

*Financial Statements and
Other Financial Information*

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

*Years ended September 30, 2008 and 2007
with Report of Independent Auditors*

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and
Other Financial Information

Years ended September 30, 2008 and 2007

Contents

Report of Independent Auditors	1
Management's Discussion and Analysis	3
Audited Financial Statements	
Statements of Net Assets.....	17
Statements of Revenues, Expenses and Changes in Net Assets	19
Statements of Cash Flows	20
Notes to Financial Statements.....	22
Other Financial Information	
Schedules 1-9.....	45-49



Ernst & Young LLP
231 Ypao Road
Suite 201, Ernst & Young Building
Tamuning, Guam 96913
Tel: +1-671-649-3700
Fax: +1-671-649-3920
www.ey.com

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, 2008 and 2007, 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 opinion.

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, 2008 and 2007, 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.

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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is 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, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 to 16 are not required parts of the basic financial statements but are 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2009, 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 audit.

Ernst + Young LLP

January 20, 2009

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis

Year ended September 30, 2008

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (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, 2008. 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.

B. Using the Financial Statements

The Authority utilizes the flow of economic 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 No. 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

Operating in one of the most turbulent business environments since deregulation of the industry in 1978, airlines reduced capacity, cut jobs, shifted their fleets, raised fares and imposed fees for checked baggage and other amenities in FY 2008. By restructuring their organizations, developing new revenue sources, creating leaner, more efficient and effective operations, airlines hoped to minimize losses which were estimated by the International Air Transport Association (IATA) at \$5.2 billion for 2008.

Despite their efforts, savings generated by the airlines were off-set by the high price of oil, which reached a record high of \$147 per barrel in July 2008, causing many of the nation's airlines and international carriers to file for bankruptcy. Even as the price of oil dipped in the late part of 2008, weakened demand for travel due to the global economic crisis had major implications on the airlines as travelers resorted to less expensive alternatives than air travel.

The adverse conditions of the airline industry has had a slight impact on the Authority's passenger activity as enplanements for FY 2008 amounting to 1.44 million reflect a 3.2% decline year-over-year versus enplanement activity for FY 2007 which equaled 1.49 million and a 5.5% decrease in comparison to FY 2006 activity which was our highest enplanement activity since September 11, 2001 equaling to 1.53 million passengers. Despite the decrease in passenger activity, the Authority's enplanements are consistent with the FAA's 2008 Terminal Area Forecast (TAF) exceeding the low end projection of 1.4 million enplanements by 2.86%. The FAA's baseline TAF for Guam was estimated to be 1.7 million enplanements for FY 2008. (Source: Federal Aviation Administration National Forecast 2008, http://www.faa.gov/data_statistics/aviation/).

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Activity for the Authority for the years ended September 30, 2008, 2007 and 2006 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	2008 % Increase (Decrease) from 2007
Major revenue sources:				
Landing fees	\$ 898,065*	\$ 118,103**	\$ 3,141,860	660.4 %
Terminal lease	9,104,113	8,957,927	8,524,035	1.6 %
Concessions and parking	<u>14,419,937</u>	<u>12,583,963</u>	<u>12,399,169</u>	14.6 %
Total	<u>\$24,422,115</u>	<u>\$21,659,993</u>	<u>\$24,065,064</u>	12.8 %
Passenger (enplanements) activity:				
Signatory airlines	1,377,538	1,420,824	1,435,471	(3.0)%
Non-signatory airlines	<u>65,272</u>	<u>70,364</u>	<u>91,460</u>	(7.2)%
Total enplanements	<u>1,442,810</u>	<u>1,491,188</u>	<u>1,526,931</u>	(3.2)%
Aircraft operations	<u>39,299</u>	<u>37,499</u>	<u>36,234</u>	4.8 %
Aircraft landed weights (000,000)	<u>3,322,467</u>	<u>3,465,833</u>	<u>3,310,798</u>	(4.1)%
O & D passengers	2,515,003	2,616,719	2,673,207	(3.9)%
Transfer passengers	<u>189,041</u>	<u>182,581</u>	<u>189,301</u>	3.5 %
Total passengers	<u>2,704,044</u>	<u>2,799,300</u>	<u>2,862,508</u>	(3.4)%

* FY 2008 - Signatory Airline landing fees were reinstated in April-July 2008

** FY 2007 - Signatory Airline landing fees were waived

The Authority continues to effectively administer its fiduciary responsibilities in the midst of a volatile airline industry. By proactively managing its operating and maintenance (O&M) expenses and focusing on diversifying and enhancing its revenue streams, the Authority maintains its resolve in being a low cost airport despite the decrease in passenger activity.

For FY 2008, the Authority's efforts have culminated in a cost per enplaned passenger (CPE) of \$14.28, a 6.6% increase versus the \$13.40 CPE for FY 2007. Despite the increase, the CPE for 2008 is 25.7% less than the Authority's record high of \$19.22 in FY 2003. Moreover, while the CPE may be high by U.S. airlines standards, given the fact that 93% of Guam's passenger activity is comprised mainly of international traffic from Originating and Destination stations, the Authority's CPE is relatively modest in comparison to other international airports within the region.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

In addition to maintaining a competitive cost structure, the Authority has managed to maintain sufficient debt service coverage of 1.41 versus the 1.25 debt service requirements of the 2003 Bond Covenants. This was no small task given the 3.2% decrease in passenger activity for 2008. Moreover, the Authority continued to maintain a superior and reliable level of airport services in the facilitation of passengers and cargo to their destinations safely, efficiently, and effectively, key success factors paramount to the Authority's financial success, while promoting commerce and connectivity to our neighboring islands and countries in the region.

The following airlines served the Authority with scheduled or charter overseas passenger flights for FY 2008:

Continental Micronesia, Northwest Airlines, All Nippon Airways, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Asia Pacific Airlines, and Aerospace Concepts who operate a business jet service. The principal commuter airlines providing inter-island passenger flight service to and from Guam and the CNMI are Freedom Air, Micronesian Aviation Systems, and Cape Air.

D. Financial Operation Highlights

Operational revenues for FY 2008 amounted to approximately \$41.9 million versus the \$40.1 million recorded in FY 2007. The 4.6% increase in revenues may be attributed to the reinstatement of landing fees in April 2008 that were previously waived in FY 2007, combined with the 26.6% increase in Apron fees, up \$2.2 million in 2008 versus the \$1.7 million in 2007. In addition, concession fees increased by 14.6% to \$14.4 million in FY 2008 versus the \$12.6 million recorded for FY 2007. The \$1.8 million increase in concession fees may be attributed to the Authority's implementation of its management revenue enhancement initiatives that included the restructuring of the master concessionaires and ground transportation contracts.

For FY 2008, operational expenses which equaled \$30.3 million, reflects a 7.0% year-over-year increase from FY 2007's amount of \$28.3 million. The 7.0% increase may be attributed to the 23.7% increase in contractual services and a 40.0% increase in materials and supplies. The additional expenses were necessary for the maintenance and repair of the Authority's Loading Bridges. In addition, the meteoric rise of oil further impacted the Authority as power expenses jumped 18.3% from \$4.9 million in FY 2007 to \$5.8 million in 2008 while equipment and vehicle maintenance and supplies increased 85.2%, up to \$780 thousand versus the \$421 thousand for the same time period. Aside from the increase in materials and supplies, the expenses incurred were necessary for personnel training and equipment acquisitions to ensure the Authority remains in compliance with the FAA and other federal regulatory agencies' mandates and requirements.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

A summary of operations and changes in net assets for the years ended September 30, 2008, 2007 and 2006 as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	2008 % Increase (Decrease) from 2007
Operating revenues	\$41,900,989	\$40,072,875	\$40,857,839	4.6 %
Operating expenses, excluding depreciation	<u>(30,325,787)</u>	<u>(28,337,482)</u>	<u>(27,709,355)</u>	7.0 %
Operating income before depreciation	11,575,202	11,735,393	13,148,484	(1.4)%
Depreciation and amortization	<u>(21,440,046)</u>	<u>(18,932,919)</u>	<u>(19,580,556)</u>	13.2 %
Loss from operations	(9,864,844)	(7,197,526)	(6,432,072)	37.1 %
Non-operating expenses - net	<u>(1,370,020)</u>	<u>(426,558)</u>	<u>(1,140,736)</u>	221.2 %
Loss before capital contributions	(11,234,864)	(7,624,084)	(7,572,808)	47.4 %
Grants from the United States Government	<u>29,928,541</u>	<u>36,857,648</u>	<u>14,937,768</u>	(18.8)%
Increase in net assets	<u>\$18,693,677</u>	<u>\$29,233,564</u>	<u>\$7,364,960</u>	(36.1)%

In spite of the decrease in passenger activity for FY 2008, the Authority generated an additional \$1.8 million in operating revenues versus figures for FY 2007. There was a slight shift in the Authority's revenue composition as non-airline revenues accounted for 52.1%, approximately \$21.81 million while airlines accounted for \$20.09 million or 47.9%. A comparison of the Authority's revenue composition for FY 2007 and 2006 reflect a downward trend of 50.9% and 51.6% respectively. These decreases of direct airline revenue income are in-line with the Authority's revenue enhancement initiatives and diversification of its non-airline revenue streams.

The increase in non-airline revenue can be attributed to the 14.6% increase the Authority's concession fees, and the 3.8% increase in other rental income for FY 2008. Concession revenues for FY 2008 which amounted to \$14.4 million accounted for 34.4% of the Authority's operating revenues versus 31.4% in FY 2007, while the average concession revenue per enplaned passenger increased 18.5% to \$10.00 for FY 2008 versus the \$8.44 for FY 2007.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

In addition to the revenue enhancements, the Authority realized savings of 7.8% year-over-year in personnel expenses by effectively managing its human resources, minimizing overtime and maximizing efficiency and effectiveness without compromising its mission of maintaining a safe and secure environment for the traveling public. Moreover, the Authority minimized its bad debt expense by 48.5% reducing the expense from \$1.07 million in FY 2007 to \$551 thousand for FY 2008. This includes the \$880 thousand the Authority is authorized to recoup from the Guam Police Department as mandated under Public Law 29-82.

The Authority continued its relentless pursuit of federal funding to help subsidize its capital improvement projects. In FY 2008, the Authority was awarded \$28.1 million in federal grants from the FAA, the Economic Development Agency and the Department of Interior. These federal funds will be used to provide for training, spur economic development of airport parcels, improve utilities and increase capacity of Guam's only commercial airport.

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 a net increase in net assets of \$18.7 million for FY 2008. 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 FY 2008

The steep and steady increases in the price per barrel of crude oil due to limited supply and lack of refinery capacity peaked at a record \$147 per barrel in July 2008. With fuel the single largest factor affecting one of the most turbulent industries, airlines and airports had to cope with high operating costs. Many airlines cut capacity, reduced their workforce and streamlined their operations in an effort to maintain operations and seat capacity into their respective markets. Despite their efforts, some U.S. airlines had to declare bankruptcy or cease operations completely.

In addition to the fuel crisis, many global economies were contracting due to the rising cost of goods and services. Despite the reversal of oil prices the softening demand and loss of consumer confidence continued to take its toll and wreaked havoc on a fragile airline industry as consumers opted for less expensive alternatives than air travel.

Notwithstanding the daunting challenges facing the airline industry, the Authority worked closely with its airline partners to help mitigate their financial woes and minimize expenses, while providing incentives to maintain seat capacity into the Guam market. Despite the lack of passenger activity that resulted in decreased revenues, the Authority was able to maintain a reasonable CPE of \$14.28 while maintaining sufficient debt service coverage of 1.41 versus the 1.25 debt service requirements under the 2003 Bond Covenants. Moreover, the Authority was able to increase its net assets by \$18.7 million for FY 2008.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Review of Notable Events in FY 2008, continued

In light of the Authority's fiscal responsibility, credit rating agency Standard & Poor's reaffirmed the Authority's bond rating of BBB with a stable outlook. Moody's Investor Services continues to maintain the Authority's rating of Baa2. The credit ratings are critical to the financial success of the Authority and will ensure the Authority is positioned to take advantage of any opportunities that may reduce interest rates for future financing or realize potential savings opportunities through a refinancing/restructuring of the 2003 Bond issuance.

Aside from cost containment measures, the Authority rolled out and implemented management initiatives outlined in their Integrated Strategic Plan for FY 2008. Among these initiatives include various revenue enhancement and property development initiatives to help diversify the Authority's non-airline revenue streams. In line with these initiatives, the Authority entered into public/private partnerships with four (4) firms to develop over 75,000 square feet of air cargo warehouses and the construction of 140,000 square feet, state-of-the-art integrated air cargo facility. The investments in these properties are expected to generate \$35.5 million in revenue for the Authority. Moreover, they will contribute to the Authority's continued efforts for the development of air cargo support facilities in the Tiyan Business Park and Airport Industrial Park areas.

In addition to the property development initiatives, the Authority has embarked on several air service development initiatives and is aggressively pursuing route development programs with existing carriers while pursuing other regional airlines to introduce additional or new air services into Guam. Furthermore, the Authority has requested the Department of Transportation to renew its authorizations for Expanded Air Services. 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.

In 2008, the Authority carried out over 109 ongoing projects in various phases of development and progress. These projects represented more than \$169 million dollars of valuable infusion into the local economy. Primarily funded by US federal agencies, mainly the FAA, along with the Economic Development Authority, the Federal Highway Administration, the Federal Emergency Management Authority and the Department of Interior.

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.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Review of Notable Events in FY 2008, continued

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:

- Runway 6L Extension and Rehabilitation and Parallel Taxiway (Phase 2) Groundbreaking
- Runway 6R New ILS Glide Slope, Localizer Facilities, MALSR & PAPI Control Equipment Installation
- Extension of Runway 24R 1,000 Feet - Phase 1 Earthworks
- Seismic Zone Upgrade to the Main Terminal West Concourse - Phase 2A
- 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
- Car Rental Facilities Upgrade
- Sound Solutions (Noise Mitigation Program)

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, 2008, 2007 and 2006 is shown below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	2008 % Increase (Decrease) from 2007
<u>ASSETS</u>				
Current assets:				
Unrestricted assets	\$ 16,837,815	\$ 11,978,022	\$ 12,633,713	40.6 %
Restricted assets	1,167,629	1,582,941	1,567,916	(26.2)%
Non-current assets:				
Unrestricted assets	28,994,473	31,506,976	22,023,274	(8.0)%
Restricted assets	31,519,267	32,519,532	42,779,336	(3.1)%
Capital assets	395,819,817	375,898,559	349,760,252	5.3 %
Deferred bond issue costs	8,061,495	8,958,183	9,893,110	(10.0)%
Notes receivable	---	<u>3,005,592</u>	<u>3,883,545</u>	(100.0)%
Total	<u>\$482,400,496</u>	<u>\$465,449,805</u>	<u>\$442,541,146</u>	3.6 %
<u>LIABILITIES</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 14,480,315	\$ 8,411,657	\$ 7,885,719	72.1 %
Payable from restricted assets	13,429,530	14,358,522	14,094,078	(6.5)%
Long term liabilities	<u>188,000,467</u>	<u>194,883,119</u>	<u>201,998,406</u>	(3.5)%
Total	<u>\$215,910,312</u>	<u>\$217,653,298</u>	<u>\$223,978,203</u>	(0.8)%
<u>NET ASSETS</u>				
Invested in capital assets – net of related debt				
	\$214,405,762	\$187,214,310	\$154,228,284	14.5 %
Restricted	36,592,365	37,773,950	47,893,172	(3.1)%
Unrestricted	<u>15,492,057</u>	<u>22,808,247</u>	<u>16,441,487</u>	(32.1)%
Total	<u>\$266,490,184</u>	<u>\$247,796,507</u>	<u>\$218,562,943</u>	7.5 %

The Authority's investments in capital assets net of related debt make up 80.5% 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.

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, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Terminal building rental:			
Signatory	\$45.06	\$45.92	\$42.41
Non-signatory	\$56.33	\$52.81	\$44.53
Departure fees:			
Signatory	\$3.81	\$3.73	\$3.56
Non-signatory	\$4.76	\$4.29	\$3.74
Arrival fees:			
Signatory	\$4.28	\$4.19	\$4.09
Non-signatory	\$5.35	\$4.82	\$4.29
Immigration inspection fees:			
Signatory	\$1.28	\$1.61	\$1.55
Non-signatory	\$1.60	\$1.85	\$1.63
Loading bridge use fees:			
Signatory	\$231.95	\$233.05	\$145.03
Non-signatory	\$289.94	\$268.01	\$152.28
Apron use fees:			
Signatory	\$0.65	\$0.49	\$0.23
Non-signatory	\$0.81	\$0.61	\$0.24
Landing fees:			
Signatory	\$0.69	\$0.00	\$0.94
Non-signatory	\$0.86	\$0.36	\$1.04
Signatory airline enplaned passengers	\$13.35	\$12.78	\$12.99

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, 2008, 2007 and 2006 and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2008</u>	2008 % of Total	<u>2007</u>	2007 % of Total	<u>2006</u>	2006 % of Total	2008 % Increase (Decrease) from 2007
Operating:							
Facilities and use charges:							
Arrival facilities	\$ 5,416,560	6.8 %	\$ 5,464,934	6.4%	\$ 5,362,326	8.4%	(0.9) %
Departure facilities	5,528,596	7.0 %	5,566,903	6.5%	5,431,680	8.5%	(0.7) %
Landing fees	898,065	1.1 %	118,102	0.1%	3,141,860	4.9%	660.4 %
Public apron	2,152,654	2.7 %	1,700,044	2.0%	758,182	1.2%	26.6 %
Passenger loading bridge	2,121,589	2.7 %	2,148,616	2.5%	1,315,610	2.1%	(1.3)%
Immigration	1,717,703	2.2 %	2,051,999	2.4%	1,916,557	3.0%	(16.3) %
Fuel flowage fee	189,833	0.2 %	203,429	0.2%	210,424	0.3%	(6.7)%
Utility recovery charge and other fees	<u>276,099</u>	<u>0.3 %</u>	<u>290,255</u>	<u>0.4%</u>	<u>301,481</u>	<u>0.5%</u>	(4.9)%
Total facilities and use charges	<u>18,301,099</u>	<u>23.0 %</u>	<u>17,544,282</u>	<u>20.5%</u>	<u>18,438,120</u>	<u>28.9%</u>	4.3%
Concession fees:							
General merchandise	6,985,111	8.8 %	6,608,661	7.7%	6,664,069	10.4%	5.7 %
Ground transportation	4,360,587	5.5 %	3,053,128	3.6%	3,071,323	4.8%	42.8 %
Car rental	937,712	1.2 %	922,165	1.1%	730,886	1.1%	1.7 %
Food and beverage	729,385	0.9 %	722,593	0.8%	735,984	1.2%	0.9 %
In-flight catering	574,992	0.7 %	475,532	0.6%	470,326	0.7%	20.9 %
Other	<u>832,150</u>	<u>1.1 %</u>	<u>801,884</u>	<u>0.9%</u>	<u>726,581</u>	<u>1.1%</u>	3.8 %
Total concession fees	<u>14,419,937</u>	<u>18.2 %</u>	<u>12,583,963</u>	<u>14.7%</u>	<u>12,399,169</u>	<u>19.3%</u>	14.6 %
Rental income:							
Operating space - airline	2,780,608	3.5 %	2,865,145	3.4%	2,636,216	4.1%	(3.0)%
Operating space - non-airline	2,398,254	3.0 %	2,325,469	2.7%	2,040,073	3.2%	3.1 %
Other	<u>3,925,251</u>	<u>5.0 %</u>	<u>3,767,313</u>	<u>4.4%</u>	<u>3,847,746</u>	<u>6.0%</u>	4.2 %
Total rental income	<u>9,104,113</u>	<u>11.5 %</u>	<u>8,957,927</u>	<u>10.5%</u>	<u>8,524,035</u>	<u>13.3%</u>	1.6 %
Miscellaneous	<u>75,840</u>	<u>0.1 %</u>	<u>986,703</u>	<u>1.2%</u>	<u>1,496,515</u>	<u>2.3%</u>	(92.3)%
Total operating	<u>41,900,989</u>	<u>52.8 %</u>	<u>40,072,875</u>	<u>46.9%</u>	<u>40,857,839</u>	<u>63.8%</u>	4.6 %
Non-Operating:							
Interest income	1,978,585	2.6 %	2,722,235	3.2%	2,492,263	3.9%	(27.3)%
Passenger facility charge	5,479,217	6.9 %	5,738,439	6.7%	5,673,398	8.9%	(4.5)%
Grants from the U. S. Government	<u>29,928,541</u>	<u>37.7 %</u>	<u>36,857,648</u>	<u>43.2%</u>	<u>14,937,768</u>	<u>23.4%</u>	(18.8)%
Total non-operating	<u>37,386,343</u>	<u>47.2 %</u>	<u>45,318,322</u>	<u>53.1%</u>	<u>23,103,429</u>	<u>36.2%</u>	(17.5)%
Total revenues	<u>\$79,287,332</u>	<u>100.0%</u>	<u>\$85,391,197</u>	<u>100.0%</u>	<u>\$63,961,268</u>	<u>100.0%</u>	(7.1)%

Grants received from the United States Government amounted to \$29.9 million for FY 2008. An additional \$28.1 million in federal grants for new projects were awarded to the Authority in FY 2008. 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, 2008, 2007 and 2006, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2008</u>	2008 % of Total	<u>2007</u>	2007 % of Total	<u>2006</u>	2006 % of Total	2008 % Increase (Decrease) from 2007
Operating:							
Contractual services	\$16,580,429	27.3 %	\$13,404,253	23.9%	\$14,640,541	25.9 %	23.7%
Personnel services	11,988,769	19.8 %	13,001,664	23.2 %	11,909,317	21.0 %	(7.8)%
Materials and supplies	1,205,169	2.0 %	860,602	1.5 %	909,497	1.6 %	40.0 %
Bad debt expense	<u>551,420</u>	<u>0.9 %</u>	<u>1,070,963</u>	<u>1.9 %</u>	<u>250,000</u>	<u>0.4 %</u>	(48.5)%
Total operating	<u>30,325,787</u>	<u>50.0 %</u>	<u>28,337,482</u>	<u>50.5 %</u>	<u>27,709,355</u>	<u>48.9 %</u>	7.0 %
Depreciation and amortization	<u>21,440,046</u>	<u>35.4 %</u>	<u>18,932,919</u>	<u>33.7 %</u>	<u>19,580,556</u>	<u>34.6 %</u>	13.2 %
Non-Operating:							
Interest expense	8,580,584	14.2 %	9,208,143	16.4 %	9,504,212	16.8 %	(6.8)%
Other expenses	<u>247,238</u>	<u>0.4 %</u>	<u>(320,911)</u>	<u>(0.6)%</u>	<u>(197,815)</u>	<u>(0.3)%</u>	177.0 %
Total non-operating	<u>8,827,822</u>	<u>14.6 %</u>	<u>8,887,232</u>	<u>15.8 %</u>	<u>9,306,397</u>	<u>16.5 %</u>	(0.7)%
Total expenses	<u>\$60,593,655</u>	<u>100.0%</u>	<u>\$56,157,633</u>	<u>100.0 %</u>	<u>\$56,596,308</u>	<u>100.0%</u>	7.9 %
Total full time employees	204		205		207		

E. Cost Per Enplaned Passenger & Debt Service Coverage

Cost Per Enplaned Passenger

A summary of the cost per enplaned passenger for the years ended September 30, 2008, 2007 and 2006, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2008</u>	2008 % of Total	<u>2007</u>	2007 % of Total	<u>2006</u>	2006 % of Total	2008 % Increase (Decrease) from 2007
Airport Revenues:							
Signatory airline rentals and fees	\$19,666,843	39.9 %	\$19,044,828	39.5%	\$19,483,998	39.8%	3.3%
Revenue from sources other than signatory airline rentals and fees	23,763,291	48.2 %	23,122,056	47.9%	23,347,932	47.7%	2.8 %
Passenger Facility Charge revenue	5,479,217	11.1 %	5,738,439	11.9%	5,673,398	11.6%	(4.5)%
Operating grants from the U.S. Government	<u>390,389</u>	<u>0.8 %</u>	<u>324,298</u>	<u>0.7%</u>	<u>459,022</u>	<u>0.9%</u>	<u>20.0 %</u>
	<u>\$49,299,740</u>	<u>100.0%</u>	<u>\$48,229,621</u>	<u>100.0%</u>	<u>\$48,964,350</u>	<u>100.0%</u>	<u>2.2 %</u>
Signatory airline enplaned passengers	1,377,538		1,420,824		1,435,471		(3.0)%
Signatory airline cost per enplaned passenger	\$14.28		\$13.40		\$13.57		6.6 %

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

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

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. A summary of the annual debt service coverage for the years ended September 30, 2008, 2007 and 2006 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Airport Revenues	\$49,299,740	\$48,229,621	\$48,964,350
Less: Operations and Maintenance Expenses (a)	(30,154,697)	(27,681,816)	(26,955,921)
Net Revenues	\$19,145,043	\$20,547,805	\$22,008,429
Plus: Other Available Moneys (b)	<u>4,142,767</u>	<u>4,409,242</u>	<u>4,407,242</u>
Net Revenues and Other Available Moneys	\$23,287,810	\$24,957,047	\$26,415,671
Total Annual Debt Service	\$16,571,069	\$17,636,969	\$17,628,969
Annual Debt Service Coverage	1.41	1.41	1.50
Debt service coverage requirement	1.25	1.25	1.25

(a) Does not include unfunded liability

(b) Other Available Moneys are equal to or less than 25% of the Annual Debt Service for the respective Fiscal Year

F. Outlook for FY 2009

According to the International Air Transport Association, the airline industry outlook for FY 2009 is expected to remain in a fragile state as traffic demand is expected to fall faster than capacity. Industry losses for 2009 are forecasted at \$2.5 billion with Asian carriers expected to bear the brunt of the loss, approximately \$1.1 billion, while absorbing more capacity despite softening demand due to previous orders with airline manufacturers.

While the Authority is anticipating a decrease in passenger activity year-over-year of 10.1% due to decrease in capacity resulting from the suspension of Continental Airline's twice weekly service to Denpasar, Bali and Hong Kong and the suspension of All Nippon Airways Osaka/Guam service in January 2009, they remain cautiously optimistic in meeting its passenger activity forecast of 1.44 million enplanements. The Authority will continue to aggressively pursue its air service development program. The glut of capacity in the Asian market may present the Authority with air service opportunities for unscheduled charters as airlines need to manage their fleet and seek ways to maximize their fleet utilization.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

F. Outlook for FY 2009, continued

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 \$14.78 as the CPE for FY 2009. 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 will implement initiatives focused on customer service, facilities access, economic development, competitive positioning, community relations, and governance and organization as outlined in their Integrated Strategic Plan. The Authority is committed to providing a superior level of services for our airline partners, stakeholders and all who come through the island's only commercial airport. The Authority 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.

Continued development of Guam's only commercial airport will ensure that we meet and surpass the travel and aviation needs now and into the future. The Authority will 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 2009. The following are key capital improvement projects expected to be initiated during FY 2009:

- VIP Passenger Lounge
- Improve Signage, FIDS/BIDS
- Airport Access Road System
- 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
- Water Distribution Program
- "Green" Programs

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets

	September 30,	
	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Unrestricted assets:		
Cash (Note 2)	\$ 2,383,380	\$ 1,995,312
Passenger facility charge cash (Note 2)	92,984	75,679
Accounts receivable, trade, net of allowance for doubtful accounts of \$318,142 at September 30, 2008 (\$209,987 at September 30, 2007) (Note 2)	4,514,685	5,888,866
Passenger facility charge receivables (Note 2)	800,625	820,727
Receivables from the United States Government	8,999,557	2,625,828
Current portion of notes receivable, net of allowance for for doubtful accounts of \$1,797,739 at September 30, 2008 (\$1,354,474 at September 30, 2007) (Note 3)	---	515,775
Inventory and other	<u>46,584</u>	<u>55,835</u>
Total unrestricted current assets	<u>16,837,815</u>	<u>11,978,022</u>
Restricted assets:		
Customs fees, cash	10,998	82,935
Customs fees, receivables (Note 11)	<u>1,156,631</u>	<u>1,500,006</u>
Total restricted current assets	<u>1,167,629</u>	<u>1,582,941</u>
Total current assets	<u>18,005,444</u>	<u>13,560,963</u>
General Revenue Bonds (Note 6) :		
Investments and cash with trustees, unrestricted	28,994,473	31,506,976
Investments and cash with trustees, restricted	<u>31,519,267</u>	<u>32,519,532</u>
	<u>60,513,740</u>	<u>64,026,508</u>
Capital assets, at cost less accumulated depreciation (Notes 4 and 10)		
Deferred bond issue costs	395,819,817	375,898,559
Notes receivable, net of current portion (Note 3)	8,061,495	8,958,183
	<u>---</u>	<u>3,005,592</u>
Total assets	<u>\$ 482,400,496</u>	<u>\$ 465,449,805</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets, continued

	September 30,	
	<u>2008</u>	<u>2007</u>
Liabilities and Net Assets		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,295,354	\$ 3,079,077
Accounts payable - construction	8,990,563	3,165,246
Other liabilities (Note 13)	838,566	848,368
Security deposits and deferred income	2,149,842	1,058,261
Current portion of annual leave (Note 9)	<u>205,990</u>	<u>260,705</u>
Total payable from unrestricted assets	<u>14,480,315</u>	<u>8,411,657</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam (Note 11)	1,476,496	1,525,038
General Revenue Bonds:		
Current installments (Notes 5 and 9)	7,335,000	8,030,000
Accrued interest	<u>4,618,034</u>	<u>4,803,484</u>
Total payable from restricted assets	<u>13,429,530</u>	<u>14,358,522</u>
Total current liabilities	<u>27,909,845</u>	<u>22,770,179</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued unfunded liability to retirement fund (Notes 7 and 9)	5,297,378	4,708,147
Long-term portion of annual leave (Note 9)	562,538	562,538
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds (Notes 5 and 9)	<u>182,140,551</u>	<u>189,612,434</u>
Total non-current liabilities	<u>188,000,467</u>	<u>194,883,119</u>
Total liabilities	<u>215,910,312</u>	<u>217,653,298</u>
Commitments and contingencies (Notes 5 and 10)		
Net assets:		
Invested in capital assets, net of related debt	214,405,762	187,214,310
Restricted (Notes 4 and 10)	36,592,365	37,773,950
Unrestricted	<u>15,492,057</u>	<u>22,808,247</u>
Total net assets	<u>266,490,184</u>	<u>247,796,507</u>
Total liabilities and net assets	<u>\$ 482,400,496</u>	<u>\$ 465,449,805</u>

See accompanying notes.

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

	Years ended September 30,	
	<u>2008</u>	<u>2007</u>
Revenues <i>(Note 5)</i> :		
Facilities and systems usage charges	\$ 18,301,099	\$ 17,544,282
Concession fees <i>(Notes 2 and 8)</i>	14,419,937	12,583,963
Rental income	9,104,113	8,957,927
Miscellaneous	<u>75,840</u>	<u>986,703</u>
Total revenues	<u>41,900,989</u>	<u>40,072,875</u>
Operating costs and expenses:		
Contractual services	16,580,429	13,404,253
Personnel services	11,988,769	13,001,664
Materials and supplies	1,205,169	860,602
Bad debt	<u>551,420</u>	<u>1,070,963</u>
Total operating costs and expenses	<u>30,325,787</u>	<u>28,337,482</u>
Income from operations before depreciation and amortization	11,575,202	11,735,393
Depreciation and amortization	(<u>21,440,046</u>)	(<u>18,932,919</u>)
Loss from operations	(<u>9,864,844</u>)	(<u>7,197,526</u>)
Non-operating income (expense):		
Passenger facility charge income	5,479,217	5,738,439
Interest income	1,978,585	2,722,235
Interest expense	(<u>8,580,584</u>)	(<u>9,208,143</u>)
Other (expenses) income, net <i>(Notes 3 and 5)</i>	(<u>230,866</u>)	331,420
Non-recurring expenses <i>(Note 12)</i>	(<u>16,372</u>)	(<u>10,509</u>)
Total non-operating expenses, net	(<u>1,370,020</u>)	(<u>426,558</u>)
Loss before capital grants and transfer in	(<u>11,234,864</u>)	(<u>7,624,084</u>)
Capital grants from the United States Government	29,538,152	36,706,648
Operating grants from the United States Government	<u>390,389</u>	<u>151,000</u>
Increase in net assets	18,693,677	29,233,564
Net assets at beginning of year	<u>247,796,507</u>	<u>218,562,943</u>
Net assets at end of year	<u>\$ 266,490,184</u>	<u>\$ 247,796,507</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

	Years ended September 30,	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 44,602,472	\$ 39,841,398
Cash paid to suppliers and employees for goods and services	(13,040,335)	(13,057,363)
Cash paid to employees	(11,454,253)	(12,104,275)
Net cash provided by operating activities	<u>20,107,884</u>	<u>14,679,760</u>
Cash flows from investing activities:		
Proceeds from collection on note receivable	3,077,601	376,320
Net sales of investments with trustee	3,512,768	776,102
Investment interest income	<u>1,978,585</u>	<u>2,722,235</u>
Cash provided by investing activities	<u>8,568,954</u>	<u>3,874,657</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(40,464,616)	(44,136,296)
Interest paid on General Revenue Bonds, Series 2003	(8,766,034)	(9,399,146)
Principal payment on General Revenue Bonds, Series 2003	(8,166,883)	(7,782,642)
U.S. Government capital grants	23,554,812	37,096,039
Passenger facility charge receipts	<u>5,499,319</u>	<u>5,678,241</u>
Net cash used in capital and related financing activities	(28,343,402)	(18,543,804)
Net increase in cash	333,436	10,613
Cash at beginning of year	<u>2,153,926</u>	<u>2,143,313</u>
Cash at end of year	<u><u>2,487,362</u></u>	<u><u>2,153,926</u></u>
Consisting of:		
Unrestricted	\$ 2,476,364	\$ 2,070,991
Restricted - current	<u>10,998</u>	<u>82,935</u>
	<u><u>\$ 2,487,362</u></u>	<u><u>\$ 2,153,926</u></u>

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

	Years ended September 30,	
	<u>2008</u>	<u>2007</u>
Reconciliation of loss from operations and other expense to net cash provided by operating activities:		
Loss from operations	\$(9,864,844)	\$(7,197,526)
Non-recurring and other income, net	(<u>247,238</u>)	<u>320,911</u>
	(<u>10,112,082</u>)	(<u>6,876,615</u>)
Adjustments to reconcile loss from operations and other income, net to net cash provided by operating activities:		
Depreciation and amortization	21,440,046	18,932,919
Bad debt expense	551,420	1,070,963
(Increase) decrease in assets:		
Accounts receivable	1,609,902	(98,429)
Inventory	9,251	2,185
Increase (decrease) in liabilities:		
Accounts payable	4,993,052	961,793
Other liabilities	(9,802)	(77,397)
Security deposits and deferred income	1,091,581	(133,048)
Annual leave	(54,715)	(22,885)
Accrued unfunded liability to retirement fund	<u>589,231</u>	<u>920,274</u>
Total adjustments	<u>30,219,966</u>	<u>21,556,375</u>
Net cash provided by operating activities	<u>\$ 20,107,884</u>	<u>\$ 14,679,760</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements

Years ended September 30, 2008 and 2007

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, 2008 and 2007, receivables that are more than ninety days past due totaled approximately \$979,000 and \$1,492,000, 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. For projects constructed with the proceeds of the Authority's tax exempt bonds, interest capitalized is computed based on the interest expense incurred on the bond proceeds restricted to construction or repayment of the bonds less interest income earned on investment of bond proceeds. 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.

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences, continued

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.

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.

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

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 is self-insured for earthquake and typhoon risks, as discussed in Note 10.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2006 for governmental entities with annual revenues of \$10 million or more but less than \$100 million. The implementation of this Statement did not have a material impact on the accompanying financial statements.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2007 for governmental entities with annual revenues of \$10 million or more but less than \$100 million. The implementation of this Statement did not have a material impact on the accompanying financial statements.

In July 2005, GASB issued Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits. The provisions of this statement was implemented simultaneously with GASB Statement No. 45. 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 such as site assessments and cleanups. The provisions of this statement are effective for periods beginning after December 15, 2007. The Authority has not been able to reasonably estimate the impact that implementation of this Statement has on its financial statements.

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 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, and in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. 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. The Authority does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

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, 2008, \$250,000 (\$100,000 at September 30, 2007) of deposits is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 17% and 16% of total operating revenues for each of the years ended September 30, 2008 and 2007, respectively. Receivables from the primary concessionaire totaled \$1,083,270 and \$1,136,564 at September 30, 2008 and 2007, respectively.

Approximately 22% and 27% of the Authority's total operating revenues including passenger facility charge income for the years ended September 30, 2008 and 2007, respectively, were derived from one airline customer. Receivables from the airline customer totaled \$2,075,201 and \$2,217,168 at September 30, 2008 and 2007, respectively.

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

3. Notes Receivable

Notes receivable as of September 30, 2008 and 2007, consist of the following:

	<u>2008</u>	<u>2007</u>
Due from Guam Police Department (GPD) totaling \$1,760,100 and due from CMC Limousine, Inc. (CLI) totaling \$37,639 at September 30, 2008 (\$1,315,834 and \$38,640 at September 30, 2007, respectively). The notes arise from converting trade receivables into promissory note arrangements. Specific repayment terms have not been finalized	\$1,797,739	\$1,354,474
Due from DFS Guam L.P. (DFS) for advancement of capital cost improvements the Authority provided DFS to operate a retail merchandise concession (see Note 8). DFS shall repay the Authority in semi-annual installments beginning June 30, 2005, totaling \$342,738, inclusive of interest at 5% per annum, with final payment due in the year 2013. The note receivable is net of unearned interest income totaling \$623,468 as of September 30, 2007	<u>---</u>	<u>3,521,367</u>
	1,797,739	4,875,841
Less current installments	<u>---</u>	<u>(515,775)</u>
	1,797,739	4,360,066
Less allowance for doubtful accounts	<u>(1,797,739)</u>	<u>(1,354,474)</u>
	<u>\$ ---</u>	<u>\$3,005,592</u>

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. As of January 20, 2009, the Authority has not received, in full or in part, the agreed amount.

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

3. Notes Receivable, continued

Interest income on the aforementioned DFS note receivable totaled \$29,344 and \$188,417 for the years ended September 30, 2008 and 2007, and is included as a component of other (expenses) income, net in the accompanying statements of revenues, expenses and changes in net assets.

On November 29, 2007, the Authority collected the full amount of the note receivable from DFS including the related interest.

4. Airport Facilities

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

	Beginning Balance October 1, <u>2007</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2008</u>
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

Construction-in-progress at September 30, 2008 and 2007 included \$8,128,759 and \$2,934,921, respectively, of costs associated with the residential sound insulation program in exchange for an avigation easement from residential homeowners.

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, 2007 is as follows:

	Beginning Balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2007
Capital assets depreciated:				
Terminal building	\$310,560,769	\$ 4,179,163	\$ ---	\$314,739,932
Other buildings	39,020,868	18,772,528	---	57,793,396
Apron area	28,582,338	50,638	---	28,632,976
Airfield area	33,369,534	23,570,855	---	56,940,389
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>7,915,097</u>	<u>351,962</u>	<u>---</u>	<u>8,267,059</u>
Total capital assets depreciated	444,197,314	46,925,146	---	491,122,460
Less accumulated depreciation	<u>(206,047,802)</u>	<u>(17,997,989)</u>	<u>---</u>	<u>(224,045,791)</u>
Net capital assets depreciated	<u>238,149,512</u>	<u>28,927,157</u>	<u>---</u>	<u>267,076,669</u>
Capital assets not depreciated:				
Land	56,754,194	707,179	---	57,461,373
Construction-in-progress	<u>54,856,546</u>	<u>44,136,296</u>	<u>(47,632,325)</u>	<u>51,360,517</u>
Total capital assets not depreciated	<u>111,610,740</u>	<u>44,843,475</u>	<u>(47,632,325)</u>	<u>108,821,890</u>
	<u>\$349,760,252</u>	<u>\$73,770,632</u>	<u>\$(47,632,325)</u>	<u>\$375,898,559</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, 2008 and 2007, totaled \$655,485 and \$398,826, 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 million (see Note 10) and the Authority and the Government of Guam assumed the responsibility for completion of certain environmental response actions on the property. This payment from the Navy is included as a component of restricted net assets in the accompanying statements of net assets.

5. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2008 and 2007, consist of the following:

	<u>2008</u>	<u>2007</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 \$7,335,000 and \$8,030,000 due in October 2008 and 2007, respectively, and increasing to \$17,175,000 on October 2023	\$188,295,000	\$196,325,000
Less current installments	(7,335,000)	(8,030,000)
	180,960,000	188,295,000
Add net unamortized premium on bonds	6,063,900	6,767,054
Less deferred difference on refunding of 1993 bonds	(4,883,349)	(5,449,620)
	<u>\$182,140,551</u>	<u>\$189,612,434</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>
2009	\$ 7,335,000	\$ 9,066,000	\$ 16,401,000
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 through 2018	55,505,000	30,376,000	85,881,000
2019 through 2023	72,735,000	14,344,000	87,079,000
2024	<u>17,175,000</u>	<u>435,000</u>	<u>17,610,000</u>
	<u>\$188,295,000</u>	<u>\$ 86,657,000</u>	<u>\$274,952,000</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, 2008 and 2007, the amortization expense totaling \$566,271 and \$590,499, respectively, are included as a component of other (expenses) income, net in the accompanying statements of revenues, expenses and changes in net assets.

The General Revenue Bonds, Series 2003, including interest, are payable solely 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. 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, 2008 and 2007, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2008</u>	<u>2007</u>
Cash with trustees	\$ 13,662	\$ 34,936
Federal Grant Funds	11,222,341	7,092,643
Operations and Maintenance Reserve Fund	7,263,155	7,139,555
Operations and Maintenance Fund	461,371	1,198,553
General Revenue Fund	3,941,600	4,582,147
Self-Insurance Fund	5,736,197	4,601,069
Capital Improvement Fund	<u>356,147</u>	<u>6,858,073</u>
Total Unrestricted	<u>28,994,473</u>	<u>31,506,976</u>
Cash with trustees	451,392	8,606
Bond Reserve Funds	18,063,954	18,490,243
Debt Service Funds	12,003,921	13,020,683
Renewal and Replacement Fund	<u>1,000,000</u>	<u>1,000,000</u>
Total Restricted	<u>31,519,267</u>	<u>32,519,532</u>
	<u>\$60,513,740</u>	<u>\$64,026,508</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, 2008 and 2007 are summarized as follows:

	2008			2007		
	Amortized Cost	Gross unrealized gains (losses)	Fair value	Amortized Cost	Gross unrealized gains (losses)	Fair value
Cash with trustees	\$ 465,054	\$ ---	\$ 465,054	\$ 43,542	\$ ---	\$ 43,542
Money market/ trust funds	34,833,665	(8,060)	34,825,605	39,327,022	---	39,327,022
Investment agreements	18,045,950	---	18,045,950	18,045,950	---	18,045,950
Short-term investments	5,917,098	40,463	5,957,561	5,721,822	40,463	5,762,285
U.S. Treasury notes	<u>1,200,280</u>	<u>19,290</u>	<u>1,219,570</u>	<u>828,419</u>	<u>19,290</u>	<u>847,709</u>
	<u>\$60,462,047</u>	<u>\$ 51,693</u>	<u>\$60,513,740</u>	<u>\$63,966,755</u>	<u>\$ 59,753</u>	<u>\$64,026,508</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, 2008 and 2007, 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.

Antonio B. Won Pat International Airport Authority, Guam

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 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, 2008 and 2007.

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

	Standard & Poor's/Moody's Credit Rating	<u>Investment Maturities (In Years)</u>					<u>Total</u>
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>		
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>	<u>\$59,961,487</u>	

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

At September 30, 2007, 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	\$ ---	\$ 833,215	\$ ---	\$ ---	\$ 833,215
US government agencies:						
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	Aaa	1,622,873	1,484,102	---	---	3,106,975
Federal National Mortgage Association	Aaa	---	325,821	201,188	---	527,009
	Aaa	---	1,090,218	25,024	---	1,115,242
Corporate notes:						
CDC Funding Corporation	Aaa	---	---	---	18,045,950	18,045,950
Other	Aaa	---	90,754	---	---	90,754
Other	Aa	99,399	128,318	---	---	227,717
Other	A	372,189	349,490	---	---	721,679
Other	Baa1	---	348,027	---	---	348,027
Money Market Funds	Aaa	<u>38,828,363</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>38,828,363</u>
		<u>\$40,922,824</u>	<u>\$4,649,945</u>	<u>\$ 226,212</u>	<u>\$18,045,950</u>	<u>\$63,844,931</u>

7. Employee's 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.

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Employee's Retirement Plan, continued

As a result of actuarial valuations performed for the Government of Guam as of September 30, 2007, 2006 and 2005, contribution rates for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.36%	17.94%	18.21%
Unfunded liability costs (% of total payroll)	<u>19.68%</u>	<u>20.75%</u>	<u>20.66%</u>
	37.04%	38.69%	38.87%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as a % of DB Plan Payroll	<u>27.54%</u>	<u>29.19%</u>	<u>29.37%</u>
Government contribution as % of total payroll	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>

Statutory contribution rates for employer and employee contributions were 26.02% and 9.50%, respectively, for the year ended September 30, 2008 and 27.38% and 9.50%, respectively for the year ended September 30, 2007.

The Plan utilized the actuarial cost method termed "entry age normal". The actuarial valuations performed as of September 30, 2007, 2006 and 2005 were based on an assumed rate of return of 7% and an assumed salary increase of 3.5% per annum. The actuarial valuations performed as of September 30, 2007, 2006 and 2005, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2008 and 2007 may be materially different than that recorded in the accompanying financial statements.

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, 2008 and 2007 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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Employee's Retirement Plan, continued

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.

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. Management is of the opinion that the liability that may result from Public Law 26-86 is not material to the financial statements.

During the year ended September 30, 2008, contributions made under the DB Plan and DCRS amounted to \$337,506 and \$2,200,858, respectively. During the year ended September 30, 2007, contributions made under the DP Plan and DCRS amounted to \$391,002 and \$2,357,482, respectively.

Retirement expense for the years ended September 30, 2008, 2007 and 2006 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash contributions and accruals	\$1,949,133	\$1,828,210	\$1,579,318
Increase in accrued unfunded liability to the retirement fund	<u>589,231</u>	<u>920,274</u>	<u>1,079,000</u>
	<u>\$2,538,364</u>	<u>\$2,748,484</u>	<u>\$2,658,318</u>

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, 2008 and 2007 includes \$2,178,859 and \$1,803,180 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, 2008 are as follows:

<u>Year ending</u> <u>September 30,</u>	
2009	\$ 4,750,000
2010	4,750,000
2011	4,625,000
2012	4,500,000
2013	<u>1,500,000</u>
Total minimum lease payments receivable	<u>\$20,125,000</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, 2008 are as follows:

Year ending <u>September 30,</u>	
2009	\$ 5,345,000
2010	4,595,000
2011	4,075,000
2012	629,000
2013	626,000
Thereafter	<u>4,057,000</u>
Total future minimum lease payments receivable	<u>\$19,327,000</u>

9. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2008 and 2007 follows:

	Outstanding September 30, <u>2007</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2008</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 4,708,147	\$ 589,231	\$ ---	\$ 5,297,378	\$ ---	\$ 5,297,378
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>\$203,173,824</u>	<u>\$ 589,231</u>	<u>\$8,221,598</u>	<u>\$195,541,457</u>	<u>\$7,540,990</u>	<u>\$188,000,467</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Long-Term Liabilities, continued

	Outstanding September 30, <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2007</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 3,787,873	\$ 920,274	\$ ---	\$ 4,708,147	\$ ---	\$ 4,708,147
Accrued annual leave	846,128	---	22,885	823,243	260,705	562,538
2003 General revenue bonds	<u>205,425,076</u>	<u>---</u>	<u>7,782,642</u>	<u>197,642,434</u>	<u>8,030,000</u>	<u>189,612,434</u>
	<u>\$210,059,077</u>	<u>\$ 920,274</u>	<u>\$7,805,527</u>	<u>\$203,173,824</u>	<u>\$8,290,705</u>	<u>\$194,883,119</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 the Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority \$10 million. In exchange for the payment, the Authority and the Government of Guam agreed to assume responsibility for environmental response actions addressing the underlying groundwater contamination even if the cost of the response actions exceeds the \$10 million received from the Navy. Under this cooperative agreement, the United States Navy may terminate or suspend the agreement if the Authority and the Government of Guam fail to complete such response actions.

The Authority has substantially completed the response actions described in the cooperative agreement as remedial construction. This work is funded from alternative sources. 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, 2008, the Authority is unable to reasonably estimate its pollution remediation obligations as called for under GASB No. 49. The Authority will continue its monitoring as part of its annual budget and will include the abandonment of wells in its capital budget at the appropriate time. As a result, the Authority intends to reprogram the \$10 million received from the Navy to the Capital Improvement Fund.

Federal Program Costs

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Federal Program Costs, continued

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, 2008 and 2007, there were no unresolved questioned costs.

Commitments

The Authority has commitments of \$44,439,377 under several construction contracts at September 30, 2008.

In addition, the Authority has commitments under other various contracts of \$14,610,331 at September 30, 2008.

Self-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 \$5,736,197, respectively, at September 30, 2008 and \$1,000,000 and \$4,601,069, respectively, at September 30, 2007. Effective October 1, 2007, the Authority has a catastrophic insurance policy with coverage up to \$7.5 million as a supplement to the self-insurance.

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, 2008 and 2007.

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

11. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2008 and 2007, 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, 2008 and 2007, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$1,476,496 and \$1,525,038, respectively, for the above charges, of which \$1,156,631 and \$1,500,006, 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.

12. Non-Recurring Expenses

Non-recurring expenses incurred for the years ended September 30, 2008 and 2007 consist of typhoon related expenses totaling \$16,372 and \$10,509, respectively. The typhoon related expenses are based on the Authority's most recent estimates and are recorded net of anticipated federal reimbursements. Actual final expenses may differ materially from these estimates.

13. Typhoon Costs

On December 8, 2002, a super typhoon struck Guam, causing substantial damage to the Authority's facilities. At September 30, 2007, accrued repair costs related to the super typhoon totaled \$159,162 and are included as a component of other liabilities in the accompanying 2007 statement of net assets. At September 30, 2008, there is no outstanding amounts pertaining to accrued repair costs related to the super typhoon.

Other Financial Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2008 and 2007

Schedule 1
Facilities and Systems Usage Charges

	<u>2008</u>	<u>2007</u>
Departure facilities	\$ 5,528,596	\$ 5,566,905
Arrival facilities	5,416,560	5,464,935
Public apron	2,152,654	1,700,043
Passenger loading bridge usage charge	2,121,589	2,148,615
Immigration	1,717,703	2,052,000
Landing fees	898,065	118,103
Utility recovery and other fees	276,099	290,250
Fuel flowage fees	189,833	203,431
	<u>\$ 18,301,099</u>	<u>\$ 17,544,282</u>

Schedule 2
Concession Fees

	<u>2008</u>	<u>2007</u>
General merchandise	\$ 6,985,111	\$ 6,608,660
Ground transportation	4,360,587	3,053,128
Car rental	937,712	922,165
Food and beverage	729,385	722,592
In-flight catering	574,992	475,532
Advertising	373,441	357,995
Money exchange	278,974	257,152
Parking lot	105,000	105,000
Other	74,735	81,739
	<u>\$ 14,419,937</u>	<u>\$ 12,583,963</u>

Schedule 3
Rental Income

	<u>2008</u>	<u>2007</u>
Operating space:		
- Airline	\$ 2,780,608	\$ 2,865,145
- Non-airline	2,398,254	2,325,469
Building and maintenance shop rentals	2,242,796	2,104,609
Other	1,044,575	1,032,890
Cargo rentals	637,880	629,814
	<u>\$ 9,104,113</u>	<u>\$ 8,957,927</u>

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2008 and 2007

Schedule 4
Contractual Services

	<u>2008</u>	<u>2007</u>
Power	\$ 5,753,143	\$ 4,865,199
Professional services	3,653,487	2,181,026
Repairs and maintenance	3,394,290	3,508,153
Insurance	1,840,053	1,289,124
Utilities and telephone	736,711	599,104
Advertising and promotions	394,622	258,822
Travel/Training & Certifications	339,982	276,115
Miscellaneous	<u>468,141</u>	<u>426,710</u>
	<u>\$ 16,580,429</u>	<u>\$ 13,404,253</u>

Schedule 5
Personnel Services

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 8,903,491	\$ 9,577,755
Retirement contributions	2,538,364	2,748,484
Insurance	<u>546,914</u>	<u>675,425</u>
	<u>\$ 11,988,769</u>	<u>\$ 13,001,664</u>
Full-time employee count in September	<u>204</u>	<u>205</u>

Schedule 6
Materials and Supplies

	<u>2008</u>	<u>2007</u>
Equipment and vehicle maintenance and supplies	\$ 779,684	\$ 420,907
Office and security supplies	147,824	204,426
Electrical and plumbing	96,889	58,377
Building maintenance and supplies	57,047	72,094
Miscellaneous	<u>123,725</u>	<u>104,798</u>
	<u>\$ 1,205,169</u>	<u>\$ 860,602</u>

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2008

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

	Years ended September 30,	
	<u>2008</u>	<u>2007</u>
Change in net assets:		
Revenues	\$ 49,358,791	\$ 48,533,549
Expenses	(<u>30,325,787</u>)	(<u>28,337,482</u>)
Income before depreciation	19,033,004	20,196,067
Depreciation	(<u>21,440,046</u>)	(<u>18,932,919</u>)
	(<u>2,407,042</u>)	1,263,148
Interest and other expenses	(<u>8,827,822</u>)	(<u>8,887,232</u>)
Grants from the United States Government	<u>29,928,541</u>	<u>36,857,648</u>
Increase in net assets	<u>\$ 18,693,677</u>	<u>\$ 29,233,564</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 49,358,791	\$ 48,533,549
Operation and maintenance expenses	(<u>30,213,748</u>)	(<u>27,985,744</u>)
Net Revenues available for debt service	<u>\$ 19,145,043</u>	<u>\$ 20,547,805</u>
Reconciliation:		
Change in net assets	\$ 18,693,677	\$ 29,233,564
Add back:		
Depreciation	21,440,046	18,932,919
Interest expense	8,580,584	9,208,143
Change in unfunded retirement liability	589,231	920,274
Miscellaneous	(<u>168,475</u>)	(<u>582,262</u>)
Deduct:		
Capital grants from the United States Government	(<u>29,538,152</u>)	(<u>36,706,648</u>)
Interest income on funds related to construction	(<u>451,868</u>)	(<u>458,185</u>)
	<u>19,145,043</u>	<u>20,547,805</u>
Other available monies	<u>4,142,767</u>	<u>4,409,242</u>
Funds available for debt service	<u>\$ 23,287,810</u>	<u>\$ 24,957,047</u>
Debt Service	<u>\$ 16,571,069</u>	<u>\$ 17,636,969</u>

Antonio B. Won Pat International Airport Authority, Guam

Schedule 9

Employee Data

Year ended September 30, 2008

<u>Department</u>	<u>Employees (b)</u>	<u>Personnel Services (a)</u>	<u>Contractual Services (a)</u>	<u>Materials & Supplies(a)</u>	<u>Total</u>
Board	---	\$ ---	\$ 43,299	\$ 120	\$ 43,419
Administration	45	2,447,488	11,771,874	174,265	14,393,627
Accounting	10	637,194	1,286,541	3,502	1,927,237
Engineering	3	183,245	86,021	76,976	346,242
Operations	22	1,137,781	317,585	14,225	1,469,591
Properties & Facilities Maintenance	45	2,055,348	2,869,853	804,309	5,729,510
Airport Police	48	3,018,206	134,837	47,738	3,200,781
Aircraft Rescue Fire Fighting	<u>31</u>	<u>2,509,507</u>	<u>70,419</u>	<u>84,034</u>	<u>2,663,960</u>
Total	<u>204</u>	<u>\$ 11,988,769</u>	<u>\$ 16,580,429</u>	<u>\$ 1,205,169</u>	<u>\$ 29,774,367</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.