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2007 financial information



Antonio B. Won Pat International Airport Authority, Guam
Annual Report 2007

Financial Statements and
Other Financial Information

Antonio B. Won Pat International Airport Authority, Guam

*Years ended September 30, 2007 and 2006
with Report of Independent Auditors*

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and
Other Financial Information

Years ended September 30, 2007 and 2006

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Report of Independent Auditors

Board of Directors

Antonio B. Won Pat International Airport Authority, Guam

We have audited the accompanying statements of net assets of the Antonio B. Won Pat International Airport Authority, Guam (the "Authority", also formerly known as the Guam International Airport Authority), a component unit of the Government of Guam, as of September 30, 2007 and 2006, 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 Antonio B. Won Pat International Airport Authority, Guam as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 9 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's Discussion and Analysis on pages 3-15 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 required supplementary information. However, we did not audit the information and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2008, on our consideration of the Antonio B. Won Pat International Airport Authority, Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Ernst + Young LLP

January 12, 2008

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis

Year ended September 30, 2007

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (the "Authority") activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

A. Mission Statement

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

B. Using the Financial Statements

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights

Fiscal Year 2007 proved to be another challenging year for the airline industry. The skyrocketing price of fuel, proliferating presence of low cost carriers mainly in the Asian region, and the mergers of legacy carriers have had an impact on the industry as a whole. Many airlines, particularly the legacy carriers have had to reassess and evaluate their business models and the utilization of their fleet in order to maximize yields in their respective markets.

The Authority's passenger activity for 2007 is reflective of these changes as signatory airlines have suspended services or down-gauged aircraft in an effort to maximize their load factor while operating more fuel efficient equipment. Figures for Fiscal Year 2007 which amount to approximately 1.49 million, reflects a slight decrease of approximately 2% versus the 1.52 million enplanements in Fiscal Year 2006. The Authority's enplanements are consistent with the FAA's 2007 Traffic Activity Forecast ("TAF") range of 1.3 million on the low end projections to 1.8 million on the high end spectrum. (Source: Federal Aviation Administration National Forecast 2007 http://www.faa.gov/data_statistics/aviation/)

Activity for the Authority for the years ended September 30, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	2007 % Increase (Decrease) from 2006
Major revenue sources:				
Landing fees	\$ 118,103*	\$ 3,141,860	\$ 3,906,841	(96.2)%
Terminal lease	8,957,927	8,524,035	8,093,984	5.1 %
Concessions and parking	<u>12,583,963</u>	<u>12,399,169</u>	<u>12,707,099</u>	1.5%
Total	<u>\$21,659,993</u>	<u>\$24,065,064</u>	<u>\$24,707,924</u>	(10.0)%
Passenger (enplanements) activity:				
Signatory airlines	1,420,824	1,435,471	1,402,181	(1.0)%
Non-signatory airlines	<u>70,364</u>	<u>91,460</u>	<u>101,123</u>	(23.1)%
Total enplanements	<u>1,491,188</u>	<u>1,526,931</u>	<u>1,503,304</u>	(2.3)%
Aircraft operations	<u>37,499</u>	<u>36,234</u>	<u>34,101</u>	3.5 %
Aircraft landed weights (000,000)	<u>3,465,833</u>	<u>3,310,798</u>	<u>3,108,577</u>	4.7 %
O & D passengers	2,616,719	2,673,207	2,605,048	(2.1)%
Transfer passengers	<u>182,581</u>	<u>189,301</u>	<u>199,329</u>	(3.5)%
Total passengers	<u>2,799,300</u>	<u>2,862,508</u>	<u>2,804,377</u>	(2.2)%

*(Note: Landing fees for the signatory airlines were waived during Fiscal Year 2007.)

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Since 2003, the Authority has managed to reduce the cost per enplaned passenger from \$19.22 to \$13.40 for Fiscal Year 2007, amounting to a 30% decrease in enplanement costs to the signatory airlines operating out of Guam. The Authority's resolve in being a low cost airport is further evident in the 0.4% decrease of its enplanement cost for Fiscal Year 2008, which is projected to be \$13.35 versus \$13.40 for Fiscal Year 2007.

The Authority remains vigilant in managing its operating and maintenance ("O&M") expenses while focusing on increasing its non-airline revenue streams through the restructuring of concessionaire contracts and the continued development of airport property. Maintaining a low rate structure while providing superior and reliable level of airport services in the facilitation of passengers and cargo to their destinations safely, efficiently, and effectively, is paramount to the Authority's financial success.

By maintaining the ability to redefine our business model and refine our operations, the Authority will be competitive and successful in maximizing non-airline revenues in order to minimize costs to the airlines and promote increased commerce and connectivity to our neighboring countries in the region.

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, Micronesian Aviation Systems, and Cape Air.

D. Financial Operation Highlights

Revenues for Fiscal Year 2007 amounted to approximately \$40.1 million while operating expenses were kept to \$28.3 million including retirement unfunded liability and bad debts. The income from operations before depreciation and amortization of \$11.7 million is the result of management's initiatives on aggressively monitoring its finances while developing and executing the Authority's revenue enhancement program.

Prudent financial management resulted in a 2.3% savings, not including unfunded retirement liability and bad debts, equal to approximately \$622,000 of Actual versus Budgeted expenses for Fiscal Year 2007. This savings is attributed to the Personnel Services resulting from lapse funds and benefits for vacant positions, decrease in contractual services due to cost-containment initiatives, and a decrease in materials and supplies resulting from outsourcing of maintenance contracts and strict adherence to inventory controls. Moreover, no major equipment purchases were incurred in Fiscal Year 2007.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

A summary of operations and changes in net assets for the years ended September 30, 2007, 2006 and 2005 follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	2007 % Increase (Decrease) from 2006
Operating revenues	\$ 40,072,875	\$40,857,839	\$42,755,290	(1.9)%
Operating expenses, excluding depreciation	(28,337,482)	(27,709,355)	(24,834,252)	2.3 %
Operating income before depreciation	11,735,393	13,148,484	17,921,038	(10.7)%
Depreciation and amortization	(18,932,919)	(19,580,556)	(19,682,098)	(3.3)%
Loss from operations	(7,197,526)	(6,432,072)	(1,761,060)	11.9 %
Non-operating expenses - net	(426,558)	(1,140,736)	(2,454,716)	(62.6)%
Loss before capital contributions	(7,624,084)	(7,572,808)	(4,215,776)	(0.7)%
Grants from the United States				
Government	36,857,648	14,937,768	16,864,891	146.7 %
Transfer in from the Government of Guam	---	---	2,530,000	0.0 %
Increase in net assets	\$ 29,233,564	\$ 7,364,960	\$15,179,115	296.9 %

Operating revenues for Fiscal Year 2007 equaled to \$40.1 million, reflecting a slight decrease of 1.9% versus figures for Fiscal Year 2006 of \$40.9 million. This correlates with the 2.3% decrease of enplaned passengers for Fiscal Year 2007. Airlines accounted for approximately 50.9% or \$20.4 million of the Authority's total operating revenues while other non-airline business amounted to \$19.7 million, comprising the remaining 49.1%. In comparison to figures for Fiscal Year 2006, airlines accounted for 51.6% while other non-airline business accounted for 48.4% of the Authority's operating revenues. The modest 1.4% variance in airline and non-airline revenue from Fiscal Year 2006 to Fiscal Year 2007 can be attributed to management's initiatives to minimize airline fees while maximizing non-airline revenues.

Concession revenues, which account for approximately 31.4% of the Authority's operating revenue, reflects an increase of 1.6% amounting to \$12.6 million versus \$12.4 million in 2006 despite the decrease in enplaned passengers for 2007. The average concession revenue per enplaned passengers for Fiscal Year 2007 was approximately \$8.44, reflecting a 3.94% increase year-over-year versus the \$8.12 per enplaned passenger for Fiscal Year 2006.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Other revenues generated through non-airline business or activity, which amounted to \$7.08 million, comprised 17.7% of the Authority's operating revenue for Fiscal Year 2007. This amount is inclusive of the \$1.3 million in outstanding lease payments owed by the Guam Police Department for the rental of office, storage and other facilities located in the Tiyan properties owned by the Authority.

The conscientious efforts of the Authority's sound fiscal practices, diligent pursuit of revenue enhancement and diversification initiatives, and proactive approach to identify local or federal funding sources has culminated in reasonable airline rates and charges competitive with other airports in the region. Moreover, the Authority was able to maintain sufficient coverage to meet the debt service requirements of the 2003 Bond Covenants, while maintaining a superior and reliable level of airport services, without compromising the safety and security of the traveling public.

Review of Notable Events in FY 2007

Globalization and more liberalized air service agreements have changed the landscape of aviation, particularly in the Asian region which has experienced exponential growth over the past years. The emergence of low cost carriers and the rising cost of fuel continue to compound the challenges of an improving, yet volatile airline industry in 2007.

Implementing cost containment initiatives, the Authority worked closely with our airline partners to minimize expenses while providing incentives to maintain seat capacity into the Guam market. The Authority's waiving of landing fees for Fiscal Year 2007 was significant as the Authority was able to maintain debt service coverage of 1.41 exceeding the 1.25 debt service requirements of the 2003 Bond Covenants. In light of the Authority's fiscal responsibility, credit rating agency Standard & Poor's upgraded the Authority's bond rating from BBB- to BBB with a stable outlook. Moody's Investor Services took similar actions and upgraded the Authority's rating from Baa3 to its current Baa2 with stable outlook rating (Source: Standard & Poors, www.standardandpoors.com and Moody's Investor Services, www.moody.com). The credit upgrades will ensure the Authority is positioned to take advantage of any opportunities that may reduce interest rates for future financing or realize potential savings opportunities through a refinancing/restructuring of the 2003 Bond issuance.

Aside from cost containment measures, the Authority continued the implementation of the management initiatives carried over from Fiscal Year 2006 which included various revenue enhancement and property development initiatives to help diversify the Authority's non-airline revenue streams. In-line with these initiatives, the Authority aggressively pursued route development programs with our existing carriers while pursuing other regional airlines to introduce additional or new air services into Guam.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Review of Notable Events in FY 2007, continued

Guam is in the pre-planning phases for one of the largest military build-ups in its history. Plans for the relocation of more than 8,000 Marines and their family members from Okinawa to Guam are underway. In anticipation of this relocation combined with the projected influx of visitors to Guam, the Authority has embarked on an aggressive Capital Improvement Program (CIP) with over \$150 million in projects that are either underway or in the planning phases. Many of these projects are related to airfield improvements, infrastructure, security and roadway upgrades, and customer service and passenger facilitation improvements. These CIP projects are necessary to ensure the Authority can accommodate the needs of the aviation industry now and into the near future, providing greater operational capacity and connectivity to other long-range markets. The Authority remains committed to only undertaking projects that are essential to the Authority's overall mission or are federally funded.

Notable projects include:

- Completion of AOA Fence
- Completion of Perimeter Fence Project
- Completion of Residential Sound Solution Program-Pilot Phase
- Completion of Airfield Electrical Upgrades
- Initiate Runway 6R Instrument Landing System
- Initiate Extension of Runway 24R – Phase 1
- Initiate Utilities Infrastructure Upgrade – Water System
- Initiate TSA International Transfer Facility
- Initiate Terminal Seismic Zone Upgrade – Phase 2A
- Initiate Blocks 3 – 9 Demolition
- Initiate Security Perimeter Roads – Phases 1 & 2

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.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's statements of net assets at September 30, 2007, 2006 and 2005 is shown below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u> <u>% Increase</u> <u>(Decrease)</u> <u>from 2006</u>
<u>ASSETS</u>				
Current assets:				
Unrestricted assets	\$ 11,978,022	\$ 12,633,713	\$ 12,806,285	(5.2)%
Restricted assets	1,582,941	1,567,916	1,739,867	(1.0)%
Non-current assets:				
Unrestricted assets	31,506,976	22,023,274	30,035,946	43.1 %
Restricted assets	32,519,532	42,779,336	36,985,110	(24.0)%
Capital assets	375,898,559	349,760,252	347,874,858	7.5 %
Deferred bond issue costs	8,958,183	9,893,110	10,535,836	(9.5)%
Notes receivable	<u>3,005,592</u>	<u>3,883,545</u>	<u>4,012,288</u>	(22.6)%
Total	<u>\$465,449,805</u>	<u>\$442,541,146</u>	<u>\$443,990,190</u>	5.2 %
<u>LIABILITIES</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 8,411,657	\$ 7,885,719	\$ 10,506,565	6.7%
Payable from restricted assets	14,358,522	14,094,078	13,577,960	1.9 %
Long term liabilities	<u>194,883,119</u>	<u>201,998,406</u>	<u>208,707,682</u>	(3.5)%
Total	<u>\$217,653,298</u>	<u>\$223,978,203</u>	<u>\$232,792,207</u>	(2.8)%
<u>NET ASSETS</u>				
Invested in capital assets – net of related debt	\$187,214,310	\$154,228,284	\$146,152,342	21.4 %
Restricted	37,773,950	47,893,172	41,191,778	(21.1)%
Unrestricted	<u>22,808,247</u>	<u>16,441,487</u>	<u>23,853,863</u>	38.7 %
Total	<u>\$247,796,507</u>	<u>\$218,562,943</u>	<u>\$211,197,983</u>	13.4 %

The Authority's investments in capital assets net of related debt make up 76% of its net assets. These capital assets are used to provide services to passengers and visitors to the Authority's Airport terminal. Although invested capital assets are reported net of related debt, the resources are required to repay this debt from revenues received annually from operations as specified in the 2003 Airport Bonds Indenture.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Airline Signatory Rates and Charges

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

The following summarizes the rates in effect at September 30, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Terminal building rental:			
Signatory	\$45.92	\$42.41	\$39.67
Non-signatory	\$52.81	\$44.53	\$42.67
Departure fees:			
Signatory	\$3.73	\$3.56	\$3.30
Non-signatory	\$4.29	\$3.74	\$3.55
Arrival fees:			
Signatory	\$4.19	\$4.09	\$3.80
Non-signatory	\$4.82	\$4.29	\$4.08
Immigration inspection fees:			
Signatory	\$1.61	\$1.55	\$1.41
Non-signatory	\$1.85	\$1.63	\$1.52
Loading bridge use fees:			
Signatory	\$233.05	\$145.03	\$296.74
Non-signatory	\$268.01	\$152.28	\$314.31
Apron use fees:			
Signatory	\$0.49	\$0.23	\$0.89
Non-signatory	\$0.61	\$0.24	\$1.07
Landing fees:			
Signatory	\$0.00	\$0.94	\$1.25
Non-signatory	\$0.36	\$1.04	\$1.42
Signatory airline enplaned passengers	\$12.78	\$12.99	\$14.63

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Revenues

A summary of revenues for the years ended September 30, 2007, 2006 and 2005 and the amount and percentage of change in relation to prior year amounts is as follows:

	2007	2007 %	2006	2006 %	2005	2005 %	2007 % Increase (Decrease) from 2006
	of Total		of Total		of Total		
Operating:							
Facilities and use charges:							
Arrival facilities	\$ 5,464,934	6.4%	\$ 5,362,326	8.4%	\$ 4,999,794	7.4%	1.9 %
Departure facilities	5,566,903	6.5%	5,431,680	8.5%	4,949,095	7.3%	2.5 %
Landing fees	118,102	0.1%	3,141,860	4.9%	3,906,841	5.8%	(96.2)%
Public apron	1,700,044	2.0%	758,182	1.2%	2,768,695	4.1%	124.2 %
Passenger loading bridge	2,148,616	2.5%	1,315,610	2.1%	2,504,969	3.7%	63.3 %
Immigration	2,051,999	2.4%	1,916,557	3.0%	1,714,756	2.5%	7.1 %
Fuel flowage fee	203,429	0.2%	210,424	0.3%	216,582	.3%	(3.3)%
Utility recovery charge and other fees	290,255	0.4%	301,481	0.5%	179,527	.3%	(3.7)%
Total facilities and use charges	17,544,282	20.5%	18,438,120	28.9%	21,240,259	31.4%	(4.8)%
Concession fees:							
General merchandise	6,608,661	7.7%	6,664,069	10.4%	7,162,700	10.6%	(0.8)%
Ground transportation	3,053,128	3.6%	3,071,323	4.8%	2,749,526	4.1%	(0.6)%
Car rental	922,165	1.1%	730,886	1.1%	793,299	1.2%	26.2 %
Food and beverage	722,593	0.8%	735,984	1.2%	691,349	1.0%	(1.8)%
In-flight catering	475,532	0.6%	470,326	0.7%	498,693	.7%	1.1 %
Other	801,884	0.9%	726,581	1.1%	811,532	1.2%	10.4 %
Total concession fees	12,583,963	14.7%	12,399,169	19.3%	12,707,099	18.8%	1.5 %
Rental income:							
Operating space - airline	2,865,145	3.4%	2,636,216	4.1%	2,449,329	3.6%	8.7 %
Operating space - non-airline	2,325,469	2.7%	2,040,073	3.2%	1,981,317	2.9%	14.0 %
Other	3,767,313	4.4%	3,847,746	6.0%	3,663,338	5.5%	(2.1)%
Total rental income	8,957,927	10.5%	8,524,035	13.3%	8,093,984	12.0%	5.1 %
Miscellaneous	986,703	1.2%	1,496,515	2.3%	713,948	1.1%	(34.1)%
Total operating	40,072,875	46.9%	40,857,839	63.8%	42,755,290	63.3%	(1.9)%
Non-Operating:							
Interest income	2,722,235	3.2%	2,492,263	3.9%	1,890,359	2.8%	9.2 %
Passenger facility charge	5,738,439	6.7%	5,673,398	8.9%	5,973,129	8.9%	1.1 %
Grants from the U. S. Government	36,857,648	43.2%	14,937,768	23.4%	16,864,891	25.0%	146.7 %
Total non-operating	45,318,322	53.1%	23,103,429	36.2%	24,728,379	36.7%	96.2 %
Total revenues	\$85,391,197	100.0%	\$63,961,268	100.0%	\$67,483,669	100.0%	33.5 %

Grants from the United States Government increased from \$14.9 million in FY 2006 to \$36.9 million in FY 2007. The majority of monies received were for airfield and aviation infrastructure improvements and security enhancement projects.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Expenses

A summary of expenses for the years ended September 30, 2007, 2006 and 2005, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2007</u>	<u>2007 % of Total</u>	<u>2006</u>	<u>2006 % of Total</u>	<u>2005</u>	<u>2005 % of Total</u>	<u>2007 % Increase (Decrease) from 2006</u>
Operating:							
Contractual services	\$13,404,253	24.0%	\$14,640,541	25.9%	\$12,182,767	22.2%	(8.4)%
Personnel services	13,001,664	23.3%	11,909,317	21.0%	11,346,700	20.7%	9.2%
Materials and supplies	860,602	1.5%	909,497	1.6%	748,546	1.4%	(5.4)%
Bad debt expense	<u>1,070,963</u>	<u>1.9%</u>	<u>250,000</u>	<u>0.4%</u>	<u>556,239</u>	<u>1.0%</u>	328.4%
Total operating	<u>28,337,482</u>	<u>50.7%</u>	<u>27,709,355</u>	<u>48.9%</u>	<u>24,834,252</u>	<u>45.3%</u>	2.3%
Depreciation and amortization	<u>18,932,919</u>	<u>33.7%</u>	<u>19,580,556</u>	<u>34.6%</u>	<u>19,682,098</u>	<u>35.9%</u>	(3.3)%
Non-Operating:							
Interest expense	9,208,143	16.4%	9,504,212	16.8%	9,905,976	18.1%	(3.1)%
Other expenses	<u>(320,911)</u>	<u>(0.6)%</u>	<u>(197,815)</u>	<u>(0.3)%</u>	<u>412,228</u>	<u>.7%</u>	62.2%
Total non-operating	<u>8,887,232</u>	<u>15.8%</u>	<u>9,306,397</u>	<u>16.5%</u>	<u>10,318,204</u>	<u>18.8%</u>	(4.5)%
Total expenses	<u>\$56,157,633</u>	<u>100.0%</u>	<u>\$56,596,308</u>	<u>100.0%</u>	<u>\$54,834,554</u>	<u>100.0%</u>	(0.8)%
Total full time employees	205		207		202		(1.0)%

E. Cost Per Enplaned Passenger & Debt Service Coverage

Cost Per Enplaned Passenger

A summary of the cost per enplaned passenger for the years ended September 30, 2007, 2006 and 2005, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2007</u>	<u>2007 % of Total</u>	<u>2006</u>	<u>2006 % of Total</u>	<u>2005</u>	<u>2005 % of Total</u>	<u>2007 % Increase (Decrease) from 2006</u>
Airport Revenues:							
Signatory airline rentals and fees	\$19,044,828	39.5%	\$19,483,998	39.8%	\$21,553,016	42.9%	(2.3)%
Revenue from sources other than signatory airline rentals and fees	23,118,801	47.9%	23,347,932	47.7%	22,549,158	44.8%	(1.0)%
Passenger Facility Charge revenue	5,738,439	11.9%	5,673,398	11.6%	5,973,134	11.9%	1.1%
Operating grants from the U.S. Government	<u>324,298</u>	<u>0.7%</u>	<u>459,022</u>	<u>0.9%</u>	<u>218,952</u>	<u>0.4%</u>	(29.4)%
	<u>\$48,226,366</u>	<u>100.0%</u>	<u>\$48,964,350</u>	<u>100.0%</u>	<u>\$50,294,260</u>	<u>100.0%</u>	(1.5)%
Signatory airline enplaned passengers	1,420,824		1,435,471		1,402,181		(1.0)%
Signatory airline cost per enplaned passenger	<u>\$13.40</u>		<u>\$13.57</u>		<u>\$15.37</u>		(1.3)%

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

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

Debt Service Coverage

Under the Bond Indenture for the issuance of the 2003 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of the annual debt service coverage for the years ended September 30, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Airport Revenues	\$48,226,366	\$48,964,350	\$50,294,260
Less: Operations and Maintenance Expenses (a)	<u>(27,681,824)</u>	<u>(26,955,921)</u>	<u>(24,645,199)</u>
Net Revenues	\$20,544,542	\$22,008,429	\$25,649,061
Plus: Other Available Moneys (b)	<u>4,409,242</u>	<u>4,407,242</u>	<u>4,223,255</u>
Net Revenues and Other Available Moneys	\$24,953,784	\$26,415,671	\$29,872,316
Annual Debt Service	\$17,636,969	\$17,628,969	\$16,893,019
Annual Debt Service Coverage	1.41	1.50	1.77
Debt service coverage requirement per Bond Indenture (Bond Covenants)	1.25	1.25	1.25

(a) Includes capital assets funded from Operations and Maintenance

(b) Includes deposits from prior year of Other Available Moneys sub-account and unencumbered amounts in the Capital Fund, up to 25% of Annual Debt Service

F. Outlook for FY 2008

With several initiatives underway, the Authority remains committed to positioning Guam as a major transportation hub in the Western-Pacific region for 2008.

The Authority will continue to aggressively pursue its air service development program. The Authority, in conjunction with the Guam Visitors Bureau, the Marianas Visitors Authority and the CNMI Ports Authority, and its air service development consultants, have identified short term objectives and targeted regional airlines focused on increasing airline service and operations, enplanements and aircraft activity into Guam. The Authority has embarked on the next phase of the program by initiating discussions with targeted airlines.

Concurrently, the Authority received authorization from the U.S. Department of Transportation that provides foreign airlines greater operational flexibility under 49 U.S.C. 40109 to engage in the transportation of cargo through Guam.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

F. Outlook for FY 2008, continued

In order to establish ourselves as a world-class, regional airport, the Authority is developing an Integrated Strategic Plan to implement initiatives focused on customer service, facilities access, economic development, competitive positioning, community relations, and governance and organizations. In addition, the Authority is in the process of establishing a relationship with the American Association of Airport Executives (AAAE) and will be the headquarters for AAAE's Pacific Chapter. This is the first step in the establishment of a certified regional U.S. aviation training and development center in the Western-Pacific Region.

The Authority is committed to providing the highest level of customer service and amenities commensurate with a world-class, state-of-the-art airport facility in a clean and aesthetically pleasing environment for our employees, tenants and customers. Initiatives for improved aesthetics and amenities include relocation of baggage pods, improved security processing, the Airport Ambassador program, electronic signage, landscaping, educational displays, concession services, and community and civic exhibitions.

The Authority is an integral part of the community and an active partner in the growth and prosperity of Guam. As an essential facility provider, the Authority contributes over \$1.7 billion and represents more than twenty-thousand job opportunities for our island residents. The Authority will continue to be an economic catalyst for Guam's tourism driven economy by fostering sustained and expanded air service through a low cost business model, develop facilities that will attract targeted commercial activities, and preserve and protect our island's unique culture and fragile environment.

The Authority is projecting \$13.35 as the cost per enplaned passenger for FY 2008. 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.

Continued development of Guam's only commercial airport will ensure that we meet and surpass the travel and aviation needs now and into the future. The Authority will proceed with airport projects that will increase the operational capacity of our airport, maximize the operational capabilities of our airline partners, improve our security, roadways and other utility infrastructure, diversify our revenue streams, and enhance our customer service and passenger facilitation process.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

F. Outlook for FY 2008, continued

The following are key capital improvement projects expected to be initiated or completed during FY 2008 in line with the Authority's Integrated Strategic Plan to position Guam as the premier transportation hub in the Pacific:

- Parallel Taxiway, Phase 2
- Residential Sound Solutions Program, Phases 1, 2 & 3
- Extension to Runway 6L
- Demolition of Tiyan Blocks 10 – 16
- Relocation of USAF Fuel Line
- Construct Perimeter Security Road – Phase 3

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets

	September 30,	
	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Unrestricted assets:		
Cash (Note 2)	\$ 1,995,312	\$ 1,928,586
Passenger facility charge cash (Note 2)	75,679	5,167
Accounts receivable, trade, net of allowance for doubtful accounts of \$209,987 and \$176,954 at September 30, 2007 and 2006, respectively (Note 2)	5,888,866	6,647,485
Passenger facility charge receivables	820,727	760,529
Receivables from the United States Government	2,625,828	2,864,219
Current portion of notes receivable, net of allowance for doubtful accounts of \$1,354,474 and \$562,140 at September 30, 2007 and 2006, respectively (Note 3)	515,775	369,707
Inventory and other	<u>55,835</u>	<u>58,020</u>
Total unrestricted current assets	<u>11,978,022</u>	<u>12,633,713</u>
Restricted assets:		
Customs fees, cash	82,935	209,560
Customs fees, receivables (Note 11)	<u>1,500,006</u>	<u>1,358,356</u>
Total restricted current assets	<u>1,582,941</u>	<u>1,567,916</u>
Total current assets	<u>13,560,963</u>	<u>14,201,629</u>
General Revenue Bonds (Note 6) :		
Investments and cash with trustees, unrestricted	31,506,976	22,023,274
Investments and cash with trustees, restricted	<u>32,519,532</u>	<u>42,779,336</u>
	<u>64,026,508</u>	<u>64,802,610</u>
Capital assets, at cost less accumulated depreciation (Notes 4 and 10)	375,898,559	349,760,252
Deferred bond issue costs (Note 5)	8,958,183	9,893,110
Notes receivable, net of current portion (Note 3)	<u>3,005,592</u>	<u>3,883,545</u>
Total assets	<u>\$ 465,449,805</u>	<u>\$ 442,541,146</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets, continued

	September 30,	
	2007	2006
Liabilities and Net Assets		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 3,079,077	\$ 2,850,496
Accounts payable - construction	3,165,246	2,497,478
Other liabilities (Note 13)	848,368	925,765
Security deposits and deferred income	1,058,261	1,191,309
Current portion of annual leave (Note 9)	260,705	420,671
Total payable from unrestricted assets	<u>8,411,657</u>	<u>7,885,719</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam (Note 11)	1,525,038	1,459,594
General Revenue Bonds:		
Current installments (Notes 5 and 9)	8,030,000	7,640,000
Accrued interest	4,803,484	4,994,484
Total payable from restricted assets	<u>14,358,522</u>	<u>14,094,078</u>
Total current liabilities	<u>22,770,179</u>	<u>21,979,797</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued unfunded liability to retirement fund (Notes 7 and 9)	4,708,147	3,787,873
Long-term portion of annual leave (Note 9)	562,538	425,457
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds (Notes 5 and 9)	<u>189,612,434</u>	<u>197,785,076</u>
Total non-current liabilities	<u>194,883,119</u>	<u>201,998,406</u>
Total liabilities	<u>217,653,298</u>	<u>223,978,203</u>
Commitments and contingencies (Notes 5 and 10)		
Net assets:		
Invested in capital assets, net of related debt	187,214,310	154,228,284
Restricted (Notes 4 and 10)	37,773,950	47,893,172
Unrestricted	22,808,247	16,441,487
Total net assets	<u>247,796,507</u>	<u>218,562,943</u>
Total liabilities and net assets	<u>\$ 465,449,805</u>	<u>\$ 442,541,146</u>

See accompanying notes.

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

	Years ended September 30,	
	<u>2007</u>	<u>2006</u>
Revenues (Note 5) :		
Facilities and systems usage charges	\$ 17,544,282	\$ 18,438,120
Concession fees (Notes 2 and 8)	12,583,963	12,399,169
Rental income	8,957,927	8,524,035
Miscellaneous	<u>986,703</u>	<u>1,496,515</u>
Total revenues	<u>40,072,875</u>	<u>40,857,839</u>
Operating costs and expenses:		
Contractual services	13,404,253	14,640,541
Personnel services	13,001,664	11,909,317
Bad debt	1,070,963	250,000
Materials and supplies	<u>860,602</u>	<u>909,497</u>
Total operating costs and expenses	<u>28,337,482</u>	<u>27,709,355</u>
Income from operations before depreciation and amortization	11,735,393	13,148,484
Depreciation and amortization	(18,932,919)	(19,580,556)
Loss from operations	(7,197,526)	(6,432,072)
Non-operating income (expense):		
Passenger facility charge income	5,738,439	5,673,398
Interest income	2,722,235	2,492,263
Other income, net (Notes 3 and 5)	331,420	199,631
Interest expense	(9,208,143)	(9,504,212)
Non-recurring expenses (Note 12)	(10,509)	(1,816)
Total non-operating expenses, net	(426,558)	(1,140,736)
Loss before capital grants and transfer in	(7,624,084)	(7,572,808)
Capital grants from the United States Government	36,706,648	14,650,792
Operating grants from the United States Government	<u>151,000</u>	<u>286,976</u>
Increase in net assets	29,233,564	7,364,960
Net assets at beginning of year	<u>218,562,943</u>	<u>211,197,983</u>
Net assets at end of year	<u>\$ 247,796,507</u>	<u>\$ 218,562,943</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
Statements of Cash Flows

	Years ended September 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 39,841,398	\$ 40,540,735
Cash paid to suppliers and employees for goods and services	(13,057,363)	(16,400,990)
Cash paid to employees	(12,104,275)	(10,806,540)
Net cash provided by operating activities	<u>14,679,760</u>	<u>13,333,205</u>
Cash flows from investing activities:		
Proceeds from collection on note receivable	376,320	473,108
Net sales of investments with trustee	776,102	2,218,446
Investment interest income	<u>2,722,235</u>	<u>2,492,263</u>
Cash provided by investing activities	<u>3,874,657</u>	<u>5,183,817</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(44,136,296)	(22,525,206)
Interest paid on General Revenue Bonds, Series 2003	(9,399,146)	(10,104,644)
Principal payment on General Revenue Bonds, Series 2003	(7,782,642)	(6,833,276)
U.S. Government capital grants	37,096,039	14,617,667
Passenger facility charge receipts	<u>5,678,241</u>	<u>5,820,444</u>
Net cash used in capital and related financing activities	(<u>18,543,804</u>)	(<u>19,025,015</u>)
Net increase (decrease) in cash	10,613	(507,993)
Cash at beginning of year	<u>2,143,313</u>	<u>2,651,306</u>
Cash at end of year	<u><u>2,153,926</u></u>	<u><u>2,143,313</u></u>
Consisting of:		
Unrestricted	\$ 2,070,991	\$ 1,933,753
Restricted - current	<u>82,935</u>	<u>209,560</u>
	<u><u>\$ 2,153,926</u></u>	<u><u>\$ 2,143,313</u></u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
Statements of Cash Flows, continued

	Years ended September 30,	
	<u>2007</u>	<u>2006</u>
Reconciliation of loss from operations and other expense to net cash provided by operating activities:		
Loss from operations	\$(7,197,526)	\$(6,432,072)
Non-recurring and other income, net	<u>320,911</u>	<u>197,815</u>
	<u>(6,876,615)</u>	<u>(6,234,257)</u>
Adjustments to reconcile loss from operations and other income, net to net cash provided by operating activities:		
Depreciation and amortization	18,932,919	19,580,556
Bad debt expense	1,070,963	250,000
(Increase) decrease in assets:		
Accounts receivable	(98,429)	(580,152)
Inventory	2,185	(4,628)
Increase (decrease) in liabilities:		
Accounts payable	961,793	320,377
Other liabilities	(77,397)	(1,364,516)
Security deposits and deferred income	(133,048)	263,048
Annual leave	(22,885)	23,777
Accrued unfunded liability to retirement fund	<u>920,274</u>	<u>1,079,000</u>
Total adjustments	<u>21,556,375</u>	<u>19,567,462</u>
Net cash provided by operating activities	<u>\$ 14,679,760</u>	<u>\$ 13,333,205</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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements

Years ended September 30, 2007 and 2006

1. Organization and Summary of Accounting Policies

Organization

The Antonio B. Won Pat International Airport Authority, Guam, also formerly known as 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. It is charged with the acquisition, construction, operation and maintenance of the airport and related facilities for civil aviation on Guam. The Authority supports its operations through landing fees and charges for the use of its facilities and through rentals under concessionaire agreements.

Basis of Accounting

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

Net Assets

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

Cash

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Accounts Receivable

Accounts receivable are primarily due from airlines utilizing the Authority's airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2007 and 2006, receivables that are more than ninety days past due totaled approximately \$1,492,000 and \$1,045,000, respectively. The Authority accrues finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

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

Notes Receivable

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

Inventory

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

Investments

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Capital Assets and Depreciation and Amortization

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

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

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

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

Capitalization of Interest

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

Compensated Absences

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences, continued

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

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

Bond Premium and Discount

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

Operating and Non-Operating Revenues and Expenses

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

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

Passenger Facility Charges

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

Estimates

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Risk Management

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

New Accounting Standards

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

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

In July 2005, GASB issued Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits. The provisions of this statement should be implemented simultaneously with GASB Statement No. 45. The Authority does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution including contaminations, remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this statement are effective for periods beginning after December 15, 2007. The Authority has not determined the effect on its financial statements that implementation of Statement No. 49 will have.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the 2006 financial statements for comparative purposes. Such reclassifications have no effect on previously reported increase in net assets.

2. Major Customers and Concentration of Credit Risk

The primary concessionaire accounted for 16% of total operating revenues for each of the years ended September 30, 2007 and 2006. Receivables from the primary concessionaire totaled \$1,136,564 and \$2,006,014 at September 30, 2007 and 2006, respectively.

Approximately 31% of the Authority's total revenues for each of the years ended September 30, 2007 and 2006 were derived from one airline customer. Receivables from the airline customer totaled \$2,217,168 and \$2,106,375 at September 30, 2007 and 2006, respectively.

Financial instruments which potentially subject the Authority to concentration of credit risk consist principally of cash deposits.

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2007 and 2006, \$100,000 and \$200,000 of deposits, respectively, are covered by the federal depository insurance, with the remainder being uninsured and uncollateralized.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

3. Notes Receivable

Notes receivable as of September 30, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
Due from DFS Guam L.P. ("DFS") for advancement of capital cost improvements the Authority provided DFS to operate a retail merchandise concession (see Note 8). DFS shall repay the Authority in semi-annual installments beginning June 30, 2005, totaling \$342,738, inclusive of interest at 5% per annum, with final payment due in the year 2013. The note receivable due from DFS is net of unearned interest income totaling \$623,468 and \$811,885 as of September 30, 2007 and 2006, respectively	\$3,521,367	\$3,891,073
Due from Guam Police Department totaling \$1,315,834 and due from CMC Limousine, Inc. totaling \$38,640 at September 30, 2007 (\$879,065 and \$45,254 at September 30, 2006, respectively). The notes arise from converting trade receivables into promissory note arrangements. Specific repayment terms have not been finalized	<u>1,354,474</u>	<u>924,319</u>
	4,875,841	4,815,392
Less current installments	<u>(515,775)</u>	<u>(369,707)</u>
	4,360,066	4,445,685
Less allowance for doubtful accounts	<u>(1,354,474)</u>	<u>(562,140)</u>
	<u>\$3,005,592</u>	<u>\$3,883,545</u>

Interest income on the aforementioned DFS note receivable totaled \$188,417 and \$212,368 for the years ended September 30, 2007 and 2006, and is included as a component of other income, net in the accompanying statements of revenues, expenses and changes in net assets.

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2007 is as follows:

	Beginning Balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2007
Capital assets depreciated:				
Terminal building	\$289,577,935	\$ 4,179,163	\$ ---	\$293,757,098
Other buildings	39,020,868	18,772,528	---	57,793,396
Apron area	49,565,172	18,074,405	---	67,639,577
Airfield area	33,369,534	5,547,088	---	38,916,622
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>7,915,097</u>	<u>351,962</u>	<u>---</u>	<u>8,267,059</u>
Total capital assets depreciated	444,197,314	46,925,146	---	491,122,460
Less accumulated depreciation	<u>(206,047,802)</u>	<u>(17,997,989)</u>	<u>---</u>	<u>(224,045,791)</u>
Net capital assets depreciated	<u>238,149,512</u>	<u>28,927,157</u>	<u>---</u>	<u>267,076,669</u>
Capital assets not depreciated:				
Land	56,754,194	707,179	---	57,461,373
Construction-in-progress	<u>54,856,546</u>	<u>44,136,296</u>	<u>(47,632,325)</u>	<u>51,360,517</u>
Total capital assets not depreciated	<u>111,610,740</u>	<u>44,843,475</u>	<u>(47,632,325)</u>	<u>108,821,890</u>
	<u>\$349,760,252</u>	<u>\$73,770,632</u>	<u>\$(47,632,325)</u>	<u>\$375,898,559</u>

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

4. Airport Facilities, continued

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	\$282,765,907	\$ 6,812,028	\$ ---	\$289,577,935
Other buildings	39,009,271	11,597	---	39,020,868
Apron area	49,565,172	---	---	49,565,172
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>

Interest capitalized for the years ended September 30, 2007 and 2006, totaled \$398,826 and \$484,757, 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.

Antonio B. Won Pat International Airport Authority, Guam

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 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, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
General revenue bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$8,030,000 due in October 2007, and increasing to \$17,175,000 on October 2023	\$196,325,000	\$203,965,000
Less current installments	(<u>8,030,000</u>)	(<u>7,640,000</u>)
	188,295,000	196,325,000
Add net unamortized premium on bonds	6,767,054	7,500,195
Less deferred difference on refunding of 1993 bonds	(<u>5,449,620</u>)	(<u>6,040,119</u>)
	<u>\$189,612,434</u>	<u>\$197,785,076</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable

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>
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	9,095,000	7,901,000	16,996,000
2013 through 2017	52,830,000	32,885,000	85,715,000
2018 through 2022	68,770,000	18,019,000	86,789,000
2023 through 2024	<u>33,405,000</u>	<u>1,732,000</u>	<u>35,137,000</u>
	<u>\$196,325,000</u>	<u>\$96,078,000</u>	<u>\$292,403,000</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, 2007 and 2006, the amortized amounts totaling \$590,499 and \$613,394, respectively, are included as a component of other income, net in the accompanying statements of revenues, expenses and changes in net assets.

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the bond proceeds. At September 30, 2007 and 2006, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2007</u>	<u>2006</u>
Cash with trustees	\$ 34,936	\$ 1,260,000
Federal Grant Funds	7,092,643	6,720,842
Operations and Maintenance Reserve Fund	7,139,555	6,842,585
Operations and Maintenance Fund	1,198,553	44,410
General Revenue Fund	4,582,147	2,716,615
Self-Insurance Fund	4,601,069	8,834
Capital Improvement Fund	<u>6,858,073</u>	<u>4,429,988</u>
Total Unrestricted	<u>31,506,976</u>	<u>22,023,274</u>
Cash with trustees	8,606	4,718
Bond Reserve Funds	18,490,243	20,778,397
Debt Service Funds	13,020,683	16,576,406
Renewal and Replacement Fund	1,000,000	5,207,619
Cost of Issuance Fund	<u>---</u>	<u>212,196</u>
Total Restricted	<u>32,519,532</u>	<u>42,779,336</u>
	<u>\$64,026,508</u>	<u>\$64,802,610</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

Investments are stated at fair market value. The amortized cost and fair value of investments at September 30, 2007 and 2006 are summarized as follows:

	2007			2006		
	Amortized	Gross Unrealized gains (losses)	Fair value	Amortized	Gross unrealized gains (losses)	Fair value
	Cost			Cost		
Cash with trustees	\$ 43,542	\$ ---	\$ 43,542	\$ 1,264,718	\$ ---	\$ 1,264,718
Money market/ trust funds	39,327,022	---	39,327,022	38,795,948	---	38,795,948
Investment agreements	18,045,950	---	18,045,950	18,045,950	---	18,045,950
Short-term investments	5,721,822	40,463	5,762,285	5,912,904	(24,134)	5,888,770
U.S. Treasury notes	<u>828,419</u>	<u>19,290</u>	<u>847,709</u>	<u>800,190</u>	<u>7,034</u>	<u>807,224</u>
	<u>\$63,966,755</u>	<u>\$ 59,753</u>	<u>\$64,026,508</u>	<u>\$64,819,710</u>	<u>\$ (17,100)</u>	<u>\$64,802,610</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.

As of September 30, 2007 and 2006, all investments were classified as Category 2 investments.

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Authority. In compliance with the bond indenture, the Authority minimized credit risk losses by limiting investments to the safest types of securities. Bank of Hawaii Investment Services Group 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. In addition, funds held with Bank of Guam-Trustee are invested in Federated Investments Government Obligations Funds. Funds with co-trustee, U.S. Bank, are invested in FAM Treasury Obligations Fund. All investment securities are within the requirement of the bond indenture.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2007 and 2006.

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

At September 30, 2007, the Authority's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
US treasury notes	Aaa	\$ ---	\$ 833,215	\$ ---	\$ ---	\$ 833,215
US government agencies:						
Federal Home Loan Bank	Aaa	1,622,873	1,484,102	---	---	3,106,975
Federal Home Loan Mortgage Corporation	Aaa	---	325,821	201,188	---	527,009
Federal National Mortgage Association	Aaa	---	1,090,218	25,024	---	1,115,242
Corporate notes:						
CDC Funding Corporation	Aaa	---	---	---	18,045,950	18,045,950
Other	Aaa	---	90,754	---	---	90,754
Other	Aa	99,399	128,318	---	---	227,717
Other	A	372,189	349,490	---	---	721,679
Other	Baa1	---	348,027	---	---	348,027
Money Market Funds	Aaa	<u>38,828,363</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>38,828,363</u>
		<u>\$40,922,824</u>	<u>\$4,649,945</u>	<u>\$ 226,212</u>	<u>\$18,045,950</u>	<u>\$63,844,931</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

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

	Moody's Credit Rating	Less than 1	1 to 5	6 to 10	Greater than 10	Total
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>

7. Employee's Retirement Plan

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Employee's Retirement Plan, continued

As a result of actuarial valuations performed as of September 30, 2006, 2005 and 2004, contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Normal costs (% of DB Plan payroll)	17.94%	18.21%	17.83%
Unfunded liability costs (% of total payroll)	<u>20.75%</u>	<u>20.66%</u>	<u>21.36%</u>
	38.69%	38.87%	39.19%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as a % of DB Plan Payroll	<u>29.19%</u>	<u>29.37%</u>	<u>29.69%</u>
Government contribution as % of total payroll	<u>22.94%</u>	<u>21.81%</u>	<u>20.81%</u>

Statutory contribution rates for employer and employee contributions were 27.38% and 9.5%, respectively, for the year ended September 30, 2007 and 27.48% and 9.5%, respectively for the year ended September 30, 2006.

The Plan utilized the actuarial cost method termed "entry age normal". The actuarial valuations performed as of September 30, 2006, 2005 and 2004 were based on an assumed rate of return of 7% and an assumed salary increase of 3.5% per annum. The actuarial valuations performed as of September 30, 2006, 2005 and 2004, 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, 2007 and 2006, may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Employee's Retirement Plan, continued

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

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

Retirement expense for the years ended September 30, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash contributions and accruals	\$1,828,210	\$1,579,318	\$1,596,847
Increase in accrued unfunded liability to the retirement fund	<u>920,274</u>	<u>1,079,000</u>	<u>589,000</u>
	<u>\$2,748,484</u>	<u>\$2,658,318</u>	<u>\$2,185,847</u>

8. Leases

DFS

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

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

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

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

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.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Leases, continued

Concession fee income for the years ended September 30, 2007 and 2006 includes \$2,053,180 and \$2,111,298 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, 2007 are as follows:

<u>Year ending September 30,</u>	
2008	\$ 4,750,000
2009	4,750,000
2010	4,750,000
2011	4,625,000
2012	4,500,000
Thereafter	<u>1,500,000</u>
Total minimum lease payments receivable	<u>\$24,875,000</u>

Other Leases

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Leases, continued

The future minimum rentals on noncancellable operating leases (excluding the DFS lease described above) as of September 30, 2007 are as follows:

<u>Year ending</u> <u>September 30,</u>	
2008	\$ 5,167,000
2009	4,838,000
2010	4,722,000
2011	4,350,000
2012	1,047,000
Thereafter	<u>3,851,000</u>
Total minimum lease payments receivable	<u>\$23,975,000</u>

9. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal year 2007 and 2006 follows:

	<u>Outstanding</u> <u>September 30,</u> <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>September 30,</u> <u>2007</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 3,787,873	\$ 920,274	\$ ---	\$ 4,708,147	\$ ---	\$ 4,708,147
Accrued annual leave	846,128	---	22,885	823,243	260,705	562,538
2003 General revenue bonds	<u>205,425,076</u>	<u>---</u>	<u>7,782,642</u>	<u>197,642,434</u>	<u>8,030,000</u>	<u>189,612,434</u>
	<u>\$210,059,077</u>	<u>\$ 920,274</u>	<u>\$7,805,527</u>	<u>\$203,173,824</u>	<u>\$8,290,705</u>	<u>\$194,883,119</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Long Term Liabilities, continued

	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>

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.

Federal Program Costs

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Federal Program Costs, continued

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

As of September 30, 2007 and 2006, there were no unresolved questioned costs.

Commitments

The Authority has commitments of \$25,256,860 under several construction contracts at September 30, 2007.

In addition, the Authority has commitments under other various contracts of \$4,461,170 at September 30, 2007.

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 \$1,000,000 and \$4,601,069, respectively, at September 30, 2007 and \$5,207,619 and \$8,834, respectively, at September 30, 2006. Effective October 1, 2007, the Authority has a catastrophic insurance policy with coverage up to \$7.5 million as a supplement to the self-insurance.

Government of Guam General Fund

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, 2007 and 2006.

Litigation

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

11. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2007 and 2006, 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, 2007 and 2006, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$1,525,038 and \$1,459,594, respectively, for the above charges, of which \$1,500,006 and \$1,358,356, respectively, are reflected as customs fees, receivables in the accompanying statements of net assets. The fees are not reflected as an expense or revenue by the Authority.

12. Non-Recurring Expenses

Non-recurring expenses incurred for the years ended September 30, 2007 and 2006 consist of typhoon related expenses totaling \$10,509 and \$1,816, respectively. The typhoon related expenses are based on the Authority's most recent estimates and are recorded net of anticipated federal reimbursements. Actual final expenses may differ materially from these estimates.

13. Typhoon Costs

On December 8, 2002, a super typhoon struck Guam, causing substantial damage to the Authority's facilities. 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, 2007 and 2006, included as a component of other liabilities in the accompanying statements of net assets are \$159,162 and \$283,126, respectively, of accrued repair costs related to the super typhoon.

Other Financial Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2007 and 2006

Schedule 1
Facilities and Systems Usage Charges

	<u>2007</u>	<u>2006</u>
Departure facilities	\$ 5,566,905	\$ 5,431,680
Arrival facilities	5,464,935	5,362,326
Passenger loading bridge usage charge	2,148,615	1,315,610
Immigration	2,052,000	1,916,557
Public apron	1,700,043	758,182
Fuel flowage fees	203,431	210,424
Utility recovery and other fees	290,250	301,481
Landing fees	118,103	3,141,860
	<u>\$ 17,544,282</u>	<u>\$ 18,438,120</u>

Schedule 2
Concession Fees

	<u>2007</u>	<u>2006</u>
General merchandise	\$ 6,608,660	\$ 6,664,069
Ground transportation	3,053,128	3,071,323
Car rental	922,165	730,886
Food and beverage	718,666	735,984
In-flight catering	475,532	470,326
Advertising	361,921	278,856
Money exchange	257,152	257,152
Parking lot	105,000	105,000
Other	81,739	85,573
	<u>\$ 12,583,963</u>	<u>\$ 12,399,169</u>

Schedule 3
Rental Income

	<u>2007</u>	<u>2006</u>
Operating space:		
- Airline	\$ 2,865,145	\$ 2,631,220
- Non-airline	2,325,469	2,045,069
Building and maintenance shop rentals	2,113,670	2,187,628
Other	1,032,890	1,018,353
Cargo rentals	620,753	641,765
	<u>\$ 8,957,927</u>	<u>\$ 8,524,035</u>

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2007 and 2006

**Schedule 4
Contractual Services**

	<u>2007</u>	<u>2006</u>
Utilities and telephone	\$ 5,464,303	\$ 5,677,655
Repairs and maintenance	3,508,153	4,305,617
Insurance	1,289,124	1,241,683
Professional services	2,181,026	2,414,167
Advertising and promotions	258,822	245,164
Travel/Training & Certifications	276,115	158,480
Miscellaneous	<u>426,710</u>	<u>597,775</u>
	<u>\$ 13,404,253</u>	<u>\$ 14,640,541</u>

**Schedule 5
Personnel Services**

	<u>2007</u>	<u>2006</u>
Salaries and wages	\$ 9,577,755	\$ 8,647,508
Retirement contributions	2,748,484	2,658,318
Insurance	<u>675,425</u>	<u>603,491</u>
	<u>\$ 13,001,664</u>	<u>\$ 11,909,317</u>

Full-time employee count in September	<u>205</u>	<u>207</u>
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**Schedule 6
Materials and Supplies**

	<u>2007</u>	<u>2006</u>
Equipment and vehicle maintenance and supplies	\$ 420,907	\$ 352,563
Office and security supplies	204,426	248,254
Electrical and plumbing	58,377	95,933
Building maintenance and supplies	72,094	66,287
Miscellaneous	<u>104,798</u>	<u>146,460</u>
	<u>\$ 860,602</u>	<u>\$ 909,497</u>

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2007

**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
Lloyds of London	Property Insurance	\$ 200,000,000
American Home Assurance Company	Directors & Officers Liability (Sublimit of \$1,000,000 for Employment Practices Liability)	\$ 4,000,000
National Union Fire Insurance Co. of Pittsburgh, PA	Automobile	\$ 1,000,000
National Union Fire Insurance Co. of Pittsburgh, PA	Workers' Compensation	\$ 1,000,000
American Home Assurance Company	Excess Automobile	\$ 1,000,000
Lloyds of London	Crime Insurance	\$ 1,000,000

Antonio B. Won Pat International Airport Authority, Guam

Schedule 8

Reconciliation of Historical Financial Results

	Years ended September 30,	
	<u>2007</u>	<u>2006</u>
Change in net assets:		
Revenues	\$ 48,533,549	\$ 49,023,500
Expenses	(28,337,482)	(27,709,355)
Income before depreciation	20,196,067	21,314,145
Depreciation	(18,932,919)	(19,580,556)
	1,263,148	1,733,589
Interest and other expense	(8,887,232)	(9,306,397)
Grants from the United States Government	36,857,648	14,937,768
Increase in net assets	<u>\$ 29,233,564</u>	<u>\$ 7,364,960</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 48,533,549	\$ 49,023,500
Operation and maintenance expenses	(27,988,999)	(27,015,069)
Net Revenues available for debt service	<u>\$ 20,544,550</u>	<u>\$ 22,008,431</u>
Reconciliation:		
Change in net assets	\$ 29,233,564	\$ 7,364,960
Add back:		
Depreciation	18,932,919	19,580,556
Interest expense	9,208,143	9,504,212
Change in unfunded retirement liability	920,274	1,079,000
Miscellaneous	(585,517)	(523,380)
Deduct:		
Capital grants from the United States Government	(36,706,648)	(14,650,792)
Interest income on funds related to construction	(458,185)	(346,125)
	<u>20,544,550</u>	<u>22,008,431</u>
Other available monies	<u>4,409,242</u>	<u>4,407,242</u>
Funds available for debt service	<u>\$ 24,953,792</u>	<u>\$ 26,415,673</u>
Debt Service	<u>\$ 17,636,969</u>	<u>\$ 17,628,969</u>

Antonio B. Won Pat International Airport Authority, Guam

Schedule 9

Employee Data

Year ended September 30, 2007

<u>Department</u>	<u>PL 28-150 Section 45:a Full Time Employees (b)</u>	<u>PL 28-150 Section 45:b Category Personnel Services (a)</u>	<u>Contractual Services (a)</u>	<u>Materials & Supplies(a)</u>	<u>Total</u>
Board	—	\$ 577	\$ 27,286	\$ 1,737	\$ 29,600
Administration	46	2,551,597	9,711,154	173,000	12,435,751
Accounting	9	645,728	209,598	2,674	858,000
Engineering	3	244,302	217,217	8,608	470,127
Operations	23	1,194,835	313,664	19,400	1,527,899
Properties & Facilities Maintenance	46	2,349,843	2,778,977	539,266	5,668,086
Airport Police	47	3,400,397	101,697	59,625	3,561,719
Aircraft Rescue Fire Fighting	<u>31</u>	<u>2,614,385</u>	<u>44,660</u>	<u>56,292</u>	<u>2,715,337</u>
Total	<u>205</u>	\$ <u>13,001,664</u>	\$ <u>13,404,253</u>	\$ <u>860,602</u>	\$ <u>27,266,519</u>

Note(s):

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



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