*Financial Statements and Supplementary Information*

# Antonio B. Won Pat International Airport Authority, Guam

*Years ended September 30, 2013 and 2012*
*with Report of Independent Auditors*

Building a better working world

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and
Supplementary Information

Years ended September 30, 2013 and 2012

# Contents

Building a better
working world

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

Tel: +1 671 649 3700
Fax: +1 671 649 3920
ey.com

# Report of Independent Auditors

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

## Report on the Financial Statements

We have audited the accompanying statements of net position of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of September 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

### *Adoption of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities"*

As discussed in Note 1 to the financial statements, the Authority restated its 2012 financial statements as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*, effective October 1, 2011. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 17 and the schedule of Funding Progress on page 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included in pages 56 through 59 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information included in pages 56 through 59 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Supplementary and Other Information, continued*

The 2013 Schedule 9 Employee Data on page 60 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated January 30, 2014 on our consideration of the Authority'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 *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

January 30, 2014

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, 2013. 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 (GovGuam) 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 to 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. The Authority issued the 2013 Airport Bonds during the fourth quarter of FY 2013 that refunded the 2003 bonds and provided funds for planned capital improvement projects.

## A. Mission Statement

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

## B. Using the Financial Statements

The Authority utilizes the flow of economic measurement focus. 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. The Authority has implemented GASB Statement No. 20 and elected not to apply Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989.

**B. Using the Financial Statements, continued**

Revenues are categorized as either operating or non-operating based upon definitions provided by GASB Statement No. 34. Significant recurring sources of the Authority's revenues, including federal grants are reported as non-operating revenues.

**C. Authority Activities and Highlights**

Passenger activity in FY 2013 approached record level for the Authority. Total FY 2013 passenger enplanements bordered on the 1.7 million threshold. FY 2013 signatory enplanements of 1,693,962 and total enplanements of 1,697,986 exceeded the prior year by 8.1% and 7.8%, respectively. When compared to budget projections, actual signatory airline enplanements increased by 6.6%.

The Authority continued to position itself as the eighth ranked airport for international arrivals for all U.S. ports of entry ahead of large airports such as Chicago and Atlanta. Over 90% of the Authority's enplanements are international from Origin & Destination markets.

During the fiscal year, the Authority expended a considerable amount of energy, time and resources in preparation for the refunding of 2003 Airport Bonds. Multiple sessions occurred with Guam Economic Development Agency (GEDA), bond counsel and underwriters and rating agencies, Moody's and Standard & Poor's. A special legislative session called by the Governor resulted in the eventual passage of the Authority's required bond legislation. Outreach presentations in the major financial markets to prospective bond buyers, a first for the Authority, generated overwhelming interest during the bond sale to the tune of $1.8 billion. In September 2013, these efforts culminated in the closing of the Series 2013 Airport Bonds in the amount of $247,335,000.

After an exhaustive proposal review and evaluation process, the Authority selected and contracted with a new specialty retail concessionaire. Despite the disclosure of legal challenges, the substantial increase in the minimum annual guarantee (MAG) supported the Authority's initiative to include about $110 million in new money for capital improvement projects as part of the 2013 Airport Bonds. The new MAG of $15.4 million is a 285% increase over the prior contract MAG of $4 million and the percentage rent of 31% is a 155% increase over the prior percentage rent of 20 – 22.5%. The Authority is highly confident that the new concessionaire will provide vibrant and exciting products, innovative services to the passengers and a 100% focus on airport retail sales.

In a highly competitive request for proposals procurement, the Authority selected a new operator for its fuel system operations and maintenance program. The new operator brings a fresh perspective for efficient and cost effective operations, an enhanced quality control and assurance program and a secured environment for a critical element of the airport infrastructure.

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

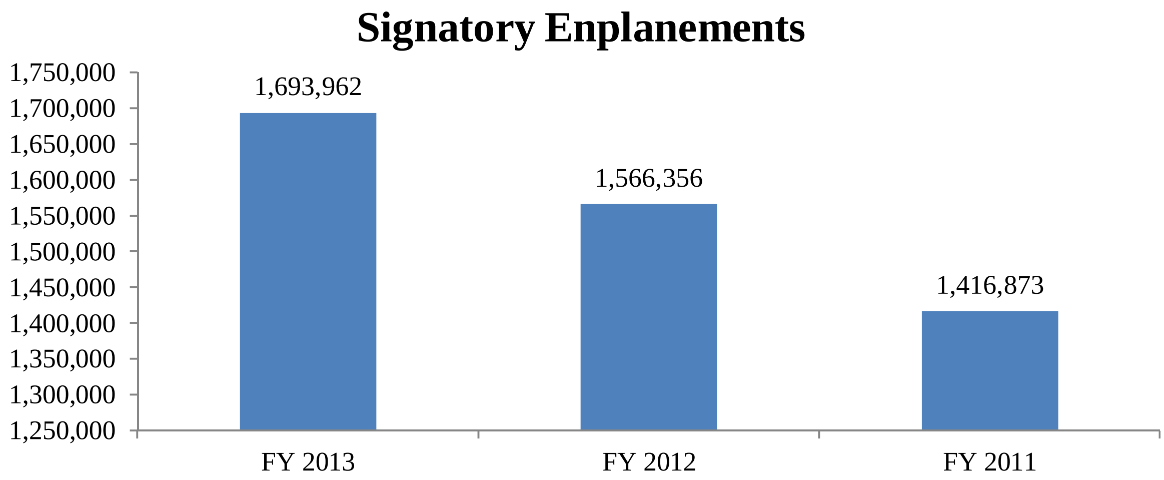
Although the energy management program was yet to be completed at the end of FY 2013, key milestones were met during the year with the installation of energy efficient lighting and the installation of new chillers, cooling towers and air handling units which largely comprised the air conditioning system for the terminal. The latter mitigated the recurring condition of high temperatures in the building that impacted the passengers, employees and retail products.

Going forward to FY 2014, the Authority seeks to maintain the FY 2013 signatory enplanement level with a slight uptick of 1.0% or 1,711,959 enplanements based on airline budgeted forecasts. There are uncertainties with the devaluation of currencies from our major markets, particularly with Japan, and its contractionary impact on leisure travel; consumer confidence in their local economies; unstable fuel costs; and the U.S. fiscal recovery. The Authority recognizes the sensitivities of operating in a resort destination and has worked to sustain and increase its cash reserves.

Activities for the Authority for the years ended September 30, 2013, 2012, and 2011 are as follows:

| | 2013 | 2012 | 2011 | 2013 % Increase (Decrease) from 2012 |
|---|---|---|---|---|
| Major revenue sources: | | | | |
| Landing fees | $ 2,963,427 | $ 3,042,109 | $ 2,567,747 | -2.6% |
| Terminal | 11,252,173 | 10,861,087 | 10,618,530 | 3.6% |
| Concessions and parking | 18,022,564 | 15,899,179 | 14,762,957 | 13.4% |
| Total | $32,238,164 | $29,802,375 | $27,949,234 | 8.2% |
| Passenger (enplanements) activity: | | | | |
| Signatory airlines | 1,693,962 | 1,566,356 | 1,416,873 | 8.1% |
| Other airlines | 4,024 | 8,135 | 22,551 | -50.5% |
| Total enplanements | 1,697,986 | 1,574,491 | 1,439,424 | 7.8% |
| Aircraft operations | 52,725 | 48,750 | 46,030 | 8.2% |
| Aircraft landed weights (000) | 3,258,721 | 3,296,664 | 2,787,086 | -1.2% |
| O & D passengers | 2,984,067 | 2,819,665 | 2,548,446 | 5.8% |
| Transfer passengers | 199,567 | 167,328 | 175,181 | 19.3% |
| Total passengers | 3,183,634 | 2,986,993 | 2,723,627 | 6.6% |

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




For FY 2013, the signatory airlines cost per enplaned passenger (CPE) of $17.24 is an increase from the $16.81 CPE in FY 2012 or a modest 2.6% increase. The increased expenditure level is largely attributed to higher utility costs, debt service on the energy management loan and the phased implementation of the employee compensation plan.

Despite the increase in CPE, the Authority still maintained a competitive cost structure and managed to achieve a debt service coverage of 2.06 versus the 1.25 debt service requirements of the former 2003 and new 2013 bond covenants. 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 passenger service for FY 2013: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines and Aerospace Concepts with the latter operating a business jet service. Intermittent charters with passenger service included Skymark and Starflyer, both out of Japan.

The principal commuter airlines providing inter-island passenger flight service to and from Guam and the Commonwealth of the Northern Mariana Islands (CMNI) are Freedom Air, Micronesian Aviation Systems, and Cape Air. Cargo operators include Asia Pacific Airlines, Federal Express and UPS.

**D. Financial Operation Highlights**

For FY 2013, total revenues amounted to $86.7 million, an increase of 30.4% year-over-year versus FY 2012 amount of $66.5 million. Operating income which amounted to $59.8 million accounted for 69.0% of all revenue in 2013. The remaining 31.0% or $26.9 million of revenue was comprised of non-operating income that included interest income, passenger facility charges, and grants from the U.S. government and transfers from GovGuam.

The Authority continues to focus efforts to expand and diversify the non-airline revenue stream.

***Operational Revenues***

The $59.8 million in operational revenues earned in FY 2013 represented a 13.9% increase versus the $52.5 million recorded in FY 2012. This increase in operating revenue may be attributed to the increase in non-aeronautical revenue streams which accounted for 53% of the Authority's operating revenue in 2013. Concession fees increased to $18.0 million or 13.2% year-on-year, versus the $15.9 million in 2012. General merchandise revenue rose 22.4% but resulted in a decreased average spend per enplaned passenger of approximately $17.94 in 2013 versus $22.91 in 2012. Ground transportation rose 7.5% from $4.8 million to $5.2 million due to increased passenger activity. Rental income increased by 3.6% for the same period with non-airline rentals reflecting an increase of 4.6%, up $4.0 million from $3.8 million.

***Non-Operating Revenues***

Non-operating revenues increased in FY 2013 by 91.8% versus 2012, $27 million versus $14.1 million respectively. The increase in FY 2013 is primarily attributed to the increase in grants from the U.S. government which amounted to $17.4 million and interest income of $2.97 million.

***Operational Expenses***

For FY 2013, operational expenses which equaled $38.4 million, reflects a 9.3% year-over-year increase from FY 2012's amount of $35.1 million. The increase of 25.5% for personnel services was due to the phased implementation of the authority's compensation plan. The number of Full Time Employee (FTE) employees decreased by 1.0%, from 192 to 190.

***Review of Notable Events in FY 2013***

The recovery in 2012 from the Japan disaster and an upswing in passenger activity sustained that momentum forward to 2013 and continued that positive trend throughout the year similarly pegged to historically high visitor peak months. FY 2013 signatory enplanements of 1,693,962 and total enplanements of 1,697,986 exceeded the prior year by 8.1% and 7.8%, respectively. These are the second highest totals in the Authority's history.

**D. Financial Operation Highlights, continued**

***Review of Notable Events in FY 2013, continued***

In September 2013, the Authority closed the sale on the Series 2013 Airport Bonds in the amount of $247,375,000. There was high drama in the days preceding the sale with global and national events that could induce an increase to municipal bond interest rates and make the bond refunding unfeasible and exceed the interest rate cap imposed by law. Those events such as the potential U.S. intervention in the Syria conflict and concerns with high risk actions by Puerto Rico on their government debt were apparently offset by the Authority's online marketing and personalized presentations to potential bond buyers that resulted in $1.8 billion of orders and the overwhelming demand yielded a true interest cost (TIC) of 6.28%. Moody's Investor Services assigned an investment grade rating of Baa2 to the 2013 Airport Bonds with a stable outlook and Standard and Poor's Rating Services assigned their rating of BBB with a stable outlook.

After an exhaustive proposal review and evaluation process, the Authority selected and contracted with a new specialty retail concessionaire. Despite the disclosure of legal challenges, the substantial increase in the minimum annual guarantee (MAG) supported the Authority's initiative to include about $110 million in new money for capital improvement projects as part of the 2013 Airport Bonds. The new MAG of $15.4 million is a 385% increase over the prior contract MAG of $4 million and the percentage rent of 31% is a 155% increase over the prior percentage rent of 20 – 22.5%. The Authority is highly confident that the new concessionaire will provide vibrant and exciting products, innovative services to the passengers and a 100% focus on airport retail sales.

Key financial metrics include an increase of the signatory airline cost per enplaned passenger from $16.81 in FY 2012 to $17.24 in FY 2013 and the significant increase of the debt service coverage ratio from 1.67 in FY 2012 to 2.06 in FY 2013. The Series 2003 and 2013 Airport Bonds require minimum debt service coverage of 1.25.

Following the Department of Public Works' (DPW) completion of the environmental assessment that resulted in a mutually acceptable roadway alignment, substantial progress was made in the resolution of the Tiyan Parkway project. Surveys and appraisals were completed for both the Phase 1 airport property and Phase 2 private property parcels. The legislature, in two public laws, appropriated $1.8 million for the initial private property acquisition. DPW had also advertised an invitation for bids for the Phase 1 construction with a notice to proceed scheduled for April 2014. A memorandum of understanding was executed between the local and federal government stakeholders to formalize pending action items and continued interaction and communication. Favorable consideration is being vetted to delay the closure of Central Avenue which is an obstruction to the runway safety area (RSA) with the understanding that a U.S. congressional mandate requires that all airport RSA's be cleared and compliant with FAA standards by the end of 2015.

**D. Financial Operation Highlights, continued**

***Review of Notable Events in FY 2013, continued***

In a highly competitive request for proposals procurement, the Authority selected a new operator for its fuel system operations and maintenance program. The new operator brings a fresh perspective for efficient and cost effective operations, an enhanced quality control and assurance program and a secured environment for a critical element of the airport infrastructure.

To provide the Authority with a well-defined and strategic plan of action, the Authority procured and retained an air service development consultant with global experience and relationships. Planning sessions are expected during the first part of 2014 in conjunction with Guam Visitor's Bureau (GVB) and GEDA.

Although the energy management program was yet to be completed at the end of FY 2013, key milestones were met during the year with the installation of energy efficient lighting and the installation of new chillers, cooling towers and air handling units which largely comprised the air conditioning system for the terminal. The latter mitigated the recurring condition of high temperatures in the building that impacted the passengers, employees and retail products. Energy savings of about $1.4 million per year are guaranteed by the performance contractor for 10 years and, funds, in part, a short term, United States Department of Agriculture guaranteed, low interest subordinate loan from a local bank.

During FY 2013, the Authority completed several key capital improvement projects that included the replacement and hardening of the ramp light system for safe aircraft operations; the phased installation of an underground power distribution for storm hardening at the south Tiyan facilities; and the completion of the navigational aids for runway 6L. Projects that commenced during the year included the rehabilitation of runway 6L/24R; Phase 2 of the sound insulation program consisting of 30 residential homes; and the replacement of the preconditioned air and ground power units for the passenger loading bridges.

The Authority implemented its second phase of the employee compensation program that was developed through an independent expert study. The major objectives are for the recruitment and retention of the Authority's human resource assets.

***Airline Signatory Rates and Charges***

The Authority entered into an airport operating and 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. In exchange for more favorable rates, the signatory airlines are guarantors of the Authority's financial position. The signatory airlines also unanimously approved the 2013 bond financing program and capital projects. These leases became effective October 1, 2006 and with an extension of five years will remain in effect through September 30, 2016.

**D. Financial Operation Highlights, continued**

***<u>Adoption of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, (GASB Statement No. 65)</u>***

During the fiscal year ended September 30, 2013, the Authority adopted GASB Statement No. 65. As described in Note 1 – Organization and Summary of Accounting Policies, the implementation of this new statement required the restatement of the Authority's financial statements at October 1, 2011. The effect of the restatement was the elimination of the bond issue costs and the related amortization expense, which were recorded in the 2012 statement of net position and the statement of revenues, expenses, and changes in net position, respectively.

***<u>Financial Position Summary</u>***

A condensed summary of the Authority's statements of net position at September 30, 2013, 2012 and 2011 is shown below:

| ASSETS | 2013 | 2012 As Restated | 2011 As Restated | 2013 % Increase (Decrease) from 2012 |
|---|---|---|---|---|
| Current assets: | | | | |
| Unrestricted current assets | $ 15,701,558 | $ 12,549,055 | $ 7,736,116 | 25.1% |
| Restricted current assets | 1,449,350 | 1,661,610 | 1,779,158 | -12.8% |
| Non-current assets: | | | | |
| Unrestricted assets | 28,466,289 | 20,261,161 | 21,577,162 | 40.5% |
| Restricted assets | 130,549,525 | 32,941,612 | 32,671,610 | 296.3% |
| Capital assets | 404,849,728 | 398,963,653 | 405,381,493 | 1.5% |
| Avigation easements | 10,966,295 | 11,975,643 | 12,984,992 | -8.4% |
| Accounts receivable from tenant | 1,047,600 | 799,200 | 540,000 | 31.1% |
| Total assets | 593,030,345 | 479,151,934 | 482,670,531 | 23.8% |
| Deferred outflow of resources | --- | 2,860,031 | 3,326,187 | -100.0% |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Payable from unrestricted assets | 14,537,538 | 10,215,231 | 9,380,778 | 42.3% |
| Payable from restricted assets | 1,867,990 | 15,472,745 | 14,941,518 | -87.9% |
| Long term liabilities | 259,837,084 | 155,190,940 | 160,146,209 | 67.4% |
| Total liabilities | 276,242,612 | 180,878,916 | 184,468,505 | 52.7% |
| Deferred inflow of resources | 585,743 | --- | --- | 100.0% |
| NET POSTITON | | | | |
| Invested in capital assets – net of related debt | 154,075,891 | 249,647,943 | 253,289,589 | -38.3% |
| Restricted | 130,130,885 | 28,720,477 | 28,604,250 | 353.1% |
| Unrestricted | 31,995,214 | 22,764,629 | 19,634,374 | 40.5% |
| Total net position | $316,201,990 | $301,133,049 | $301,528,213 | 5.0% |

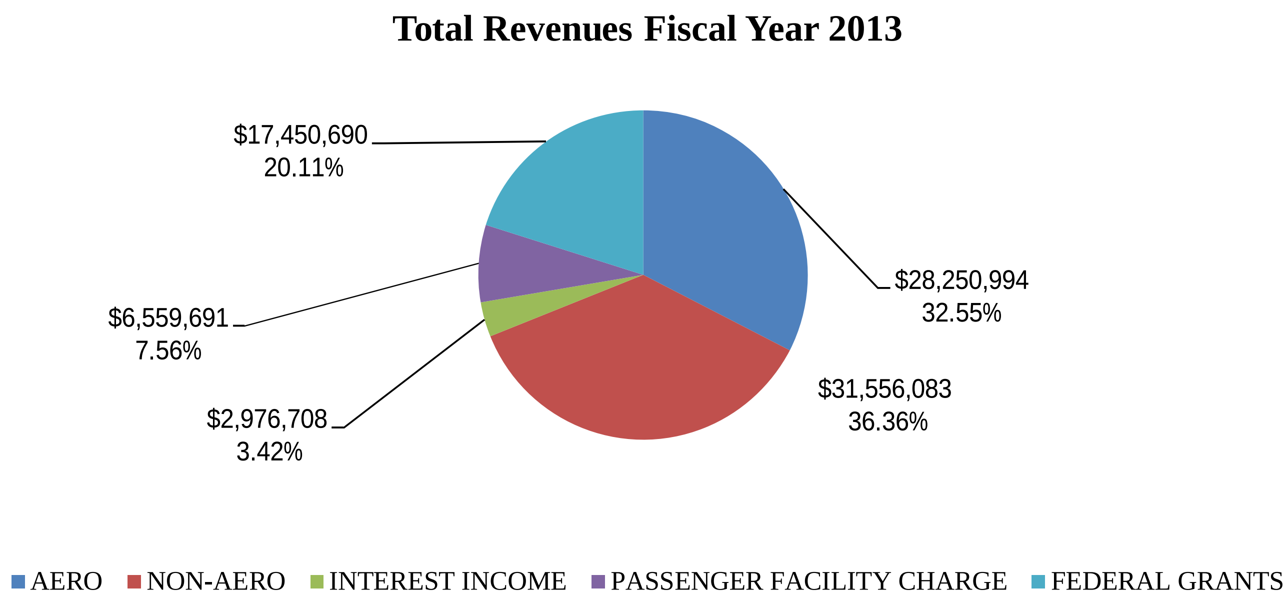
## D. Financial Operation Highlights, continued

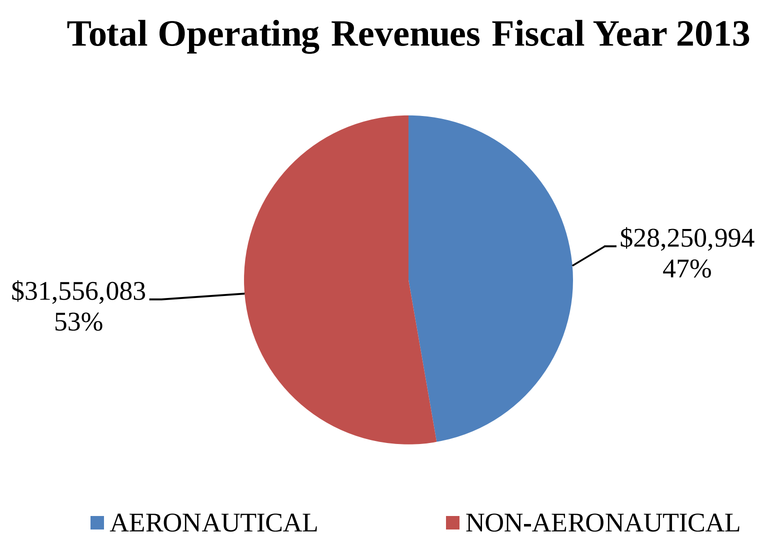
### ***Revenues***

A summary of revenues for the years ended September 30, 2013, 2012 and 2011 and the amount and percentage of change in relation to prior year is as follows:

| | 2013 | 2013 % of Total | 2012 As Restated | 2012 % of Total | 2011 As Restated | 2011 % of Total | 2013 % Increase (Decrease) form 2012 |
|---|---|---|---|---|---|---|---|
| Operating: | | | | | | | |
| Facilities and systems usage charges: | | | | | | | |
| Arrival facilities | $ 7,336,052 | 8.5% | $ 6,398,217 | 9.6% | $ 6,159,123 | 9.4% | 14.7% |
| Departure facilities | 6,942,472 | 8.0% | 6,348,530 | 9.5% | 6,046,101 | 9.2% | 9.4% |
| Passenger loading bridge | 4,666,053 | 5.4% | 3,676,307 | 5.5% | 3,366,254 | 5.1% | 26.9% |
| Landing fees | 2,963,427 | 3.4% | 3,042,109 | 4.6% | 2,567,747 | 3.9% | -2.6% |
| Immigration | 2,737,477 | 3.2% | 2,337,874 | 3.5% | 2,210,176 | 3.4% | 17.1% |
| Public apron | 1,691,203 | 1.9% | 2,107,797 | 3.2% | 1,394,782 | 2.1% | -19.8% |
| Utility recovery charge and other fees | 546,453 | 0.6% | 474,691 | 0.7% | 442,015 | 0.7% | 15.1% |
| Fuel flowage fee | 193,538 | 0.2% | 183,933 | 0.3% | 158,956 | 0.2% | 5.2% |
| Total facilities and systems usage charges | 27,076,675 | 31.2% | 24,569,458 | 36.9% | 22,345,154 | 34.1% | 10.2% |
| Concession fees: | | | | | | | |
| General merchandise | 9,079,528 | 10.5% | 7,420,798 | 11.2% | 7,194,836 | 11.0% | 22.4% |
| Ground transportation | 5,165,180 | 6.0% | 4,803,013 | 7.2% | 4,156,156 | 6.3% | 7.5% |
| Car rental | 948,904 | 1.1% | 934,605 | 1.4% | 931,949 | 1.4% | 1.5% |
| Food and beverage | 913,962 | 1.1% | 902,317 | 1.4% | 844,104 | 1.3% | 1.3% |
| In-flight catering | 811,521 | 0.9% | 754,661 | 1.1% | 666,213 | 1.0% | 7.5% |
| Other | 1,103,469 | 1.3% | 1,083,785 | 1.6% | 969,699 | 1.5% | 1.8% |
| Total concession fees | 18,022,564 | 20.8% | 15,899,179 | 23.9% | 14,762,957 | 22.5% | 13.4% |
| Rental income: | | | | | | | |
| Operating space - airline | 3,469,810 | 4.0% | 3,103,781 | 4.7% | 3,065,873 | 4.7% | 11.8% |
| Operating space - non-airline | 3,997,694 | 4.6% | 3,820,488 | 5.7% | 3,749,467 | 5.7% | 4.6% |
| Other | 3,784,669 | 4.4% | 3,936,818 | 5.9% | 3,803,190 | 5.8% | -3.9% |
| Total rental income | 11,252,173 | 13.0% | 10,861,087 | 16.3% | 10,618,530 | 16.2% | 3.6% |
| Miscellaneous | 3,455,669 | 4.0% | 1,148,209 | 1.7% | 1,481,857 | 2.3% | 201.0% |
| Total operating | 59,807,081 | 68.9% | 52,477,933 | 78.9% | 49,208,498 | 75.1% | 14.0% |
| Non-Operating: | | | | | | | |
| Interest income | 2,976,706 | 3.4% | 1,194,681 | 1.8% | 1,155,144 | 1.8% | 149.2% |
| Passenger facility charge | 6,559,690 | 7.6% | 6,096,248 | 9.2% | 5,576,838 | 8.5% | 7.6% |
| Grants from the U. S. Government | 17,435,986 | 20.1% | 6,751,432 | 10.1% | 9,508,361 | 14.5% | 158.3% |
| Transfer from Government of Guam - OHS | 14,701 | 0.0% | 26,388 | 0.0% | 78,063 | 0.1% | -44.3% |
| Total non-operating | 26,987,083 | 31.1% | 14,068,749 | 21.1% | 16,318,406 | 24.9% | 91.8% |
| Total revenues | $ 86,794,164 | 100.0% | $ 66,546,682 | 100.0% | $ 65,526,904 | 100.0% | 30.4% |

**D. Financial Operation Highlights, continued**



## D. Financial Operation Highlights, continued

### *Revenues, continued*

Receipts from grants from the United States Government amounted to $17.4 million for FY 2013 The majority of monies will be used for airfield and aviation infrastructure improvements, environmental assessments and base conversion projects.

### ***Expenses***

A summary of expenses for the years ended September 30, 2013, 2012, and 2011 and the amount and percentage of change in relation to prior year amounts is as follows:

| | 2013 | 2013 % of Total | 2012 As Restated | 2012 % of Total | 2011 As Restated | 2011 % of Total | 2013 % Increase (Decrease) from 2012 |
|---|---|---|---|---|---|---|---|
| Operating: | | | | | | | |
| Contractual services | $19,387,119 | 27.3% | $18,950,053 | 28.3% | $18,662,427 | 29.4% | 2.3% |
| Personnel services | 17,463,657 | 24.5% | 13,917,232 | 20.8% | 13,744,204 | 21.7% | 25.5% |
| Materials and supplies | 1,078,754 | 1.5% | 1,178,487 | 1.8% | 825,621 | 1.3% | -8.5% |
| Bad debt expense | 497,176 | 0.7% | 1,105,457 | 1.7% | 490,768 | 0.8% | -55.0% |
| Total operating expenses | 38,426,706 | 54.0% | 35,151,229 | 52.5% | 33,723,020 | 53.2% | 9.3% |
| Depreciation and amortization | 22,668,001 | 31.9% | 24,193,004 | 36.1% | 21,830,140 | 34.4% | -6.3% |
| Non-Operating: | | | | | | | |
| Interest expense | 6,093,981 | 8.6% | 7,164,599 | 10.7% | 7,343,883 | 11.4% | -14.9% |
| Bond Issuance Cost | 3,912,357 | 5.5% | --- | 0.0% | --- | 0.0% | 0.0% |
| Other expenses | 38,435 | 0.1% | 433,014 | 0.6% | 489,532 | 0.8% | -91.1% |
| Total non-operating expenses | 10,044,773 | 14.1% | 7,597,613 | 11.3% | 7,833,415 | 12.4% | 32.2% |
| Total expenses | $71,139,480 | 100.0% | $66,941,846 | 100.0% | $63,386,575 | 100.0% | 6.3% |
| Total full time employees | 190 | | 192 | | 199 | | |

## 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, 2013, 2012 and 2011, and the amount and percentage of change in relation to prior year amounts is as follows:

| | 2013 | | 2012 As Restated | | 2011 As Restated | |
|---|---|---|---|---|---|---|
| | Actual | % of Totals | Actual | % of Totals | Actual | % of Totals |
| **Airport Revenues** | | | | | | |
| Signatory Airline rentals & fees | $29,197,845 | 41.6 % | $26,332,581 | 43.9% | $24,016,783 | 42.6% |
| Revenues from sources other than Signatory Airline rentals and fees | 33,483,811 | 47.7 % | 27,208,919 | 45.3% | 26,157,787 | 46.4% |
| Passenger Facility Charge revenue | 6,559,691 | 9.3 % | 6,096,248 | 10.2% | 5,576,838 | 9.9% |
| Operating grants from U.S. Government | 946,273 | 1.3 % | 408,686 | 0.6% | 581,938 | 1.1% |
| Airport Revenues | $70,187,620 | 100.0% | $60,046,434 | 100.0% | $56,333,346 | 100.0% |
| | | % Change | | % Change | | |
| Signatory Airline enplaned passengers | 1,693,962 | 8.1% | 1,566,356 | 10.6% | 1,416,873 | |
| Signatory Airline cost per enplaned passenger | $17.24 | 2.5% | $16.81 | -0.8% | $16.95 | |

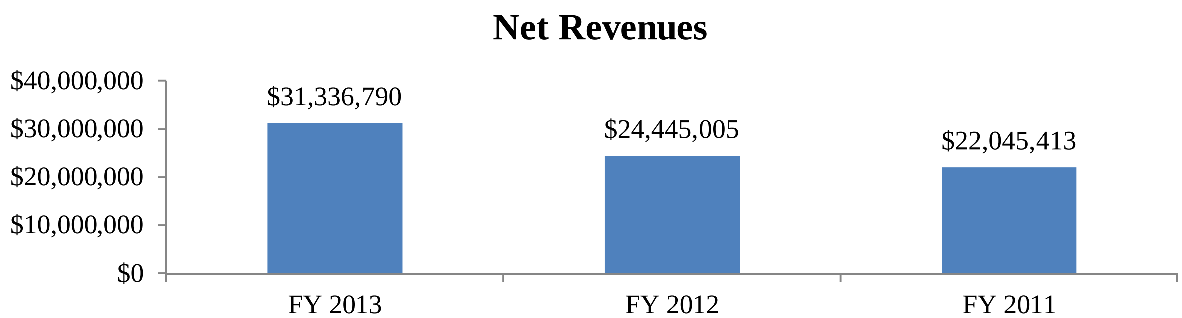
### ***Debt Service Coverage***

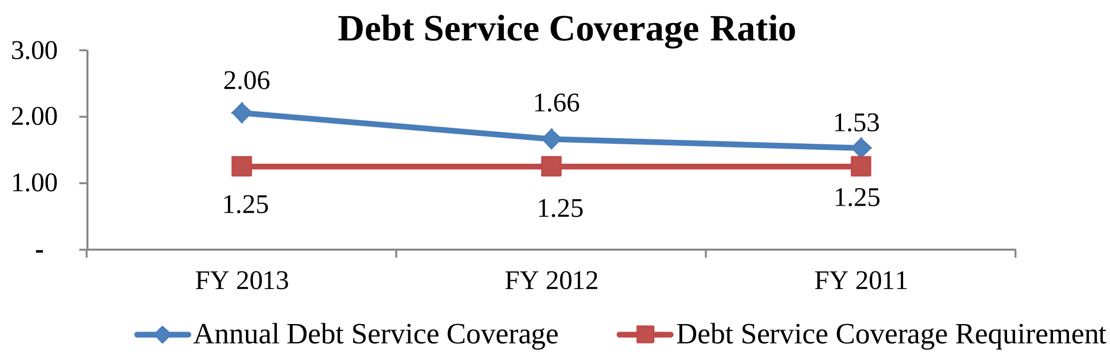
Under the Bond Indentures for the issuance of the 2013 and 2003 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of the annual debt coverage for the years ended September 30, 2013, 2012 and 2011 is as follows:

| | 2013 | 2012 As Restated | 2011 As Restated | 2013 % Increase (Decrease) from 2012 |
|---|---|---|---|---|
| Airport Revenues | $70,187,620 | $60,046,434 | $56,333,346 | 16.9% |
| Less: Operation and Maintenance Expenses | (38,850,830) | (35,701,522) | (34,335,336) | 8.8% |
| Net Revenues | $31,336,790 | 24,344,912 | 21,998,010 | 28.7% |
| Plus: Other Available Monies | 4,328,486 | 4,317,380 | 4,304,480 | 0.3% |
| Net Revenues and Other Available Monies | $35,665,276 | $28,662,292 | $26,302,490 | 24.4% |
| Rate Covenant | | | | |
| Net Revenues and Other Available Monies | $ 35,665,276 | $ 28,662,292 | $26,302,490 | 24.4% |
| Total Annual Debt Service | $ 17,313,944 | $ 17,269,519 | $17,217,919 | 0.3% |
| Annual Debt Service Coverage | 2.06 | 1.66 | 1.53 | 24.1% |
| Debt service coverage requirement | 1.25 | 1.25 | 1.25 | |

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

***Debt Service Coverage, continued***




**F. Outlook for FY 2014**

For 2014, the global industry forecast is expected to improve in terms of passenger activity and profitability with an increase of over 25% over 2013. Global economies are expected to improve and business travel will rebound.

The Authority's passenger projections of 1,711,959 enplanements reflect a very conservative outlook year-over-year with a 1.0% growth in FY 2014. The devaluation of the Japan currency has impacted inbound visitors to Guam but Japan still represents the largest market share. Diversification is a key factor and this is evidenced by expanded air service by the three South Korean airlines with the two low cost carriers announcing double daily service in FY 2014 from Seoul to Guam. Additional diversification is expected from the Russia market due to visa waiver parole authority and scheduled charters to commence directly from two eastern Russian cities. The China visa waiver continues to be evaluated by the federal government and if parole authority is extended, it will open a whole new chapter for the Authority and the visitor industry. The Authority remains concerned that the hotel room inventory is an impediment that will stifle sustained passenger growth.

**F. Outlook for FY 2014, continued**

Armed with approximately $109.7 million in funding from the Series 2013 Airport Bonds and $27 million in federal grants or a total of $136.9 million of funds in hand, the Authority will phase the implementation of the 19 bond projects. Priority will be placed on the International Arrival Corridor with Building Seismic Upgrades and the Hold Bag Screening Relocation as these infrastructure projects will materially transform the operational landscape of the terminal. These two projects also represent 48% of the total project costs for all 19 bond projects. The other bond projects will be implemented through preliminary engineering and design services or equipment procurement packages. Additional federal funds are programmed for several of the bond projects but may be made available within the five year performance period of the bond projects.

Other capital improvement projects that the Authority expects to undertake during FY 2014 include the demolition and environmental remediation of the former Guam Police Department facilities, the vacant air cargo building and other miscellaneous structures; terminal painting project; roofing membrane replacement; replacement and upgrade of the fire alarm and suppression systems; and procurement of new ARFF vehicles. Funding for these projects is from current federal grants and the capital improvement fund.

As authorized by law, the Authority will refinance its 5-year subordinate loan with First Hawaiian Bank for the energy management program to a 10-year term. The reduced debt service on the loan will be in an amount consistent with guaranteed annual energy savings with minimal impact on the annual revenue requirement and the airline CPE.

The Authority and GVB will continue to pursue an aggressive air service development program. The new air service development consultant will assist in developing a strategic program.

The Authority will work closely with its airline partners to contain and reduce operational cost through the bond projects and to sustain the budgeted $15.61 as CPE for FY 2014 as compared to the FY 2013 CPE of $17.20. By maintaining a low cost structure and affordable airport rates and charges, the Authority hopes to increase airline activity that ultimately translates into increased operating revenue through its concessions.

The Authority has planned to further increase its non-airline revenues as it did with the specialty retail concessionaire. New proposals will be solicited for advertising the food & beverage concessions. New and innovative concepts that add value may be incorporated in to the business program to generate higher returns to the Authority. For example, the business model for the food and beverage concessions will be reviewed so as to improve passenger services and maximize sales through a diversification of healthy, branded and local choices.

Relative to the Tiyan Parkway, the Authority expects to finalize the land release request with the FAA and provide a grant of easement to DPW for the construction of Phase 1. DPW is expected to issue a notice to proceed to the awarded contractor by April 2014. Once alternative access from Route 8 is provided, the planned closure of Central Avenue will be initiated.

# Antonio B. Won Pat International Airport Authority, Guam

## Statements of Net Position

| | September 30, 2013 | September 30, 2012 As restated |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Unrestricted assets: | | |
| Cash *(Note 3)* | $ 1,611,496 | $ 1,820,208 |
| Passenger facility charge cash *(Note 3)* | 22,457 | 24,172 |
| Accounts receivable, trade, net of allowance for doubtful accounts of $1,801,951 at September 30, 2013 ($1,991,620 at September 30, 2012) *(Note 3)* | 8,314,134 | 6,202,347 |
| Accounts receivable from tenant *(Notes 3 and 9)* | 10,800 | --- |
| Passenger facility charge receivables *(Note 3)* | 957,380 | 895,209 |
| Receivables from the United States Government | 4,571,986 | 3,556,402 |
| Inventory and other | 213,305 | 50,717 |
| Total unrestricted current assets | 15,701,558 | 12,549,055 |
| Restricted assets: | | |
| Customs fees, cash *(Note 3)* | 32,101 | 74,066 |
| Customs fees, receivables *(Note 12)* | 1,417,249 | 1,587,544 |
| Total restricted current assets | 1,449,350 | 1,661,610 |
| Total current assets | 17,150,908 | 14,210,665 |
| Accounts receivable from tenant, unrestricted *(Notes 3 and 9)* | 1,047,600 | 799,200 |
| General Revenue Bonds *(Note 7)* : | | |
| Investments and cash with trustees, unrestricted | 28,466,289 | 20,261,161 |
| Investments and cash with trustees, restricted | 130,549,525 | 32,941,612 |
| | 159,015,814 | 53,202,773 |
| Capital assets, at cost less accumulated depreciation *(Notes 4 and 11)* | 404,849,728 | 398,963,653 |
| Avigation easements *(Note 4)* | 10,966,295 | 11,975,643 |
| Total assets | 593,030,345 | 479,151,934 |
| Deferred outflow of resources: | | |
| Deferred differences on refunding of 2003 bonds *(Note 5)* | --- | 2,860,031 |

*See accompanying notes.*

## Statements of Net Position, continued

| | | September 30, | | |
|---|---|---|---|---|
| | | 2013 | | 2012 As restated |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Payable from unrestricted assets: | | | | |
| Accounts payable - trade | $ | 2,435,697 | $ | 2,752,640 |
| Accounts payable - construction | | 5,454,840 | | 4,752,646 |
| Other liabilities *(Note 11)* | | 3,013,828 | | 903,803 |
| Security deposits | | 1,015,279 | | 1,281,047 |
| Current portion of annual leave *(Note 10)* | | 354,394 | | 308,095 |
| Current portion of loan payable to bank *(Notes 6 and 10)* | | 2,263,500 | | 217,000 |
| Total payable from unrestricted assets | | 14,537,538 | | 10,215,231 |
| Payable from restricted assets: | | | | |
| Customs fees payable to Treasurer of Guam *(Note 12)* | | 1,867,990 | | 2,042,986 |
| General Revenue Bonds: | | | | |
| Current installments *(Notes 5 and 10)* | | --- | | 9,590,000 |
| Accrued interest | | --- | | 3,839,759 |
| Total payable from restricted assets | | 1,867,990 | | 15,472,745 |
| Total current liabilities | | 16,405,528 | | 25,687,976 |
| Non-current liabilities: | | | | |
| Payable from unrestricted assets: | | | | |
| Accrued sick leave *(Notes 8 and 10)* | | 197,783 | | 159,480 |
| Long-term portion of annual leave *(Note 10)* | | 748,412 | | 687,076 |
| Long-term loan payable to bank *(Notes 6 and 10)* | | 8,664,728 | | 5,377,897 |
| Payable from restricted assets: | | | | |
| Long-term bonds payable, less current installments: | | | | |
| General Revenue Bonds *(Notes 5 and 10)* | | 250,226,161 | | 148,966,487 |
| Total non-current liabilities | | 259,837,084 | | 155,190,940 |
| Total liabilities | | 276,242,612 | | 180,878,916 |
| Deferred inflow of resources: | | | | |
| Deferred differences on refunding of 2013 bonds *(Note 5)* | | 585,743 | | --- |
| Commitments and contingencies *(Notes 5, 6 and 11)* | | | | |
| Net position: | | | | |
| Invested in capital assets, net of related debt | | 154,075,891 | | 249,647,943 |
| Restricted *(Notes 4 and 11)* | | 130,130,885 | | 28,720,477 |
| Unrestricted | | 31,995,214 | | 22,764,629 |
| Total net position | $ | 316,201,990 | $ | 301,133,049 |

*See accompanying notes.*

Antonio B. Won Pat International Airport Authority, Guam

Statements of Revenues, Expenses and Changes in Net Position

| | Year ended September 30, 2013 | 2012 As restated |
|---|---|---|
| Revenues *(Note 5)* : | | |
| Facilities and systems usage charges | $ 27,076,675 | $ 24,569,458 |
| Concession fees *(Notes 3 and 9)* | 18,022,564 | 15,899,179 |
| Rental income *(Note 9)* | 11,252,173 | 10,861,087 |
| Miscellaneous | 3,455,669 | 1,148,209 |
| Total revenues | 59,807,081 | 52,477,933 |
| Operating costs and expenses: | | |
| Contractual services *(Note 9)* | 19,387,119 | 18,950,053 |
| Personnel services | 17,463,657 | 13,917,232 |
| Materials and supplies | 1,078,754 | 1,178,487 |
| Bad debt | 497,176 | 1,105,457 |
| Total operating costs and expenses | 38,426,706 | 35,151,229 |
| Income from operations before depreciation and amortization | 21,380,375 | 17,326,704 |
| Depreciation and amortization | ( 22,668,001 ) | ( 24,193,004 ) |
| Loss from operations | ( 1,287,626 ) | ( 6,866,300 ) |
| Non-operating income (expense): | | |
| Passenger facility charge income | 6,559,690 | 6,096,248 |
| Interest income | 2,976,706 | 1,194,681 |
| Interest expense | ( 6,093,981 ) | ( 7,164,599 ) |
| Bond issuance cost | ( 3,912,357 ) | --- |
| Other expenses, net *(Note 5)* | ( 624,178 ) | ( 433,014 ) |
| Total non-operating expenses, net | ( 1,094,120 ) | ( 306,684 ) |
| Loss before capital grants and transfer in | ( 2,381,746 ) | ( 7,172,984 ) |
| Capital grants from the United States Government | 16,489,713 | 6,369,134 |
| Operating grants from the United States Government | 946,273 | 382,298 |
| Transfer from Government of Guam - Office of Highway Safety (OHS) | 14,701 | 26,388 |
| Total capital and operating grants | 17,450,687 | 6,777,820 |
| Increase (decrease) in net positon | 15,068,941 | ( 395,164 ) |
| Net position at beginning of year *(Note 13)* | 301,133,049 | 301,528,213 |
| Net position at end of year | $ 316,201,990 | $ 301,133,049 |

*See accompanying notes.*

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

| | Year ended September 30, 2013 | Year ended September 30, 2012 As restated |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from customers | $ 56,854,245 | $ 50,600,813 |
| Cash paid to suppliers for goods and services | ( 22,258,973 ) | ( 19,800,746 ) |
| Cash paid to employees | ( 17,317,719 ) | ( 13,923,096 ) |
| Net cash provided by operating activities | 17,277,553 | 16,876,971 |
| **Cash flows from investing activities:** | | |
| Acquisition of investments | ( 105,813,041 ) | --- |
| Notes receivable | ( 10,800 ) | --- |
| Net sales of investments with trustee | --- | 1,045,999 |
| Investment interest income | 2,976,706 | 1,194,681 |
| Net cash (used in) provided by investing activities | ( 102,847,135 ) | 2,240,680 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition and construction of airport facilities | ( 19,362,008 ) | ( 10,655,998 ) |
| Net proceeds from 2013 General Revenue Bonds | 247,540,014 | --- |
| Principal payment on 2003 General Revenue Bonds | ( 155,005,000 ) | ( 9,207,683 ) |
| Interest paid on 2003 General Revenue Bonds | ( 10,961,195 ) | ( 7,901,219 ) |
| Loan cost | 172,757 | ( 172,757 ) |
| Passenger facility charge receipts | 6,497,519 | 5,762,941 |
| U.S. Government capital grants | 16,420,402 | 3,649,065 |
| Transfer from Government of Guam - OHS | 14,701 | 26,384 |
| Net cash provided by (used in) capital and related financing activities | 85,317,190 | ( 18,499,267 ) |
| Net (decrease) increase in cash | ( 252,392 ) | 618,384 |
| Cash at beginning of year | 1,918,446 | 1,300,062 |
| Cash at end of year | $ 1,666,054 | $ 1,918,446 |
| **Consisting of:** | | |
| Unrestricted | $ 1,633,953 | $ 1,844,380 |
| Restricted - current | 32,101 | 74,066 |
| | $ 1,666,054 | $ 1,918,446 |

**Non-cash investing and financing activities:**

During the years ended September 30, 2013 and 2012, the Authority recorded an increase to capital assets and bank loan totaling $5,333,331 and $5,594,897, respectively, representing loan proceeds disbursed directly by the bank to a contractor.

*See accompanying notes.*

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

| | Year ended September 30, 2013 | Year ended September 30, 2012 As restated |
|---|---|---|
| **Reconciliation of loss from operations and other expenses to net cash provided by operating activities:** | | |
| Loss from operations | $( 1,287,626 ) | $( 6,866,300 ) |
| Non-recurring and other expenses, net | ( 3,950,792 ) | ( 433,010 ) |
| | ( 5,238,418 ) | ( 7,299,310 ) |
| Adjustments to reconcile loss from operations and other expenses, net to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,668,001 | 24,193,004 |
| Bad debt expense | 497,176 | 1,105,457 |
| (Increase) decrease in assets: | | |
| Accounts receivable | ( 2,438,668 ) | ( 1,763,434 ) |
| Inventory and other | ( 162,588 ) | 16,644 |
| Accounts receivable from tenant | ( 248,400 ) | ( 259,200 ) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 210,255 | 1,013,698 |
| Other current liabilities | 2,110,025 | ( 269,538 ) |
| Security deposits | ( 265,768 ) | 145,514 |
| Annual leave | 107,635 | 5,204 |
| Accrued sick leave | 38,303 | ( 11,068 ) |
| Total adjustments | 22,515,971 | 24,176,281 |
| Net cash provided by operating activities | $ 17,277,553 | $ 16,876,971 |

*See accompanying notes.*

## 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 Position

Net position represents the residual of all other elements presented in the statement net of position. It is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Net position is presented in three components: net invested in capital assets, net of related debt, restricted and unrestricted.

Net invested in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debts are also included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

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

**Net Position, continued**

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net invested in capital assets or the restricted component of net position.

**Cash**

For the purpose of the statements of cash flows, cash is defined as cash on hand and in banks. Cash on hand and in banks include passenger facility charge cash and customs fees, cash.

**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, 2013 and 2012, receivables that are more than ninety days past due totaled approximately $2,618,000 and $3,588,000, 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 collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

**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 and are primarily determined based on quoted market values.

**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 market 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 costs 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. During the fiscal year ended September 30, 2013, the Authority adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (GASB Statement No. 65). As described in Note 1 – Recently Adopted Accounting Pronouncements, the implementation of this new statement required the restatement of the Authority's financial statements at October 1, 2011. The effect of the restatement was the elimination of the bond issue costs and the related amortization expense, which were recorded in the statement of net position and the statement of revenues, expenses, and changes in net position, respectively.

**Capitalization of Interest**

The Authority charges to construction-in-progress interest incurred during the period of construction. Interest is capitalized in accordance with Financial Accounting Standards Board Accounting Standards Codification No. 835-20 *Capitalization of Interest* for all projects which are not constructed with the proceeds of tax exempt bonds or grant funds. Interest capitalization ceases when constructed facilities are placed in service.

**Avigation Easements**

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

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

**Impairment of Long-lived Assets**

Long-lived assets to be held and used or disposed of by the Authority are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be recoverable.

**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 more than 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 more than fifteen (15) years of service.

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

Bond premium and discount are amortized on a weighted-average basis over the life of the bond issues. Bonds payable are reported net of bond premium and discount.

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

### 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 position.

### Environmental Costs

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

### Estimates

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

### Risk Management

The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation and environmental liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters. The Authority has procured catastrophic insurance, as discussed in Note 11.

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

**Recently Adopted Accounting Pronouncements**

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflow of resources. Deferred outflows is defined as the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows is defined as the acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirement by incorporating deferred outflows of resources and deferred inflow of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effected for financial statement for the periods beginning after December 15, 2011. The Authority's adoption of GASB 63 resulted in a change in the presentation of the statement of net assets to what is now referred to as the statement of net position and the term "net assets" was changed to "net position" throughout the financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The implementation of GASB No. 65, which was adopted early by the Authority, required restatement of the Authority's financial statements as of October 1, 2011. The effect of the restatement was the elimination of the deferred bond issuance costs of $4,857,336 and the elimination of the amortization expense of $763,515, which were recorded in the 2012 statement of net position and statement of revenues, expenses, and changes in net position, respectively.

| | As Previously Reported | Adjustment | Restated |
|---|---|---|---|
| For the year ended September 30, 2012 | | | |
| Depreciation and amortization | $24,956,519 | $( 763,515) | $24,193,004 |
| As of September 30, 2012 | | | |
| Deferred bond issue cost | $ 4,857,336 | $(4,857,336) | $ --- |

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

### Upcoming Accounting Pronouncement

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straightline basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans, that are administered through trusts or equivalent arrangements that meet certain criteria. Upon implementation of GASB 67, the Authority estimates that its net position and accrued unfunded liability to retirement fund would decrease and increase, respectively, by approximately $6 million at October 1, 2013.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. In addition, this Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment and also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

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

### Upcoming Accounting Pronouncements, continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date, an amendment of GASB Statement No. 68*. The provisions of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

The Authority is currently evaluating the effects the above pronouncements might have on its financial statements.

## 2. Subsequent Events

The Authority has evaluated subsequent events through January 30, 2014, which is also the date the financial statements were available to be issued.

## 3. 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, 2013 and 2012, $250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 12% and 15%, respectively, of total operating revenues for each of the years ended September 30, 2013 and 2012. Receivables from the primary concessionaire totaled $848,086 and $1,026,490 at September 30, 2013 and 2012, respectively.

For the years ended September 30, 2013 and 2012, approximately 27% and 28%, respectively, of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2013 and 2012, the receivable from this airline customer totaled $2,030,362 and $1,821,986, 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.

**4. Airport Facilities**

A summary of changes in capital assets for the year ended September 30, 2013 is as follows:

| | Beginning Balance October 1, 2012 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2013 |
|---|---|---|---|---|
| Capital assets depreciated: | | | | |
| Terminal building | $342,344,415 | $ 37,962 | $154,962 | $342,537,339 |
| Other buildings | 85,113,790 | 102,132 | 370,187 | 85,586,109 |
| Airfield area | 82,246,467 | --- | 236,184 | 82,482,651 |
| Apron area | 40,983,694 | --- | --- | 40,983,694 |
| Terminal area | 24,748,708 | --- | --- | 24,748,708 |
| Support facilities | 8,712,188 | 21,309 | 133,075 | 8,866,572 |
| Total capital assets depreciated | 584,149,262 | 161,403 | 894,408 | 585,205,073 |
| Less accumulated depreciation | (330,415,314) | (21,831,410) | --- | (352,246,724) |
| Net capital assets depreciated | 253,733,948 | (21,670,007) | 894,408 | 232,958,349 |
| Capital assets not depreciated: | | | | |
| Land | 57,461,373 | --- | --- | 57,461,373 |
| Construction-in-progress | 87,768,332 | 27,556,082 | (894,408) | 114,430,006 |
| Total capital assets not depreciated | 145,229,705 | 27,556,082 | (894,408) | 171,891,379 |
| | $398,963,653 | $ 5,886,075 | $ --- | $404,849,728 |

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2013 and 2012 included $1,799,823 and $696,963, respectively, of costs associated with the residential sound insulation program. At September 30, 2013 and 2012, the Authority's avigation easements (net of amortization) amounted to $10,966,295 and $11,975,643, respectively, and is shown as avigation easements in the accompanying statements of net position.

**4. Airport Facilities, continued**

A summary of changes in capital assets for the year ended September 30, 2012 is as follows:

| | Beginning Balance October 1, 2011 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2012 |
|---|---|---|---|---|
| Capital assets depreciated: | | | | |
| Terminal building | $341,133,294 | $ 42,288 | $ 1,168,833 | $342,344,415 |
| Other buildings | 84,814,026 | 93,445 | 206,319 | 85,113,790 |
| Airfield area | 81,786,724 | 19,300 | 440,443 | 82,246,467 |
| Apron area | 40,983,694 | --- | --- | 40,983,694 |
| Terminal area | 24,748,708 | --- | --- | 24,748,708 |
| Support facilities | 8,676,487 | 35,701 | --- | 8,712,188 |
| Total capital assets depreciated | 582,142,933 | 190,734 | 1,815,595 | 584,149,262 |
| Less accumulated depreciation | (307,231,657) | (23,183,657) | --- | (330,415,314) |
| Net capital assets depreciated | 274,911,276 | (22,992,923) | 1,815,595 | 253,733,948 |
| Capital assets not depreciated: | | | | |
| Land | 57,461,373 | --- | --- | 57,461,373 |
| Construction-in-progress | 73,008,844 | 16,575,083 | ( 1,815,595) | 87,768,332 |
| Total capital assets not depreciated | 130,470,217 | 16,575,083 | ( 1,815,595) | 145,229,705 |
| | $405,381,493 | $( 6,417,840) | $ --- | $398,963,653 |

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 11, 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 position. 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.

Interest capitalized for the years ended September 30, 2013 and 2012, totaled $1,189,963 and $514,920, 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.

**4. Airport Facilities, continued**

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 positon. In fiscal year 2001, the Navy paid the Authority $10,000,000 (see Note 11) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

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

Long-term revenue bonds payable at September 30, 2013 and 2012, consist of the following:

| | 2013 | 2012 |
|---|---|---|
| General revenue bonds, Series 2013 (original issue of $247,335,000): | | |
| Varying interest rates (3% - 6%) payable semiannually in October and April, principal payments due in varying annual installments with $9,845,000 due in October 2014 | $247,335,000 | $ --- |
| 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 $9,590,000 due in October 2012. The bonds were refunded in 2013 | --- | 155,005,000 |
| | 247,335,000 | 155,005,000 |
| Less current installments | --- | ( 9,590,000) |
| | 247,335,000 | 145,415,000 |
| Add net unamortized premium on bonds | 2,891,161 | 3,551,487 |
| | $250,226,161 | $148,966,487 |

**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:

| Year ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2014 | $ --- | $ 7,572,198 | $ 7,572,198 |
| 2015 | 9,845,000 | 13,550,775 | 23,395,775 |
| 2016 | 10,465,000 | 13,193,800 | 23,658,800 |
| 2017 | 10,890,000 | 12,712,250 | 23,602,250 |
| 2018 | 11,430,000 | 12,154,250 | 23,584,250 |
| 2019 through 2023 | 66,310,000 | 51,322,776 | 117,632,776 |
| 2024 through 2044 | 138,395,000 | 98,788,119 | 237,183,119 |
| | $247,335,000 | $209,294,168 | $456,629,168 |

*General Revenue Bonds, Series 2013*

On September 12, 2013, the Authority issued $247,335,000 General Revenue Bonds (collectively, the “2013 Bonds”) as follows:

| | |
|---|---|
| • 2013 Series A (Non-AMT) | $ 14,620,000 |
| • 2013 Series B (Non-AMT) | 33,675,000 |
| • 2013 Series C (AMT) | 199,040,000 |
| | $247,335,000 |

The 2013 Bonds were obtained for the following:

a. current refunding of all of the Authority’s outstanding 2003 Bonds;
b. financing additions, extensions and improvements to the Airport;
c. funding the 2013 Bond Reserve Account; and
d. paying expenses incurred in connection with the issuance of the 2013 Bonds.

The aggregate purchase price is $247,540,014 (the purchase price), representing the principal amount of the 2013 Bonds, plus a net original issue premium of $2,891,161 and less an underwriters’ discount and insurance of $2,686,147. Interest on the 2013 Bonds will be payable on April 1 and October 1 of each year, commencing on April 1, 2014.

The 2013 Bonds bear interest at a rate from 3% to 6% and mature on October 1, 2023 for the 2013 Series A (Non-AMT) and on October 1, 2043 for the 2013 Series B (Non-AMT) and 2013 Series C (AMT).

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

*General Revenue Bonds, Series 2013, continued*

The 2013 Bonds are subject to redemption prior to maturity date.

The refunding resulted in a credit difference on refunding of $3,008,461 representing the difference between the reacquisition price and carrying amount of the 2003 bonds. The Authority netted the $2,422,781 unamortized difference from prior refunding (as described in the paragraphs below) against the $3,008,461 difference in current refunding, and the resulting net credit of $585,743 is presented as a deferred inflow of resources in the accompanying 2013 statement of net position. The $585,743 is to be deferred and amortized over the ten year original amortization period remaining from the 2003 bonds.

*General Revenue Bonds, Series 2003*

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. The refunding difference was deferred and is being amortized over the remaining life of the 1993 bonds. As of September 30, 2012, the unamortized balance of the refunding difference totals $2,860,031 and is recorded as a deferred outflow of resources in the accompanying 2012 statement of net position. For the years ended September 30, 2013 and 2012, the amortization expense totaling $437,313 and $466,155, respectively, are included as a component of other expenses, net in the accompanying statements of revenues, expenses and changes in net position.

As discussed in the preceding paragraphs, the 2003 outstanding bonds were refunded on September 12, 2013 by issuance of the 2013 General Revenue Bonds.

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

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

**6. Long-Term Loan Payable to Bank**

Long-term loan payable to bank at September 30, 2013 and 2012 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| First Hawaiian Bank, 3.75% interest rate fixed for 5 years, monthly payment of interest only shall be made for the first year of the loan starting on July 27, 2012; thereafter, monthly payments of principal and interest in the amount of $309,687 starting on February 24, 2014, which will amortize the loan over a period of 41 months. The principal balance and all accrued interest will be due and payable on July 27, 2017. The loan is secured by a Security Agreement and a UCC-1 Financing Agreement. The loan is subject to U.S. Department of Agriculture's (USDA) written commitment to the bank to guaranty no less than 90% of the loan to the Authority | $10,928,228 | $5,594,897 |
| Less current installment | 2,263,500 | 217,000 |
| | $ 8,664,728 | $5,377,897 |

On June 27, 2012, the Authority entered a loan agreement with First Hawaiian Bank (FHB) to finance the Authority's energy efficient upgrades. The loan amount is for $11.9 million. The disbursement of the loan proceeds will be based on the payment of the costs incurred for work actually done and improvements actually installed by a contractor under the performance contract. The loan will be disbursed directly to the contractor by FHB upon the Authority's approval. During the years ended September 30, 2013 and 2012, the amount of loan disbursed by FHB directly to the contractor totaled $10,928,228 and $5,594,897, respectively, and is recorded as part of capital assets and current portion and long-term loan payable in the accompanying statements of net position. The undisbursed portion of the loan at September 30, 2013 and 2012 totals $971,772 and $6,305,103, respectively. The $11.9 million is subject to USDA's Loan Note Guarantee; however, the Loan Note Guarantee for the loan will not be executed by USDA until all construction has been completed, equipment has been purchased and installed, and the facility is certified as operational by the appropriate official, which is expected to be in January 2014. At September 30, 2013 and 2012, the loan was supported by a Conditional Commitment for Guarantee by the USDA.

On January 25, 2014, the loan agreement and note were amended by Commercial Loan Modification Agreement, wherein the amended interest rate is at 5.75% per annum until the amended note is paid in full. Beginning on February 24, 2014 and continuing thereafter during the term of the amended loan agreement, principal and interest shall be paid in monthly installments of $130,625 over a period of 10 years from January 25, 2014 to January 24, 2024. The amended maturity date of the loan is January 24, 2024.

**6. Long-Term Loan Payable to Bank, continued**

This loan is also secured by a Security Agreement and UCC-1 Financing Statement which identify sums in the Subordinate Securities Fund and Capital Improvement Fund as collateral for the loan. Both funds are allocated revenues pursuant to Section 5.02 of the Bond Indenture. Obligations of the Authority payable from the aforementioned funds are subordinate to the pledge and lien of airport revenues to secure payment of the Authority's bonds.

As part of the loan conditions, the Authority shall maintain a minimum debt service ratio of 1.25 to 1.

Future maturities of the FHB long-term loan payable are as follow:

| Year ending September 30 | |
|---|---|
| 2014 | $ 2,263,500 |
| 2015 | 3,450,000 |
| 2016 | 3,582,000 |
| 2017 | 1,632,728 |
| | $10,928,228 |

**7. Investments and Cash with Trustees**

The aforementioned 2013 and 2003 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, 2013 and 2012, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

| | 2013 | 2012 |
|---|---|---|
| Operations and Maintenance Reserve Fund | $ 10,097,454 | $ 9,378,260 |
| Federal Grant Funds | 6,491,857 | 6,414,589 |
| Risk and Loss Management Reserve Fund | 4,849,745 | 3,838,135 |
| General Revenue Fund | 4,520,199 | 225,457 |
| Rebate Fund | 1,399,734 | --- |
| Capital Improvement Fund | 682,262 | 400,038 |
| Cost of Issuance | 290,014 | --- |
| Operations and Maintenance Fund | 135,024 | 4,682 |
| Total Unrestricted | 28,466,289 | 20,261,161 |
| Cash with Trustees | 4,718 | 4,718 |
| Construction Fund | 109,864,890 | --- |
| Bond Reserve Funds | 19,678,484 | 18,506,524 |
| Renewal and Replacement Fund | 1,000,249 | 1,000,146 |
| Debt Service Funds | 1,184 | 13,430,224 |
| Total Restricted | 130,549,525 | 32,941,612 |
| | $159,015,814 | $53,202,773 |

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

Investments are stated at fair market value. The amortized cost and fair value of investments at September 30, 2013 and 2012 are summarized as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Gross unrealized gains | Fair value | Amortized Cost | Gross unrealized gains | Fair value |
| Cash with trustees | $ 4,718 | $ --- | $ 4,718 | $ 4,718 | $ --- | $ 4,718 |
| Money market/ trust funds | 142,054,510 | --- | 142,054,510 | 25,714,887 | --- | 25,714,887 |
| Investment agreements | 10,038,662 | --- | 10,038,662 | 18,045,950 | --- | 18,045,950 |
| Short-term investments | 4,879,510 | 31,267 | 4,910,777 | 8,120,110 | 67,286 | 8,187,396 |
| U.S. Treasury notes | 1,982,048 | 25,099 | 2,007,147 | 1,212,615 | 37,207 | 1,249,822 |
| | $158,959,448 | $56,366 | $159,015,814 | $53,098,280 | $104,493 | $53,202,773 |

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, 2013 and 2012, 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 and investments falling into categories 1 and 2 and provide 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.

**7. 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. A majority of 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, Bank of Guam, Citibank N.A. and Coast 360 Federal Credit Union manage the Federal Fund accounts investing in U.S. Treasury Securities, U.S. Government Agencies, Domestic Corporate Bonds, Money Market Funds and Certificate of Deposits insured by the Federal Deposit Insurance Corporation. The U.S. Treasury Securities are 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, certain funds held with the Bank of Guam-Trustee 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 2013 and 2003 bond indentures.

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 investments 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, 2013 and 2012.

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

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

At September 30, 2013, the Authority's investments were as follows:

| | Standard & Poor's/Moody's Credit Rating | Investment Maturities (In Years) Less than 1 | 1 to 5 | 6 to 10 | Greater than 10 | Total |
|---|---|---|---|---|---|---|
| US treasury notes | Aaa-mf | $ --- | $2,003,154 | $ --- | $ --- | $ 2,003,154 |
| US government agencies: | | | | | | |
| Federal Home Loan Mortgage Corporation | Aaa/AAA | 349,963 | 751,202 | 201,186 | --- | 1,302,351 |
| Federal National Mortgage Association | Aaa/AAA | --- | 574,775 | 28,466 | 163,914 | 767,155 |
| Corporate notes: | | | | | | |
| CDC Funding Corporation | Aa3/A+ | --- | --- | --- | 9,549,194 | 9,549,194 |
| Other | Aaa/AAA | --- | 36,683 | --- | --- | 36,683 |
| Other | Aa/AA | --- | 214,835 | 47,991 | --- | 262,826 |
| Other | A2 | 5,753 | --- | --- | --- | 5,753 |
| Other | A1/AA+ | 49,220 | --- | --- | --- | 49,220 |
| Other | A | --- | 504,190 | 176,330 | --- | 680,520 |
| Other | BAA2/A- | 125,783 | --- | --- | --- | 125,783 |
| Other | BAA2/BBB | 29,849 | --- | --- | --- | 29,849 |
| Other | BAA1/BBB+ | 10,322 | --- | --- | --- | 10,322 |
| Other | Baa/BBB | 10,897 | 219,452 | 88,252 | 10,170 | 328,771 |
| Other | B1/B+ | 248,525 | --- | --- | --- | 248,525 |
| Other | Not rated | 184,775 | --- | --- | --- | 184,775 |
| Money Market Funds: | | | | | | |
| US Bank, NA | Aa2/Aa | 9,682,926 | --- | --- | --- | 9,682,926 |
| Citibank, NA | A1/A | 4,068 | --- | --- | --- | 4,068 |
| Bank of Guam | BBB | 132,346,537 | --- | --- | --- | 132,346,537 |
| Other | Not rated | 878,741 | --- | --- | --- | 878,741 |
| | | $143,927,359 | $4,304,291 | $542,225 | $9,723,278 | $158,497,153 |
| Cash | | | | | | 4,718 |
| Accrued interest | | | | | | 513,943 |
| | | | | | | $159,015,814 |

## 7. Investments and Cash with Trustees, continued

At September 30, 2012, the Authority's investments were as follows:

| | Standard & Poor's/Moody's Credit Rating | Investment Maturities (In Years) Less than 1 | 1 to 5 | 6 to 10 | Greater than 10 | Total |
|---|---|---|---|---|---|---|
| US treasury notes | Aaa-mf | $ --- | $ 1,246,250 | $ --- | $ --- | $ 1,246,250 |
| US government agencies: | | | | | | |
| Federal Home Loan Mortgage Corporation | Aaa/AAA | 399,868 | 210,562 | --- | --- | 610,430 |
| Federal National Mortgage Association | Aaa/AAA | 824,533 | 1,688,129 | --- | --- | 2,512,662 |
| Corporate notes: | | | | | | |
| CDC Funding Corporation | Aa1/AA+/AAA | --- | --- | --- | 18,045,950 | 18,045,950 |
| Other | Aaa/AAA | --- | 17,884 | --- | --- | 17,884 |
| Other | Aa/AA | 68,341 | 282,706 | --- | --- | 351,047 |
| Other | A | 233,738 | 774,808 | --- | --- | 1,008,546 |
| Other | Baa/BBB | 118,056 | 133,512 | --- | --- | 251,568 |
| Other | Not rated | 15,430 | --- | --- | --- | 15,430 |
| Money Market Funds: | | | | | | |
| Federated Investments | AAA | 4,102,595 | --- | --- | --- | 4,102,595 |
| US Bank, NA | A1/Aa2 | 13,430,207 | --- | --- | --- | 13,430,207 |
| Citibank, NA | Baa2 | 3,831,899 | --- | --- | --- | 3,831,899 |
| Bank of Guam | BBB | 6,868,118 | --- | --- | --- | 6,868,118 |
| Other | Not rated | 869,750 | --- | --- | --- | 869,750 |
| | | $ 30,762,535 | $ 4,353,851 | $ --- | $ 18,045,950 | $ 53,162,336 |
| Cash | | | | | | 4,718 |
| Accrued interest | | | | | | 35,719 |
| | | | | | | $ 53,202,773 |

**8. Employee Benefits and Other**

*Employee Retirement Plan*

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

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

*DB Plan*

The DB Plan is a cost-sharing multiple-employer plan. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

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

Statutory contribution rates for employer and employee contributions were 30.09% and 9.50%, respectively, for the year ended September 30, 2013, 28.30% and 9.50%, respectively, for the year ended September 30, 2012 and 27.46% and 9.50%, respectively, for the year ended September 30, 2011.

Actuarial contribution rates were 30.76%, 30.09% and 28.06% for the years ended September 30, 2013, 2012 and 2011, respectively.

During the years ended September 30, 2013, 2012 and 2011, contributions made and accrued, which were equal to the required contributions for those years, amounted to $326,586, $325,013 and $338,176, respectively.

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

*DCRS*

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

Statutory employer contributions into the DCRS for the years ended September 30, 2013 and 2012 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

During the years ended September 30, 2013, 2012 and 2011, contributions made and amounts accrued under the DCRS amounted to $3,418,375, $2,368,797 and $2,314,135, respectively.

Retirement expense amounted to $3,744,961, $2,693,810 and $2,652,311 for the years ended September 30, 2013, 2012 and 2011, respectively.

*Unfunded Retirement Fund*

Upon implementation of GASB 67, the Authority estimates that its net position and accrued unfunded liability to retirement fund would decrease and increase, respectively, by approximately $6 million at October 1, 2013.

*Accrued Sick Leave*

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2013 and 2012, the Authority has accrued an estimated liability of $178,631 and $159,480, respectively. However, this amount is an estimate and actual payout could differ from those estimates.

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

*Other Post-Employment Benefits*

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

During the years ended September 30, 2013, 2012 and 2011, the Authority's required contributions to this Plan totaled approximately $390,000, $367,000 and $338,000, respectively.

**9. 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.

DFS entered into another concession agreement with the Authority for a separate additional store space for a five year term effective fiscal year 2011. For each of these agreements, 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.

**9. Leases, continued**

*DFS, continued*

Concession fee income earned from the DFS Concession Agreement for the years ended September 30, 2013 and 2012 totaled $5,523,024 and $7,346,397, respectively, and includes $523,024 and $2,346,397, respectively, of percentage rent income in excess of the minimum guarantee and additional rent on the DFS lease.

The DFS Concession Agreement expired on July 2013 and was not renewed. As of September 30, 2013, future minimum lease payment receivables under the remainder of the DFS Concession Agreements totaled $250,000.

*Lotte Duty Free Guam, LLC (Lotte)*

In March 2013, Lotte was selected as the primary concessionaire for the airport terminal for a ten year term commencing July 2013.

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

1. $15,160,000 (the "minimum guarantee) for the main and future rental space and $240,000 for the arrival retail space plus 1% of other gross revenues, or;

2. The sum of the on-site gross revenues multiplied by 30.1% and 25.0%, respectively, for the main and future retail space and arrival retail space, respectively.

During the lease term, the minimum guarantee rent shall be paid monthly in advance in equal installments on the first day of each month.

*DFS Protest*

On May 30, 2013, DFS filed a notice of appeal of the Authority's denial of DFS's first protest with the Office of Public Accountability (OPA). On December 26, 2013, the OPA issued an order that it is precluded from proceeding with DFS's appeal at this time.

On May 30, 2013, DFS also filed a civil action seeking judicial review of the Authority's denial of the first DFS protest. On July 19, 2013, the Court issued a Decision and Order dismissing the action for lack of subject matter jurisdiction.

The Authority filed a motion for monetary sanctions against DFS and its attorneys for alleged filing of a frivolous action in the Superior Court. Additionally, the Authority requested that the Court reconsider its decision to withdraw statements made by the Court that it exceeded its jurisdiction and were inconsistent with its holdings. The Superior Court denied the Authority's motions for sanctions and denied its motion for reconsideration. The Authority has appealed these decisions and the matter is currently pending before the Supreme Court of Guam.

**9. Leases, continued**

*Lotte Duty Free Guam, LLC (Lotte), continued*

The future minimum lease receipts under the remainder of the Lotte Concession Agreements as of September 30, 2013 are as follows:

| Year ending September 30, | |
|---|---|
| 2014 | $15,400,000 |
| 2015 | 15,400,000 |
| 2016 | 15,400,000 |
| 2017 | 15,400,000 |
| 2018 | 15,400,000 |
| Thereafter | 74,433,333 |
| Total future minimum lease payments receivable | $151,433,333 |

*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 with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. 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, which is on September 1, 2009 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 starting on September 1, 2014 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. For each of the years ended September 30, 2013 and 2012, the Authority accrued rental income totaling $259,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net position. At September 30, 2013 and 2012, accrued rental receivable totals $1,058,400 and $799,200, respectively, and is shown as accounts receivable from tenant in the accompanying statements of net position.

**9. Leases, continued**

*Pac Air Properties, LLC, continued*

Future minimum rental income under the aforementioned Pac Air lease agreement is as follows:

| Year ending September 30, | |
|---|---|
| 2014 | $ 259,200 |
| 2015 | 259,200 |
| 2016 | 286,200 |
| 2017 | 286,200 |
| 2018 | 286,200 |
| Thereafter | 19,488,503 |
| Total future minimum lease payments receivable | $20,865,503 |

In 2010, the Authority entered into a lease-back agreement with Pac Air to lease a total of 32,500 square feet of space in the completed facility on the leased premises for 5 years with annual rent expenses of $1,058,400. Rent expense for each of the years ended September 30, 2013 and 2012 amounted to $1,058,400 and is included under contractual services in the accompanying statements of revenues, expenses and changes in net position.

On December 2010, the Authority entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease 25,000 square feet of the aforementioned 32,500 square feet rental space for 5 years, with annual rental income of $1,024,200. Rental income for each of the years ended September 30, 2013 and 2012 amounted to $1,024,200 and is included under rental income in the accompanying statements of revenues, expenses and changes in net position.

Future minimal rent expense arising from the Pac Air lease-back agreement and future minimal sublease income from GovGuam CQA is as follows:

| Year ending September 30, | Lease back Expense | Sublease Income | Net (Expense) Income |
|---|---|---|---|
| 2014 | $(1,058,400) | $1,024,200 | $( 34,200) |
| 2015 | ( 923,400) | 1,024,200 | 100,800 |
| | $(1,981,800) | $2,048,400 | $ 66,600 |

## 9. Leases, continued

*Other Leases*

The Authority has lease agreements with scheduled air carriers, various concessionaires and other airport users. The agreements provide the lessees with the use of the airport's system facilities, equipment and services. The signatory airline operating agreements and terminal building leases expire on September 30, 2016. Other ground lease agreements will expire ranging from September 2015 through September 2035. The lease agreements with six rent-a-car companies will expire in June 2016.

The future minimum rentals on other noncancellable operating leases (excluding the DFS, Lotte and Pac Air and GovGuam CQA lease described above) as of September 30, 2013 are as follows:

| Year ending September 30, | |
|---|---|
| 2014 | $ 6,828,000 |
| 2015 | 6,598,000 |
| 2016 | 6,154,000 |
| 2017 | 1,352,000 |
| 2018 | 1,352,000 |
| Thereafter | 8,792,000 |
| Total future minimum lease payments receivable | $31,076,000 |

## 10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2013 and 2012 follows:

| | Outstanding September 30, 2012 | Increases | Decreases | Outstanding September 30, 2013 | Current | Noncurrent |
|---|---|---|---|---|---|---|
| Accrued sick leave | $ 159,480 | $ 38,303 | $ --- | $ 197,783 | $ --- | $ 197,783 |
| Accrued annual leave | 995,171 | 107,635 | --- | 1,102,806 | 354,394 | 748,412 |
| Loan payable to bank | 5,594,897 | 5,333,331 | --- | 10,928,228 | 2,263,500 | 8,664,728 |
| 2003 General revenue bonds | 155,696,456 | --- | 155,696,456 | --- | --- | --- |
| 2013 General revenue bonds | --- | 250,226,161 | --- | 250,226,161 | --- | 250,226,161 |
| | $162,446,004 | $255,705,430 | $155,696,456 | $262,454,978 | $2,617,894 | $259,837,084 |

## 10. Long-Term Liabilities, continued

| | Outstanding September 30, 2011 | Increases | Decreases | Outstanding September 30, 2012 | Current | Noncurrent |
|---|---|---|---|---|---|---|
| Accrued sick leave | $ 170,548 | $ --- | $ 11,068 | $ 159,480 | $ --- | $ 159,480 |
| Accrued annual leave | 989,967 | 5,204 | --- | 995,171 | 308,095 | 687,076 |
| Loan payable to bank | --- | 5,594,897 | --- | 5,594,897 | 217,000 | 5,377,897 |
| 2003 General revenue bonds | 164,904,139 | --- | 9,207,683 | 155,696,456 | 9,590,000 | 146,106,456 |
| | $166,064,654 | $5,600,101 | $9,218,751 | $162,446,004 | $10,115,095 | $152,330,909 |

## 11. Commitments and Contingencies

*Environmental Response Actions*

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority $10,000,000 as a lump sum but not in accordance to the payment provisions of the Quitclaim Deed from the Navy. In exchange for the payment, the Authority and the Government of Guam apparently assumed obligations for environmental response actions addressing specific groundwater contamination even if the cost of the response actions exceeds the $10 million received from the Navy. The Authority's management has received the final draft of the Decision Document (DD) for Operable Unit 3 (OU3) which is the groundwater located under the former Naval Air Station. The DD presents the selected remedy for OU3 which is the remedial alternative 3. It calls for extraction and treatment at Well NAS-1 and future wells, if necessary, and natural attenuation. The DD identifies the Navy as the lead agency for the cleanup with support agencies that include the Authority, Guam Environmental Protection Agency (GEPA) and the US EPA. The Navy, the Authority and GEPA are the authorized signatories for the DD. The final draft of the DD is presently being reviewed by the Authority's attorneys.

The Authority's responsibilities under the draft DD are limited to sampling and testing as currently performed. The new task is for the Authority to conduct a 5 year review to ensure the remedial action is or will be protective of human health and the environment. This new task may reduce the ongoing sampling and testing requirements or completely eliminate them. Moreover, the granular activated carbon (GAC) treatment provided under the Authority's new water system satisfies the GAC treatment component of future wells meeting the selected remedy. No further obligation of the Authority is required under the draft DD. A portion of the remaining balance of the $10 million received from the Navy, although reprogrammed to the Capital Improvement Fund, will remain as a contingent unencumbered sum to pay for future sampling and testing requirements and any potential improvements under the Environmental Services Cooperative Agreement that were not constructed under the Authority's water system.

**11. Commitments and Contingencies, continued**

*Environmental Response Actions, continued*

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2013, 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 *Accounting and Financial Reporting for Pollution Remediation Obligations* totaled $153,007. At September 30, 2013 and 2012, future pollution remediation and monitoring costs totaling $153,007 and $354,868, respectively, is reflected as a component of other current liabilities in the accompanying statements of net position.

*Federal Program Costs*

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

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

As of September 30, 2011, questioned costs estimated to be at approximately $60,000 was identified based on the construction costs of interconnections as reported by an independent engineer during their review of the design and construction of the Authority’s water system based on the grant applications submitted to the FAA. Based on additional verification by the project’s construction manager, the Authority subsequently reimbursed the FAA the verified amount of approximately $60,000 on July 2012 to resolve the audit finding. The FAA then followed with a grant amendment letter to increase grant funding by $755,815 to reimburse the Authority for increased eligible project costs.

As of September 30, 2013, there were no unresolved questioned costs.

*Commitments*

The Authority has commitments totaling approximately $10.7 million under several construction contracts at September 30, 2013.

In addition, the Authority has commitments under other various contracts totaling approximately $12.2 million at September 30, 2013.

**11. Commitments and Contingencies, continued**

*Insurance*

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of $1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Risk and Loss Management Reserve Fund to cover damage in the event of a natural catastrophe. The balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are $1,000,000 and $4,852,628 respectively, at September 30, 2013, and $1,000,000 and $3,832,707, respectively, at September 30, 2012. The Authority has a catastrophic insurance policy with coverage up to $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 Agencies 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.

On March 31, 2011, the Authority received an invoice from the Department of Administration (DOA) for payment of $12,250,000, representing an annual assessment on the Authority of $875,000 for years 1998 to 2011. The Authority is unable to recognize this invoice as a liability as it does not conform to the requirements of 5 GCA § 22421 as it is unclear how the annual contribution amount of $875,000 allocated to the Authority was determined. This does not conform to the requirement that the Governor of Guam and the Authority's Board of Directors shall consult and decide on a formula. Moreover, the statute of limitation for prior year assessments is limited to three years.

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2013 and 2003 General Revenue Bond Indentures (2013 and 2003 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2013 and 2003 Indentures and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2013 and 2012. This position has been supported by legal determinations, past and present.

The Authority recognizes that it is an instrumentality of the Government of Guam. The Authority may reimburse the Government of Guam for costs of services and contributions provided to the Authority subject to the standards of documentation as required by the FAA's Policy and Procedures Concerning the Use of Airport Revenue. The Authority may also pay for an indirect cost allocation that is reasonable, transparent, calculated similarly for other governmental units and consistent with Attachment A to OMB Circular A-87 and the aforementioned FAA policy.

**11. Commitments and Contingencies, continued**

*Government of Guam General Fund, continued*

During the course of 2013, there was no substantive progress on discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the GovGuam assessment.

*Water System Infrastructure Upgrade*

The new airport water system was commissioned and made operational in phases during 2012. The phasing was required to address the fire protection issues with the airport terminal first and to address potential leaks and water loss with the existing piping and valves in light of the higher water pressures.

The remaining work under the new airport water system is to install the laterals that connect the new infrastructure to the existing structures in north Tiyan that are presently supplied by the old Navy water system. This is estimated to be completed by the 2$^{nd}$ quarter of fiscal year 2013.

Concurrent with the commissioning of the new airport water system, the Authority entered into an interim agreement with Guam Waterworks Authority (GWA) to operate and maintain the water system for a minimum of one year. GWA's system rates will be status quo during the interim period. Moreover, the Authority is to monitor the system operations and maintenance processes and collect baseline data for subsequent negotiations with GWA for a longer term agreement.

Although, the Authority continues to assert that all costs associated with the airport water system are supported by adequate documentary evidence, the Authority did reimburse the FAA for questioned costs as noted in the above *Federal Program Costs.* As a final measure, the FAA would require that the independent engineering firm that performed the review of the airport water system project assess that the final agreement between the Authority and GWA conforms to the uses as noted in their report.

*Litigation*

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

**11. Commitments and Contingencies, continued**

*Other*

In December of 2012, the Department of Administration paid out merit bonuses for line agency employees who met the criteria set forth pursuant to 4 GCA Chapter 6 § 6203. Merit bonuses are to be paid to employees who receive a superior rating evaluation conducted for increment purposes. The Authority is currently conducting its due diligence to determine its obligation to pay out merit bonuses. At September 30, 2013, the Authority has accrued about $1.5 million as an estimate of costs to pay bonuses for the airport employees. In addition, the Authority has accrued about $681,000 as costs for the last incremental 10% salary increase for Airport Rescue Firefighters and Airport Police uniformed personnel pursuant to Public Law 29-105. This payment is for fiscal years 2012 and 2013. Management intends to settle this obligation in a single distribution and does not expect that this will be a recurring operating expense.

*Exchange License Agreement*

On April 5, 2012, the Authority and Core Tech International (Core Tech), entered into an exchange license agreement for a term of thirty years. The agreement calls for the Authority to allow Core Tech the right to use several dilapidated buildings owned by the Authority and in exchange, Core Tech allowed the Airport the use of Core Tech property on which the Authority had inadvertently encroached and made improvements on it in prior years. The license agreement stipulates that no rent will be charged to either party during the thirty year term of the agreement.

Surveys had discovered that the Authority had encroached onto Core Tech land wherein the Authority constructed a parking lot and a drainage ponding basin as part of renovations to two barracks that the Authority leased to the Government of Guam Customs & Quarantine Agency.

In lieu of receipt of back rentals and future rentals for use of the encroached property, Core Tech accepted, in exchange, the use of the Authority's three building that were in a state of disrepair and had environmental concerns. The agreement requires Core Tech to make repairs and mitigate all environmental issues over the buildings.

At the time the exchange license agreement was entered into, the fair market values of the assets involved by the parties were not determinable.

**12. Customs, Agriculture and Quarantine Inspection Services Charge**

During the years ended September 30, 2013 and 2012, 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, 2013 and 2012, the Authority recorded customs fees payable to the Treasurer of Guam totaling $1,867,990 and $2,042,986, respectively, for the above charges, of which $1,417,249 and $1,587,544, respectively, are reflected as customs fees, receivables in the accompanying statements of net position. The fees are not reflected as an expense or revenue by the Authority.

**13. Prior Period Adjustment**

As describe more fully in Note 1, the Authority early adopted the provisions of GASB 65. The impact to the Authority's net position as of October 1, 2011 and the results of its operations for the year ended September 30, 2012, is as follows:

| | |
|---|---|
| Net position as of September 30, 2011, as originally reported | $ 307,149,064 |
| Reversal of deferred bond issue cost | ( 4,857,336) |
| Reversal of amortization on deferred bond issue cost | ( 763,515) |
| Net position as of September 30, 2011, as restated | $ 301,528,213 |
| Decrease in net position for the year ended September 30, 2012, as originally reported | $( 1,158,679) |
| Reversal of amortization on deferred bond issue cost | 763,515 |
| Decrease in net position for the year ended September 30, 2012, as restated | $( 395,164) |

Supplementary Information

## Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other than Pension (Unaudited)

The Government of Guam maintains a cost-sharing multiple employer defined benefit plan to provide certain other post-retirement healthcare benefits (OPEB) to retirees who are members of the Government of Guam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The Antonio B. Won Pat International Airport Authority, Guam is a participating employer of the Plan.

The Schedule of Funding Progress presents OPEB valuations as of fiscal years ended September 30, 2011, 2009, and 2007 for GovGuam's Post Employment Benefits other than Pensions. The schedule provides, as a whole for the GovGuam, information trends about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| October 1, 2007 | $ --- | $1,635,223,000 | $1,635,223,000 | 0.0% | $466,346,000 | 350.6% |
| October 1, 2009 | $ --- | $1,852,558,000 | $1,852,558,000 | 0.0% | $466,346,000 | 397.2% |
| October 1, 2011 | $ --- | $2,088,331,000 | $2,088,331,000 | 0.0% | $466,346,000 | 447.8% |

The aforementioned actuarial accrued liability presents GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* results of the OPEB valuation as a whole for the Government of Guam. The actuarial accrued liability, as of September 30, 2011, attributed to the Antonio B. Won Pat International Airport Authority, Guam, totals $19,876,000.

# Antonio B. Won Pat International Airport Authority, Guam

## Years ended September 30, 2013 and 2012

### Schedule 1
### Facilities and Systems Usage Charges

| | 2013 | 2012 |
|---|---|---|
| Arrival facilities | $ 7,336,052 | $ 6,398,217 |
| Departure facilities | 6,942,472 | 6,348,530 |
| Passenger loading bridge usage charge | 4,666,053 | 3,676,307 |
| Landing fees | 2,963,427 | 3,042,109 |
| Immigration | 2,737,477 | 2,337,874 |
| Public apron | 1,691,203 | 2,107,797 |
| Utility recovery and other fees | 546,453 | 474,691 |
| Fuel flowage fees | 193,538 | 183,933 |
| | $ 27,076,675 | $ 24,569,458 |

### Schedule 2
### Concession Fees

| | 2013 | 2012 |
|---|---|---|
| General merchandise | $ 9,079,528 | $ 7,420,798 |
| Ground transportation | 5,165,180 | 4,803,013 |
| Car rental | 948,904 | 934,605 |
| Food and beverage | 913,962 | 902,317 |
| In-flight catering | 811,521 | 754,661 |
| Advertising | 433,155 | 452,565 |
| Money exchange | 352,749 | 379,211 |
| Parking lot | 175,655 | 134,263 |
| Other | 141,910 | 117,746 |
| | $ 18,022,564 | $ 15,899,179 |

### Schedule 3
### Rental Income

| | 2013 | 2012 |
|---|---|---|
| Operating space: | | |
| - Non-airline | $ 3,997,694 | $ 3,820,488 |
| - Airline | 3,469,810 | 3,103,781 |
| Building and maintenance shop rentals | 1,965,001 | 1,957,055 |
| Other | 1,552,772 | 1,716,873 |
| Cargo rentals | 266,896 | 262,890 |
| | $ 11,252,173 | $ 10,861,087 |

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 4
Contractual Services

| | 2013 | 2012 |
|---|---|---|
| Power | $ 6,468,615 | $ 6,999,726 |
| Repairs and maintenance | 5,654,711 | 5,545,945 |
| Professional services | 2,842,162 | 2,618,726 |
| Miscellaneous | 1,717,972 | 1,405,350 |
| Insurance | 1,356,787 | 1,384,319 |
| Utilities and telephone | 690,799 | 519,968 |
| Advertising and promotions | 460,270 | 331,045 |
| Travel/Training and Certifications | 195,803 | 144,974 |
| | $ 19,387,119 | $ 18,950,053 |

Schedule 5
Personnel Services

| | 2013 | 2012 |
|---|---|---|
| Salaries and wages | $ 12,883,180 | $ 10,356,825 |
| Retirement contributions | 3,744,961 | 2,763,279 |
| Insurance | 835,516 | 797,128 |
| | $ 17,463,657 | $ 13,917,232 |
| Full-time employee count in September | 190 | 192 |

Schedule 6
Materials and Supplies

| | 2013 | 2012 |
|---|---|---|
| Equipment and vehicle maintenance and supplies | $ 415,630 | $ 514,130 |
| Miscellaneous | 237,433 | 206,562 |
| Office and security supplies | 227,685 | 263,707 |
| Electrical and plumbing | 130,780 | 103,052 |
| Building maintenance and supplies | 67,226 | 91,036 |
| | $ 1,078,754 | $ 1,178,487 |

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2013

## Schedule 7
## Insurance Coverage

| Name of Insurer | Policy | Risk Coverage |
|---|---|---|
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Airport Operations Liability | $ 500,000,000 |
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Property Insurance | $ 200,000,000 |
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Catastrophe Insurance | $ 5,000,000 |
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Directors & Officers Liability<br>(Sublimit of $1,000,000 for<br>Employment Practices Liability) | $ 4,000,000 |
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Automobile | $ 2,000,000 |
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Workers' Compensation | $ 1,000,000 |
| Dongbu Insurance Co., Ltd.<br>Seoul, Korea | Crime Insurance | $ 1,000,000 |

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 8

Reconciliation of Historical Financial Results

| | Year ended September 30, 2013 | 2012 As Restated |
|---|---|---|
| Change in net position: | | |
| Revenues | $ 69,343,477 | $ 59,768,862 |
| Expenses | ( 38,426,706 ) | ( 35,151,229 ) |
| Income before depreciation | 30,916,771 | 24,617,633 |
| Depreciation | ( 22,668,001 ) | ( 24,193,004 ) |
| | 8,248,770 | 424,629 |
| Interest and other expenses | ( 10,630,516 ) | ( 7,597,613 ) |
| Transfer from the Government of Guam - OHS | 14,701 | 26,388 |
| Grants from the United States Government | 17,435,986 | 6,751,432 |
| Increase (decrease) in net position | $ 15,068,941 | $( 395,164 ) |
| Net Revenues (per Bond Resolution): | | |
| Revenues | $ 69,343,477 | $ 59,768,862 |
| Operation and maintenance expenses | ( 38,024,802 ) | ( 35,423,950 ) |
| Net revenues available for debt service | $ 31,318,675 | $ 24,344,912 |
| Reconciliation: | | |
| Change in net position | $ 15,068,941 | $( 395,164 ) |
| Add back: | | |
| Depreciation | 22,668,001 | 24,193,004 |
| Interest expense | 6,093,981 | 7,164,599 |
| Miscellaneous | 4,073,997 | ( 116,708 ) |
| Deduct: | | |
| Capital grants from the United States Government | ( 16,489,713 ) | ( 6,369,134 ) |
| Interest income on funds related to construction | ( 96,532 ) | ( 131,685 ) |
| | 31,318,675 | 24,344,912 |
| Other available monies | 4,328,486 | 4,317,380 |
| Funds available for debt service | $ 35,647,161 | $ 28,662,292 |
| Debt Service* | $ 17,313,944 | $ 17,269,519 |

* amounts of the aggregate annual debt service for such fiscal years as defined in the 2003 Bond Indenture Agreement

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013

## Schedule 9
## Employee Data

| Department | Employees (b) | | Personnel Services (a) |
|---|---|---|---|
| Board | 1 | | $ 57,095 |
| Administration | 30 | (c) | 2,704,693 |
| Property Management | 9 | | 825,559 |
| Planning | 1 | | 94,040 |
| Accounting | 10 | | 884,279 |
| Engineering | 3 | | 299,293 |
| Operations | 19 | | 1,722,724 |
| Properties & Facilities Maintenance | 40 | | 2,690,676 |
| Airport Police | 48 | | 4,524,772 |
| Aircraft Rescue Fire Fighting | 29 | | 3,660,526 |
| Total | 190 | | $ 17,463,657 |

Note(s):

a. Expenditures above are funded by Operating & Maintenance Fund Account.

b. Filled positions, not including Limited Term Appointments related to Airport Police pursuant to Transportation Security Administration mandated.

c. Administration consists of:

| | |
|---|---|
| Executive management | 2 |
| Administrative support | 11 |
| Personnel | 3 |
| Marketing | 3 |
| Procurement | 7 |
| Management information system | 4 |
| | 30 |