

January 28, 2010

Mr. Marion Lujan  
Chairman – Finance Committee  
The Board of Directors  
A.B. Won Pat International Airport Authority, Guam  
P.O. Box 8770  
Tamuning, Guam 96931

Dear Sir:

We have performed an audit of the financial statements of Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2009, 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, and have issued our report thereon dated January 28, 2010.

This report to the Finance Committee summarizes our communications to the board of directors required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which the management of the Authority is responsible.

## **REQUIRED COMMUNICATIONS**

Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*, and other professional standards require the auditor to provide the Finance Committee of the board of directors (or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Finance Committee (or those charged with governance) in overseeing management's financial reporting and disclosure processes. We summarize these required communications as follows:

### **Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS)**

The financial statements are the responsibility of the Authority's management. Our audit was designed 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, to obtain reasonable, rather than absolute, assurance that 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.

### **Auditors' Responsibilities under US GAAS, continued**

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.

As part of our audit, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

### **The Adoption of, or a Change in Significant Accounting Policies**

We determined that the Finance Committee is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

Other than the redesignation of the Government of Guam Defined Benefit Plan from a single-employer to a cost-sharing multiple-employer plan, which resulted in a prior period adjustment as shown in the financial statements, there were no changes in the Authority's significant accounting policies during the year ended September 30, 2009. The Authority continues to apply its accounting policies in an appropriate manner and is disposed toward high quality financial reporting and application of accounting policies.

### **Auditor's Judgments About the Quality of the Authority's Accounting Principles**

We discussed our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

The Authority has consistently applied accounting principles generally accepted in the United States (US GAAP) and adequately disclosed required US GAAP disclosures in the financial statements.

### **Sensitive Accounting Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Finance Committee is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor the Authority's operations. These budgets include determining how existing financial resources will be used in the Authority's operations.
- Determining the valuation of investments.
- Determining the adequacy of the recorded valuation of receivables, including the need for any reserve.
- Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

### **Significant Audit Adjustments**

During our audit, several post-closing entries were recorded while we were conducting our fieldwork.

We also proposed an adjusting journal entry, which the Authority subsequently agreed to be reflected in the financial statements. Certain reclassifying journal entries have also been made to make the financial statements for the years ended September 30, 2009 and 2008 comparative (see Appendix A – *Adjusting* and Appendix B – *Reclassifying Journal Entries*).

### **Unadjusted Audit Differences Considered by Management to be Immaterial**

Certain unadjusted audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) were identified during the audit and pertaining to the latest period presented, which were determined by the Authority's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix C – *Summary of Unrecorded Audit Differences*).

### **Other Information in Documents Containing the Audited Financial Statements**

We reviewed the Management's Discussion and Analyses and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

### **Consultation with Other Accountants**

During the course of our audit, we made consultations within the Ernst & Young practice leaders in the Far East and Americas regarding our understanding on the Authority's recording and interpretation of Governmental Accounting Standards Board No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and the re-designation of the Defined Benefit Plan administered by the Government of Guam Retirement Fund from single-employer plan to a cost-sharing multiple-employer plan.

### **Disagreements with Management on Financial Accounting and Reporting Matters**

There were no material disagreements with the Authority's management on financial accounting and reporting matters during the audit.

### **Major Issues Discussed with Management Prior to Retention**

There were no major accounting issues discussed with the Authority's management prior to our retention.

### **Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues**

We are not aware of any significant unusual transactions recorded by the Authority, or of any significant accounting policies used by the Authority related to controversial or emerging areas for which there is lack of authoritative guidance.

### **Serious Difficulties Encountered in Dealing with Management in Performing the Audit**

There were no serious difficulties encountered in dealing with management in performing the audit.

### **Fraud and Illegal Acts**

We are not aware of any matters that require communication. Furthermore, the Authority's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2008 to January 28, 2010 (see Appendix D – *Management's Representation Letter*).

### **Significant Deficiencies and Material Weaknesses in Internal Control**

We have identified several control deficiencies in internal control during the course of our audit which have been included in our separately issued Management Letter dated January 28, 2010.

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

### **Independence**

We are not aware of any relationships between Ernst & Young and our related entities, and the Authority, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Authority within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

\*\*\*\*\*

The completion of our audit of the Authority's financial statements as of and for the year ended September 30, 2009 was accomplished through the effective support and assistance of the Authority's finance, operational and administrative personnel.

This report is intended solely for the use of the Authority's board of directors and management, the Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We would be happy to discuss the contents of this report and answer any questions you may have about these or any other audit related matters.

Very truly yours,

*Ernst + Young LLP*

## Appendix

A – Adjusting Journal Entry

B – Reclassifying Journal Entry

C – Summary of Unrecorded Audit Differences

D – Management’s Representation Letter

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

Appendix A

Antonio B. Won Pat International Airport Authority, Guam

Year End: September 30, 2009

Adjusting journal entries

Date: 10/1/2008 To 9/30/2009

Account No: AJE 1 To AJE 1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							24,409,737		
AJE 1	9/30/2009	Accrued Expense - Environmental	cu 25.3193.EY	S02		209,717			
AJE 1	9/30/2009	Prof Svcs - Supp Fac	260.8411.SF	S02	209,717				
To record estimated environmental cost per GASB 49.					209,717	209,717	24,200,020	(209,717)	
					<b>209,717</b>	<b>209,717</b>	<b>24,200,020</b>	<b>(209,717)</b>	

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

Appendix B

Antonio B. Won Pat International Airport Authority, Guam

Year End: September 30, 2009

Reclassifying journal entries

Date: 10/1/2008 To 9/30/2009

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							24,200,020		
RJE01	9/30/2009	Notes Receivable	25 121		220,000				
RJE01	9/30/2009	Accounts Receivable -	25.1311.TRADE			220,000			
To reclassify portion of note receivable from GPD included in AR Trade.					220,000	220,000	24,200,020	0	
					220,000	220,000	24,200,020	0	

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

Appendix C

Antonio B. Won Pat International Airport Authority, Guam

Year End: September 30, 2009

Adjusting journal entries

Date: 10/1/2008 To 9/30/2009

Account No: SAD 1 To SAD 2

Number	Date	Name	Account No	Reference	Debit	Credit	Proposed Net Income (Loss)	Proposed Amount Chg	Recurrence
		Net Income (Loss)					24,366,624		
SAD 1	9/30/2009	Accounts Receivable -	25.1311.TRADE	UA0300	21,600				
SAD 1	9/30/2009	Land Tiyan Grounds -	85.5717.OBA-TY	UA0300		21,600			
		To accrue unrecord rent income from PACAIR.			21,600	21,600	24,388,224	21,600	
SAD 2	9/30/2009	Bad Debts Expense	90.9311	E0120	10,842				
SAD 2	9/30/2009	Allowance - Trd	25.1351.TRADE	E0120		10,842			
		To record additional allowance for bad debts.			10,842	10,842	24,377,382	(10,842)	
					<b>32,442</b>	<b>32,442</b>	<b>24,377,382</b>	<b>10,758</b>	

Appendix D



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January 28, 2010

Ernst & Young LLP  
Suite 201, Ernst & Young Building  
231 Ypao Road  
Tamuning, Guam 96913

In connection with your audits of the financial statements of the Antonio B. Won Pat International Airport Authority, Guam as of September 30, 2009 and 2008 and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, changes in financial position and cash flows of the Authority in conformity with accounting principles generally accepted in the United States.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

***Management's responsibilities***

We recognize that, as members of management of the Authority, we are responsible for the fair presentation of its financial statements. We believe the statements of net assets, and the related statements of revenues, expenses, and changes in net assets and cash flows are fairly presented in conformity with accounting principles generally accepted in the United States applied on a basis consistent with that of the preceding years. We also recognize that, as members of management of the Authority, we are responsible for establishing and maintaining effective internal control.

We have made available to your representatives all financial records and related data.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

***Governmental entities***

We recognize that we are responsible for the Authority's compliance with the laws, regulations, grant agreements and contracts that are applicable to it. We have identified and disclosed to your representatives all laws and regulations that have a direct and material effect on the determination of financial statement amounts.



Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

***Unrecorded audit differences***

We believe that the effects of any unrecorded audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

***Internal control***

There are no transactions of a material nature, individually or in the aggregate, that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2009.

***Minutes and contracts***

We have made available to you all minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared, except those discussed in executive sessions.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

***Risks and uncertainties***

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*.

***Environmental liabilities***

We have disclosed to you all significant environmental matters and have made available to you all significant relevant information related to them. The environmental liability included in the accompanying 2009 statement of net assets represents our best estimate of the potential losses using assumptions that we believe represent the expected outcomes of the uncertainties. The disclosures of environmental matters in the financial statements are adequate.

Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

***Environmental liabilities, continued***

***Environmental Response Actions***

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

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

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

***Ownership and pledging of assets***

There are no properties capitalized under capital leases. The Authority has satisfactory title to all assets appearing in the statements of net assets. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Authority has satisfactory title appear in the statements of net assets.

Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

***Receivables and revenues***

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the dates of the statements of net assets. All revenue recognized as of the dates of the statements of net assets has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) services have been rendered, (3) consideration to be received is fixed or determinable and (4) collectibility is reasonably assured.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the dates of the statements of net assets in respect of services rendered prior to those dates and for uncollectible accounts, discounts, and allowances, etc., that may be incurred in the collection of receivables at those dates.

We have adequately disclosed a description of our major revenue-generating services, the types of arrangements used to deliver these services, and a description of the revenue recognition policies applicable to these services.

We have disclosed to you all terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers.

***Financial instruments***

The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

1. The extent, nature and terms of financial instruments with off-balance-sheet risk.
2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

***Deferred charges***

We believe that all material expenditures that have been deferred to future periods are recoverable.

***Long-lived assets, including amortizable intangible assets***

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

***Arrangements with financial institutions***

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

***Events of default under debt agreements***

No events of default have occurred with respect to any of the Authority's debt agreements.

***Contingent liabilities***

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with ASC 450-20, *Contingencies – Loss Contingencies* other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by ASC 450-20 other than those accrued or disclosed in the financial statements, nor are there any accruals for loss contingencies included in the statements of net assets or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

***Oral or written guarantees***

There are no oral or written guarantees, including guarantees of the debt of others.

***Purchase commitments***

At September 30, 2009 and 2008, the Authority had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at the dates of statements of net assets as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

***Fraud***

We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

***Independence***

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Authority and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Authority's audit.

***Conflicts of interest***

There are no instances where any officer or employee of the Authority has an interest in a company with which the Authority does business that would be considered a "conflict of interest." Such an interest would be contrary to the Authority's policy.

***Government of Guam General Fund***

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

***Other Representations***

- We have identified and disclosed to you, all laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- We have identified and disclosed to you violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have followed applicable laws and regulations in adopting, approving and amending budgets, debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.
- The financial statements properly classify all funds and activities.
- Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

***Other Representations, continued***

- Special and extraordinary items are appropriately classified and reported.
- Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.
- Investments are properly valued.
- Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
- Required supplementary information is measured and presented within prescribed guidelines (MD&A, pension schedules related to GASB 27, budgetary comparison information for major governmental funds when such information is presented as required supplementary information and certain information when using the “modified approach”).

***Subsequent events***

Subsequent to September 30, 2009, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority’s affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

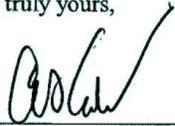
Appendix D, continued

Antonio B. Won Pat International Airport Authority, Guam  
Letter of Representation

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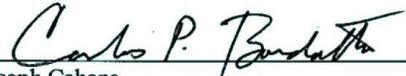
We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and were, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Authority taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



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Carlos Salas  
Executive Manager

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*for* Joseph Cabana  
Comptroller