries in the region.

The following airlines served the Authority with scheduled or chartered overseas passenger flights for FY2009:

Continental Micronesia, Northwest Airlines, All Nippon Airways, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Asia Pacific Airlines, and Aerospace Concepts which operates a business jet service. The principal commuter airlines providing inter-island passenger flight service to and from Guam and the Commonwealth of the Northern Marianas Islands are Cape Air and Freedom Air. Micronesia Aviation Systems is a general aviation operator based at the A.B. Won Pat Guam International Airport.



# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **D. Financial Operation Highlights**

The Authority's operational revenues for FY2009 remained relatively flat year-over-year amounting to \$41.7 million versus the \$41.9 million generated in FY2008. The Authority managed to off-set the expected drop in revenues attributed to the decrease in passenger activity by aggressively pursuing its revenue enhancement initiatives in an effort to increase non-airline revenues through new or expanded commercial opportunities and property development. In addition, the Authority revised its airline incentive program in an effort to minimize loss in seat capacity or suspension of services to markets served into Guam. These incentives provided up to 50% discounts on the Authority's rates and charges that comprise the CPE on new or expanded air services or activity that exceeds 10% of the respective forecasted airline activity.

The Authority's efforts resulted in a 35.7% increase in landing fees which were up to approximately \$1.2 million from approximately \$898,000 recorded for FY2008. Immigration fees which were increased by 25% for 2009 generated approximately \$1.9 million or 12.8% more than the approximately \$1.7 million collected in FY2008 by the Authority. Rental income which totaled approximately \$9.3 million rose 2.6% year-over-year from approximately \$9.1 million in FY 2008 as the Authority was able to lease out more terminal space and other areas such as the Tiyan properties to non-airline entities such as the Transportation Security Administration and Guam Customs & Quarantine. In addition, the Authority remained assertive in its quest to settle the outstanding receivable for leased space with the Guam Police Department (GPD). In addition to establishing monthly rental payments, the Authority was successful in collecting \$880,000 of the approximately \$1.8 million accrued amounts through FY2009 owed by GPD. This income was subsequently recorded as "miscellaneous" revenue for FY2009.

The decline in passenger activity and the overall global economic conditions were major contributors to the decreases in the Authority's revenues for FY2009. Facilities and use charges show a 2.8% decline or approximately \$17.8 million from the previous year's figures of approximately \$18.3 million. Concession revenues for FY2009 were down by approximately \$1.5 million, reflecting a 10.2% drop year-over-year from approximately \$14.4 million in FY2008 to approximately \$12.9 million in FY2009. Average spend per enplaned passenger decreased by 0.7% from \$9.99 in FY2008 to \$9.92 in FY2009. General merchandise sales experienced the largest drop in revenues reflecting a 13.2% decrease from approximately \$6.98 million in FY2008 to approximately \$6.06 million in FY2009. Passenger Facility Charge (PFC) collections reflect a direct correlation with enplanement activity as collections for FY2009 amounted to approximately \$5.06 million, down by 7.6% versus FY2008 figures of approximately \$5.5 million.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### D. Financial Operation Highlights, continued

The Authority's conscientiousness in managing its operational expenses resulted in a 0.76% savings year-over-year with approximately \$29.5 million for FY2009 versus approximately \$29.7 million for FY2008. During FY2009, the Authority's operational expenses account for approximately 70.7% of its operational revenues. The Authority's personnel expenses of approximately \$12.7 million, which accounts for 43% of the Authority's operational expenses, rose by 11.5% year-over-year from FY2008. This increase in personnel expenses may be attributed to the implementation of the salary increases for the uniformed personnel under the provisions of P.L. 29-105 and the accrued liability of approximately \$700,000 related to compensation of the Authority's certified, technical and professional positions as promulgated under Public Law 29-154. Other expenses for FY2009 included contractual services of approximately \$16 million, accounting for 54.5% of the Authority's operational expenses, and approximately \$684,000 for equipment, material and supplies which accounted for 2.3% of the Authority's operational expenses. The Authority's austerity measures provided for essential travel for training and industry conferences to ensure compliance with the FAA and other federal regulatory agencies' mandates and requirements.

A summary of operations and changes in net assets for the years ended September 30, 2009, 2008, and 2007 as follows:

	<u>2009</u>	2008 <i>(Restated)</i>	2007 <i>(Restated)</i>	2009 % Increase (Decrease) from 2008
Revenues	\$41,730,625	\$41,900,989	\$40,072,875	(0.4)%
Operating costs and expenses before depreciation	<u>(29,512,031)</u>	<u>(29,736,556)</u>	<u>(27,417,208)</u>	(0.8)%
Income from operations before Depreciation and amortization	12,218,594	12,164,433	12,655,667	0.4%
Depreciation and amortization	<u>(21,797,415)</u>	<u>(21,440,046)</u>	<u>(18,932,919)</u>	1.7%
Loss from operations	( 9,578,821)	( 9,275,613)	( 6,277,252)	3.3%
Non-operating income expense - net	<u>( 2,346,176)</u>	<u>( 1,370,020)</u>	<u>( 426,558)</u>	71.3%
Loss before capital contributions	(11,924,997)	(10,645,633)	( 6,703,810)	12.0%
Capital grants from United States Government	35,418,595	29,538,152	36,706,648	19.9%
Operating grants from United States Government	842,931	390,389	151,000	115.9%
Transfer from Government of Guam	<u>30,095</u>	<u>---</u>	<u>---</u>	0.0%
Net increase in net assets	<u>\$24,366,624</u>	<u>\$19,282,908</u>	<u>\$30,153,838</u>	26.4%

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **D. Financial Operation Highlights, continued**

For FY2009, revenues from signatory airlines accounted for approximately 40.1% of the Authority's operating revenues amounting to approximately \$19.6 million. Revenues from sources other than Signatory airline rentals and fees such as concession, rental income or other miscellaneous revenues accounted for 47.7% or approximately \$23.3 million. PFC collections amounted to approximately \$5.1 million accounting for 10.4% of the Authority's revenues, with an additional amount of approximately \$873,000 in the form of operating grants from the federal government accounting for 1.8% of the revenues for FY2009 that are applicable towards the Authority's debt service coverage in accordance with the 2003 Bond Covenants.

In FY2009, the Authority received approximately \$36.3 million in grant funding from the various federal entities such as the FAA, the Environmental Protection Agency, the Economic Development Agency, and the Department of Interior. These federal funds were used to subsidize the Authority's CIP projects to improve utilities and infrastructure and increase the capacity and development of Guam's only commercial airport. Moreover, it provided for training and helped spur economic activity on the island.

The implementation of the Authority's revenue enhancement initiatives; effective administration of its fiduciary responsibilities; and tenacious pursuit of federal funding sources has resulted in an increase in the Authority's net assets by \$24.4 million for FY2009. More importantly, the Authority was able to maintain sufficient coverage to meet the debt service requirements of the 2003 Bond Covenants, without sacrificing the superior and reliable level of airport services or compromising the safety and security of the traveling public.

### **Review of Notable Events in FY2009**

The remnants of the fuel crisis in 2008 spurred the contracting of the world economies and led to the economic crisis that defined most of FY2009. In addition, the H1N1 Swine Flu Pandemic aggravated an already unstable industry reeling from huge losses suffered the previous year. Many airlines cut capacity in order to increase load factors in the hopes of increasing yields. Others reduced their workforce and streamlined their operations in an effort to maintain operations and seat capacity into their respective markets.

In spite of their efforts, fluctuating fuel prices and increased competition due to excess capacity among carriers negated any savings airlines may have realized. In addition, large legacy carriers continued to build cash reserves and minimize any major outlays, as access to capital markets remain tight, especially for smaller airlines. These actions further restricted any immediate recovery by the airline industry in 2009.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **D. Financial Operation Highlights, continued**

#### **Review of Notable Events in FY2009, continued**

To help its airline partners mitigate the challenges they faced in 2009, the Authority maintained a tight control on its operating expenses while providing incentives to help offset the losses attributed to the increased operating expenses and low yields experienced by the carriers. The Authority was able to maintain a reasonable CPE of \$15.29 while surpassing its debt service coverage with 1.33 versus the 1.25 debt service requirements under the 2003 Bond Covenants. In addition, due to their relentless pursuit of federal grants, the Authority was able to increase its net assets by \$24.4 million.

In line with the Authority's Integrated Strategic Plan that was implemented in FY 2008, several of the projects have been initiated or completed. Among these projects include various revenue enhancement and property development initiatives to help diversify the Authority's non-airline revenue streams. These include the following public/partnerships:

- Pacair Properties Integrated Air Cargo Facility
  - 166,000 square feet
  - \$26.5 million investment (Third Party Development)
  - Completed in August 2009
  
- MSA Logistics Multi-Modal Cargo Facility
  - 20,000 square feet
  - \$2.1 million (Third Party Development)
  - Estimated completion 2<sup>nd</sup> Quarter FY 2010
  
- CTSI Air Cargo Facility
  - 35,000 square feet
  - \$4 million (Third Party Development)
  - Estimated completion 2<sup>nd</sup> Quarter FY 2010

The investments in these properties are expected to generate \$35.5 million in revenue for the Authority over the next 20-30 years. Moreover, they will contribute to the Authority's continued efforts for the development of air cargo and other airport or aviation related facilities in the Tiyan Business Park and Airport Industrial Park areas. Both areas are ready for development with utility infrastructure such as power and water already in place.

In addition to the property development initiatives, the Authority remains focused on its air service development initiatives and are aggressively pursuing route development programs with existing carriers while pursuing other regional airlines to introduce additional or new air services into Guam. These initiatives are critical to the success of the Authority and will ensure they are positioned to take advantage of the more liberalized air service agreements with the neighboring countries, notably Japan, Korea and China.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **D. Financial Operation Highlights, continued**

#### **Review of Notable Events in FY2009, continued**

In FY2009, the Authority continued with its CIP program with 109 ongoing projects in various phases of development and progress. These projects represented more than \$169 million of valuable infusion into the local economy. As the island prepares for one of the largest military build-ups in its history propelled in large part by the proposed relocation of more than 8,000 Marines and their family members from Okinawa to Guam, these CIP projects are necessary to ensure the Authority can accommodate the needs of the aviation industry now and into the near future, providing greater operational capacity and connectivity to other long-range markets.

The Authority remains committed to only undertaking projects that are essential to the Authority's overall mission or are federally funded. These notable projects include:

- Residential Sound Solutions Program (Noise Mitigation Program)
- Seismic Zone Upgrade to the Main Terminal West Concourse - Phase 2A
- Runway 6L/24R Extension and Rehabilitation and Parallel Taxiway (Phase V)
- Runway 6R New ILS Glide Slope, Localizer Facilities, MALSR & PAPI Control Equipment Installation
- Extension of Runway 24R 1,000 Feet
- Construction of Parallel Taxiway Pavement
- Improve Utility Infrastructure, Well Development
- Improve Utility Infrastructure, Water Distribution System
- Utility Power Hardening For Critical Airport Facilities (ARFF, Air Field Lighting Vault, ATCT/CERAP, CMI Hangar, ACI Hangar, VQ-5 Hangar, Nose Dock Hangar, & NWS)
- International Transfer Facility
- TSA Consolidated Spaces
- Terminal Plumbing – Renovations and Repair
- Tiyan Property Development – Demolition of housing structures (blocks 10-16) and swimming pool facilities
- Car Rental Facilities Upgrade

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### D. Financial Operation Highlights, continued

#### Financial Position Summary

A condensed summary of the Authority's statements of net assets at September 30, 2009, 2008 and 2007 is shown below:

<u>ASSETS</u>	<u>2009</u>	<u>2008</u> <i>(Restated)</i>	<u>2007</u> <i>(Restated)</i>	2009 % Increase (Decrease) from 2008
Current assets:				
Unrestricted current assets	\$ 12,788,685	\$ 16,837,815	\$ 11,978,022	(24.0)%
Restricted current assets	1,200,886	1,167,629	1,582,941	2.8%
Non-current assets:				
Unrestricted assets	24,205,868	28,994,473	31,506,976	(16.5)%
Restricted assets	32,203,768	31,519,267	32,519,532	2.2%
Capital assets	406,146,241	395,819,817	375,898,559	2.6%
Avigation easements	15,003,688	---	---	0.0%
Deferred bond issue costs	7,107,208	8,061,495	8,958,183	(11.8)%
Notes receivables	---	---	<u>3,005,592</u>	0.0%
Total assets	<u>\$498,656,344</u>	<u>\$482,400,496</u>	<u>\$465,449,805</u>	3.4%
<u>LIABILITIES</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 13,744,688	\$ 14,480,315	\$ 8,411,657	(5.1)%
Payable from restricted assets	14,211,456	13,429,530	14,358,522	5.8%
Long term liabilities	<u>174,546,014</u>	<u>182,703,089</u>	<u>190,174,972</u>	(4.5)%
Total	<u>202,502,158</u>	<u>210,612,934</u>	<u>212,945,151</u>	(3.9)%
<u>NET ASSETS</u>				
Invested in capital assets – net of related debt	246,248,138	214,405,761	187,214,310	14.9%
Restricted	27,428,198	26,592,366	37,773,950	3.1%
Unrestricted	<u>22,477,850</u>	<u>30,789,435</u>	<u>27,516,394</u>	(27.0)%
Total	<u>296,154,186</u>	<u>271,787,562</u>	<u>252,504,654</u>	9.0%
Total liabilities and net assets	<u>\$498,656,344</u>	<u>\$482,400,496</u>	<u>\$465,449,805</u>	3.4%

The Authority's investments in capital assets net of related debt make up 83.1% of its net assets. These capital assets are used to provide services to its passengers and visitors to the Authority's Airport terminal. Although invested capital assets are reported net of related debt, the resources are required to repay this debt from revenues received annually from operations as specified in the 2003 Airport Bonds Indenture. In FY 2009, the Authority recorded approximately \$15 million in avigation easements, which grant aircraft the right to fly, land, or take off in unobstructed airspace above a parcel of real property. These easements prohibit property owners from installing structures that exceed a specified height and provides for outcomes typically associated with aircraft by allowing for the right to make and generate noise and other aircraft activities near or around the A.B. Won Pat Guam International Airport.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### D. Financial Operation Highlights, continued

#### Airline Signatory Rates and Charges

The Authority entered into an airport-airline lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. These leases became effective October 1, 2006 and will remain in effect through September 30, 2011.

The following summarizes the rates in effect at September 30, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Terminal building rental:			
Signatory	\$46.32	\$45.06	\$45.92
Non-signatory	\$57.90	\$56.33	\$52.81
Departure fees:			
Signatory	\$4.09	\$3.81	\$3.73
Non-signatory	\$5.11	\$4.76	\$4.29
Arrival fees:			
Signatory	\$4.64	\$4.28	\$4.19
Non-signatory	\$5.80	\$5.35	\$4.82
Immigration inspection fees:			
Signatory	\$1.60	\$1.28	\$1.61
Non-signatory	\$2.00	\$1.60	\$1.85
Loading bridge use fees:			
Signatory	\$199.88	\$231.95	\$233.05
Non-signatory	\$249.85	\$289.94	\$268.01
Apron use fees:			
Signatory	\$0.60	\$0.65	\$0.49
Non-signatory	\$0.75	\$0.81	\$0.61
Landing fees*:			
Signatory	\$0.36	\$0.69	\$0.00
Non-signatory	\$1.52	\$0.86	\$0.36
Signatory airline enplaned passengers**	1,446,060	1,507,050	1,570,373
Signatory airline cost per enplaned passengers	\$14.78	\$13.35	\$12.78

\* Landing fees are waived in FY2007, which were reinstated from April to July 2008

\*\* Enplaned passengers provided by airlines

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### D. Financial Operation Highlights, continued

#### Revenues

A summary of revenues for the years ended September 30, 2009, 2008 and 2007 and the amount and percentage of change in relation to prior year amounts is as follows:

	2009	2009 %	2008	2008 %	2007	2007 %	2009 % Increase (Decrease) from 2008
	<u>2009</u>	<u>of Total</u>	<u>2008</u>	<u>of Total</u>	<u>2007</u>	<u>of Total</u>	
<b>Operating:</b>							
Facilities and systems usage charges:							
Arrival facilities	\$ 5,387,772	6.4%	\$ 5,416,560	6.8%	\$ 5,464,934	6.4%	( 0.5)%
Departure facilities	5,326,503	6.3%	5,528,596	7.0%	5,566,903	6.5%	( 3.7)%
Immigration	1,937,884	2.3%	1,717,703	2.2%	2,051,999	2.4%	12.8%
Public apron	1,804,241	2.1%	2,152,654	2.7%	1,700,044	2.0%	( 16.2)%
Passenger loading bridge	1,689,336	2.0%	2,121,589	2.7%	2,148,616	2.5%	( 20.4)%
Landing fees	1,218,711	1.4%	898,065	1.1%	118,102	0.1%	35.7%
Utility recovery charge and other fees	290,131	0.3%	276,099	0.3%	290,255	0.4%	5.1%
Fuel flowage fee	<u>142,507</u>	<u>0.2%</u>	<u>189,833</u>	<u>0.2%</u>	<u>203,429</u>	<u>0.2%</u>	( 24.9)%
Total facilities and systems usage charges	<u>17,797,085</u>	<u>21.0%</u>	<u>18,301,099</u>	<u>23.0%</u>	<u>17,544,282</u>	<u>20.5%</u>	( 2.8)%
Concession fees:							
General merchandise	6,064,436	7.2%	6,985,111	8.8%	6,608,661	7.7%	( 13.2)%
Ground transportation	3,870,031	4.6%	4,360,587	5.5%	3,053,128	3.6%	( 11.2)%
Car rental	910,220	1.1%	937,712	1.2%	922,165	1.1%	( 2.9)%
Food and beverage	707,835	0.8%	729,385	0.9%	722,593	0.8%	( 3.0)%
In-flight catering	589,956	0.7%	574,992	0.7%	475,532	0.6%	2.6%
Other	<u>801,077</u>	<u>0.9%</u>	<u>832,150</u>	<u>1.1%</u>	<u>801,884</u>	<u>0.9%</u>	( 3.7)%
Total concession fees	<u>12,943,555</u>	<u>15.3%</u>	<u>14,419,937</u>	<u>18.2%</u>	<u>12,583,963</u>	<u>14.7%</u>	( 10.2)%
Rental income:							
Operating space - airline	2,754,459	3.3%	2,780,608	3.5%	2,865,145	3.4%	( 0.9)%
Operating space - non-airline	2,997,093	3.5%	2,398,254	3.0%	2,325,469	2.7%	25.0%
Other	<u>3,587,235</u>	<u>4.2%</u>	<u>3,925,251</u>	<u>5.0%</u>	<u>3,767,313</u>	<u>4.4%</u>	( 8.6)%
Total rental income	<u>9,338,787</u>	<u>11.0%</u>	<u>9,104,113</u>	<u>11.5%</u>	<u>8,957,927</u>	<u>10.5%</u>	2.6%
Miscellaneous	<u>1,651,198</u>	<u>2.0%</u>	<u>75,840</u>	<u>0.1%</u>	<u>986,703</u>	<u>1.2%</u>	2077.2%
Total operating	<u>41,730,625</u>	<u>49.3%</u>	<u>41,900,989</u>	<u>52.8%</u>	<u>40,072,875</u>	<u>46.9%</u>	( 0.4)%
<b>Non-Operating:</b>							
Interest income	1,468,089	1.7%	1,978,585	2.6%	2,722,235	3.2%	( 25.8)%
Passenger facility charge	5,064,667	6.0%	5,479,217	6.9%	5,738,439	6.7%	( 7.6)%
Grants from the U. S. Government	36,261,526	42.9%	29,928,541	37.7%	36,857,648	43.2%	21.2%
Transfer from Government of Guam - OHS	<u>30,095</u>	<u>0.1%</u>	<u>---</u>	<u>0.0%</u>	<u>---</u>	<u>0.0%</u>	0.0%
Total non-operating	<u>42,824,377</u>	<u>50.7%</u>	<u>37,386,343</u>	<u>47.2%</u>	<u>45,318,322</u>	<u>53.1%</u>	14.5%
Total revenues	<u>\$84,555,002</u>	<u>100.0%</u>	<u>\$79,287,332</u>	<u>100.0%</u>	<u>\$85,391,197</u>	<u>100.0%</u>	6.6%

Grants from the United States Government amounted to approximately \$36.3 million for FY2009. The majority of monies will be used for airfield and aviation infrastructure improvements and security enhancement projects.



# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### D. Financial Operation Highlights, continued

#### Expenses

A summary of expenses for the years ended September 30, 2009, 2008, and 2007, and the amount and percentage of change in relation to prior year amounts is as follows:

	2009	2009 % of Total	2008 (Restated)	2008 % of Total	2007 (Restated)	2007 % of Total	2009 % Increase (Decrease) from 2008
Operating:							
Contractual services	\$16,086,870	26.7%	\$16,580,429	27.4 %	\$13,404,253	23.9%	( 3.0)%
Personnel services*	12,706,013	21.1%	11,399,538	19.8 %	12,081,390	23.2 %	11.5%
Materials and supplies	684,259	1.1%	1,205,169	2.0 %	860,602	1.5 %	( 43.2)%
Bad debt expense	<u>34,889</u>	<u>0.1%</u>	<u>551,420</u>	<u>0.9 %</u>	<u>1,070,963</u>	<u>1.9 %</u>	( 93.7)%
Total operating	<u>29,512,031</u>	<u>49.0%</u>	<u>29,736,556</u>	<u>50.1 %</u>	<u>27,417,208</u>	<u>50.5 %</u>	( 0.8)%
Depreciation and amortization	<u>21,797,415</u>	<u>36.2%</u>	<u>21,440,046</u>	<u>35.4 %</u>	<u>18,932,919</u>	<u>33.7 %</u>	1.7%
Non-Operating:							
Interest expense	8,339,935	13.9%	8,580,584	14.2 %	9,208,143	16.4 %	( 2.8)%
Other expenses	<u>538,997</u>	<u>0.9%</u>	<u>247,238</u>	<u>0.3 %</u>	<u>( 320,911)</u>	<u>( 0.6)%</u>	118.0%
Total non-operating	<u>8,878,932</u>	<u>14.8%</u>	<u>8,827,822</u>	<u>14.5 %</u>	<u>8,887,232</u>	<u>15.8 %</u>	0.6%
Total expenses	<u>\$60,188,378</u>	<u>100.0%</u>	<u>\$60,004,424</u>	<u>100.0%</u>	<u>\$55,237,359</u>	<u>100.0 %</u>	0.3%
Total full time employees	205		204		205		

\* Accrued liability amounting to approximately \$707,000 is included in personnel services for FY2009 in accordance with Public Law 29-154

### E. Cost Per Enplaned Passenger & Debt Service Coverage

#### Cost Per Enplaned Passenger

The cost per enplaned passenger (CPE) is one method used by airlines to measure its total cost of operations at an airport. For FY 2009, the Authority's CPE amounted to \$15.29 reflecting a 3.4% increase versus the 2009 budgeted CPE of \$14.78 and a 12.7% increase in comparison to FY 2008's figure of \$13.56. In spite of the increase, the Authority's CPE remained 20.4% below the Authority's record high of \$19.22 in FY 2003. The Authority's cost per enplaned passenger year-over-year has remained well within the range of \$14.87 to \$24.70 projected by Leigh Fisher and Associates as reflected in the Authority's Official Statement for the 2003 Bond Indenture.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### E. Cost Per Enplaned Passenger & Debt Service Coverage, continued

#### Cost Per Enplaned Passenger, continued

A summary of the cost per enplaned passenger for the years ended September 30, 2009, 2008 and 2007, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2009</u>	2009 % of Total	<u>2008</u>	2008 % of Total	<u>2007</u>	2007 % of Total	2009 % Increase (Decrease) from 2008
Airport Revenues:							
Signatory airline rentals and fees	\$19,587,139	40.1%	\$18,674,795	37.9 %	\$19,044,828	39.5%	4.9 %
Revenue from sources other than signatory airline rentals and fees	23,294,854	47.7%	24,755,339	50.2 %	23,122,056	47.9%	( 5.9)%
Passenger Facility Charge revenue	5,064,667	10.4%	5,479,217	11.1 %	5,738,439	11.9%	( 7.6)%
Operating grants from the U.S. Government	<u>873,026</u>	1.8%	<u>390,389</u>	0.8 %	<u>324,298</u>	0.7%	123.6%
	<u>\$48,819,686</u>	100.0%	<u>\$49,299,740</u>	100.0%	<u>\$48,229,621</u>	100.0%	( 1.0)%
Signatory airline enplaned passengers	1,281,018		1,377,538		1,420,824		( 7.0)%
<b>Signatory airline cost per enplaned passenger</b>	<b>\$15.29</b>		<b>\$13.56</b>		<b>\$13.40</b>		<b>12.8%</b>

#### Debt Service Coverage

Under the Bond Indenture for the issuance of the 2003 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. The Authority does not anticipate assumption of any new debt to fund their capital improvement projects and has managed to consistently meet its debt service requirements year-over-year even in the face of economic adversity.

A summary of the annual debt service coverage for the years ended September 30, 2009, 2008, and 2007 is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Airport Revenues	\$ 48,819,686	\$49,299,740	\$48,229,621
Less: Operations and Maintenance Expenses	<u>(30,401,047)</u>	<u>(30,154,697)</u>	<u>(27,681,816)</u>
Net Revenues	18,418,639	\$19,145,043	\$20,547,805
Plus: Other Available Moneys	<u>4,282,905</u>	<u>4,142,767</u>	<u>4,409,242</u>
Net Revenues and Other Available Moneys	\$ 22,701,544	\$23,287,810	\$24,957,047
Total Annual Debt Service	\$ 17,131,619	\$16,571,069	\$17,636,969
<b>Annual Debt Service Coverage</b>	<b>1.33</b>	<b>1.41</b>	<b>1.41</b>
Debt service coverage requirement	1.25	1.25	1.25

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **F. Outlook for FY2010**

The outlook for FY2010 is expected to be a slow, gradual recovery for the airline industry. According to the Airports Council International (ACI), while the last quarter of 2009 is expected to show positive signs of activity, growth will be more restrained as opposed to a rapid rebound for the airline industry as we head into the new year.

The Authority remains optimistic despite ACI's projections. Airline partners are becoming more and more hopeful for 2010 with Continental Airlines announcing an increase in services and introduction of new services between Shanghai and Guam. In addition, the recent news regarding bilateral agreements between the U.S. and Japan will certainly lend to true open skies between the two countries, with Guam being one of the major beneficiaries of these liberalized agreements.

With excess capacity in the global market, particularly the Asian region, the Authority will continue to aggressively pursue its air service development program. The Authority anticipates the introduction of air service from Korea to Guam by Jin Air Company, Limited, using a low cost carrier business model and introduction of a new carrier servicing the Palau/Guam/Brisbane sector by PacificFlier to be initiated in the early part of 2010. The Authority has submitted letters of support to the Department of Transportation in support of these companies' endeavors.

The Authority will continue to exercise its fiduciary responsibility and will proceed only with projects that are federally funded, mission essential and does not jeopardize its cost structure. The Authority will work closely with its airline partners to contain operational cost and has projected \$16.87 as the CPE for FY2010. By maintaining a low cost structure and reasonable airport rates and charges, the Authority hopes to increase airline activity that ultimately translates into increased operating revenue through its concessions. The Authority is optimistic it will exceed the 1.25 debt service requirement of the 2003 Bond Covenants and projects to achieve debt service coverage of 1.44 for FY 2010.

The Authority will implement initiatives focused on customer service, facilities access, economic development, competitive positioning, community relations, governance and organization. The Authority is committed to providing a superior level of services for our airline partners, stakeholders and has plans to reinvent and introduce innovative and upgraded concessions and increased amenities that will enhance the total customer experience at Guam's airport.

In addition to the infrastructure and facility improvements, the Authority will remain proactive in shaping policies affecting Guam's visitor industry. The Authority will work diligently with the Governor's Office, the Guam Legislature, and industry stakeholders to ensure Guam is positioned properly to take advantage of the liberalized aviation regulatory structure agreements with key visitor markets of Japan, Korea and China and foster economic development through increased passenger activity and the creation and establishment of a Regional Distribution Center. The Authority expects to initiate an update of its Airport Master Plan to take into consideration the Department of Defense's proposed initiatives with regards to the military build-up along with Guam's own organic growth.

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

### **F. Outlook for FY2010, continued**

Continued development of Guam's only commercial airport will ensure that the Authority meets and surpasses the travel and aviation needs now and into the future. The island of Guam is on the cusp of unprecedented economic prosperity propelled in large part by the Department of Defense's proposed military build-up, which is projected to increase the island's resident population by 46.6% by the year 2014. To accommodate this huge swell in population of 79,178 new residents, the Authority will continue to proceed with airport projects that will increase the operational capacity of our airport, maximize the operational capabilities of our airline partners, improve our security, roadways and other utility infrastructure, diversify our revenue streams, and enhance our customer service and passenger facilitation process.

With several initiatives and projects underway, the Authority remains committed to positioning Guam as a major transportation hub in the Western-Pacific region for 2010. The following are key capital improvement projects expected to be initiated or completed during FY 2010:

- Improve Signage, FIDS/BIDS
- Upgraded Food Court
- RWY 6L/24R Extension and New ILS RWY 6L
- Fuel Distribution System Upgrades
- Residential Sound Solution Program
- Energy Management and Alternative Energy Program
- "Green" Programs
- Architectural & Engineering Work
  - Arrivals Concourse Corridor
  - Passenger Concourse Construction - Gates 1-3

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets

	September 30,	
	<u>2009</u>	2008 <i>(Restated)</i>
<b>Assets</b>		
Current assets:		
Unrestricted assets:		
Cash <i>(Note 2)</i>	\$ 3,056,207	\$ 2,383,380
Passenger facility charge cash <i>(Note 2)</i>	340,138	92,984
Accounts receivable, trade, net of allowance for doubtful accounts of \$245,437 at September 30, 2009 (\$318,142 at September 30, 2008) <i>(Note 2)</i>	4,392,598	4,514,685
Passenger facility charge receivables <i>(Note 2)</i>	566,426	800,625
Receivables from the United States Government	4,148,672	8,999,557
Notes receivable, net of allowance for doubtful accounts of \$37,639 at September 30, 2009 (\$1,797,739 at September 30, 2008) <i>(Note 3)</i>	220,000	---
Inventory and other	<u>64,644</u>	<u>46,584</u>
Total unrestricted current assets	<u>12,788,685</u>	<u>16,837,815</u>
Restricted assets:		
Customs fees, cash	17	10,998
Customs fees, receivables <i>(Note 11)</i>	<u>1,200,869</u>	<u>1,156,631</u>
Total restricted current assets	<u>1,200,886</u>	<u>1,167,629</u>
Total current assets	<u>13,989,571</u>	<u>18,005,444</u>
General Revenue Bonds <i>(Note 6)</i> :		
Investments and cash with trustees, unrestricted	24,205,868	28,994,473
Investments and cash with trustees, restricted	<u>32,203,768</u>	<u>31,519,267</u>
	<u>56,409,636</u>	<u>60,513,740</u>
Capital assets, at cost less accumulated depreciation <i>(Notes 4 and 10)</i>	406,146,241	395,819,817
Avigation easements <i>(Note 4)</i>	15,003,688	---
Deferred bond issue costs	<u>7,107,208</u>	<u>8,061,495</u>
Total assets	<u>\$ 498,656,344</u>	<u>\$ 482,400,496</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets, continued

	September 30,	
	<u>2009</u>	2008 <i>(Restated)</i>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,228,458	\$ 2,295,354
Accounts payable - construction	8,540,865	8,990,563
Other liabilities <i>(Note 10)</i>	1,308,565	838,566
Security deposits and deferred income	1,389,679	2,149,842
Current portion of annual leave <i>(Note 9)</i>	<u>277,121</u>	<u>205,990</u>
Total payable from unrestricted assets	<u>13,744,688</u>	<u>14,480,315</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam <i>(Note 11)</i>	1,528,147	1,476,496
General Revenue Bonds:		
Current installments <i>(Notes 5 and 9)</i>	8,235,000	7,335,000
Accrued interest	<u>4,448,309</u>	<u>4,618,034</u>
Total payable from restricted assets	<u>14,211,456</u>	<u>13,429,530</u>
Total current liabilities	<u>27,956,144</u>	<u>27,909,845</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued sick leave <i>(Note 7)</i>	103,462	---
Long-term portion of annual leave <i>(Note 9)</i>	668,553	562,538
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds <i>(Notes 5 and 9)</i>	<u>173,773,999</u>	<u>182,140,551</u>
Total non-current liabilities	<u>174,546,014</u>	<u>182,703,089</u>
Total liabilities	<u>202,502,158</u>	<u>210,612,934</u>
Commitments and contingencies <i>(Notes 5 and 10)</i>		
Net assets <i>(Note 12)</i> :		
Invested in capital assets, net of related debt	246,248,138	214,405,761
Restricted <i>(Notes 4 and 10)</i>	27,428,198	26,592,366
Unrestricted	<u>22,477,850</u>	<u>30,789,435</u>
Total net assets	<u>296,154,186</u>	<u>271,787,562</u>
Total liabilities and net assets	<u>\$ 498,656,344</u>	<u>\$ 482,400,496</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam  
Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30,	
	2009	2008 ( <i>Restated</i> )
Revenues ( <i>Note 5</i> ) :		
Facilities and systems usage charges	\$ 17,797,085	\$ 18,301,099
Concession fees ( <i>Notes 2 and 8</i> )	12,943,555	14,419,937
Rental income	9,338,787	9,104,113
Miscellaneous	<u>1,651,198</u>	<u>75,840</u>
Total revenues	<u>41,730,625</u>	<u>41,900,989</u>
Operating costs and expenses:		
Contractual services ( <i>Note 10</i> )	16,086,870	16,580,429
Personnel services ( <i>Note 12</i> )	12,706,013	11,399,538
Materials and supplies	684,259	1,205,169
Bad debt	<u>34,889</u>	<u>551,420</u>
Total operating costs and expenses	<u>29,512,031</u>	<u>29,736,556</u>
Income from operations before depreciation and amortization	12,218,594	12,164,433
Depreciation and amortization	( <u>21,797,415</u> )	( <u>21,440,046</u> )
Loss from operations	( <u>9,578,821</u> )	( <u>9,275,613</u> )
Non-operating income (expense):		
Passenger facility charge income	5,064,667	5,479,217
Interest income	1,468,089	1,978,585
Interest expense	( <u>8,339,935</u> )	( <u>8,580,584</u> )
Other expenses, net ( <i>Note 5</i> )	( <u>486,979</u> )	( <u>230,866</u> )
Non-recurring expenses	( <u>52,018</u> )	( <u>16,372</u> )
Total non-operating expenses, net	( <u>2,346,176</u> )	( <u>1,370,020</u> )
Loss before capital grants and transfer in	( <u>11,924,997</u> )	( <u>10,645,633</u> )
Capital grants from the United States Government	35,418,595	29,538,152
Operating grants from the United States Government	842,931	390,389
Transfer from Government of Guam - Office of Highway Safety (OHS)	<u>30,095</u>	<u>---</u>
Total capital and operating grants	<u>36,291,621</u>	<u>29,928,541</u>
Increase in net assets	24,366,624	19,282,908
Net assets at beginning of year ( <i>Note 12</i> )	<u>271,787,562</u>	<u>252,504,654</u>
Net assets at end of year ( <i>Note 12</i> )	<u>\$ 296,154,186</u>	<u>\$ 271,787,562</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

	Year ended September 30,	
	<u>2009</u>	2008 <i>(Restated)</i>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 40,793,422	\$ 44,602,472
Cash paid to suppliers for goods and services	( 17,323,130 )	( 13,040,335 )
Cash paid to employees	( 12,425,405 )	( 11,454,253 )
Net cash provided by operating activities	<u>11,044,887</u>	<u>20,107,884</u>
<b>Cash flows from investing activities:</b>		
Net sales of investments with trustee	4,104,104	3,512,768
Investment interest income	1,468,089	1,978,585
Proceeds from collection on note receivable	<u>---</u>	<u>3,077,601</u>
Cash provided by investing activities	<u>5,572,193</u>	<u>8,568,954</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of airport facilities	( 46,173,240 )	( 40,464,616 )
Interest paid on General Revenue Bonds, Series 2003	( 8,509,660 )	( 8,766,034 )
Principal payment on General Revenue Bonds, Series 2003	( 7,466,552 )	( 8,166,883 )
U.S. Government capital grants	41,112,411	23,554,812
Transfer from Government of Guam - OHS	30,095	---
Passenger facility charge receipts	<u>5,298,866</u>	<u>5,499,319</u>
Net cash used in capital and related financing activities	<u>( 15,708,080 )</u>	<u>( 28,343,402 )</u>
Net increase in cash	909,000	333,436
Cash at beginning of year	<u>2,487,362</u>	<u>2,153,926</u>
Cash at end of year	<u>\$ 3,396,362</u>	<u>\$ 2,487,362</u>
<b>Consisting of:</b>		
Unrestricted	\$ 3,396,345	\$ 2,476,364
Restricted - current	<u>17</u>	<u>10,998</u>
	<u>\$ 3,396,362</u>	<u>\$ 2,487,362</u>



Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2009</u>	2008 <i>(Restated)</i>
<b>Reconciliation of loss from operations and other expenses to net cash provided by operating activities:</b>		
Loss from operations	\$( 9,578,821 )	\$( 9,275,613 )
Non-recurring and other expenses, net	( <u>538,997</u> )	( <u>247,238</u> )
	( <u>10,117,818</u> )	( <u>9,522,851</u> )
Adjustments to reconcile loss from operations and other expenses, net to net cash provided by operating activities:		
Depreciation and amortization	21,797,415	21,440,046
Bad debt expense	34,889	551,420
Recovery of bad debts	( 220,000 )	---
(Increase) decrease in assets:		
Accounts receivable	42,960	1,609,902
Inventory	( 18,060 )	9,251
Increase (decrease) in liabilities:		
Accounts payable	( 464,943 )	4,993,052
Other current liabilities	469,999	( 9,802 )
Security deposits and deferred income	( 760,163 )	1,091,581
Annual leave	177,146	( 54,715 )
Accrued sick leave	<u>103,462</u>	<u>---</u>
Total adjustments	<u>21,162,705</u>	<u>29,630,735</u>
Net cash provided by operating activities	<u>\$ 11,044,887</u>	<u>\$ 20,107,884</u>

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements

Years ended September 30, 2009 and 2008

### 1. Organization and Summary of Accounting Policies

#### Organization

The Antonio B. Won Pat International Airport Authority, Guam, (the Authority), was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Air Terminal, located at Tiyan, Guam. It is charged with the acquisition, construction, operation and maintenance of the airport and related facilities for civil aviation on Guam. The Authority supports its operations through landing fees and charges for the use of its facilities and through rentals under concessionaire agreements.

#### Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

#### Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: net assets invested in capital assets, net of related debt; restricted and unrestricted. Net assets invested in capital assets, net of related debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

#### Cash

For the purpose of the statements of net assets and the statements of cash flows, cash is defined as cash on hand and cash on deposit in banks.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **1. Organization and Summary of Accounting Policies, continued**

#### **Accounts Receivable**

Accounts receivable are primarily due from airlines utilizing the Authority's airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2009 and 2008, receivables that are more than ninety days past due totaled approximately \$1,118,000 and \$979,000, respectively. The Authority accrues finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

#### **Notes Receivable**

Notes receivable are carried at face amount, less payments collected, if any. Interest income on the notes receivable is recognized based on the outstanding principal amount of the notes. The notes will be placed on nonaccrual basis when, in the opinion of management, principal or interest is not likely to be paid in accordance with terms. The Authority considers a note receivable to be impaired when, based on current information and events, it is probable that the Authority will be unable to collect all amounts due (principal and interest) according to the contractual terms.

#### **Inventory**

Inventory is recorded at the lower of cost (using first-in, first-out method) or market value.

#### **Investments**

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **1. Organization and Summary of Accounting Policies, continued**

#### **Capital Assets and Depreciation and Amortization**

Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation of airport facilities and amortization of improvements has been computed by the straight-line method using estimated useful lives of 5 to 35 years for buildings and 3 to 10 years for equipment.

The Authority capitalizes buildings, land improvements and equipment that have a cost of \$5,000 or more and an estimated useful life of at least three years. The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend the lives of the assets are not capitalized.

The cost of issuing bonds to finance construction of airport facilities have been capitalized and are being amortized on a weighted-average basis over the lives of the bonds outstanding.

#### **Capitalization of Interest**

The Authority charges to construction-in-progress interest incurred during the period of construction. Interest is capitalized in accordance with Statement of Financial Accounting Standards No. 34 for all projects which are not constructed with the proceeds of tax exempt bonds or grant funds. Interest capitalization ceases when constructed facilities are placed in service.

#### **Avigation Easements**

Avigation easements are property rights acquired by the Authority whenever land use around the Guam International Air Terminal needs to be controlled or when air rights are required. The Authority capitalizes the cost incurred for air rights and is amortized over 15 years using the straight-line method.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **1. Organization and Summary of Accounting Policies, continued**

#### **Compensated Absences**

In accordance with Public Law 27-005 and Public Law 28-068, employees vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service.
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with five (5) years of service but less than fifteen (15) years of service.
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with fifteen (15) years or more service.

The statutes reduce the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law 27-106 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave from February 28, 2003 shall be lost.

Accrued annual leave up to 320 hours is converted to pay upon termination of employment. Amounts to be paid during the next fiscal year are reported as current.

#### **Bond Premium and Discount**

The premium on the 2003 General Revenue Bonds are being amortized on a weighted-average basis over the life of the bond issues.

#### **Operating and Non-Operating Revenues and Expenses**

Operating revenues and expenses generally result directly from the operation and maintenance of the Guam International Air Terminal. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, Passenger Facility Charges and certain other non-recurring income and expenses.

Revenues are recognized when earned or when services are rendered. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Notes to Financial Statements, continued

**1. Organization and Summary of Accounting Policies, continued**

**Passenger Facility Charges**

Passenger Facility Charges (PFC) generate income to be expended by the Authority for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC income is recorded as non-operating income in the statements of revenues, expenses and changes in net assets.

**Environmental Costs**

Liabilities for future remediation and monitoring costs are recorded when environmental assessments and/or remedial and monitoring efforts are probable and the costs can be reasonably estimated. These liabilities are not reduced by possible recoveries from third parties, and projected cash expenditures are not discounted.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Risk Management**

The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation and environmental liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters. The Authority has procured catastrophic insurance, as discussed in Note 10.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### 1. Organization and Summary of Accounting Policies, continued

#### New Accounting Standards

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that government will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of this Statement did not have a material impact on the accompanying financial statements.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution including contaminations, remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. As discussed in Note 10, the Authority recorded an estimated pollution remediation liability of \$209,717 as shown in the accompanying 2009 financial statements.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The implementation of this Statement did not have a material impact on the accompanying financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. As discussed in Note 4, the Authority recorded aviation easements totaling \$15,003,688, net of amortization as of September 30, 2009.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting amount similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. The implementation of this statement did not have a material effect on the accompanying financial statements of the Authority.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### 1. Organization and Summary of Accounting Policies, continued

#### New Accounting Standards, continued

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB efforts to codify all GAAP for state and local governments so that they derive from a single source.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

#### Reclassifications

Certain reclassifications have been made to the 2008 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported increase in net assets.



Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**2. Concentrations of Credit Risk and Major Customers**

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash deposits and accounts receivable.

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2009 and 2008, \$250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 15% and 17% of total operating revenues for each of the years ended September 30, 2009 and 2008, respectively. Receivables from the primary concessionaire totaled \$507,725 and \$1,083,270 at September 30, 2009 and 2008, respectively.

For the year ended September 30, 2009, approximately 26% and 10% of the Authority's total operating revenues, including passenger facility charge income, were derived from two airline customers. At September 30, 2009, receivables from these airline customers totaled \$1,030,765 and \$537,311, respectively. For the year ended September 30, 2008, approximately 22% of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2008, receivables from the airline customer totaled \$2,075,201.

Concentration of credit risk with respect to the remaining accounts receivable which are due primarily from other various airlines, concessionaires and tour operators is limited due to the large number of customers comprising the Authority's customer base.

**3. Notes Receivable**

Notes receivable as of September 30, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Due from Guam Police Department (GPD). The note arises from converting trade receivables into a promissory note arrangement	\$ 220,000	\$1,760,100
Due from CMC Limousine, Inc. The note arises from converting trade receivable into a promissory note arrangement. Specific repayment terms have not been finalized	<u>37,639</u>	<u>37,639</u>
	257,639	1,797,739
Less current installments	<u>( 220,000)</u>	<u>---</u>
	37,639	1,797,739
Less allowance for doubtful accounts	<u>( 37,639)</u>	<u>(1,797,739)</u>
	\$ <u>---</u>	\$ <u>---</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**3. Notes Receivable, continued**

On May 30, 2008, upon execution of a memorandum of agreement between the Authority and GPD pursuant to Public Law 29-82, the Guam Legislature recognized GPD's rental of space that is part of a parcel of land owned by the Authority, and authorized a payment totaling \$880,050 for amounts owed to the Authority. The payment shall be made in four (4) equal installments between June 30, 2008 and September 30, 2008. On October 1, 2009, the Authority received the final installment of the agreed amount totaling \$220,000.

In accordance with the memorandum of agreement, GPD will continue to occupy the leased property from October 1, 2008 to September 30, 2011 for a monthly rental of \$19,350, unless sooner terminated by the GPD. GPD agreed to vacate and surrender the property, in its entirety, to the Authority in good order, condition and repair on or before September 30, 2011.

**4. Airport Facilities**

A summary of changes in capital assets for the year ended September 30, 2009 is as follows:

	Beginning Balance October 1, 2008	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2009
Capital assets depreciated:				
Terminal building	\$315,438,816	\$14,484,265	\$ ---	\$329,923,081
Other buildings	60,722,551	343,292	---	61,065,843
Apron area	28,632,976	12,350,718	---	40,983,694
Airfield area	57,209,749	---	---	57,209,749
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>8,267,059</u>	<u>390,034</u>	<u>---</u>	<u>8,657,093</u>
Total capital assets depreciated	495,019,859	27,568,309	---	522,588,168
Less accumulated depreciation	<u>(244,589,145)</u>	<u>(20,706,596)</u>	<u>---</u>	<u>(265,295,741)</u>
Net capital assets depreciated	<u>250,430,714</u>	<u>6,861,713</u>	<u>---</u>	<u>257,292,427</u>
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	<u>87,927,730</u>	<u>30,988,771</u>	<u>(27,524,060)</u>	<u>91,392,441</u>
Total capital assets not depreciated	<u>145,389,103</u>	<u>30,988,771</u>	<u>(27,524,060)</u>	<u>148,853,814</u>
	<u>\$395,819,817</u>	<u>\$37,850,484</u>	<u>\$(27,524,060)</u>	<u>\$406,146,241</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**4. Airport Facilities, continued**

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2009 and 2008 included \$5,540,951 and \$8,128,759, respectively, of costs associated with the residential sound insulation program. During the year ended September 30, 2009, the Authority recorded avigation easements totaling \$15,003,688, net of amortization, and is shown as avigation easements in the accompanying 2009 statement of net assets.

On September 30, 2005, the Authority entered into a quitclaim deed with the Government of Guam, wherein the Government of Guam transferred a parcel of land with an appraised value of \$2,530,000 to the Authority. As more fully discussed in Note 10, the deed was entered into in response to a request by the Federal Aviation Administration (FAA) that the Authority seek reimbursement of \$564,702 in unresolved federal program questioned costs as of September 30, 2004. The \$2,530,000 is included as a component of capital assets in the accompanying statements of net assets. Due to numerous uncertainties surrounding the Tiyan properties, the Authority has noted that it may elect to utilize the excess contribution from the land transfer to offset any subsequent obligations by the Government of Guam if so determined by the federal government.

A summary of changes in capital assets for the year ended September 30, 2008 is as follows:

	Beginning Balance October 1, 2007	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2008
Capital assets depreciated:				
Terminal building	\$314,739,932	\$ 698,884	\$ ---	\$315,438,816
Other buildings	57,793,396	2,929,155	---	60,722,551
Apron area	28,632,976	---	---	28,632,976
Airfield area	56,940,389	269,360	---	57,209,749
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>8,267,059</u>	<u>---</u>	<u>---</u>	<u>8,267,059</u>
Total capital assets depreciated	491,122,460	3,897,399	---	495,019,859
Less accumulated depreciation	<u>(224,045,791)</u>	<u>(20,543,354)</u>	<u>---</u>	<u>(244,589,145)</u>
Net capital assets depreciated	<u>267,076,669</u>	<u>(16,645,955)</u>	<u>---</u>	<u>250,430,714</u>
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	<u>51,360,517</u>	<u>40,318,029</u>	<u>(3,750,816)</u>	<u>87,927,730</u>
Total capital assets not depreciated	<u>108,821,890</u>	<u>40,318,029</u>	<u>(3,750,816)</u>	<u>145,389,103</u>
	<u>\$375,898,559</u>	<u>\$23,672,074</u>	<u>\$(3,750,816)</u>	<u>\$395,819,817</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**4. Airport Facilities, continued**

Interest capitalized for the years ended September 30, 2009 and 2008, totaled \$556,684 and \$655,485, respectively.

Airport facilities are located on approximately 236 acres. The Authority has no cost basis in 212 acres of this property; the remaining 24 acres have a cost basis of \$3,014,194.

In September 2000, the United States Navy (Navy) transferred approximately 1,417 acres of property surrounding the Airport facilities to the Authority and the Government of Guam at no cost. This land is recorded at its appraised value of \$51,210,000 (at September 2000) and is included as a component of capital assets in the accompanying statements of net assets. In fiscal year 2001, the Navy paid the Authority \$10,000,000 (see Note 10) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

**5. Long-Term Revenue Bonds Payable**

Long-term revenue bonds payable at September 30, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
General revenue bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$8,235,000 and \$7,335,000 due in October 2009 and 2008, respectively, and increasing to \$17,175,000 on October 2023	\$ 180,960,000	\$188,295,000
Less current installments	( 8,235,000)	( 7,335,000)
	172,725,000	180,960,000
Add net unamortized premium on bonds	5,388,138	6,063,900
Less deferred difference on refunding of 1993 bonds	( 4,339,139)	( 4,883,349)
	<u>\$ 173,773,999</u>	<u>\$182,140,551</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**5. Long-Term Revenue Bonds Payable, continued**

Future bond principal and mandatory sinking fund installments payable by the Authority to the bond trustees are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2010	\$ 8,235,000	\$ 8,720,000	\$ 16,955,000
2011	8,625,000	8,333,000	16,958,000
2012	9,095,000	7,901,000	16,996,000
2013	9,590,000	7,482,000	17,072,000
2014	10,030,000	7,076,000	17,106,000
2015 through 2019	58,470,000	27,639,000	86,109,000
2020 through 2024	<u>76,915,000</u>	<u>10,440,000</u>	<u>87,355,000</u>
	<u>\$180,960,000</u>	<u>\$ 77,591,000</u>	<u>\$258,551,000</u>

On September 30, 2003, the Authority issued \$216,250,000 in Series 2003 General Revenue Bonds to retire \$216,185,000 of outstanding 1993 Series bonds. The net proceeds of \$192,699,547 (after payment of \$11,007,710 in underwriting fees, insurance, and other issuance cost) plus an additional \$30,969,034 of 1993 Series fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the refunding of the 1993 bonds on October 31, 2003.

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount was deferred and is being amortized over the remaining life of the 1993 bonds. For the years ended September 30, 2009 and 2008, the amortization expense totaling \$544,210 and \$566,271, respectively, are included as a component of other expenses, net in the accompanying statements of revenues, expenses and changes in net assets.

The General Revenue Bonds, Series 2003, including interest, are payable from and are secured by a pledge of revenues under the indenture. The bonds are collateralized by a lien upon and pledge of revenues to be received by the Authority, the trustees and the depository. The Authority also engaged the Bond Issuer to secure the financial guaranty insurance policy, guaranteeing the schedule payment of the principal and interest on the 2003 Bonds when due. Neither the payment of the principal on the bonds, nor any interest thereon, is a debt, liability or obligation of the Government of Guam.

The bond indentures include certain debt service and reserve requirements including the requirement that net revenues as defined in the bond indentures plus other available monies be equal to at least 125% of the annual debt service.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**6. Investments and Cash with Trustees**

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the bond proceeds. At September 30, 2009 and 2008, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2009</u>	<u>2008</u>
Federal Grant Funds	\$ 9,328,557	\$11,222,341
Operations and Maintenance Reserve Fund	7,524,172	7,263,155
Self-Insurance Fund	6,036,039	5,736,197
General Revenue Fund	1,083,705	3,941,600
Operations and Maintenance Fund	228,143	461,371
Capital Improvement Fund	5,252	356,147
Cash with trustees	<u>---</u>	<u>13,662</u>
 Total Unrestricted	 <u>24,205,868</u>	 <u>28,994,473</u>
 Cash with trustees	 4,724	 451,392
Bond Reserve Funds	18,509,079	18,063,954
Debt Service Funds	12,689,197	12,003,921
Renewal and Replacement Fund	<u>1,000,768</u>	<u>1,000,000</u>
 Total Restricted	 <u>32,203,768</u>	 <u>31,519,267</u>
	<u>\$ 56,409,636</u>	<u>\$60,513,740</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**6. Investments and Cash with Trustees, continued**

Investments are stated at fair market value. The amortized cost and fair value of investments at September 30, 2009 and 2008 are summarized as follows:

	2009			2008		
	Amortized Cost	Gross unrealized gains (losses)	Fair value	Amortized Cost	Gross unrealized gains (losses)	Fair value
Cash with trustees	\$ 4,724	\$ ---	\$ 4,724	\$ 465,054	\$ ---	\$ 465,054
Money market/ trust funds	30,626,367	---	30,626,367	34,833,665	( 8,060)	34,825,605
Investment agreements	18,045,950	---	18,045,950	18,045,950	---	18,045,950
Short-term investments	6,561,115	202,479	6,763,594	5,917,098	40,463	5,957,561
U.S. Treasury notes	<u>937,650</u>	<u>31,351</u>	<u>969,001</u>	<u>1,200,280</u>	<u>19,290</u>	<u>1,219,570</u>
	<u>\$ 56,175,806</u>	<u>\$ 233,830</u>	<u>\$ 56,409,636</u>	<u>\$60,462,047</u>	<u>\$ 51,693</u>	<u>\$60,513,740</u>

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;
- Category 2 Investments that are uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the Authority's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name.

As of September 30, 2009 and 2008, all investments were classified as Category 2 investments.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

Notes to Financial Statements, continued

**6. Investments and Cash with Trustees, continued**

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. In compliance with the bond indenture, the Authority minimized the interest rate risk, by limiting maturity of investments. The Authority's investment securities have maturities of 5 years or less. This reduces the impact of interest rate movements seen with longer maturity investments.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Authority. In compliance with the bond indenture, the Authority minimized credit risk losses by limiting investments to the safest types of securities. Bank of Hawaii Investment Services Group, Citibank N.A., Government of Guam Employees Federal Credit Union and Merrill Lynch manage the Federal Fund Account investing in U.S. Treasury Securities, U.S. Government Agencies, Domestic Corporate Bonds, Money Market Funds and Certificate of Deposits insured by Federal Deposit Insurance Corporation. The U.S. Treasury Securities are extremely low risk investments as they are guaranteed by the full faith and credit of the U.S. government. While U.S. Government Agencies are not guaranteed, they are backed by the U.S. government and are recognized as low risk investments as well. In addition, funds held with the Bank of Guam-Trustee, to include the Self-Insurance Fund, are invested in Government Obligations Funds through Federated Investments. Funds with co-trustee, U.S. Bank, are invested in First American Treasury Obligations Fund. All investment securities are within the requirement of the bond indenture.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2009 and 2008.

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment.



Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**6. Investments and Cash with Trustees, continued**

At September 30, 2009, the Authority's investments in debt securities were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
US treasury notes	Aaa	\$ 200,000	\$ 764,638	\$ ---	\$ ---	\$ 964,638
US government agencies:						
Federal Home Loan Bank	Aaa	150,301	352,096	---	---	502,397
Federal Home Loan Mortgage Corporation	Aaa	149,925	1,103,947	---	---	1,253,872
Federal National Mortgage Association	Aaa	249,975	2,394,712	27,633	---	2,672,320
Other guaranteed by FDIC	Aaa	---	402,712	---	---	402,712
Corporate notes:						
CDC Funding Corporation	Aa	---	---	---	18,045,950	18,045,950
Other	Aaa	---	54,265	---	---	54,265
Other	Aa	65,788	461,057	---	---	526,845
Other	A	---	880,069	---	---	880,069
Other	Baa	---	421,335	---	---	421,335
Money Market Funds	Aaa	<u>30,609,625</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>30,609,625</u>
		<u>\$31,425,614</u>	<u>\$6,834,831</u>	<u>\$ 27,633</u>	<u>\$18,045,950</u>	56,334,028
Cash						4,724
Accrued interest						<u>70,884</u>
						<u>\$56,409,636</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**6. Investments and Cash with Trustees, continued**

At September 30, 2008, the Authority's investments in debt securities were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
US treasury notes	Aaa	\$ 469,724	\$ 759,631	\$ ---	\$ ---	\$ 1,229,355
US government agencies:						
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	Aaa	1,131,293	1,289,422	---	---	2,420,715
Federal National Mortgage Association	Aaa	---	931,216	---	---	931,216
	Aaa	705,691	396,188	25,570	---	1,127,449
Corporate notes:						
CDC Funding Corporation	A	---	---	---	18,045,950	18,045,950
Other	Aaa	---	198,706	---	---	198,706
Other	Aa	100,794	175,702	---	---	276,496
Other	A	153,875	320,316	---	---	474,191
Other	Baa1/Bbb	21,234	426,394	---	---	447,628
Money Market Funds	Aaa	<u>34,809,781</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>34,809,781</u>
		<u>\$37,392,392</u>	<u>\$4,497,575</u>	<u>\$ 25,570</u>	<u>\$18,045,950</u>	59,961,487
Cash						465,054
Accrued interest						<u>87,199</u>
						<u>\$60,513,740</u>

**7. Employee Benefits and Other**

*Employee Retirement Plan*

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees' Retirement System, a defined benefit pension plan (DB Plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until December 31, 1999, and for several limited periods after December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

Notes to Financial Statements, continued

**7. Employee Benefits and Other, continued**

The DB Plan and the DCRS are administered by the Government of Guam Retirement Fund (GGRF), to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

*DB Plan*

The DB Plan was originally designated as a single-employer plan but was redesignated by GovGuam's Department of Administration as a cost-sharing multiple-employer plan, effective October 1, 2008. The redesignation was based on the determination as outlined under GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, that all risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the separate employers. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - [www.ggrf.com](http://www.ggrf.com).

As more fully discussed in Note 12, the redesignation from a single employer plan to a cost-sharing multiple-employer plan resulted in a prior period adjustment relating to the accrued unfunded liability to the retirement fund and the related cost recognized in prior years.

Plan members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The contribution requirements of the plan members and the Authority are established and may be amended by the GGRF.

Statutory contribution rates for employer and employee contributions were 29.31% and 9.50%, respectively, for the year ended September 30, 2009 and 26.02% and 9.50%, respectively for the year ended September 30, 2008.

During the years ended September 30, 2009 and 2008, contributions made and accrued, which were equal to the required contributions for those years, amounted to \$357,970 and \$337,506, respectively.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**7. Employee Benefits and Other, continued**

Prior to the redesignation of the DB Plan as a cost-sharing multiple-employer plan, the Authority's annual pension cost and net pension obligation to the DB Plan for the year ended September 30, 2007 is as follows:

Annual Required Contribution	\$2,808,384
Interest on Net Retirement Obligation	265,151
Adjustment to Annual Required Contribution	( <u>325,051</u> )
Annual retirement expense	2,748,484
Contributions made	<u>1,828,210</u>
Increase in Net Retirement Obligation	920,274
Net Retirement Obligation beginning of year	<u>3,787,873</u>
Net Retirement Obligation end of year	<u>\$4,708,147</u>

The Annual Required Contribution for the year ended September 30, 2007 was determined as part of the September 30, 2006 actuarial valuations using the "entry age normal" actuarial cost method. The actuarial assumptions included the following:

Interest rate and rate of return	7%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The assumptions did not include cost-of-living adjustments, which have been funded by the Authority when granted through annual legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Notes to Financial Statements, continued

**7. Employee Benefits and Other, continued**

*DCRS*

Contributions into the DCRS, by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2009 and 2008 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

During the years ended September 30, 2009 and 2008, contributions made and amounts accrued under the DCRS amounted to \$1,998,701 and \$2,200,858, respectively.

Retirement expense amounted to \$2,356,671, \$1,949,133 and \$1,828,210 for the years ended September 30, 2009, 2008 and 2007, respectively.

*Accrued Sick Leave*

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2009, the Authority has accrued an estimated liability of \$103,462. However, this amount is an estimate and actual payout may be materially different than estimated.

Notes to Financial Statements, continued

**7. Employee Benefits and Other, continued**

*Other Post-Employment Benefits*

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

*Other*

Public Law 29-154 adopts the personnel rules and regulations for aviation-related positions unique to airport operations and certified, technical, and professional employees, as required by Public Law 29-24, and to make compensation and benefits adjustments for current employees effective on the first day of fiscal year 2009. At September 30, 2009, the Authority has accrued an estimated liability of \$707,000 related to this Public Law.

**8. Leases**

*DFS*

In November 2002, DFS was selected as primary concessionaire for the airport terminal for a ten year term commencing January 2003.

In accordance with the concession agreement, rental income from DFS shall be the greater of the following:

1. Four million dollars (the "minimum guarantee") plus five hundred thousand dollars (the "additional rent"), or;
2. The sum of 20% of gross revenues up to \$30 million plus 22.5% of gross revenues exceeding \$30 million

During the lease term, the minimum guarantee rent and the additional rent are paid in equal monthly installments on or before the first day of each month.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**8. Leases, continued**

*DFS, continued*

On March 17, 2006, DFS entered into a concession agreement with the Authority for additional store space for a five year term. DFS guarantees to pay a minimum annual rent of \$250,000 during each lease year, or the percentage rent which is 22.5% of annual gross revenues for each lease year, whichever amount is greater.

Concession fee income for the years ended September 30, 2009 and 2008 includes \$1,257,695 and \$2,178,859 of percentage rent income in excess of the minimum guarantee and additional rent on the DFS lease, respectively.

The future minimum lease receipts under the remainder of the Concession Agreements as of September 30, 2009 are as follows:

Year ending <u>September 30,</u>	
2010	\$ 4,750,000
2011	4,615,000
2012	4,500,000
2013	<u>1,375,000</u>
Total minimum lease payments receivable	<u>\$15,240,000</u>

*Pac Air Properties, LLC*

Effective February 22, 2008 (Commencement Date), the Authority and Pac Air Properties, LLC (Pac Air) agreed to amend and restate its existing ground lease agreement dated October 31, 2006 in its entirety. The new agreement has an initial lease term of fifty (50) years beginning on the commencement date, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than \$25 million to the leased premises. The Authority shall waive rental payments during the construction phase but no later than the first two (2) years from the initial term of the lease. Beginning on the date of beneficial occupancy, the date which marks the end of the construction phase and the waiver of rent, the monthly rent shall amount to \$21,600 but payment of such rent shall be deferred for the next five (5) years, at such time the deferred rent shall be paid in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**8. Leases, continued**

*Other Leases*

The Authority has lease agreements with scheduled air carriers, various concessionaires and airport users. The agreements provide the lessees with the use of the airport's system facilities, equipment and services. The signatory airline operating agreement and terminal building lease are in effect from October 1, 2006 through September 30, 2011. The two ground lease agreements will expire in August 2023. The lease agreements with six rent-a-car companies will expire in June 2011.

The future minimum rentals on noncancellable operating leases (excluding the DFS lease described above) as of September 30, 2009 are as follows:

Year ending September 30,	
2010	\$ 6,381,000
2011	5,787,000
2012	2,261,000
2013	899,000
2014	553,000
Thereafter	<u>3,293,000</u>
Total future minimum lease payments receivable	<u>\$19,174,000</u>

**9. Long-Term Liabilities**

A summary of changes in long-term liabilities during fiscal years 2009 and 2008 follows:

	Outstanding September 30, 2008 <i>(Restated)</i>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2009</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ ---	\$103,462	\$ ---	\$ 103,462	\$ ---	\$ 103,462
Accrued annual leave	768,528	177,146	---	945,674	277,121	668,553
2003 General revenue bonds	<u>189,475,551</u>	<u>---</u>	<u>7,466,552</u>	<u>182,008,999</u>	<u>8,235,000</u>	<u>173,773,999</u>
	<u>\$190,244,079</u>	<u>\$280,608</u>	<u>\$7,466,552</u>	<u>\$183,058,135</u>	<u>\$8,512,121</u>	<u>\$174,546,014</u>



Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**9. Long-Term Liabilities, continued**

	Outstanding September 30, 2007 <i>(Restated)</i>	Increases	Decreases	Outstanding September 30, 2008 <i>(Restated)</i>	Current	Noncurrent
Accrued annual leave	\$ 823,243	\$ ---	\$ 54,715	\$ 768,528	\$ 205,990	\$ 562,538
2003 General revenue bonds	<u>197,642,434</u>	<u>---</u>	<u>8,166,883</u>	<u>189,475,551</u>	<u>7,335,000</u>	<u>182,140,551</u>
	<u>\$198,465,677</u>	<u>\$---</u>	<u>\$8,221,598</u>	<u>\$190,244,079</u>	<u>\$7,540,990</u>	<u>\$182,703,089</u>

**10. Commitments and Contingencies**

*Environmental Response Actions*

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority \$10,000,000 as a lump sum but not in accordance to the payment provisions of the Quitclaim Deed from the Navy. In exchange for the payment, the Authority and the Government of Guam apparently assumed obligations for environmental response actions addressing specific groundwater contamination even if the cost of the response actions exceeds the \$10 million received from the Navy. Authority management has recently been made aware that in accordance with the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 or CERCLA, a decision document or record of decision requires execution by the Authority, the Navy and the Guam Environmental Protection Agency with the concurrence of the U.S. EPA. The decision document would codify the responsibilities of each party for the environmental response actions.

Although the primary remediation action is natural attenuation, the Authority has substantially completed a water system project as part of the military airport program, which concurrently satisfies, in part, certain response actions contemplated under the Environmental Services Cooperative Agreement. The Authority has reprogrammed the \$10 million received from the Navy to the Capital Improvement Fund and any further costs and prior related costs will be appropriated from this Fund. The Authority will continue the voluntary monitoring until such time the decision document is executed and the Authority's remediation responsibilities are specified.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **10. Commitments and Contingencies, continued**

#### *Environmental Response Actions, continued*

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2009, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 totaled \$209,717. At September 30, 2009 and for the year then ended, future pollution remediation and monitoring costs totaling \$209,717 is reflected as a component of contractual services in the accompanying 2009 statement of revenues, expenses and changes in net assets, and as a component of other current liabilities in the accompanying 2009 statement of net assets.

#### *Federal Program Costs*

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects primarily through the Airport Improvement Program (AIP). The Authority also receives grants from other sources. These grants are subject to financial and compliance audits to ascertain whether federal laws and regulations have been followed.

As discussed in Note 4, on September 30, 2005 the Authority received a parcel of land with an appraised value of \$2,530,000 from the Government of Guam, which represented reimbursement to the Authority for questioned costs totaling \$564,702 as of September 30, 2004, that the FAA requested for reimbursement.

As of September 30, 2009 and 2008, there were no unresolved questioned costs.

#### *Commitments*

The Authority has commitments of \$31,909,346 under several construction contracts at September 30, 2009.

In addition, the Authority has commitments under other various contracts of \$13,999,183 at September 30, 2009.

#### *Insurance*

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority has also adopted a policy of maintaining a deposit of \$1 million annually, in the Self-Insurance Fund to cover self-insured damage in the event of a natural catastrophe. The balances in the Renewal and Replacement Fund and Self-Insurance Fund are \$1,000,000 and \$6,036,039, respectively, at September 30, 2009 and \$1,000,000 and \$5,736,197, respectively, at September 30, 2008. Effective October 1, 2008, the Authority has a catastrophic insurance policy with coverage up to \$7.5 million as a supplement to the self-insurance.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **10. Commitments and Contingencies, continued**

#### *Government of Guam General Fund*

Pursuant to 5 GCA Chapter 22 § 22421 *Transfer of Autonomous Agency Revenues to Autonomous Agency Collections Fund*, certain autonomous agencies, to include the Authority, are to remit certain amounts to the Government of Guam General Fund at the end of each fiscal year. However, management of the Authority is of the opinion that Section 5.01 Pledge and Assignment of Revenues under the Authority's Bond Indenture and § 47133 of Title 49 of the Code of Federal Regulations restrict the use of airport funds for capital and operating costs of the airport and therefore prohibit remittance to the General Fund. Accordingly, no liability has been recorded for this contingency as of September 30, 2009 and 2008.

#### *Water System Infrastructure Upgrade*

During the year ended September 30, 2009, the FAA raised concerns relative to the Authority's compliance in administering the FAA's Airport Improvement Program (AIP) with respect to the Authority's water system infrastructure upgrade project and related administrative costs reimbursed by AIP funds. The Authority has prepared and submitted to the FAA its Risk Reduction Plan of Corrective Action, which included an Agreed-upon Procedures work to be performed by an independent accounting firm to address the FAA's concerns. As of January 28, 2010, the FAA's evaluation of the Authority's compliance and level of risk in administering the AIP funds related to this project is in progress. Accordingly, no liability, if any, has been recorded for this contingency as of September 30, 2009.

#### *Litigation*

The Authority is involved in certain litigation inherent to its operations. Management is of the opinion that liabilities of a material nature will not be realized.

### **11. Customs, Agriculture and Quarantine Inspection Services Charge**

During the years ended September 30, 2009 and 2008, the Authority has assessed and collected from air carriers fees for customs and agricultural inspection services rendered at the Airport terminal. Guam Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

At September 30, 2009 and 2008, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$1,528,147 and \$1,476,496, respectively, for the above charges, of which \$1,200,869 and \$1,156,631, respectively, are reflected as customs fees, receivables in the accompanying statements of net assets. The fees are not reflected as an expense or revenue by the Authority.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**12. Prior Period Adjustment**

In prior years, the Authority's DB Plan was accounted for as a single-employer plan. As more fully discussed in Note 7, effective October 1, 2008, GovGuam's Department of Administration redesignated the DB Plan as a cost-sharing multiple-employer plan. Under the cost-sharing multiple-employer plan, the Authority will recognize annual pension expense equal to its contractually required contributions to the DB Plan. Pension liabilities or assets will result from the difference between the contributions required and contributions made. The redesignation resulted in a reversal of the previously reported unfunded pension liability and related cost which totaled \$5,297,378 and \$589,231, respectively, as of and for the year ended September 30, 2008. The impact on the correction on the Authority's net assets as of October 1, 2007 and the results of its operations for the year ended September 30, 2008, is as follows:

	<u>Net Assets</u>	<u>Interest in Net Assets</u>
Net assets as of September 30, 2007, as previously reported	\$247,796,507	
Reversal of unfunded pension liability as of September 30, 2007	<u>4,708,147</u>	
Net assets as of September 30, 2007, as restated	252,504,654	
Increase in net assets for the year ended September 30, 2008, as previously reported	18,693,677	\$18,693,677
Reversal of accrued pension expense for the year ended September 30, 2008	<u>589,231</u>	<u>589,231</u>
Net assets as of September 30, 2008, as restated	<u>\$271,787,562</u>	
Increase in net assets for the year ended September 30, 2008, as restated		<u>\$19,282,908</u>

**13. Subsequent Events**

The Authority has evaluated subsequent events through January 28, 2010.

## Other Financial Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2009 and 2008

Schedule 1  
Facilities and Systems Usage Charges

	<u>2009</u>	<u>2008</u>
Arrival facilities	\$ 5,387,772	\$ 5,416,560
Departure facilities	5,326,503	5,528,596
Immigration	1,937,884	1,717,703
Public apron	1,804,241	2,152,654
Passenger loading bridge usage charge	1,689,336	2,121,589
Landing fees	1,218,711	898,065
Utility recovery and other fees	290,131	276,099
Fuel flowage fees	142,507	189,833
	<u>\$ 17,797,085</u>	<u>\$ 18,301,099</u>

Schedule 2  
Concession Fees

	<u>2009</u>	<u>2008</u>
General merchandise	\$ 6,064,436	\$ 6,985,111
Ground transportation	3,870,031	4,360,587
Car rental	910,220	937,712
Food and beverage	707,835	729,385
In-flight catering	589,956	574,992
Advertising	376,374	373,441
Money exchange	255,121	278,974
Parking lot	105,000	105,000
Other	64,582	74,735
	<u>\$ 12,943,555</u>	<u>\$ 14,419,937</u>

Schedule 3  
Rental Income

	<u>2009</u>	<u>2008</u>
Operating space:		
- Airline	\$ 2,754,459	\$ 2,812,705
- Non-airline	2,997,093	2,366,157
Building and maintenance shop rentals	1,708,315	2,242,796
Other	1,295,309	1,044,575
Cargo rentals	583,611	637,880
	<u>\$ 9,338,787</u>	<u>\$ 9,104,113</u>

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2009 and 2008

Schedule 4  
Contractual Services

	<u>2009</u>	<u>2008</u>
Power	\$ 6,288,000	\$ 5,753,143
Repairs and maintenance	3,323,420	3,394,290
Professional services	3,102,554	3,653,487
Insurance	1,914,239	1,840,053
Utilities and telephone	703,773	736,711
Advertising and promotions	304,679	394,622
Miscellaneous	270,720	468,141
Travel/Training & Certifications	<u>179,485</u>	<u>339,982</u>
	<u>\$ 16,086,870</u>	<u>\$ 16,580,429</u>

Schedule 5  
Personnel Services

	<u>2009</u>	2008 <i>(Restated)</i>
Salaries and wages	\$ 9,773,657	\$ 8,903,491
Retirement contributions	2,356,671	1,949,133
Insurance	<u>575,685</u>	<u>546,914</u>
	<u>\$ 12,706,013</u>	<u>\$ 11,399,538</u>
Full-time employee count in September	<u>205</u>	<u>204</u>

Schedule 6  
Materials and Supplies

	<u>2009</u>	<u>2008</u>
Equipment and vehicle maintenance and supplies	\$ 342,409	\$ 779,684
Office and security supplies	140,885	147,824
Electrical and plumbing	91,982	96,889
Miscellaneous	81,686	123,725
Building maintenance and supplies	<u>27,297</u>	<u>57,047</u>
	<u>\$ 684,259</u>	<u>\$ 1,205,169</u>

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2009

Schedule 7  
Insurance Coverage

<u>Name of Insurer</u>	<u>Policy</u>	<u>Risk Coverage</u>
Lloyd's of London	Airport Operations Liability	\$ 500,000,000
Lloyd's of London	Property Insurance	\$ 400,000,000
National Union Fire Insurance Co. of Pittsburgh, PA	Environmental Liability	\$ 100,000,000
Lloyd's of London	Catastrophe Insurance	\$ 7,500,000
American Home Assurance Company	Directors & Officers Liability (Sublimit of \$1,000,000 for Employment Practices Liability)	\$ 4,000,000
Dongbu Insurance Company Ltd.	Automobile	\$ 2,000,000
National Union Fire Insurance Co. of Pittsburgh, PA	Workers' Compensation	\$ 1,000,000
Lloyds of London	Crime Insurance	\$ 1,000,000



Antonio B. Won Pat International Airport Authority, Guam

Schedule 8

Reconciliation of Historical Financial Results

	Year ended September 30,	
	2009	2008
		( <i>Restated</i> )
Change in net assets:		
Revenues	\$ 48,263,381	\$ 49,358,791
Expenses	( 29,512,031 )	( 29,736,556 )
Income before depreciation	18,751,350	19,622,235
Depreciation	( 21,797,415 )	( 21,440,046 )
	( 3,046,065 )	( 1,817,811 )
Interest and other expenses	( 8,878,932 )	( 8,827,822 )
Transfer from the Government of Guam - OHS	30,095	---
Grants from the United States Government	36,261,526	29,928,541
Increase in net assets	\$ 24,366,624	\$ 19,282,908
Net Revenues (per Bond Resolution):		
Revenues	\$ 48,263,381	\$ 49,358,791
Operation and maintenance expenses	( 29,844,742 )	( 30,213,748 )
Net revenues available for debt service	\$ 18,418,639	\$ 19,145,043
Reconciliation:		
Change in net assets	\$ 24,366,624	\$ 19,282,908
Add back:		
Depreciation	21,797,415	21,440,046
Interest expense	8,339,935	8,580,584
Miscellaneous	( 350,830 )	( 168,475 )
Deduct:		
Capital grants from the United States Government	( 35,418,595 )	( 29,538,152 )
Interest income on funds related to construction	( 315,910 )	( 451,868 )
	18,418,639	19,145,043
Other available monies	4,282,905	4,142,767
Funds available for debt service	\$ 22,701,544	\$ 23,287,810
Debt Service*	\$ 17,131,619	\$ 16,571,069

\* - amounts of the aggregate annual debt service for such fiscal years as defined in the Bond Indenture Agreement.

Antonio B. Won Pat International Airport Authority, Guam

Schedule 9

Employee Data

Year ended September 30, 2009

<u>Department</u>	<u>Employees (b)</u>	<u>Personnel Services (a)</u>
Board	---	\$ ---
Administration	45 (c)	2,960,145
Accounting	10	753,583
Engineering	3	195,928
Operations	22	1,187,109
Properties & Facilities Maintenance	44	2,107,873
Airport Police	50	2,886,946
Aircraft Rescue Fire Fighting	<u>31</u>	<u>2,614,429</u>
Total	<u><u>205</u></u>	<u><u>\$ 12,706,013</u></u>

Note(s):

- a. Above expenditures are funded by Operating & Maintenance Fund Account.
- b. Filled positions, not including Limited Term Appointments related to Airport Police pursuant to Transportation Security Administration mandated.
- c. Administration consisted of:

Executive	3
Administrative support	12
Personnel	4
Marketing	3
Procurement	8
Property Management	9
Planning	3
Management Info System	<u>3</u>
	<u><u>45</u></u>