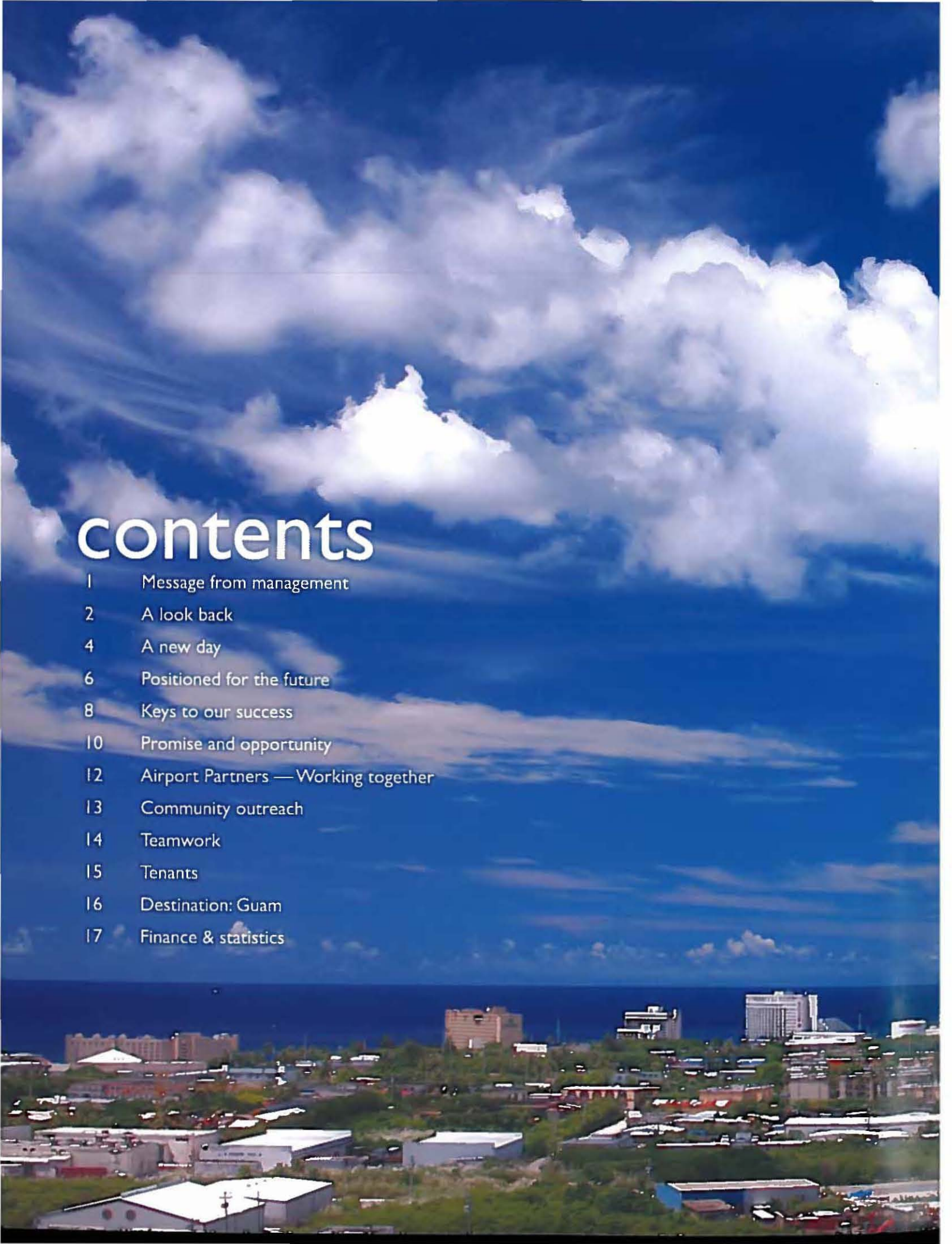


2006 ANNUAL REPORT



A.B. WON PAT
INTERNATIONAL AIRPORT AUTHORITY, GUAM



contents

- 1 Message from management
- 2 A look back
- 4 A new day
- 6 Positioned for the future
- 8 Keys to our success
- 10 Promise and opportunity
- 12 Airport Partners — Working together
- 13 Community outreach
- 14 Teamwork
- 15 Tenants
- 16 Destination: Guam
- 17 Finance & statistics

Our time to shine

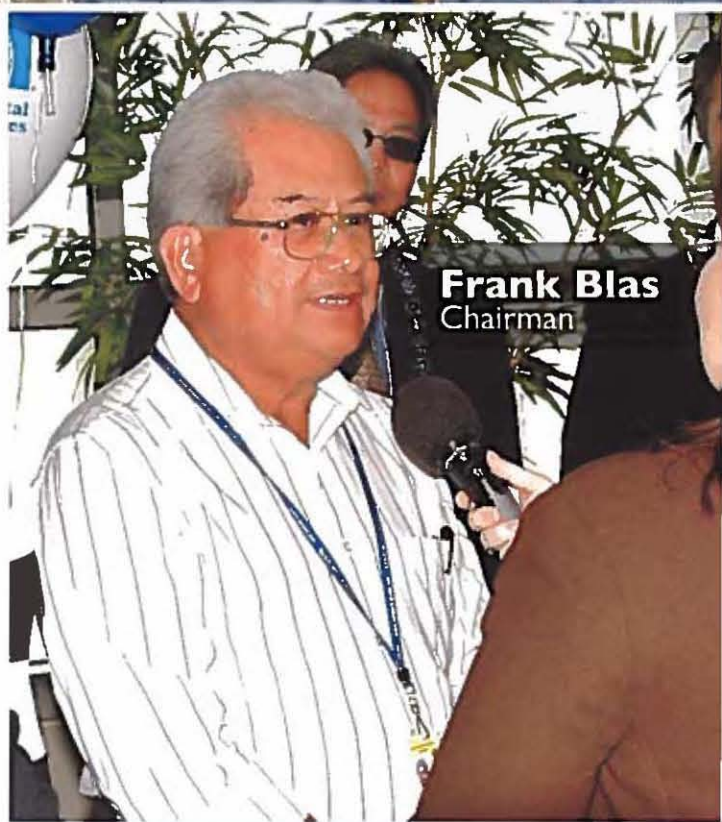


Jess Q. Torres
Executive Manager

The year 2006 marked a significant milestone for the Guam International Airport Authority as we celebrated 30 years as an autonomous agency of the Government of Guam. From our humble beginnings in a Quonset hut to the expansive terminal facility Guam boasts today, our airport has indeed come a long way over the past three decades as we continue to pave the way for unprecedented growth and expansion.

While much has changed since the first flight touched down on the tarmac, our spirit and dedication as regional leaders in aviation remains as strong as ever. In fact, our efforts over the past year resulted in \$23.5M in concession activity revenues, the \$8.5M completion of a new parallel taxiway, all while heralding our third consecutive year of increased profitability.

As we continually work to define our role in the global aviation environment, we are in active pursuit of new, exciting opportunities for our island, our airport, and our international travel base. And despite the challenges that lie ahead in the aviation landscape, our success through the years has certainly provided us with a renewed sense of commitment and hope for even greater achievements as we forge ahead.



Frank Blas
Chairman

Jess Q. Torres
Executive Manager

Frank Blas
Chairman



2005-2006 ACHIEVEMENTS

The Won Pat International Airport Authority, Guam (GIAA) was created as a government entity by public law which was authored by then-senator and former Lt. Governor Frank F. Blas, who now sits at the helm as Chairman of the GIAA Board of Directors. Prior to the enactment of P.O. 13-57, the airport business was handled as a division of the Department of Commerce until January 1976 when the Airport Authority took over terminal operations in the facility now known as the Commuter Terminal. At that time, the only three carriers using the facility and servicing Guam were Pan American Airways, Continental Air Micronesia and Japan Airlines.

Since then, GIAA has built two new terminal buildings. The first one, funded by \$43M in revenue bonds was completed in 1982 and was referred to as the "white elephant" because most island leaders thought it would never reach capacity. However, within its fifth year of tenancy and operations, the first terminal was over-crowded and bursting at the seams with passengers.

The second and current terminal is the end product of a \$241M expansion and construction project fully completed in September of 1998, making it the largest single capital improvement project ever completed on Guam.

Built with room to grow, the terminal today easily handles of 2.54 M passengers evident this past fiscal year. The facility consists of state-of-the-art equipment, an expansive concourse, twenty one (21) contact gates, an international food court and duty free shopping. It is expected to meet traffic demands up to the year 2010. Now in our 30th year, we highlight significant events in our development timeline.

Thirty-year Anniversary
as an autonomous agency

Parallel taxiway completion
Phase 2 – \$8.5 million

Helps accommodate
large scale aircraft

Realization/Completion
of Key objectives

Finance
Operations
Air service development
Capital improvement
Retail core improvement

Airport Credit Rating
Raised to BBB (Oct 06)

Airport files for Expanded
Air Service with DOT (Feb 06)

2005

In 2005, the A.B. Won Pat International Airport K-9 unit joined the prestigious Transportation Security Administration's (TSA) National Explosives Detection Canine Team Program through a cooperative partnership with TSA. The TSA-certified canine teams reflect the core values of the Department of Homeland Security – providing first responders with the right tools, technical assistance and funding protect our nation's interest, and is a valuable asset to the Airport safety program, combining excellent mobility with reliable detection rates. New and improved facilities and more efficient operations added to the quality of service for those doing business at the Airport. DHL Worldwide Express opened its new \$1.2M Express Package Facility in the Airport Development Area, symbolizing a continued commitment to a long term presence on Guam. Airline partner, Continental Micronesia, improved its operation at its maintenance hangar, after a \$3.5M upgrade and retrofit for efficient and safe operations.

OUR AIRPORT: A TIMELINE 1980s

1970s

1976

Guam Airport Authority (GAA) took over operations of the air terminal from the Department of Commerce in January 1976

1978

Groundbreaking and site preparation of a new Guam International Air Terminal was held in October 1978 to meet improved passenger services and capacity.

GAA Special Facility Fueling System Revenue Bonds were issued in the amount of \$3.25M, and was fully guaranteed by Lockheed Corporation with Wells Fargo Bank. This provided for an unconditional and irrevocable guarantee that Lockheed Corporation would meet all payments due in serving the bond issue.

1979

Guam Airport Authority floated a \$43M bond to build new terminal facility.

1981

Continental Micronesia added flights to Japan and Northwest began regularly scheduled services to Guam.

1982

The new \$43M Guam International Air Terminal was dedicated on January 19, 1982.

1983

All Nippon Airways (ANA) began charter flights to Guam which led to the inauguration of their international service three years later.

1984

Continental Air Micronesia introduced service to Hong Kong.

1985

The Board of Directors approved a 5-year capital improvement program consisting of construction of the Airport Access Road, concourse extension project, extension of the departure lounge, apron parking extension and a parallel taxiway.

1986

ANA began regular international air service to Guam in March 1996.

Construction began on the \$2M Airport Industrial Park and GAA broke ground for the Airport Access Road project.

1987

GIAT attained \$10.1M in revenues with operating costs of \$7.7M.

1988

Guam passed the million passenger mark with 1,494,148 passengers going through the Guam International Air Terminal (GIAT).

Airport Access Road opened on June 10th.

The Guam International Air Terminal was renamed to the "Antonio B. Won Pat Guam International Air Terminal" in honor of Guam's first elected Delegate to the U.S. House of Representatives.

2006

In 2006, Japan Airlines celebrated its 35th Anniversary of serving the Guam market. Japan Airlines service helped foster and develop Guam's primary tourist market, and is a major player in the transport of over 1 Million Japanese visitors to Guam annually.

The GIAA celebrated its 30th Anniversary as an autonomous agency of Guam ushering in

a new decade of growth and development. Booking over \$150M in capital improvement projects, the airport continued to maintain a strong, positive financial position while pursuing the opportunities made available by the exemptions to the transport and transfer of cargo by foreign air carriers granted by the U.S. Department of Transportation.

1990s

1990

Korea was added to the Guam-Only Visa Waiver program. Continental Air Micronesia began air services to Seoul and commenced services to Sendai and Sapporo, Japan.

1991

The Commuter Terminal became operational in August 1991. Three new loading bridges and parking aprons were added to the terminal at a cost of \$6.2M.

1993

In January 1993, the Guam Airport Authority sold \$242M in bonds in New York City for the airport expansion project.

In June 1993, Naval Air Station (NAS) Agana, (the joint use airfield for civilian and military operations) was added to the Base Realignment and Closure (BRAC) Commission's list for recommended closure.

1995

GIAA obtained an Airport Operating Certificate from the FAA in preparation for the closure of NAS. April 1, 1995 marked the first date that Guam's only commercial airport was fully operated for the first time by civilian air traffic controllers and GIAA Operations Officers, responsibilities that originally belonged to the US Navy.

1996

The first phase of the terminal expansion project was completed on September 10, 1996. The completed phase featured an expanded terminal space of 550,000 sq. ft. from 220,000 sq. ft., a new larger customs and immigration hall, public parking lot with 710 spaces, new and expanded retail space, an automated baggage system capable of processing 120 bags per minute, and four pairs of moving walkways along the concourse.

1997

GIAA conducted a full scale disaster simulation to fulfill requirements of FAR Part 139 for the first time. This simulation organized an island and agency-wide response to a mass casualty on airport grounds.

1998

In August of 1998, the second phase of the Terminal Expansion Project was opened for operations.

The year also marked an historical arrival of Air Force One touching down on the Guam International Airport's tarmac transporting the Honorable President Bill Clinton. In his speech, Clinton stated, "I have logged thousands of miles visiting many, many corners of America, trying to gain a greater understanding every day of the rich diversity of our nation. No president, however, can ever claim to have seen the breadth of America without coming here to our westernmost boundary. I thank you for making me feel so welcome, where America's day begins."

1999

The Phillips North American Directory ranked Guam 4th top U.S. Gateway to/from Asia and Australasia in 1999. Significant developments in air service included the following new and increased air services: China Airlines begins charter flights to Taipei, Continental Micronesia added four new Boeing 737-800 aircraft, Japan Airlines service to Nagoya increases to twice daily operations, Northwest Airlines graduated its DC10 fleet to 747 aircraft on flights to Tokyo, and Asiana Airlines celebrated a resumption of service to Seoul, South Korea operating 9 flights a week.

2000

In September of 2000, title to 1,417 acres of former US Naval properties was officially transferred to the Guam International Airport.

2001

Aerospace Concepts Inc. Corporate Business Center became a fixed based operator at GIAA facilities; a Flight Kitchen facility was conceptualized, an Express Package Facility was designed and internet kiosks and a cellular phone rental concession became operational.

2002

A banner year in our recovery, new and increased airline services included a resumption of Korean Airlines Seoul-Guam route, Philippine Airline's resumption of air service to Manila, Asiana's addition of a new Pusan-Guam route, All Nippon Airways inaugurated direct flights from Narita to Guam to complement their Osaka-Guam air service, and JAL added two more flights to their six flights a week to Narita.

2003

Through the success in the refunding of the \$211M 1993 General Revenue Bonds, the Authority was able to take advantage of the low-interest environment and strong demand for triple tax exemption bonds. The refunding of the bonds provided a gross savings of nearly \$20M to the Authority over the next twenty years, equal to approximately \$14M in savings on a net present value basis at the end of the Fiscal Year. The refunding made it possible for the Airport to decrease per passenger fees assessed to airlines by 29.4%.

2004

The Authority hosted the 14th Annual Airports Council International - Pacific (ACI-Pacific) Regional Assembly & Conference in May 2004. Over 200 airport and aviation-related executives from 17 countries participated in the conference.

GIAA launched the pilot phase of the Residential Sound Insulation Program. The phase involved approximately 30 homes currently impacted by airport noise measuring over 65 decibels. The Airport received \$2M in FAA funding to cover the costs of treating the homes with sound insulation measures.

The Airport welcomed world-renowned artist "Wyland" to Guam in 2004. As part of his international tour, an original mural was painted in the Terminal, making it the 91st piece of art in his Whaling Wall series.

A new day



Adopted in 2006, the airport's new logo prominently features the Proa and the Latte, icons in Guam history.



In 2006, GIAA came of age, and with that came a new understanding and a heightened sense of awareness. We emerged with an enlightened sense of how to do business, discovered new, more productive ways of forging relationships and more importantly, ways to restore, revitalize and ignite fresh opportunities.

With foresight established years ago, the airport

“Revitalize and ignite fresh opportunities.”

is realizing numerous opportunities.

Based on recent investments into the agency's physical structure, other possibilities are on the horizon. Investments include the second phase of the 6,600 linear feet of the Parallel Taxiway. The Parallel

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offer additional flights and new routes to Guam residents and to those transiting through the airport.

The airport is also in its second successful year since the implementation of an ambassador program known as the "Ayudanten Puetton Batkon Airen Guahan." The program provides foreign language passengers with translators for the ease and convenience of processing. In April, the Federal Aviation

Administration and the airport hosted the 2006 Pacific Aviation Directors Workshop. More than 150 Federal Aviation Administration officials, regional airport administrators, airline and aviation representatives, and Transportation Security Administration officials and others attended the workshop. Participants received training vital to the operations, expansion, and success of the airport.



Positioned for the Future

Directing prosperity



With over 200 acres of proposed development areas, Airport properties ensure more than ample room for growth.

Guam's airport continues to set the stage for exciting growth and opportunity by strategically positioning itself in the global arena of international travel.

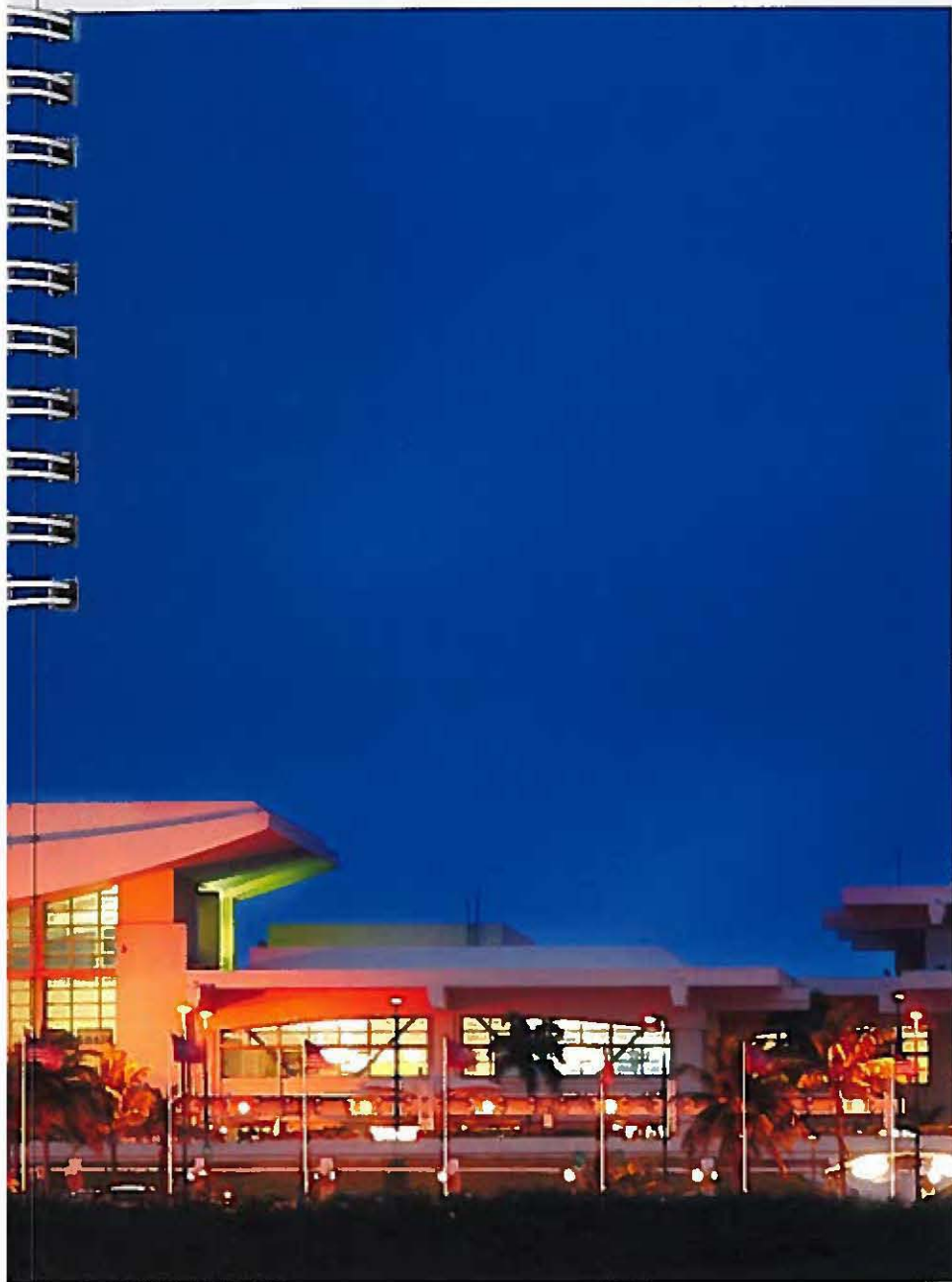
In fact, employing bold efforts and executing sound marketing plans have

underscored GIAA's viability as a sound, attractive investment opportunity.

Our location and proximity to Asia, coupled with our designation as a U.S. port, continue to make Guam and GIAA an appealing place to conduct and secure a wide range of business opportunities and activities.

**“Bold efforts
and ... sound
marketing plans”**





PROPERTIES

PROPERTIES	SQUARE FT.
Main Terminal	767,553
Ticket Counters (62 positions)	10,556
Airline Exclusive Use Space	61,484

JOINT AIRLINE USE SPACE

Departure Facilities	119,079
Arrival Facilities	126,819
Immigration Inspection Facilities	43,791
Security	10,067
Office Space	52,231
GIAA Office Space	13,121
GIAA Conference Rooms	2,076
Operations	31,838
Warehouse/Storage	16,507

CONCESSIONS

Retail (Duty Free)	22,640
Food & Beverage	14,495
Car Rental Counters	1,767
Tour Group Counters	2,733
Other Services	641

OTHER ADJACENT FACILITIES

Warehouse Space	81,206
Hangar	126,805
Office Space	15,845
Maintenance	967
Cargo	45,016
Air Terminal Annex	42,256
Aviation related Support Offices	66,835

PROPOSED DEVELOPMENT AREAS

Proposed Development Areas	200 acres
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A WORK OF ART

Breathtaking seascape mural of world-renowned artist Wyland, prominently featured in the airport terminal.



5 keys to

Since the early days
of the A.B. Won Pat
International Airport ...

1 vision

The past 30 years has taught us that our success truly hinges on our ability to plan for the future.

Decades ago our leaders paved the way through enabling legislation that breathed life into our airport and set our island on a course for change. Collectively they envisioned an airport filled with travelers eager to grace our shores, mammoth aircraft ready to transport, and a people excited to connect with the rest of the world.

Their foresight propelled us beyond heights never imagined, making them true pioneers of our island's economy. As we chart a new course to take us even further, our airport remains a testament to their will and determination; a lasting tribute to their legacy and vision.

2 teamwork

As Islanders, much of our heritage centers around the importance of working together, lending a hand in time of need.

It's no wonder then, that much of the way we conduct business is an embodiment of the Hafa Adai Spirit, a major component of our success. From our airport tenants to our airline counterparts, everything we do centers around a true spirit of cooperation and partnership as evidenced by successful completion of multi-agency triennial exercises. As we continue to work together as team players, our unique brand of hospitality has given us the opportunity to forge lasting relationships and develop alliances on a local, regional, and international scale.



success

Management had a glimpse of the future that would take the agency and the island to new heights. The airport's history clearly shows that by adopting 5 key components, these pioneers had a defined plan of growth and achievements. In the last 30 years plans were fulfilled and another course is being chartered to take the airport into an area of greater and bolder opportunities.



3 initiative

From our infancy as a fledgling airport to our standing as a major player in regional and international aviation, much of our success at GIAA can be attributed to our relentless pursuit of new, more exciting ways to do business.

Our ability to take the initiative and seize opportunities is a key component in realizing our achievements and ensuring success in such a dynamic, volatile industry. As the industry continues to evolve, our diligence and persistence help us to predict, anticipate, and respond to the needs of our expanding customer base and the regulatory restrictions that accompany such growth.

4 confidence

In a relatively short amount of time our airport has amassed a stellar list of accomplishments.

But our achievements over the past 30 years are not ours alone, instead they are a shining example of confidence in our ability to achieve our highest goals and objectives through the most efficient means possible. Such an overwhelming show of confidence from our major stakeholders, airline partners and tenants, and a committed, competent workforce form our very foundation of support. It is this level of confidence in our abilities to plan, develop and execute airport programs and incentives that continually drive the successes we enjoy today. From our proven ability as a government agency to garner favorable financial standing from investors to spearheading millions in capital improvement projects, our airport remains a sound financial investment.

5 innovation

Operating a successful international airport with purpose and distinction is certainly no easy task, and in an industry that changes overnight, staying ahead of the pack involves keen insight and an ability to predict what lies just beyond the horizon. Fortunately our management team is blessed with both.

Since our early beginnings in a Quonset hut, to the impressive terminal facility Guam boasts today, our airport remains a study in innovation and style. As a timeless marvel of architectural design, our airport also serves as a reminder that we possess the skill and foresight necessary to surpass expectations.



Expanding services for a stronger future

In an effort to enhance core services, the A.B. Won Pat International Airport Authority, Guam, aggressively pursued opportunities to expand air service development throughout Micronesia in 2006.

Appealing to the Department of Transportation, Government of Guam and airport officials made the case for lifting restrictions that inherently limit the authority's ability to attract potential investors, entice new

signatory airlines and offer a diversified range of cargo services at GIAA. Although the measure was met with some resistance, the overall response from airline

partners and tenants supported increased, yet balanced growth at Guam's airport without compromising or undermining efforts of established and existing partners.

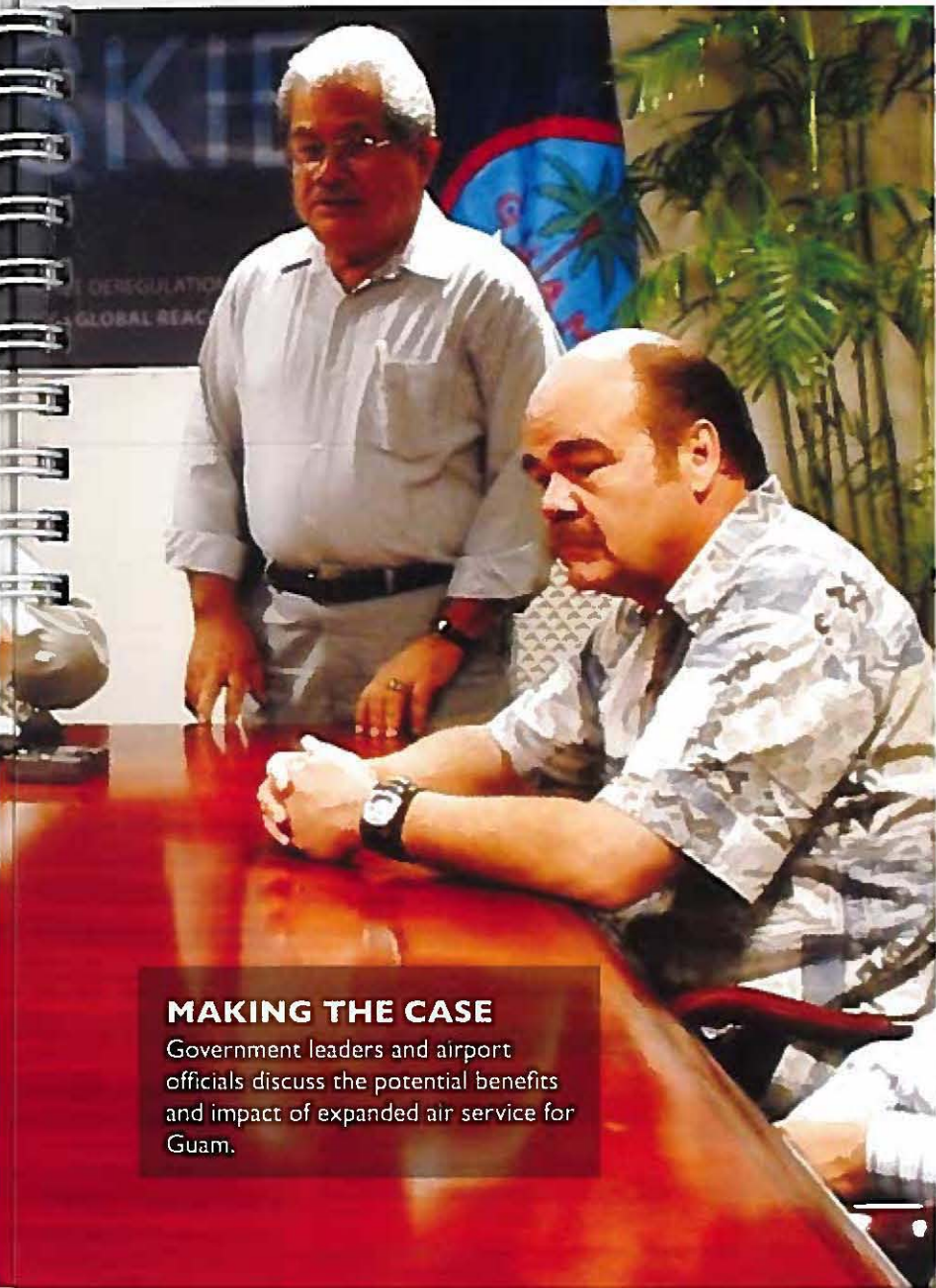
In October 2006, the Department of Transportation

granted, in part, the territory of Guam's request to permit foreign air carriers to provide expanded cargo services at the Antonio B. Won Pat International Airport for a period of two years, concluding that "... the proposed action

is consistent with the public interest, as they will provide important benefits to the territory of Guam, its economy and the traveling and shipping public."

Guam's Application for Expanded Air Services is

A new era in aviation

A photograph of two men in a meeting. One man, older with white hair and glasses, stands in the background wearing a light blue button-down shirt. The other man, younger with a mustache, sits at a large, polished wooden conference table in the foreground, wearing a patterned short-sleeved shirt. They appear to be in a formal setting with a flag and plants in the background.

MAKING THE CASE

Government leaders and airport officials discuss the potential benefits and impact of expanded air service for Guam.

expected to have a positive impact on the island's economy by developing new business and increased economic activities, creating jobs and generating tax revenue for the Government of Guam.

Any additional air traffic is also expected to increase the Airport's revenue and would mean a decrease in airline operation expenses, including enplanement fees and associated costs, all in a continued effort to usher in a truly new era in aviation and industry development for the region.



Working together - Airport partners

"GIAA heartily supports the growth of the aviation industry on the whole and their sincere efforts to develop and sustain longevity in this region is key."

"We will keep developing programs that shall contribute and benefit the economy of Guam for years to come."

"Our 34-year partnership has never been stronger ..."

"The Guam International Airport provides the stability that is needed in our industry to justify large scale investment."



CONTINENTAL AIRLINES



On behalf of the 1450 employees of Continental Micronesia, I extend our congratulations to the Guam International Airport Authority for its 30 years as an autonomous agency

to the people of Guam.

GIAA's steadfast commitment since 1977 to enhance Guam's aviation infrastructure is evidenced by the expansion of the airport from an open-air terminal to a world-class facility that accommodates over a million travelers a year.

Walter B. Dias,
Staff Vice President,
Sales and Marketing



ALL NIPPON AIRWAYS



In 1986, ANA expanded wings to its first international destination, Guam. Hence, 2006 was a memorable year as we celebrated 20 years of international flight service.

Throughout these years, we all had our share of good times and bad times, yet friendly and courteous assistance and support by the staff and management of Guam International Airport Authority remained consistent, and we are very thankful for that. We hope to continue to cultivate good relationship with GIAA and fellow airport partners.

Satoshi Katsuno
General Manager



DFS GALLERIA GUAM



DFS continues to forge a powerful partnership with the GIAA in the growth of Guam's tourism industry, through expansion of its product offerings

and services at the A.B.Won Pat Guam International Airport.

Our 34 year partnership has never been stronger, as we broaden the retail assortment to include a line up of world famous brands that is unsurpassed in airports around the globe. The recent addition of Dior, Hermes, Gucci, Salvatore Ferragamo, Coach, Burberry, and Ralph Lauren could not have been possible without the shared vision of a world class airport. As we move forward with the GIAA, we see further opportunities for the development and expansion of the overall retail experience in the airport for the benefit of tourists and the people of Guam.

Jim Beighley
General Manager



NORTHWEST AIRLINES



Congratulations to the Guam International Airport Authority (GIAA) and its employees on their 30th anniversary of service.

Northwest Airlines is pleased to have been a partner with the GIAA for the past 25 years, which have included many significant achievements. Northwest looks forward to continued growth and prosperity by serving our mutual customers and community in partnership with the GIAA.

Richard Parsons,
Manager (Guam and Saipan)



DHL INTERNATIONAL



DHL is extremely pleased to be a charter member of the world-class air cargo park that GIAA is developing in Tiyan.

Our 30 year relationship with GIAA has been a key element to our growth and prosperity in the Micronesia area.

The Guam International Airport provides the stability that is needed in our industry to justify large scale investment. Our strong relationship with the airport provides the necessary framework to grow our business and plan for increased flight activity in Guam.

Greg Dornon
Service Center Manager



CHINA AIRLINES



China Airlines has been operating schedule service between Guam and Taiwan, since March 26, 2000. In addition to our schedule services, peak travel demands

have required China Airlines to operate extra section flights to and from Guam. In order to enhance partnership with GIAA, China Airlines became one of the Signatory Airlines in 2006.

Under our vision, "Commitment to Excellence and Reliability", we aim to continue delivering excellent service with value through our extensive network to 67 cities in 25 countries. We will keep developing programs that shall contribute and benefit the economy of Guam for years to come.

Frank Mao
Regional Manager



JAPAN AIRLINES



It is an honor to celebrate GIAA's 30 year anniversary as an autonomous agency and a privilege to share a history in the airport's development since JAL's 1970 inaugural flight from

Tokyo to Guam.

GIAA heartily supports the growth of the aviation industry on the whole and their sincere efforts to develop and sustain longevity in this region is key.

Takaharu Sakurai
Vice president and Regional
Manager Guam & Micronesia Region

Beyond the airport: Community Outreach



Operating an international airport with purpose and distinction takes a concerted effort on all parts.

A great deal of our success extends beyond the airport grounds and into the very communities where we live and work.

By giving back to the schools, neighborhoods, and islands impacted by our daily operations, we reaffirm our commitment as stakeholders in our respective communities.

In 2006, airport management and staff participated in a multitude of activities all aimed at giving back to the community, from in-kind contributions for families displaced by local disasters, active participation in the Make-A-Wish Foundation, to providing support services at nearby senior carehomes, our commitment and support remain

"A great deal of our success extends beyond the airport grounds and into the very communities where we live and work."

as strong as ever.

By lending our support to local and regional non-profit organizations and humanitarian groups, our presence in the community have earned our Airport Employee Organization the highest of accolades and distinction as good neighbors.



Teamwork



Fire safety team in action during the Triennial full-scale disaster simulation.

Working in concert with one another involves commitment and dedication, fortunately there is no shortage of either at the Guam International Airport. From our dynamic team of airport employees, airline tenants and community and agency partners, we have fashioned a

strong foundation of support that is evident in all that we set out to accomplish. Throughout neighboring Micronesia and Asia we have forged relationships and established ties that have facilitated sister city and airport alliances demonstrated during the 2006 Pacific Aviation Directors

Workshop that underscored the importance of teamwork. Such a level of cooperation could not have been more apparent than in our Triennial full-scale disaster simulation, organizing a successful island and agency-wide response on the airport grounds. By incorporating a true spirit of

Standing Shoulder to Shoulder

cooperation and partnership, we remain committed to our basic mission of providing superior and reliable levels of airport service to our island residents and tourists through the most efficient and cost-effective means possible.



Our tenants

COMMERCIAL AIRLINES

All Nippon Airways
Asia Pacific Airlines
Freedom Air
Continental Micronesia, Inc.
China Airlines
Cape Air
Japan Airlines International
Korean Air
Northwest Airlines
Philippine Airlines

RETAIL & ADVERTISING

Audio Vision Center
Bestseller, Inc.
DFS Guam LP
Inter-space Airport Advertising

CAR RENTAL

Avis Rent-A-Car
Budget Rent-A-Car
Dollar Rent-A-Car
Hertz Rent A Car
National Car Rental
Nissan Rent-A-Car

FOOD & BEVERAGE

Allegro Italian Café
Airport Tentekomai
Denny's of Guam
Oasis Café

Clippers
Island Café & Bar
Burger King
Ramen Ya
Shirley's Coffee Shop
American Sports Bar
Domino's
Weinersnitzel
Golden Bowl
Captain Kid
Lounge Big Nama

FOREIGN EXCHANGE & BANKS

Bank of Guam
Bank of Hawaii
Citibank, N.A.
First Hawaiian Bank
GovGuam Credit Union
Pacific Amusement
TravelerAmericas

COMMUNICATIONS

Isla Pacific Telecommunications
HafaTel
Islandfone
Callhome

TOUR GROUPS

ANA Sales Americas
Guam Sanko Transportation
H.I.S. Guam Inc.
Happy Holiday Micronesia

Holiday Tours Micronesia
JALPAK International
Micronesia
PMT Guam Corporation
R&C Tours
Sawayaka Guam Inc.
Starts Tourist Inc.
TBF Guam Inc.
Yama's Co., Inc.

OTHER TENANTS

Ambyth Shipping & Trading
ASIG
ACI Pacific LLC
Bisness Mami
CT S I
Customs & Quarantine Agency
Department of Agriculture
DHL Corporation
J&RS Micronesian Pacific Ent.
MICOMAmerica, Inc.
Micronesian Aviation Systems
National Fisheries
PacAir, Ltd.
76/Circle K
Sky Bridge Guam
Tandem Skydive, Inc.
TEMCO, Inc
Transportation Security
Administration (TSA)
Triple B Freight Forwarders
US Customs & Border
Protection (CBP)

Our destination is paradise

Come discover what makes our island a truly exciting world class destination.

As a gateway to a host of opportunities, the Guam International Airport is situated minutes from the capital city of Hagåtña, and the island's bustling tourism district. Whether you're looking to invest, relax and rejuvenate, or simply take a walk through historic sites or sample delectable delights, our island has something for everyone...

CULTURE

The traditions and customs of Guam's proud island heritage live on despite conquerors, wars and changing governments. Formed in antiquity and molded by the events of history, Guam's living culture has expanded to form a vibrant, modern way of life.

Since the 17th Century, Roman Catholic churches in Guam have been the center of village activities.



Even today, every village has its patron saint whose feast day is celebrated with an elaborate fiesta to which the whole island is invited. Migrations of American, Asian, Micronesian and other visitors have left their imprint on the island's multinational influence more evident than in its food. At a fiesta or other island party, families prepare heavily laden tables of local delicacies.

NIGHTLIFE

For those whose energy rises when the sun sets, Guam offers a vibrant, exciting nightlife.

A cosmopolitan array of entertainment ranging from lively to subdued please even the most discriminating taste.

Visitors can observe world class performances, dine in gourmet restaurants or sample the best in nightclubs as well as executive lounges that operate in hotels along Tumon bay, all minutes from the Guam International Airport.

GOLFING

As a major visitor destination for travelers throughout Asia, Guam is home to some of the most world's most majestic golf courses, with professional and recreational golfers teeing up at any number of our highly challenging courses. 18-hole golf resorts with special character and appeal are ideally located throughout the island, nestled by lush tropical gardens that overlook some of the most spectacular areas of Guam.

SHOPPING

Our location in the Western Pacific coupled with our status as a U.S. territory has resulted in a full range of shops featuring treasures from all corners of the world. Sophisticated malls and specialty plazas, department stores



and unique boutiques and outlet malls offer an exceptional array of products.

Whether an avid or recreational shopper, each of the resort hotels at Tumon bay has a lobby arcade, and other specialty shops are located within walking distance along hotel row.

WATER ACTIVITIES

Water sports are, without a doubt, Guam's finest offering. Visitors who come to Guam to enjoy the island's ocean playground can choose from a full range of activities that will take them either over or under the surface of Guam's inviting tropical seas.



Located at the edge of the Marianas Trench, Guam is renowned for its vivid turquoise lagoons, deep sea currents and water clarity. Whatever kind of diving interests you have – photography, spear fishing, wreck and reef diving, or just a relaxing day admiring tropical fish and coral in crystal clear waters – Guam can provide it.

DINING

Guam is a haven of the culinary arts. Despite Guam's small population, a wide array of restaurants offer scrumptious delicacies to warm any palate. Major hotels and restaurants serve quality Continental meals and exotic ethnic dishes, as well.

Fresh seafood is bountiful. Fresh fish, octopus, and lobster are either grilled or baked with vegetables or fruit, sashimi, and in other imaginative ways unique to the Pacific.

Travelers who venture further will find Chamorro, Japanese, Korean, Thai, Vietnamese, Filipino, Chinese, Mexican, and European restaurants, each with its own distinct ambiance.



The figures tell a story

2006 ARRIVALS VERSUS PAST PERFORMANCE

YEAR	ARRIVALS	DEPARTURES	TRANSIT	LANDING/ TAKEOFFS	CARGO (M/T)	GTOW* (LBS)
2006	1,456,292	1,466,026	274,185	36,234	37.3	3,310,796
2005	1,441,248	1,451,159	179,043	34,011	37.68	3,108,577
2004	1,435,983	1,453,800	196,404	33,576	39.54	3,242,520
2003	1,151,215	1,713,414	211,704	30,888	35.21	3,008,642
2002	1,356,936	1,369,298	224,067	31,829	29.32	3,110,299
2001	1,697,418	1,724,105	281,226	36,011	34.72	3,537,087

* Gross Takeoff Weight

Source: GIAA Ops.



A.B. WON PAT
INTERNATIONAL AIRPORT AUTHORITY, GUAM

FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

GUAM INTERNATIONAL AIRPORT AUTHORITY

*YEARS ENDED SEPTEMBER 30, 2006 AND 2005
WITH REPORT OF INDEPENDENT AUDITORS*



Guam International Airport Authority

Financial Statements and
Other Financial Information

Years ended September 30, 2006 and 2005

Contents

Report of Independent Auditors	1
Management's Discussion and Analysis	3
Audited Financial Statements	
Statements of Net Assets	14
Statements of Revenues, Expense and Changes in Net Assets.....	16
Statements of Cash Flows	17
Notes to Financial Statements.....	19
Other Financial Information	
Schedules	40-44

Independent Auditors' Report

Board of Directors
Guam International Airport Authority

We have audited the accompanying statements of net assets of the Guam International Airport Authority (the "Authority"), a component unit of the Government of Guam, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Guam International Airport Authority as of September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The Management Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2007, on our consideration of the Guam International Airport Authority's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Ernst + Young LLP

January 9, 2007

Guam International Airport Authority

Management Discussion and Analysis

Year ended September 30, 2006

The following Management Discussion and Analysis of the Guam International Airport Authority (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, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Airport Terminal (the "Terminal"). All assets and liabilities were transferred from the Department of Commerce to the Authority at book value effective January 20, 1976.

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

A. Mission Statement

The Authority strives to ensure the safety and security of the traveling public, is dedicated to maintaining a superior and reliable level of airport services for our island residents and tourists, and is committed to supporting the development of air linkages and facilities which are integral parts of the island's future economic growth.

B. Using the Financial Statements

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

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

Guam International Airport Authority

Management Discussion and Analysis, continued

C. Authority Activities and Highlights

Passenger activity for FY 2006 continues to reflect steady growth year-over-year in comparison to enplanements for FY 2005, up 2% to approximately 1,526,931. The major thrust of this growth may be attributed to the increase in passenger activity of China Airlines and Philippine Airlines and the introduction of new service between Guam/Nagoya and Guam/Osaka by Northwest Airlines, which off-set the decrease in airline seat capacity into the market by Japan Airlines, in 1st Quarter of FY 2006.

While this growth is consistent with the FAA's TAF projections of 1.55 million enplanements for FY 2006, it is indicative of the upward trend in airline passenger demand regionally and internationally which we anticipate to flourish in FY 2007. The Guam Visitors Bureau reports similar trends in their projections and reflects strong growth in tourist arrivals from Asia, anticipating a 6% increase year-over-year in visitor arrivals amounting to approximately 1.25 million visitors for the year ending December 31, 2006. Visitors from Japan continues to be the predominant tourist group, however we are seeing a more diverse visitor base as Guam continues to benefit from a moderately healthy Asian-Pacific economy as well as the anticipated economic growth due to the ongoing and projected military build-up.

Activity for the Authority for the years ended September 30, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	2006 % Increase (Decrease) from 2005
Major revenue sources:				
Landing fees	\$ 3,141,860	\$ 3,906,841	\$ 1,244,048	(19.6)%
Terminal lease	8,524,035	8,093,984	8,250,522	5.3 %
Concessions and parking	<u>12,399,169</u>	<u>12,707,099</u>	<u>10,777,255</u>	(2.4)%
Total	<u>\$24,065,064</u>	<u>\$24,707,924</u>	<u>\$20,271,825</u>	(2.6)%
Passenger (enplanements) activity:				
Signatory airlines	1,435,471	1,402,181	1,453,364	2.4 %
Non-signatory airlines	<u>91,460</u>	<u>101,123</u>	<u>56,055</u>	(9.6)%
Total enplanements	<u>1,526,931</u>	<u>1,503,304</u>	<u>1,509,419</u>	1.6 %
Aircraft operations	<u>36,234</u>	<u>34,101</u>	<u>33,576</u>	6.3 %
Aircraft landed weights (000,000)	<u>3,310,798</u>	<u>3,108,577</u>	<u>3,242,520</u>	6.5 %
O & D passengers	2,673,207	2,605,048	2,510,012	2.6 %
Transfer passengers	<u>189,301</u>	<u>199,329</u>	<u>200,251</u>	(5.0)%
Total passengers	<u>2,862,508</u>	<u>2,804,377</u>	<u>2,710,263</u>	2.1 %

Guam International Airport Authority

Management Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

The Authority's ongoing development and execution of its revenue enhancement program remained focused on decreasing its enplanement cost to the airlines by aggressively managing the Authority's Operating and Maintenance expenses, increasing its non-airline revenue streams, and maximizing the revenue generating potential of the Authority's assets. The results of the Authority's efforts culminated in reasonable airline rates competitive with other airports in the region. Moreover, the Authority was able to maintain a superior and reliable level of airport services, providing for the safety and security of the traveling public, while maintaining sufficient coverage to meet the debt service requirements of the 2003 Bond Covenants.

The following airlines serve the Authority with scheduled or charter overseas passenger flights: Continental Micronesia, Northwest Airlines, All Nippon Airways, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Asia Pacific Airlines, and Aerospace Concepts who operate a business jet service. The principal commuter airlines providing inter-island passenger flight service to and from Guam and the Commonwealth of the Northern Mariana Islands ("CNMI") are Freedom Air, Micronesia Aviation Systems, and Cape Air.

D. Financial Operation Highlights

Revenues collected for FY 2006 amounted to approximately \$40.9 million while operating expenses were kept to \$27.7 including retirement unfunded liability. The \$13.1 million income from operations before depreciation and amortization is the result of management's initiatives on aggressively monitoring its finances while developing and executing the Authority's revenue enhancement program. The restructuring of key concession agreements, such as the management of the parking lot concession and the master concessionaire agreements resulted in a steady stream of income and contributed to lowering enplanement fees to the airline operators, down to \$13.46 per enplaned passenger for FY 2006 versus \$15.37 for FY 2005.

Maintaining their vigilance on fiscal responsibility, the Authority came in .3% under budget in total operating expenses for FY 2006 less the retirement unfunded liability (\$1.08 million) despite a 210.2% increase in equipment and a .08% increase in contractual services versus FY 2005 figures. The increase in equipment can be attributed to the purchases of vehicles for the K-9 personnel and an increase in power charges due to fuel surcharges, respectively. However in FY06 and FY05, the Authority received reimbursement from the Transportation Security Administration ("TSA") of \$442,547 and \$218,952 respectively for cost related K-9 and LEO.

Guam International Airport Authority

Management Discussion and Analysis, continued

D. Financial Operation Highlights, continued

A summary of operations and changes in net assets for the years ended September 30, 2006, 2005 and 2004 follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	2006 % Increase (Decrease) from 2005
Operating revenues	\$40,857,839	\$42,755,290	\$41,420,312	(4.4)%
Operating expenses, excluding depreciation	(27,709,355)	(24,834,252)	(24,501,854)	11.6 %
Operating income before depreciation	13,148,484	17,921,038	16,918,458	(26.6)%
Depreciation and amortization	(19,580,556)	(19,682,098)	(19,246,422)	(0.5)%
Loss from operations	(6,432,072)	(1,761,060)	(2,327,964)	265.2 %
Non-operating expenses - net	(1,140,736)	(2,454,716)	(1,895,613)	(53.5)%
Loss before capital contributions	(7,572,808)	(4,215,776)	(4,223,577)	79.6 %
Grants from the United States Government	14,937,768	16,864,891	6,539,904	(11.4)%
Transfer in from the Government of Guam	---	2,530,000	---	(100.0)%
Increase in net assets	\$ 7,364,960	\$15,179,115	\$ 2,316,327	(51.5)%

Operating revenues for FY 2006 amounting to \$40.9 million reflect a slight decrease of 4.4% versus figures for FY 2005 of \$42.8 million. In contrast, operating expenses grew by 11.6% versus figures for the same period. Operating expenses excluding depreciation increased to \$27.7 million in FY 2006 up from \$24.8 million in FY 2005. Notwithstanding this increase in operating expenses, the Authority was able to decrease its enplanement fees for FY 2006 by 12.4% down to \$13.46 versus \$15.37 for FY 2005. Additionally, while net operating income before depreciation for FY 2006 amounted to \$13.1 million, down 26.6% in comparison to FY 2005 figures of \$17.9 million, the Authority generated sufficient revenue to exceed the debt service coverage required under the 2003 Bond Covenants.

Review of Notable Events in FY 2006

FY 2006 continued to experience moderate growth experienced in FY 2005. The cost of fuel continued to wreak havoc in an already fragile airline industry. The Authority continued to seek out cost savings measures and provided airline incentives to maintain seat capacity into the Guam market. The Authority continues to exercise frugality while continuing to provide superior and reliable level of airport services without compromising the safety and security of the traveling public.

Guam International Airport Authority

Management Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Review of Notable Events in FY 2006, continued

In FY 2006, the Authority remained aggressive in the pursuit of federal funds. The Authority executed grant agreements of nearly \$11 Million with funding sources from the Federal Aviation Administration ("FAA") and the Economic Development Administration. The Authority currently has over \$101 million in capital improvement projects that are either underway or in the planning phases. Over 90% of the monies the Authority receives for its CIP program are federal funding. The remaining is mainly matching funds or projects that are essential to the Authority's overall mission. Notable projects include:

- Completion of Runway 6R/24L Extension Phase II
- Completion of the Parallel Taxiway B Phase I
- Completion of the K-9 Kennel Facility
- Completion of GIAA Retail Spaces
- Completion of Passenger Screening Improvements
- Upgrades to Security Access Control Systems
- Construction of Perimeter Security Road
- Rehabilitation of Cooling Towers
- Completion of repairs to typhoon damaged facilities

The Authority continues to adhere to strict internal controls. An independent audit reflected minor infractions on process and procedures implemented by the Authority, however none were deemed to be material weaknesses or questionable expenses.

Guam International Airport Authority

Management Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's statements of net assets at September 30, 2006, 2005 and 2004 is shown below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	2006 % Increase (Decrease) from 2005
<u>ASSETS</u>				
Current assets:				
Unrestricted assets	\$ 12,071,573	\$ 12,806,285	\$ 16,610,064	(5.7)%
Restricted assets	1,567,916	1,739,867	1,618,829	(9.9)%
Non-current assets:				
Unrestricted assets	22,023,274	30,035,946	30,544,931	(26.7)%
Restricted assets	42,779,336	36,985,110	33,290,300	15.7 %
Capital assets	349,760,252	347,874,858	339,891,492	0.5 %
Deferred bond issue costs	9,893,110	10,535,836	11,538,981	(6.1)%
Notes receivable	<u>4,445,685</u>	<u>4,012,288</u>	<u>---</u>	10.8 %
Total	<u>\$442,541,146</u>	<u>\$443,990,190</u>	<u>\$433,494,597</u>	(0.3)%
<u>LIABILITIES</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 7,885,719	\$ 10,506,565	\$ 9,964,160	(24.9)%
Payable from restricted assets	14,094,078	13,577,960	12,370,033	3.8 %
Long term liabilities	<u>201,998,406</u>	<u>208,707,682</u>	<u>214,956,818</u>	(3.2)%
Total	<u>\$223,978,203</u>	<u>\$232,792,207</u>	<u>\$237,291,011</u>	(3.8)%
<u>NET ASSETS</u>				
Invested in capital assets – net of related debt	\$154,228,284	\$146,152,342	\$133,418,985	5.5 %
Restricted	47,893,172	41,191,778	38,888,149	16.3 %
Unrestricted	<u>16,441,487</u>	<u>23,853,863</u>	<u>23,896,452</u>	(31.1)%
Total	<u>\$218,562,943</u>	<u>\$211,197,983</u>	<u>\$196,203,586</u>	3.5 %

The Authority's investments in capital assets net of related debt make up 71% of its net assets. These capital assets are used to provide services to its passengers and visitors to the Authority's Airport terminal. Although invested capital assets are reported net of related debt, the resources are required to repay this debt from revenues received annually from operations as specified in the 2003 Airport Bonds Indenture.

Guam International Airport Authority

Management Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Airline Signatory Rates and Charges

The Authority entered into an airport-airline lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. These leases are pending execution, which is expected to take effect not later than January 1, 2007.

The following summarizes the rates in effect at September 30, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Terminal building rental:			
Signatory	42.41	39.67	43.70
Non-signatory	44.53	42.67	47.65
Departure fees:			
Signatory	3.56	3.30	4.40
Non-signatory	3.74	3.55	4.80
Arrival fees:			
Signatory	4.09	3.80	5.22
Non-signatory	4.29	4.08	5.69
Immigration inspection fees:			
Signatory	1.55	1.41	1.96
Non-signatory	1.63	1.52	2.14
Loading bridge use fees:			
Signatory	145.03	296.74	284.63
Non-signatory	152.28	314.31	306.38
Apron use fees:			
Signatory	0.23	0.89	0.81
Non-signatory	0.24	1.07	0.85
Landing fees:			
Signatory	0.94	1.25	.36
Non-signatory	1.04	1.42	.64

Guam International Airport Authority
Management Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Revenues

A summary of revenues for the years ended September 30, 2006, 2005 and 2004 and the amount and percentage of change in relation to prior year amounts is as follows:

	2006	2006 % of Total	2005	2005 % of Total	2004	2004 % of Total	2006 % Increase (Decrease) from 2005
Operating:							
Facilities and use charges:							
Arrival facilities	\$ 5,362,326	8.4 %	\$ 4,999,794	7.4%	\$ 6,448,166	11.6%	7.3 %
Departure facilities	5,431,680	8.5 %	4,949,095	7.3%	6,311,165	11.4%	9.8 %
Landing fees	3,141,860	4.9 %	3,906,841	5.8%	1,244,048	2.2%	(19.6)%
Public apron	758,182	1.2 %	2,768,695	4.1%	2,564,552	4.6%	(72.6)%
Passenger loading bridge	1,315,610	2.1 %	2,504,969	3.7%	2,568,423	4.6%	(47.5)%
Immigration	1,916,557	3.0 %	1,714,756	2.5%	2,237,672	4.0%	11.8 %
Fuel flowage fee	210,424	0.3 %	216,582	.3%	223,200	0.4%	(2.8)%
Utility recovery charge and other fees	301,481	0.5 %	179,527	.3%	154,988	0.3%	67.9 %
Total facilities and use charges	<u>18,438,120</u>	<u>28.9 %</u>	<u>21,240,259</u>	<u>31.4%</u>	<u>21,752,214</u>	<u>39.1%</u>	<u>(13.2)%</u>
Concession fees:							
General merchandise	6,664,069	10.4 %	7,162,700	10.6%	5,438,143	9.8%	(7.0)%
Ground transportation	3,071,323	4.8 %	2,749,526	4.1%	2,598,266	4.7%	11.7 %
Car rental	730,886	1.1 %	793,299	1.2%	683,155	1.2%	(7.9)%
Food and beverage	735,984	1.2 %	691,349	1.0%	673,229	1.2%	6.5 %
In-flight catering	470,326	0.7 %	498,693	.7%	506,652	.9%	(5.7)%
Other	726,581	1.1 %	811,532	1.2%	877,810	1.6%	(10.5)%
Total concession fees	<u>12,399,169</u>	<u>19.3 %</u>	<u>12,707,099</u>	<u>18.8%</u>	<u>10,777,255</u>	<u>19.4%</u>	<u>(2.4)%</u>
Rental income:							
Operating space - airline	2,636,216	4.1 %	2,449,329	3.6%	2,691,777	4.8%	7.6 %
Operating space - non-airline	2,040,073	3.2 %	1,981,317	2.9%	2,129,202	3.8%	3.0 %
Other	3,847,746	6.0 %	3,663,338	5.5%	3,429,543	6.2%	5.0 %
Total rental income	<u>8,524,035</u>	<u>13.3 %</u>	<u>8,093,984</u>	<u>12.0%</u>	<u>8,250,522</u>	<u>14.8%</u>	<u>5.3 %</u>
Miscellaneous	<u>1,496,515</u>	<u>2.3 %</u>	<u>713,948</u>	<u>1.1%</u>	<u>640,321</u>	<u>1.2%</u>	<u>109.6%</u>
Total operating	<u>40,857,839</u>	<u>63.8%</u>	<u>42,755,290</u>	<u>63.3%</u>	<u>41,420,312</u>	<u>74.5%</u>	<u>(4.4)%</u>
Non-Operating:							
Interest income	2,492,263	3.9 %	1,890,359	2.8%	1,339,921	2.4%	31.8 %
Passenger facility charge	5,673,398	8.9 %	5,973,129	8.9%	5,643,534	10.1%	(5.0)%
Grants from the U. S. Government	14,937,768	23.4 %	16,864,891	25.0%	6,539,904	11.8%	(11.4)%
FEMA	---	0.0 %	---	0.0%	680,142	1.2%	0 %
Total non-operating	<u>23,103,429</u>	<u>36.2 %</u>	<u>24,728,379</u>	<u>36.7%</u>	<u>14,203,501</u>	<u>25.5%</u>	<u>(6.6)%</u>
Total revenues	<u>\$63,961,268</u>	<u>100.00%</u>	<u>\$67,483,669</u>	<u>100.0%</u>	<u>\$55,623,813</u>	<u>100.0%</u>	<u>(5.2)%</u>

Grants from the United States Government decreased from \$16.9 million in FY 2005 to \$14.9 million in FY 2006. The majority of monies received are reimbursements for the additional direct security related costs and for security enhancement projects.

Guam International Airport Authority

Management Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Expenses

A summary of expenses for the years ended September 30, 2006, 2005 and 2004, and the amount and percentage of change in relation to prior year amounts is as follows:

	2006	2006 % of Total	2005	2005 % of Total	2004	2004 % of Total	2006 % Increase (Decrease) from 2005
Operating:							
Contractual services	\$14,640,541	25.9 %	\$12,182,767	22.2%	\$12,052,699	22.6%	20.2 %
Personnel services	11,909,317	21.0 %	11,346,700	20.7%	11,661,401	21.9%	5.0 %
Materials and supplies	909,497	1.6 %	748,546	1.4%	632,903	1.2%	21.5 %
Bad debt expense	<u>250,000</u>	<u>0.4 %</u>	<u>556,239</u>	<u>1.0%</u>	<u>154,851</u>	<u>.3%</u>	(55.1)%
Total operating	<u>27,709,355</u>	<u>48.9 %</u>	<u>24,834,252</u>	<u>45.3%</u>	<u>24,501,854</u>	<u>46.0%</u>	11.6 %
Depreciation and amortization	<u>19,580,556</u>	<u>34.6 %</u>	<u>19,682,098</u>	<u>35.9%</u>	<u>19,246,422</u>	<u>36.1%</u>	(0.5)%
Non-Operating:							
Interest expense	9,504,212	16.8 %	9,905,976	18.1%	9,119,614	17.1%	(4.1)%
Other expenses	<u>(197,815)</u>	<u>(0.3)%</u>	<u>412,228</u>	<u>.7%</u>	<u>439,596</u>	<u>.8%</u>	(148.0)%
Total non-operating	<u>9,306,397</u>	<u>16.5 %</u>	<u>10,318,204</u>	<u>18.8%</u>	<u>9,559,210</u>	<u>17.9%</u>	(9.8)%
Total expenses	<u>\$56,596,308</u>	<u>100.00%</u>	<u>\$54,834,554</u>	<u>100.0%</u>	<u>\$53,307,486</u>	<u>100.0%</u>	3.2 %
Total full time employees	207		202		219		2.5 %

E. Outlook for FY 2007

Fiscal Year 2007 would prove to be a major crossroad for the Authority whereby major initiatives would evolve from paper to action such as the conversion to a civilian airport, expansion of air service and airfield capacity, renewed emphasis to increase the useful life of the Authority's assets and being sensitive to passenger convenience.

During the course of the year, projects to convert the former military base for civilian use will dramatically increase. Full demolition of base housing will commence and upgrades to the utility infrastructure (water system) will be initiated. A temporary bypass road will be constructed to allow continued public access as well as a new and hardened perimeter fence.

Guam International Airport Authority

Management Discussion and Analysis, continued

E. Outlook for FY 2007, continued

The Authority is aggressively pursuing an air service development program. The Authority has retained an air route development consulting group to identify short term objectives and target regional airlines focused on increasing airline service and operations, enplanements and aircraft activity into Guam. Rate incentives will continue. The Authority formally petitioned the U.S. Department of Transportation to allow for expanded air services in Guam. This petition will provide foreign airlines with the operational flexibility to use Guam as a transshipment point en-route to another U.S. destination. As of this writing, the Authority has received the Department of Transportation's final order that allow expanded air services for cargo operations.

Air service development is also intertwined with projects to expand airfield capacity. On the critical path is a new Instrument Landing System ("ILS") for Runway 6R. The FAA has authorized the notice to proceed for the project to begin. Once complete, waiting in the wings are projects to complete the Parallel Taxiway, a two thousand foot extension to Runway 6L/24R as well as new ILS. Upgrades to the electrical system are also underway. These projects will culminate in enhanced safe operations and, equally important, the capacity for Trans-Pacific or non-stop flights to the U.S. and even Europe.

The bulk of the Authority's assets are the air terminal building and its specialized systems, which have now aged 10 years. There is renewed focus to ensure the proper maintenance of all systems and upgrades where feasible. Sustaining or extending the useful life of the Authority's assets and its functionality is critical to long-term financial viability.

Improving passenger facilitation is another goal the Authority is working towards. Together with its airline partners, industry stakeholders and community groups, the Authority hopes to improve and expedite the federal inspection services and reduce delays associated with the Customs and Immigrations and Transportation Security Administrations federal screening measures.

Its passengers, employees and the public, commit the Authority to enhancing the overall airport experience. Cultural promotions and community outreach programs such as the Moon Rock Display or the 9/11 Exhibit make the airport a perfect venue to host these events. Initiatives for improved aesthetics and amenities include electronic signage, landscaping, educational displays, concession services and even upgraded restrooms.

The Authority is projecting \$12.78 as the cost per enplaned passenger for FY 2007. This is consistent with management's downward trend to hold the line on its cost structure to the airlines. By maintaining reasonable airport rates and charges, the Authority hopes to increase airline activity that ultimately translates into increased operating revenue through its concessions.

Guam International Airport Authority

Management Discussion and Analysis, continued

E. Outlook for FY 2007, continued

The following are key capital improvement projects expected to be initiated during FY 2007 to help position Guam as the premier transportation hub in the Pacific:

- Phase II Parallel Taxiway w/ILS and Runway 6L/24R extension
- Construction of Perimeter Security Road
- Construction of the Perimeter Security Fence
- Completion of the AOA Perimeter Fence line
- Completion of the Terminal Roof Repair & Painting
- Construction of the TSA International Transfer Facility
- Construction of a Temporary Tiyan Bypass Road
- Commencement of the Residential Sound Solution Insulation Program
- Construction of a Consolidated Maintenance Facility
- Construction of a Consolidated Car Rental Facility
- Demolition and Renovation of Tiyan Housing Facilities

Guam International Airport Authority

Statements of Net Assets

	September 30, <u>2006</u>	<u>2005</u> (restated, Note 14)
Assets		
Current assets:		
Unrestricted assets:		
Cash (Note 6)	\$ 1,928,586	\$ 2,360,005
Passenger facility charge cash (Note 6)	5,167	52,687
Accounts receivable, trade, net of allowance for doubtful accounts of \$739,094 and \$588,888 at September 30, 2006 and 2005, respectively (Note 2)	6,085,345	6,536,615
Passenger facility charge receivables	760,529	907,575
Receivables from the United States Government	2,864,219	2,544,118
Current portion of notes receivable (Note 3)	369,707	351,893
Inventory	58,020	53,392
Total unrestricted current assets	<u>12,071,573</u>	<u>12,806,285</u>
Restricted assets:		
Customs fees, cash	209,560	238,614
Customs fees, receivables (Note 11)	<u>1,358,356</u>	<u>1,501,253</u>
Total restricted current assets	<u>1,567,916</u>	<u>1,739,867</u>
Total current assets	<u>13,639,489</u>	<u>14,546,152</u>
General Revenue Bonds (Note 6) :		
Investments and cash with trustees, unrestricted	22,023,274	30,035,946
Investments and cash with trustees, restricted	<u>42,779,336</u>	<u>36,985,110</u>
	<u>64,802,610</u>	<u>67,021,056</u>
Capital assets, at cost less accumulated depreciation (Notes 4 and 10)	349,760,252	347,874,858
Deferred bond issue costs (Note 5)	9,893,110	10,535,836
Notes receivable, net of current portion (Note 3)	<u>4,445,685</u>	<u>4,012,288</u>
Total assets	<u>\$ 442,541,146</u>	<u>\$ 443,990,190</u>

See accompanying notes.

Guam International Airport Authority

Statements of Net Assets, continued

	September 30,	
	<u>2006</u>	<u>2005</u>
		(restated, Note 14)
Liabilities and Net Assets		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,850,496	\$ 2,200,762
Accounts payable - construction	2,497,478	4,690,367
Other liabilities (Note 13)	925,765	2,290,281
Security deposits and deferred income	1,191,309	928,261
Current portion of annual leave (Note 9)	420,671	396,894
Total payable from unrestricted assets	<u>7,885,719</u>	<u>10,506,565</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam (Note 11)	1,459,594	1,788,951
General Revenue Bonds:		
Current installments (Notes 5 and 9)	7,640,000	6,685,000
Accrued interest	4,994,484	5,104,009
Total payable from restricted assets	<u>14,094,078</u>	<u>13,577,960</u>
Total current liabilities	<u>21,979,797</u>	<u>24,084,525</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued unfunded liability to retirement fund (Notes 7 and 9)	3,787,873	2,708,873
Long-term portion of annual leave (Note 9)	425,457	425,457
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds (Notes 5 and 9)	<u>197,785,076</u>	<u>205,573,352</u>
Total non-current liabilities	<u>201,998,406</u>	<u>208,707,682</u>
Total liabilities	<u>223,978,203</u>	<u>232,792,207</u>
Commitments and contingencies (Note 10)		
Net assets:		
Invested in capital assets, net of related debt	154,228,284	146,152,342
Restricted (Notes 4 and 10)	47,893,172	41,191,778
Unrestricted	16,441,487	23,853,863
Total net assets	<u>218,562,943</u>	<u>211,197,983</u>
Total liabilities and net assets	<u>\$ 442,541,146</u>	<u>\$ 443,990,190</u>

See accompanying notes.

Guam International Airport Authority
Statements of Revenues, Expenses and Changes in Net Assets

	Years ended September 30, <u>2006</u>	<u>2005</u> (restated, Note 14)
Revenues (Note 5) :		
Facilities and systems usage charges	\$ 18,438,120	\$ 21,240,259
Concession fees (Notes 2 and 8)	12,399,169	12,707,099
Rental income	8,524,035	8,093,984
Miscellaneous	<u>1,496,515</u>	<u>713,948</u>
Total revenues	<u>40,857,839</u>	<u>42,755,290</u>
Operating costs and expenses:		
Contractual services	14,640,541	12,182,767
Personnel services	11,909,317	11,346,700
Materials and supplies	909,497	748,546
Bad debt	<u>250,000</u>	<u>556,239</u>
Total operating costs and expenses	<u>27,709,355</u>	<u>24,834,252</u>
Income from operations before depreciation and amortization	13,148,484	17,921,038
Depreciation and amortization	(19,580,556)	(19,682,098)
Loss from operations	(6,432,556)	(1,761,060)
Non-operating income (expense):		
Passenger facility charge income	5,673,398	5,973,129
Interest income	2,492,263	1,890,359
Interest expense	(9,504,212)	(9,905,976)
Other income (expense) (Note 3)	199,631	(229,709)
Non-recurring expenses (Note 12)	(1,816)	(182,519)
Total non-operating expenses	(1,140,736)	(2,454,716)
Loss before capital grants and transfer in	(7,572,808)	(4,215,776)
Capital grants from the United States Government	14,650,792	16,864,891
Operating grants from the United States Government	286,976	---
Transfer in from the Government of Guam (Note 4)	<u>---</u>	<u>2,530,000</u>
Increase in net assets	7,364,960	15,179,115
Net assets at beginning of year (Note 14)	<u>211,197,983</u>	<u>196,018,868</u>
Net assets at end of year	<u>\$ 218,562,943</u>	<u>\$ 211,197,983</u>

See accompanying notes.

Guam International Airport Authority

Statements of Cash Flows

	Years ended September 30, <u>2006</u>	<u>2005</u> (restated, Note 14)
Cash flows from operating activities:		
Cash received from customers	\$ 40,540,735	\$ 43,134,618
Cash paid to suppliers and employees for goods and services	(16,400,990)	(14,022,651)
Cash paid to employees	(10,806,540)	(10,685,851)
Net cash provided by operating activities	<u>13,333,205</u>	<u>18,426,116</u>
Cash flows from investing activities:		
Proceeds from collection on note receivable	473,108	438,103
Net purchase of investments with trustee	2,218,446	(3,268,122)
Investment interest income	<u>2,492,263</u>	<u>1,972,656</u>
Net cash provided by (used in) investing activities	<u>5,183,817</u>	(857,363)
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(22,525,206)	(27,529,300)
Interest paid on General Revenue Bonds, Series 2003	(10,104,644)	(10,781,926)
Principal payment on General Revenue Bonds, Series 2003	(6,833,276)	(5,600,000)
U.S. Government capital grants	14,617,667	19,530,023
Passenger facility charge receipts	<u>5,820,444</u>	<u>5,773,496</u>
Net cash used in capital and related financing activities	(19,025,015)	(18,607,707)
Net decrease in cash	(507,993)	(1,038,954)
Cash at beginning of year	<u>2,651,306</u>	<u>3,690,260</u>
Cash at end of year	<u><u>2,143,313</u></u>	<u><u>\$ 2,651,306</u></u>
Consisting of:		
Unrestricted	\$ 1,933,753	\$ 2,412,692
Restricted - current	<u>209,560</u>	<u>238,614</u>
	<u><u>\$ 2,143,313</u></u>	<u><u>\$ 2,651,306</u></u>

See accompanying notes.

Guam International Airport Authority
Statements of Cash Flows, continued

	Years ended September 30, <u>2006</u>	<u>2005</u> (restated, Note 14)
Reconciliation of loss from operations and other expense to net cash provided by operating activities:		
Loss from operations	\$(6,432,072)	\$(1,761,060)
Non-recurring and other income (expense)	<u>197,815</u>	<u>(412,228)</u>
	(6,234,257)	(2,173,288)
Adjustments to reconcile loss from operations and other expense to net cash provided by operating activities:		
Depreciation and amortization	19,580,556	19,682,098
Bad debt expense	250,000	556,239
(Increase) decrease in assets:		
Accounts receivable	(580,152)	(9,137)
Inventory	(4,628)	(20,571)
Prepaid expense and other	---	3,650
Increase (decrease) in liabilities:		
Accounts payable	320,377	168,361
Other liabilities	(1,364,516)	(728,896)
Security deposits and deferred income	263,048	388,465
Annual leave	23,777	(29,805)
Accrued unfunded liability to retirement fund	<u>1,079,000</u>	<u>589,000</u>
Total adjustments	<u>19,567,462</u>	<u>20,599,404</u>
Net cash provided by operating activities	<u>\$ 13,333,205</u>	<u>\$ 18,426,116</u>

Supplemental Disclosure of Noncash Investing Activity:

During the year ended September 30, 2006, the Authority converted trade receivables totaling \$924,319 into notes receivable.

See accompanying notes.

Guam International Airport Authority

Notes to Financial Statements

Years ended September 30, 2006 and 2005

1. Organization and Summary of Accounting Policies

Organization

The Guam International Airport Authority (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. All assets and liabilities were transferred from the Department of Commerce to the Authority at book value effective January 20, 1976.

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 of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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 of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Net Assets

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

Cash

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

Guam International Airport Authority
Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Notes Receivable

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

Capitalization Policy

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.

Depreciation and Amortization

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 building and 3 to 10 years for equipment.

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

Capitalization of Interest

The Authority charges to construction-in-progress interest incurred during the period of construction. For projects constructed with the proceeds of the Authority's tax exempt bonds, interest capitalized is computed based on the interest expense incurred on the bond proceeds restricted to construction or repayment of the bonds less interest income earned on investment of bond proceeds. Interest is capitalized in accordance with Statement of Financial Accounting Standards No. 34 for all projects which are not constructed with the proceeds of tax exempt bonds or grant funds. Interest capitalization ceases when constructed facilities are placed in service.

Compensated Absences

In accordance with Public Law 27-005 and Public Law 28-068 employees vacation rates are credited to either 104 or 156 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.

Guam International Airport Authority

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences, continued

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

The statutes reduce the maximum accumulation of such vacation credits from 480 to 320 hours. Employees who have accumulated hours in excess of the 320 hours shall have up to September 30, 2004, to use the excess amount of leave or that portion permitted to be credited to sick leave and the remainder of excess leave will be lost.

Public Law 27-106 was enacted on September 25, 2004 amending 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 pay up to 320 hours is converted to pay upon termination of employment. Amounts to be paid during the next fiscal year are reported as current.

Bond Premium and Discount

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent 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.

Passenger Facility Charges

Passenger Facility Charges ("PFC") generate revenues 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 revenues are recorded as non-operating income in the statements of revenues, expenses and changes in net assets.

Guam International Airport Authority
Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Inventory

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

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.

Risk Management

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

New Accounting Standards

The Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No.3)* for the year ended September 30, 2005. GASB No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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, 2006 and 2005, receivables that are more than ninety days past due totaled approximately \$1,045,000 and \$731,000, respectively. The Authority does not accrue finance charges on past due receivables.

Guam International Airport Authority

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Accounts Receivable, continued

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

2. Major Customers

The primary concessionaire accounted for 16% and 17% of total operating revenues for the years ended September 30, 2006 and 2005, respectively. Receivables from the primary concessionaire totaled \$2,006,014 and \$2,327,217 at September 30, 2006 and 2005, respectively.

Approximately 31% and 33% of the Authority's total revenues for the years ended September 30, 2006 and 2005, respectively, were derived from one airline customer. Receivables from the airline customer totaled \$2,106,375 and \$1,573,322 at September 30, 2006 and 2005, respectively.

3. Notes Receivable

Notes receivable as of September 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Due from Duty Free Shoppers ("DFS") for advancement of capital cost improvements the authority provided DFS to operate a retail merchandise concession (see Note 8). DFS shall repay the Authority in semi-annual installments beginning June 30, 2005, totaling \$342,738, inclusive of interest at 5% per annum, with final payment due in the year 2013. The note receivable due from DFS is net of unearned interest income totaling \$811,885 and \$948,249 as of September 30, 2006 and 2005, respectively	\$3,891,073	\$4,364,181

Guam International Airport Authority
Notes to Financial Statements, continued

3. Notes Receivable, continued

	<u>2006</u>	<u>2005</u>
Due from Guam Police Department totaling \$879,065 and due from CMC Limousine, Inc. totaling \$45,254. The notes arise from converting trade receivables into promissory note arrangements. Specific repayment terms have not been finalized	924,319	---
	4,815,392	4,364,181
Less current installments	(369,707)	(351,893)
	<u>\$4,445,685</u>	<u>\$4,012,288</u>

Interest income on the aforementioned DFS note receivable totaled \$212,368 and \$76,004 for the years ended September 30, 2006 and 2005, and is included as a component of other income (expense) in the accompanying statements of revenues, expenses and changes in net assets.

Guam International Airport Authority

Notes to Financial Statements, continued

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2006 is as follows:

	Beginning Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2006
Capital assets depreciated:				
Terminal building	\$303,748,741	\$ 6,812,028	\$ ---	\$310,560,769
Other buildings	39,009,271	11,597	---	39,020,868
Apron area	28,582,338	---	---	28,582,338
Airfield area	33,369,534	---	---	33,369,534
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>7,774,937</u>	<u>140,160</u>	<u>---</u>	<u>7,915,097</u>
Total capital assets depreciated	437,233,529	6,963,785	---	444,197,314
Less accumulated depreciation	<u>(187,438,558)</u>	<u>(18,609,244)</u>	<u>---</u>	<u>(206,047,802)</u>
Net capital assets depreciated	<u>249,794,971</u>	<u>(11,645,459)</u>	<u>---</u>	<u>238,149,512</u>
Capital assets not depreciated:				
Land	56,754,194	---	---	56,754,194
Construction-in-progress	<u>41,325,693</u>	<u>20,342,881</u>	<u>(6,812,028)</u>	<u>54,856,546</u>
Total capital assets not depreciated	<u>98,079,887</u>	<u>20,342,881</u>	<u>(6,812,028)</u>	<u>111,610,740</u>
	<u>\$347,874,858</u>	<u>\$ 8,697,422</u>	<u>\$(6,812,028)</u>	<u>\$349,760,252</u>

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

Guam International Airport Authority
Notes to Financial Statements, continued

4. Airport Facilities, continued

A summary of changes in capital assets for the year ended September 30, 2005 is as follows:

	Beginning Balance October 1, 2004	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2005
Capital assets depreciated:				
Terminal building	\$302,509,918	\$ 1,238,823	\$ ---	\$303,748,741
Other buildings	35,951,778	3,057,493	---	39,009,271
Apron area	28,582,338	---	---	28,582,338
Airfield area	28,405,480	4,964,054	---	33,369,534
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>7,756,277</u>	<u>18,660</u>	<u>---</u>	<u>7,774,937</u>
Total capital assets depreciated	427,954,499	9,279,030	---	437,233,529
Less accumulated depreciation	<u>(168,759,602)</u>	<u>(18,678,956)</u>	<u>---</u>	<u>(187,438,558)</u>
Net capital assets depreciated	<u>259,194,897</u>	<u>(9,399,926)</u>	<u>---</u>	<u>249,794,971</u>
Capital assets not depreciated:				
Land	54,224,194	2,530,000	---	56,754,194
Construction-in-progress	<u>26,472,401</u>	<u>29,353,272</u>	<u>(14,499,980)</u>	<u>41,325,693</u>
Total capital assets not depreciated	<u>80,696,595</u>	<u>31,883,272</u>	<u>(14,499,980)</u>	<u>98,079,887</u>
	<u>\$339,891,492</u>	<u>\$22,483,346</u>	<u>\$(14,499,980)</u>	<u>\$347,874,858</u>

Interest capitalized for the years ended September 30, 2006 and 2005, totaled \$484,757 and \$302,043, 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.

Guam International Airport Authority
Notes to Financial Statements, continued

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 at cost less accumulated depreciation in the accompanying statements of net assets. In fiscal year 2001, the Navy paid the Authority \$10 million (see Note 10) and the Authority and the Government of Guam assumed the responsibility for completion of certain environmental monitoring on the property. This payment from the Navy is included as a component of restricted net assets in the accompanying statements of net assets.

5. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
General revenue bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$7,640,000 due in October 2006, and increasing to \$17,175,000 on October 2023	\$203,965,000	\$210,650,000
Less current installments	(<u>7,640,000</u>)	(<u>6,685,000</u>)
	196,325,000	203,965,000
Add net unamortized premium on bonds	7,500,195	8,261,865
Less deferred difference on refunding of 1993 bonds	(<u>6,040,119</u>)	(<u>6,653,513</u>)
	<u>\$197,785,076</u>	<u>\$205,573,352</u>

Guam International Airport Authority

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 7,640,000	\$ 9,798,000	\$ 17,438,000
2008	8,030,000	9,422,000	17,452,000
2009	7,335,000	9,066,000	16,401,000
2010	8,235,000	8,720,000	16,955,000
2011	8,625,000	8,333,000	16,958,000
2012 through 2016	50,290,000	35,201,000	85,491,000
2017 through 2021	65,065,000	21,479,000	86,544,000
2022 through 2024	<u>48,745,000</u>	<u>3,858,000</u>	<u>52,603,000</u>
	<u>\$203,965,000</u>	<u>\$105,877,000</u>	<u>\$309,842,000</u>

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

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount was deferred and is being amortized over the remaining life of the 1993 bonds. For the years ended September 30, 2006 and 2005, the amortized amounts totaling \$642,276 and \$633,499, respectively, are included as a component of other expense in the accompanying statements of revenues, expenses and changes in net assets.

The General Revenue Bonds, Series 2003, including interest, are payable solely from and are secured by a pledge of revenues under the indenture. The bonds are collateralized by a lien upon and pledge of revenues to be received by the Authority, the trustees and the depository. Neither the payment of the principal on the bonds, nor any interest thereon, is a debt, liability or obligation of the Government of Guam.

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

Guam International Airport Authority

Notes to Financial Statements, continued

6. Investments and Cash with Trustees

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the bond proceeds. At September 30, 2006 and 2005, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2006</u>	<u>2005</u>
Cash with trustees	\$ 1,260,000	\$ 5,347,922
Federal Grant Funds	6,720,842	9,442,138
Operations and Maintenance Reserve Fund	6,842,585	7,401,818
Operations and Maintenance Fund	44,410	3,035,206
General Revenue Fund	2,716,615	2,527,047
Self-Insurance Fund	8,834	1,666,129
Capital Improvement Fund	<u>4,429,988</u>	<u>615,686</u>
Total Unrestricted	<u>22,023,274</u>	<u>30,035,946</u>
Cash with trustees	4,718	4,718
Bond Reserve Funds	20,778,397	19,800,154
Bond Funds	16,576,406	13,322,098
Renewal and Replacement Fund	5,207,619	3,553,285
Cost of Issuance Fund	<u>212,196</u>	<u>304,855</u>
Total Restricted	<u>42,779,336</u>	<u>36,985,110</u>
	<u>\$64,802,610</u>	<u>\$67,021,056</u>

The Authority's investments at September 30, 2006 and 2005, are held by the Authority's trustees.

Guam International Airport Authority
Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

Investments are stated at amortized cost including accrued interest. The amortized cost and fair value of investments at September 30, 2006 and 2005 are summarized as follows:

	2006			2005		
	Amortized	Gross Unrealized gains (losses)	Fair value	Amortized	Gross unrealized losses	Fair value
	Cost			Cost		
Cash with trustees	\$ 1,264,718	\$ ---	\$ 1,264,718	\$ 5,352,640	\$ ---	\$ 5,352,640
Money market/ trust funds	38,795,948	---	38,795,948	32,612,619	---	32,612,619
Investment agreements	18,045,950	---	18,045,950	18,045,950	---	18,045,950
Short-term investments	5,912,904	(24,134)	5,888,770	9,948,016	(101,124)	9,846,892
U.S. Treasury notes	<u>800,190</u>	<u>7,034</u>	<u>807,224</u>	<u>1,170,641</u>	<u>(7,686)</u>	<u>1,162,955</u>
	<u>\$64,819,710</u>	<u>\$ (17,100)</u>	<u>\$64,802,610</u>	<u>\$67,129,866</u>	<u>\$ (108,810)</u>	<u>\$67,021,056</u>

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits 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.

GASB Statement No. 40 amends GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provides 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.

As of September 30, 2006 and 2005, all investments were classified as Category 2 investments.

Guam International Airport Authority

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

Interest Rate Risk

In compliance with the bond indenture, the Authority minimized the interest rate risk, by limiting maturity of investments. The Authority's investment securities have maturities of 5 years or less. This reduces the impact of interest rate movements seen with longer maturity investments.

Credit Risk and Custodial Risk

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 manages the Federal Fund Account and Self Insurance Fund Account and invests securities in U.S. Treasuries, U.S. Agencies, Domestic Corporate Bonds, and Money Market Funds. The U.S. Treasuries are backed by the full faith and credit of the U.S. Government. While U.S. Agencies do not have the same backing, they are implied to have the backing of the U.S. Government. All investment securities are within the requirement of the bond indenture.

At September 30, 2006, the Authority's investments in debt securities were as follows:

	Moody's Credit Rating	<u>Investment Maturities (In Years)</u>				<u>Total</u>
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>	
US treasury notes	Aaa	\$ ---	\$ 796,053	\$ ---	\$ ---	\$ 796,053
US government agencies:						
Federal Home Loan Bank	Aaa	939,849	1,726,259	---	---	2,666,108
Federal Farm Credit Bank	Aaa	537,455	---	---	---	537,455
Federal Home Loan Mortgage Corporation	Aaa	665,300	---	---	---	665,300
Federal National Mortgage Association	Aaa	---	699,125	---	---	699,125
Corporate notes:						
CDC Funding Corporation	Aaa	---	---	---	18,045,950	18,045,950
Other	Aaa	---	55,480	---	---	55,480
Other	Aa1	---	127,985	---	---	127,985
Other	Aa3	---	298,486	---	---	298,486
Other	A1	194,700	---	---	---	194,700
Other	A2	50,030	295,660	---	---	345,690
Other	A3	---	117,778	---	---	117,778
Other	Baa1	124,282	---	---	---	124,282
Blackrock Liquidity T-Fund	Aaa	<u>38,608,674</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>38,608,674</u>
		<u>\$41,120,290</u>	<u>\$4,116,826</u>	<u>\$ ---</u>	<u>\$18,045,950</u>	<u>\$63,283,066</u>

Guam International Airport Authority

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2006 and 2005, \$200,000 of deposits are covered by the federal depository insurance, with the remainder being uninsured and uncollateralized.

7. Employee's Retirement Plan

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

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

As a result of actuarial valuations performed as of September 30, 2005, 2004 and 2002, contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Normal costs (% of DB Plan payroll)	18.21%	17.83%	17.66%
Unfunded liability costs (% of total payroll)	<u>20.66%</u>	<u>21.36%</u>	<u>16.23%</u>
	38.87%	39.19%	33.89%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	29.37%	29.69%	24.39%
Agency specific adjustments	<u>---</u> %	<u>---</u> %	<u>---</u> %
Government contribution as a % of DB Plan Payroll	<u>29.37%</u>	<u>29.69%</u>	<u>24.39%</u>
Government required contribution as % of total payroll	<u>21.81%</u>	<u>20.81%</u>	<u>20.81%</u>

Statutory contribution rates for employer and employee contributions were 27.48% and 9.5%, respectively, for the year ended September 30, 2006 and 26.00% and 9.5%, respectively for the year ended September 30, 2005.

Guam International Airport Authority

Notes to Financial Statements, continued

7. Employee's Retirement Plan, continued

The Plan utilized the actuarial cost method termed "entry age normal". The actuarial valuation performed as of September 30, 2005 and 2004 was based on an assumed rate of return of 7% and an assumed salary increase of 3.5% per annum. The actuarial valuation performed as of September 30, 2002 was based on an assumed rate of return of 7.5% and an assumed salary increase of 4.5% per annum. The actuarial valuations performed as of September 30, 2005, 2004 and 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2006 and 2005, may be materially different than that recorded in the accompany financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2006 and 2005 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.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. Management is of the opinion that the liability that may result from Public Law 26-86 is not material to the financial statements.

Retirement expense for the years ended September 30, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash contributions and accruals	\$1,579,318	\$1,596,847	\$1,477,930
Increase in accrued unfunded liability to the retirement fund	<u>1,079,000</u>	<u>589,000</u>	<u>1,212,005</u>
	<u>\$2,658,318</u>	<u>\$2,185,847</u>	<u>\$2,689,935</u>

Guam International Airport Authority
Notes to Financial Statements, continued

8. Leases

DFS

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

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

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

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

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

Concession fee income for the years ended September 30, 2006 and 2005 includes \$2,111,298 and \$2,607,200 of percentage rent income in excess of the minimum guarantee and additional rent on the DFS lease, respectively.

The future minimum lease receipts under the remainder of the Concession Agreements as of September 30, 2006 are as follows:

<u>Year ending September 30,</u>	
2007	\$ 4,750,000
2008	4,750,000
2009	4,750,000
2010	4,750,000
2011	4,750,000
2012-2013	<u>5,867,000</u>
Total minimum lease payments receivable	<u>\$29,617,000</u>

Guam International Airport Authority

Notes to Financial Statements, continued

8. Leases, continued

Other Leases

The Authority has lease agreements with scheduled air carriers, various concessionaires and airport users. The agreements provide the lessees with the use of the airport's system facilities, equipment and services. The agreements with all signatory airlines are in effect from 2004 through 2009 with the terminal building rents and other user fees commencing October 1, 1996. Two ground lease agreements expire in August 2023. Lease agreements with six rent-a-car companies expire in June 2011.

The future minimum rentals on noncancellable operating leases (excluding the DFS lease described above) as of September 30, 2006, are as follows:

Year ending September 30,	
2007	\$ 5,719,000
2008	1,972,000
2009	1,623,000
2010	1,537,000
2011	1,177,000
2012-2015	<u>4,189,000</u>
Total minimum lease payments receivable	<u>\$16,217,000</u>

9. Long Term Liabilities

A summary of changes in long term liabilities during fiscal year 2006 and 2005, follows:

	Outstanding September 30 2005	Increases	Decreases	Outstanding September 30, 2006	Current	Noncurrent
Accrued unfunded liability to retirement fund	\$ 2,708,873	\$1,079,000	\$ ---	\$ 3,787,873	\$ ---	\$ 3,787,873
Accrued annual leave	822,351	23,777	---	846,128	420,671	425,457
2003 General revenue bonds	<u>212,258,352</u>	<u>---</u>	<u>6,833,276</u>	<u>205,425,076</u>	<u>7,640,000</u>	<u>197,785,076</u>
	<u>\$215,789,576</u>	<u>\$1,102,777</u>	<u>\$6,833,276</u>	<u>\$210,059,077</u>	<u>\$8,060,671</u>	<u>\$201,998,406</u>

Guam International Airport Authority
Notes to Financial Statements, continued

9. Long Term Liabilities, continued

	Outstanding September 30 <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2005</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 2,119,873	\$589,000	\$ ---	\$ 2,708,873	\$ ---	\$ 2,708,873
Accrued annual leave	852,156	---	29,805	822,351	396,894	425,457
2003 General revenue bonds	<u>218,011,488</u>	<u>---</u>	<u>5,753,136</u>	<u>212,258,352</u>	<u>6,685,000</u>	<u>205,573,352</u>
	<u>\$220,983,517</u>	<u>\$589,000</u>	<u>\$5,782,941</u>	<u>\$215,789,576</u>	<u>\$7,081,894</u>	<u>\$208,707,682</u>

10. Commitments and Contingencies

Environmental Monitoring

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and the Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority \$10 million. In exchange for the payment, the Authority and the Government of Guam agreed to complete certain environmental monitoring work on the property even if the cost of the environmental monitoring work exceeds the \$10 million remitted by the Navy. Under this cooperative agreement, the United States Navy may terminate or suspend the agreement if the Authority and the Government of Guam fail to complete such monitoring work.

The \$10 million received is included as a component of restricted net assets in the accompanying statements of net assets. The future cost of the environmental monitoring work is presently not determinable. Accordingly, no loss, if any, that may result from the matter, has been recorded in the accompanying financial statements for this transaction.

Federal Program Costs

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

Guam International Airport Authority
Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Federal Program Costs, continued

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

As of September 30, 2006 and 2005, there were no unresolved questioned costs.

Commitments

The Authority has commitments of \$9,274,000 under several construction contracts at September 30, 2006.

Self-Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority has also adopted a policy of depositing \$1 million annually, in the Renewal and Replacement Fund to cover self-insured damage in the event of natural catastrophe. The Authority has also established a self-insurance fund. The balances in the Renewal and Replacement Fund and Self-Insurance Fund are \$5,207,619 and \$8,834, respectively, at September 30, 2006 and \$3,553,285 and \$1,666,129, respectively, at September 30, 2005.

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain autonomous proprietary funds, including the Authority, to remit certain amounts to the Government of Guam General Fund on an annual basis. Management of the Authority is of the opinion that the wording of the legislation is not in compliance with federal requirements. Accordingly, no liability has been recorded for this contingency as of September 30, 2006.

Other 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.

Guam International Airport Authority

Notes to Financial Statements, continued

11. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2006 and 2005, 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, 2006 and 2005, the Authority recorded customs fees payables to the Treasurer of Guam totaling \$1,459,594 and \$1,788,951, respectively, for the above charges, of which \$1,358,356 and \$1,501,253 are reflected as customs fees, receivables in the accompanying statements of net assets. The fees are not reflected as an expense or revenue by the Authority.

12. Non-Recurring Expenses

Non-recurring expenses incurred for the years ended September 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Typhoon related expense	\$1,816	\$ 92,442
Aircraft emergency	<u>---</u>	<u>90,077</u>
	<u>\$1,816</u>	<u>\$182,519</u>

The typhoon related expenses are based on the Authority's most recent estimates and are recorded net of anticipated federal reimbursements. Actual final expenses may differ materially from these estimates.

Guam International Airport Authority

Notes to Financial Statements, continued

13. Typhoon Costs

On December 8, 2002, a super typhoon struck Guam, causing substantial damage to the Authority's facilities. Estimated repair costs as of September 30, 2005 are \$6,465,631. This amount is an estimate and actual damages may be materially different from this estimate. The typhoon also severely damaged security fences around the Airport facility which will require replacement. The estimated cost to replace and upgrade the security fences is approximately \$12,000,000. Approximately 90% of this replacement cost is expected to be covered by a Federal Aviation Administration grant. At September 30, 2006 and 2005, included as a component of other liabilities in the accompanying statements of net assets are \$283,126 and \$1,585,490, respectively, of accrued repair costs related to the super typhoon.

The Authority has recorded estimated losses of \$182,519 from the super typhoon during the year ended September 30, 2005, which are included as a component of non-recurring expenses in the accompanying 2005 statement of revenues, expenses and changes in net assets.

14. Prior Period Adjustment

Matters resulting in the overstatement of the Authority's previously reported capital assets and understatement of note receivable were discovered by the Authority's management during the year ended September 30, 2006. The impact of these matters is as follows:

	<u>Net Assets</u>	Increase (Decrease) in <u>Net Assets</u>
As previously reported, September 30, 2004	\$196,203,586	\$2,316,327
Adjustment – Overstatement of capital asset	(184,718)	(184,718)
As restated, September 30, 2004	\$196,018,868	<u>\$2,131,609</u>
Increase in net assets, as previously reported, September 30, 2005	15,806,082	15,806,082
Adjustments:		
Overstatement of capital assets	(4,991,148)	(4,991,148)
Understatement of note receivable	<u>4,364,181</u>	<u>4,364,181</u>
As restated, September 30, 2005	<u>\$211,197,983</u>	<u>\$15,179,115</u>

Guam International Airport Authority

Years ended September 30, 2006 and 2005

Schedule 1
Facilities and Systems Usage Charges

	<u>2006</u>	<u>2005</u>
Departure facilities	\$ 5,431,680	\$ 4,949,095
Arrival facilities	5,362,326	4,999,794
Landing fees	3,141,860	3,906,841
Public apron	758,182	2,768,695
Passenger loading bridge usage charge	1,315,610	2,504,969
Immigration	1,916,557	1,714,756
Fuel flowage fees	210,424	216,582
Utility recovery and other fees	301,481	179,527
	<u>\$ 18,438,120</u>	<u>\$ 21,240,259</u>

Schedule 2
Concession Fees

	<u>2006</u>	<u>2005</u>
General merchandise	\$ 6,664,069	\$ 7,162,700
Ground transportation	3,071,323	2,749,526
Car rental	730,886	793,299
Food and beverage	735,984	691,349
In-flight catering	470,326	498,693
Money exchange	257,152	257,152
Parking lot	105,000	240,239
Advertising	278,856	230,913
Other	85,573	83,228
	<u>\$ 12,399,169</u>	<u>\$ 12,707,099</u>

Schedule 3
Rental Income

	<u>2006</u>	<u>2005</u>
Operating space:		
- Airline	\$ 2,631,220	\$ 2,449,329
- Non-airline	2,045,069	1,981,317
Building and maintenance shop rentals	2,187,628	2,191,385
Other	1,018,353	965,654
Cargo rentals	641,765	506,299
	<u>\$ 8,524,035</u>	<u>\$ 8,093,984</u>

Guam International Airport Authority

Years ended September 30, 2006 and 2005

Schedule 4
Contractual Services

	<u>2006</u>	<u>2005</u>
Utilities and telephone	\$ 5,677,655	\$ 4,665,854
Repairs and maintenance	4,305,617	4,020,387
Insurance	1,241,683	1,353,320
Professional services	2,414,167	1,387,601
Advertising and promotions	245,164	128,363
Travel/Training & Certifications	158,480	164,519
Miscellaneous	597,775	462,723
	<u>\$ 14,640,541</u>	<u>\$ 12,182,767</u>

Schedule 5
Personnel Services

	<u>2006</u>	<u>2005</u>
Salaries and wages	\$ 8,647,508	\$ 8,555,239
Retirement contributions	2,658,318	2,185,847
Insurance	603,491	605,614
	<u>\$ 11,909,317</u>	<u>\$ 11,346,700</u>
Full-time employee count in September	<u>207</u>	<u>209</u>

Schedule 6
Materials and Supplies

	<u>2006</u>	<u>2005</u>
Equipment and vehicle maintenance and supplies	\$ 352,563	\$ 348,818
Office and security supplies	248,254	149,926
Electrical and plumbing	95,933	125,671
Building maintenance and supplies	66,287	61,884
Miscellaneous	146,460	62,247
	<u>\$ 909,497</u>	<u>\$ 748,546</u>

Guam International Airport Authority

Year ended September 30, 2006

Schedule 7
Insurance Coverage

<u>Name of Insurer</u>	<u>Policy</u>	<u>Risk Coverage</u>
Lloyds of London	Airport Operations Liability	\$ 500,000,000
Llyods of London	Property Insurance	\$ 200,000,000
Calvo's Insurance Underwriters, Inc.	Directors & Officers Liability (Sublimit of \$1,000,000 for Employment Practices Liability)	\$ 4,000,000
Calvo's Insurance Underwriters, Inc.	Automobile	\$ 1,000,000
Calvo's Insurance Underwriters, Inc.	Workers' Compensation	\$ 1,000,000
Calvo's Insurance Underwriters, Inc.	Excess Automobile	\$ 1,000,000
Calvo's Insurance Underwriters, Inc.	Crime Insurance	\$ 1,000,000

Guam International Airport Authority

Schedule 8

Reconciliation of Historical Financial Results

	Years ended September 30,	
	<u>2006</u>	<u>2005</u> (restated, Note 14)
Change in net assets:		
Revenues	\$ 49,023,500	\$ 50,618,778
Expenses	(27,709,355)	(24,834,252)
Income before depreciation	21,314,145	25,784,526
Depreciation	(19,580,556)	(19,682,098)
	1,733,589	6,102,428
Interest and other expense	(9,306,397)	(10,318,204)
Grants from the United States Government	14,937,768	16,864,891
Transfer from the Government of Guam	---	2,530,000
Increase in net assets	<u>\$ 7,364,960</u>	<u>\$ 15,179,115</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 49,023,500	\$ 50,618,778
Operation and maintenance expenses	(26,726,480)	(24,582,948)
Net Revenues available for debt service	<u>\$ 22,297,020</u>	<u>\$ 26,035,830</u>
Reconciliation:		
Change in net assets	\$ 7,364,960	\$ 15,179,115
Add back:		
Depreciation	19,580,556	19,682,098
Interest expense	9,504,212	9,905,976
Change in unfunded retirement liability	1,079,000	589,000
Bad debts	250,000	---
Miscellaneous	(199,631)	229,709
Typhoon and earthquake expenses	1,816	182,519
Deduct:		
Operating grant from the United States Government	(286,976)	---
Capital grant from the United States Government	(14,650,792)	(16,864,891)
Transfer from the Government of Guam	---	(2,530,000)
Interest income on funds related to construction	(346,125)	(337,696)
	<u>22,297,020</u>	<u>26,035,830</u>
Other available moneys	<u>4,420,742</u>	<u>4,223,255</u>
Funds available for debt service	<u>\$ 26,717,762</u>	<u>\$ 30,259,085</u>
Debt Service	<u>\$ 17,682,969</u>	<u>\$ 16,893,019</u>

Guam International Airport Authority

Schedule 9

Employee Data

Year ended September 30, 2006

Department	PL 28-150 Section 45:a Full Time Employees (b)	PL 28-150 Section 45:b Category Personnel Services (a)	Contractual Services (a)	Materials & Supplies(a)	Total
Board	---	\$ ---	\$ 21,057	\$ 569	\$ 21,626
Administration	42	2,505,735	9,317,189	247,096	12,070,020
Accounting	10	668,033	196,004	12,323	876,360
Engineering	4	248,081	885,871	13,353	1,147,305
Operations	22	1,155,365	249,497	13,478	1,418,340
Properties & Facilities Maintenance	50	2,282,134	3,801,670	473,600	6,557,404
Airport Police	48	2,422,077	156,315	53,761	2,632,153
Aircraft Rescue Fire Fighting	31	2,627,892	12,938	95,317	2,736,147
Total	207	\$ 11,909,317	\$ 14,640,541	\$ 909,497	\$ 27,459,355

Note(s):

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





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