

**WE'RE
ON IT**

24/7



**Annual
Report
2013**



**A.B. WON PAT
INTERNATIONAL
AIRPORT
GUAM**

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A.B. WON PAT
INTERNATIONAL
**AIRPORT
GUAM**



***“Get going. Move Forward. Aim High.
Plan a takeoff. Don’t just sit on the
runway and hope someone will come
along and push the airplane. It simply
won’t happen. Change your attitude
and gain some altitude.***

Believe me, you’ll love it up here.”

— Donald Trump, Real Estate



Message from the Governor and Lt. Governor of Guam

Guam International Airport Authority The Aviation Hub of Micronesia

Håfa Adai! As the aviation hub of Micronesia, the A.B. Won Pat International Airport Authority, Guam serves as a critical link between the Western Pacific and the other Micronesian islands, as well as Asia and connecting on to the South Pacific. The men and women of the airport have done a phenomenal job of ensuring that our visitors and transiting passengers are treated with the hospitality for which our island is known.

This year, Guam has seen an increase in visitors — and those numbers are expected to continue to move upward. Much of that is due to the hard work of many of our people including the A.B. Won Pat International Airport Authority, Guam. The airport family is building the infrastructure to support the growing number of visitors. They are meeting federal security requirements. The airport is pushing forward with the runway expansion project, upgrading the arrivals corridor and replacing the decades-old baggage system with a new system that is more efficient.

In addition to the increased tourist traffic, the airport family has been able to help grow the aviation industry on Guam by helping Japan Airlines open their pilot training on Guam. It's an exciting time for Guam. We appreciate the work of the men and women of the A.B. Won Pat International Airport Authority, Guam who are there to lead the way into a brighter economic future.

Grow with Guam.



Eddie Baza Calvo
Governor of Guam



Ray Tenorio
Lt. Governor of Guam



Jess Q. Torres
Board Vice Chairman



Edward G. Untalan
Board Chairman



Martin J. Gerber
Board Director



Lucy M. Alcorn
Board Director



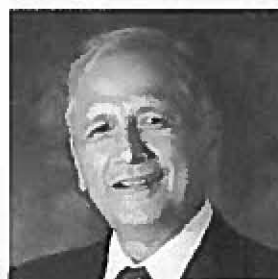
Sonny P. Ada
Board Director



Linda A. Tolan
Board Director



Charles H. Ada II
Executive Manager



Peter Roy Martinez
Deputy Executive Manager

Message from the Board and Management

The A.B. Won Pat International Airport Authority, Guam is "On it — 24/7", 24 hours a day, 7 days a week!

37 years ago, public law (P.L. 13-57) created the the A.B. Won Pat International Airport Authority, Guam as an autonomous agency charged with managing the day-to-day operations of the Guam International Airport.

Today, Guam's network of flights include 247 scheduled flights and over 345 charter flights annually. Guam is connected to 27 destinations to major cities in Japan, Korea, Taiwan and to Australia, Honolulu and islands throughout Micronesia. Just this past year, we added 3 destinations to and from Russia, direct flights to Beijing and we hope to attract new carriers and added frequencies in the following year.

Guam's Airport has become a major driver of the island's economy, generating billions of dollars, creating thousands of jobs and making a vital contribution to the Guam's trade and tourism by strengthening connections with the world.

The Board and Management are proud of this past year's accomplishments and proudly report the positive results in our Annual Report.

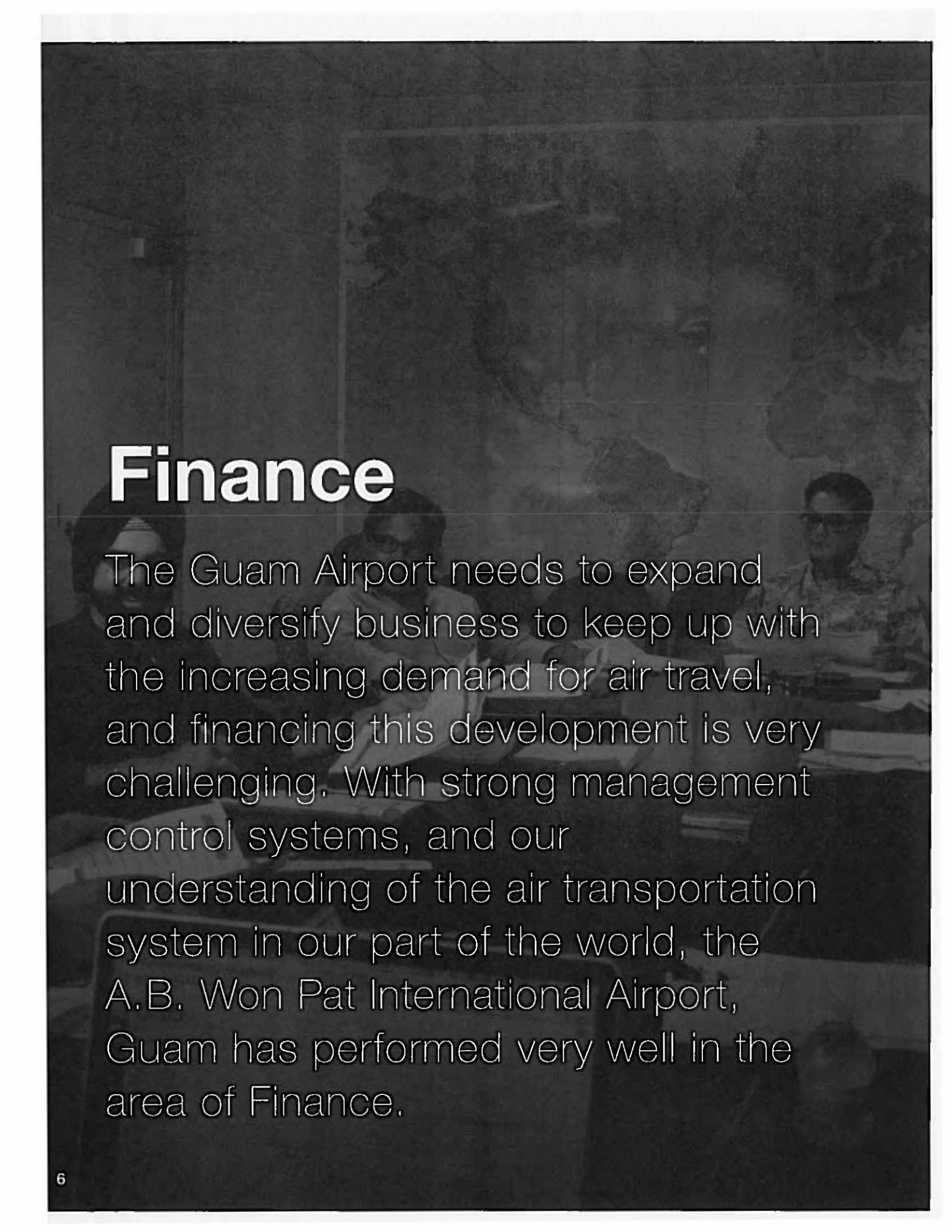






***“Investment in
knowledge pays
the best interest.”***

— Benjamin Franklin



Finance

The Guam Airport needs to expand and diversify business to keep up with the increasing demand for air travel, and financing this development is very challenging. With strong management control systems, and our understanding of the air transportation system in our part of the world, the A.B. Won Pat International Airport, Guam has performed very well in the area of Finance.

HISTORY IN PROGRESS

The Airport went to the Bond Market three times:

- 1979 - for \$43M to build the former air terminal.
- 1993 - for \$241M which built the current airport facility completed in 1998.
- 2013 - for \$247M that refinanced the outstanding 1993 bonds and provides new money for \$167M in terminal and facility enhancement projects.

All bond payments and expenses, to include salaries are paid solely by Airport revenues. Not one penny of the local government General Fund is touched for airport operations.

**WE'RE
ON IT
24/7**

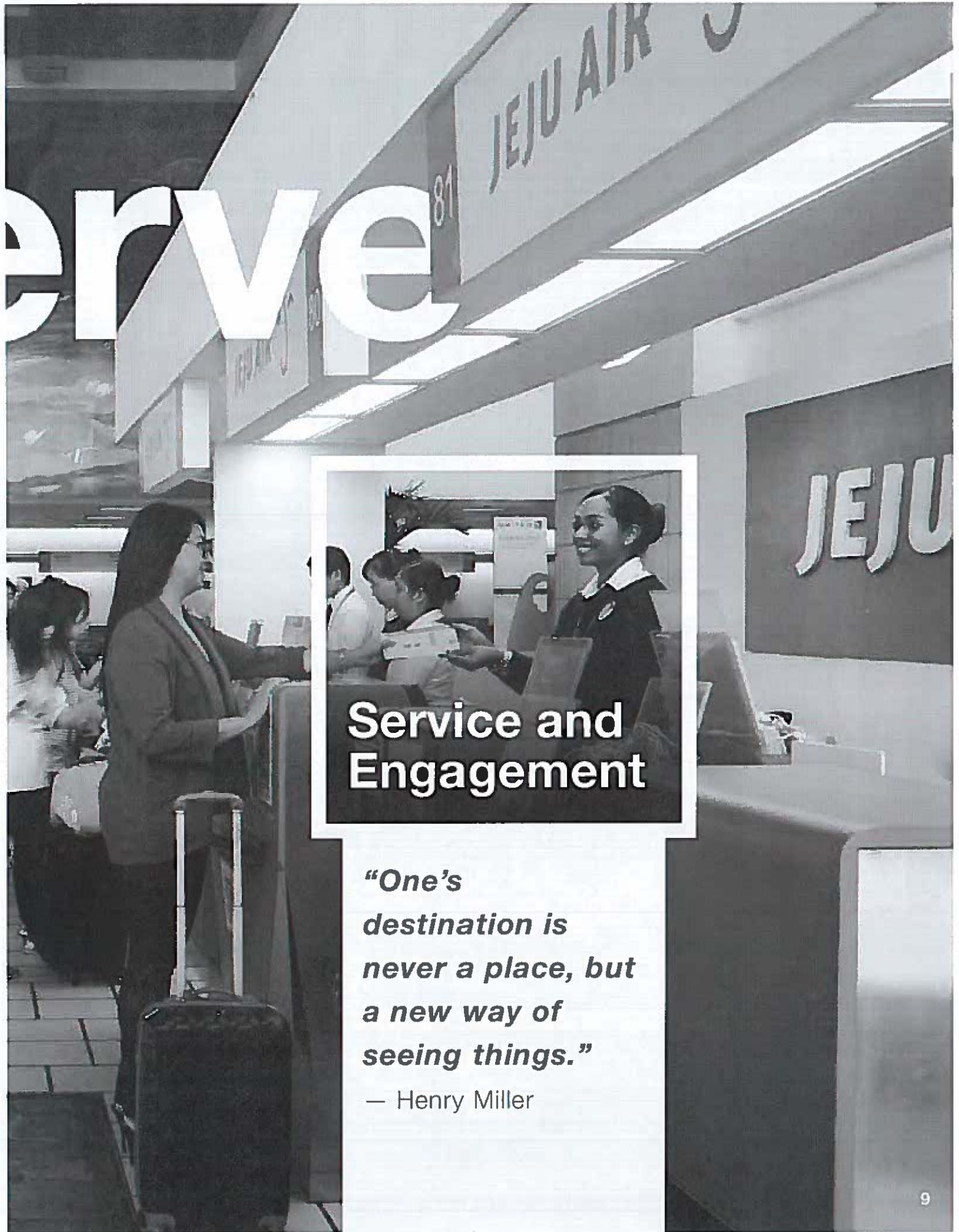
Just this past year, the Airport successfully issued and closed \$247M in General Revenue Bonds in September 2013.

Bond proceeds will fund over \$167M terminal and facility enhancement projects over the next 3 to 5 years and infuse money into the local economy.

Fiscal performance was outstanding in 2013, with actual operating revenues 9.7% over projections and expenses well below budget by 9.8%. Net income was recorded at \$15.1M as compared to a decrease of \$395,000 in FY2012 based on total revenues of \$86.7M. This was a 30.4% increase year-on-year.

The airport also maintained a strong Debt Service Coverage Ratio of 2.06, well over the 1.25 ratio required per the Airport's General Revenue bonds.



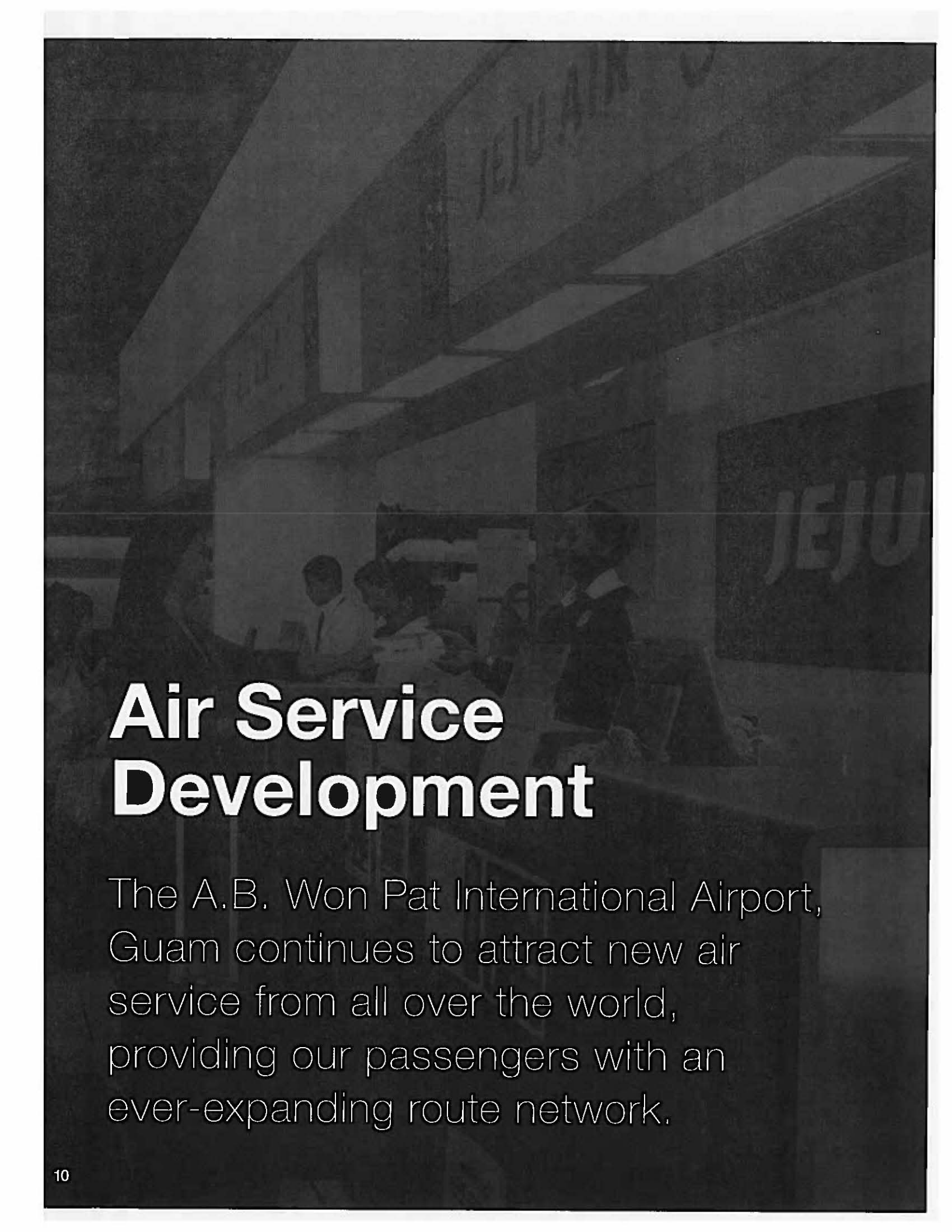


serve

Service and Engagement

“One’s destination is never a place, but a new way of seeing things.”

— Henry Miller



Air Service Development

The A.B. Won Pat International Airport, Guam continues to attract new air service from all over the world, providing our passengers with an ever-expanding route network.

HISTORY IN PROGRESS

252 scheduled flights operate weekly out of the Guam International Airport – and with passenger charters, Guam averages 42 flights a day.

Guam is connected to over 22 destinations - all international ports in Asia, the Pacific Islands and Australia, and the domestic ports of Honolulu and the CNMI.

WE'RE ON IT 24/7

With creative marketing of airport facilities, and viability of our tourism market, highlights of some of the more significant increases include

- A full flight training facility was opened by the Japan Airlines (JAL) to train their cadet pilots on two of JAL's fleet models that include the B737-800 and the B767-300. Cadets train during non peak hours, maximizing runway use and balancing aircraft operations. This type of operations nods to Guam's fully certified runways, compliant to ICAO and FAA standards, and adds to the airport's revenue base and business activity for associated service providers - the fuel handler, ground handling companies, hotels and food and beverage and other service providers the flight crew and instructors will utilize during their on-island training cycles.
- Skymark Airlines, a domestic airline operator in Japan, took to international skies operating spring charters from Narita to Guam on March 2013. This is indicative of the appeal of Guam as a destination and the demand for travel to a tropical destination, only 3 hours away from Japan.
- Star Flyer, another Japanese domestic airline also spread its wings to offer charter services from a new origin- Kitakyushu, Japan to Guam beginning April 2013. Star Flyer charter operations made available 2,000 additional seats to Guam from that new market.
- Guam Airport's profile as a viable transit and technical stop for airlines was endorsed with Philippine Airlines' use of Guam as a technical stop in its San Francisco to Manila route. Tech stops add to the Airport's revenue base and enhances the airport's reputation as an important transit and technical stop in the Asia-Pacific area.
- Korean Airlines commenced charter service from new origin Busan, Korea twice weekly, utilizing a B737-800 and maintained these services operating all throughout 2013.



CHINA AIRLINES



DELTA



FREEDOM
AIR ★ ★



JAPAN AIRLINES

JEJU AIR



KOREAN AIR



Philippine Airlines

UNITED



***"The customer
experience is the
next competitive
battleground."***

— Jerry Gregoire CIO,
Dell Computers



**Have fun
while we work.**



Play

Service And Community Engagement

The A.B. Won Pat International Airport, Guam recognizes the importance of its role in our island community. That is why there are core objectives in engaging the community and being an active and positive player with our stakeholders that include Guam's residents, neighboring villages, our airlines and tenants and visitors to our island.

HISTORY IN PROGRESS

Over 2,500 students tour the airport facility each year, providing the full travel experience of being issued a ticket, going through security screening, boarding an aircraft, processing through baggage claim and visiting interesting areas such as the boarding gates, the ramp control and arrivals lobby of the airport.

Airport management, airport firefighters, and airport police officers all take part in island wide career day presentations at elementary, middle and high schools, promoting careers in aviation.

The Airport operates an Information Center located in the Arrivals lobby where information about Guam and airport services is provided to all passengers. Over 10,000 inquiries are handled on an annual basis by the Airport Information Center.

Efficient Passenger processing is supported by foreign speaking ambassadors who assist visitors in filling out proper US entry forms. Global Entry kiosks and TSA Pre-check programs are in place to expedite arrivals and departures of visitors who are eligible and take part of these programs internationally.

Corporate and Traveler Information is available on the www.guamairport.com website!

The Airport will launch a mobile application for smart phone users and will feature important passenger services and information.

WE'RE ON IT 24/7

COMMUNICATION

We communicate with our Island community and provide forums for two way discussions:

- www.guamairport.com is an active information portal accessible by everyone, globally.
- Contact information of key airport personnel and tenants are published on our site.
- We engage industry organizations to discuss our capital improvement program and business opportunities.
- The Airport holds board positions in the prestigious Airports Council International (ACI) – Asia Pacific region, and the Pacific Association of Travel Agents (PATA) and is very active in networking and presenting in industry conferences in the region.
- Active communication via media releases, Airport announcements, airport articles and other reports featuring the Airport is frequent, and helps inform the public of Airport operations.

EMPLOYMENT

Airport operations provide an estimated 2,200 direct and indirect jobs that consist of occupations with airlines, airport service providers, construction, maintenance service, technical support, airport management, federal and local regulatory agencies, and security and law enforcement to name a few.

EDUCATION

The Airport Authority engages students and organizations to know more about the airport and consider future employment opportunities. We have an active school tour program that is available to all students in public and private education, home school groups, and other organizations such as the Boy and Girl Scouts of America, Tourism Educational Council, National Transportation Summer Institute Program from the Guam Community College and other summer camps.

Career day presentations are an important tool for Airport Management, airport firefighters and police officers and operations personnel and our airlines and tenants to engage children in middle and high schools to consider the myriad career opportunities in the aviation industry.

HEALTH AND WELL-BEING

A vibrant and healthy community is important for the Airport to operate successfully.

The Main Terminal and all Airport buildings are all designated as non smoking facilities. For surrounding neighborhoods affected by airport noise, the Sound Solutions program has been mitigating homes and buildings to reduce interior noise to comfortable levels.

Employees are encouraged to participate in educational and physical programs sponsored by the Airport Authority that promote healthy living such as nutrition classes, smoking cessation, zumba, paddling, and running and walking.

The Airport is working with the Airports Council International - Asia Pacific in its Airport Carbon Accreditation program, which independently assesses and recognizes airport's efforts to manage and reduce their CO₂ emissions.

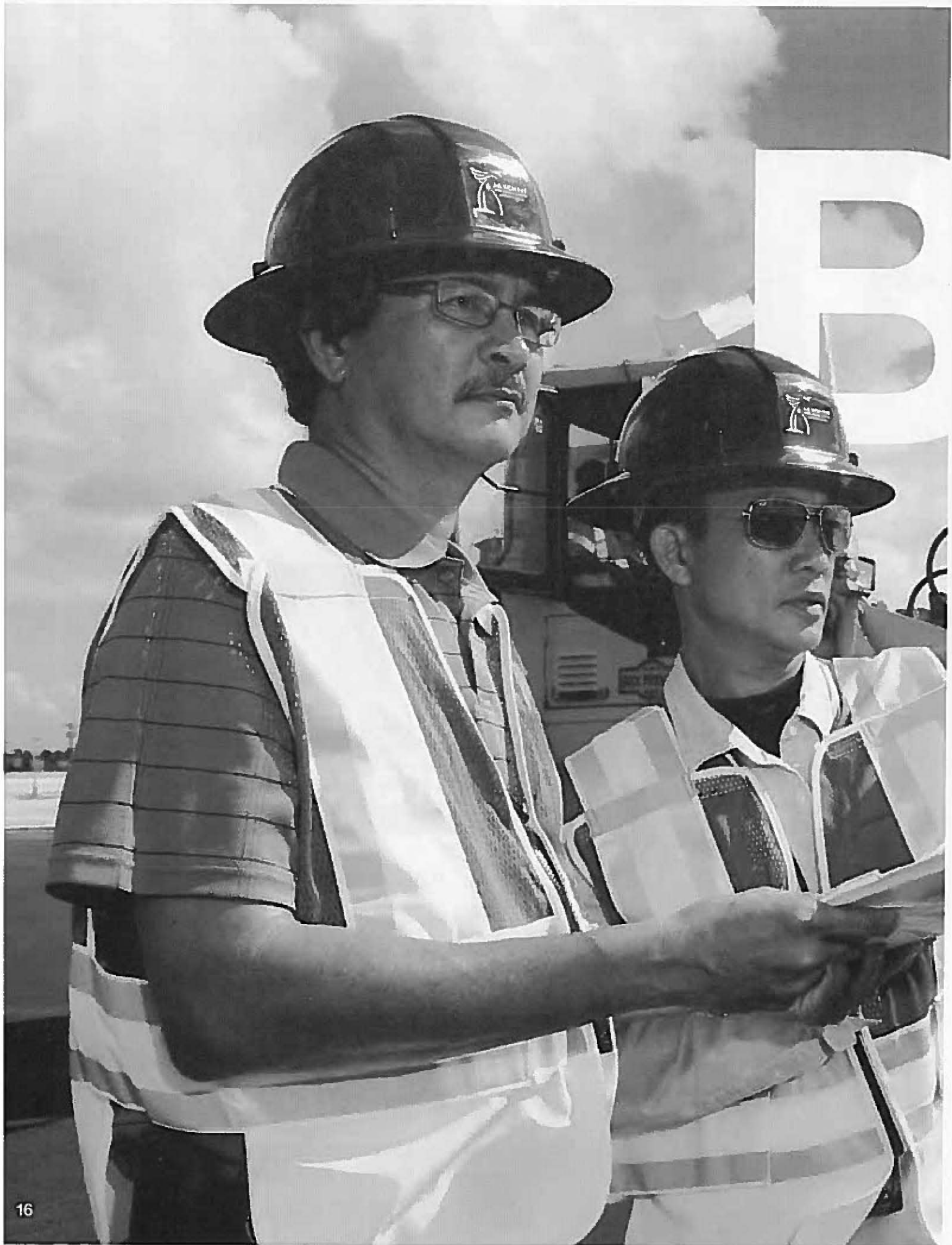
CUSTOMER SERVICE

The Guam Airport Authority is committed to providing the best possible services and facilities for visitors to the airport. This commitment is offered in partnership with a number of other service providers including the airlines, handling agents, concessionaires and other government regulatory agencies.

A big part of our customer service is our Ambassador Program, which provides multi-lingual assistance in filling out forms and friendly, welcoming interaction with our passengers in our immigration hall. The Airport Information Center is also a vital component of our hospitality that provides information about Guam, Transportation, Accommodations and locating any type of service a visitor on Guam may need. The Airport makes every effort to provide a safe, clean and welcoming airport environment. We monitor customer feedback and assess satisfaction through our Airport Information Center.

As part of our ongoing commitment to significantly improve the passenger experience at Guam Airport, there have been restroom and food court upgrades, provision of a family room, and future plans to facilitate passengers arrival to an aesthetically pleasing environment meeting all safety and security regulations imposed on International travel.

The Airport is committed to joining the ASQ (Airport Service Quality) program under the ACI Asia Pacific organization which is an to help airports in their continuing efforts to improve the quality of service experienced by passengers. The program identifies and disseminates best practice from top-performing airports around the world.



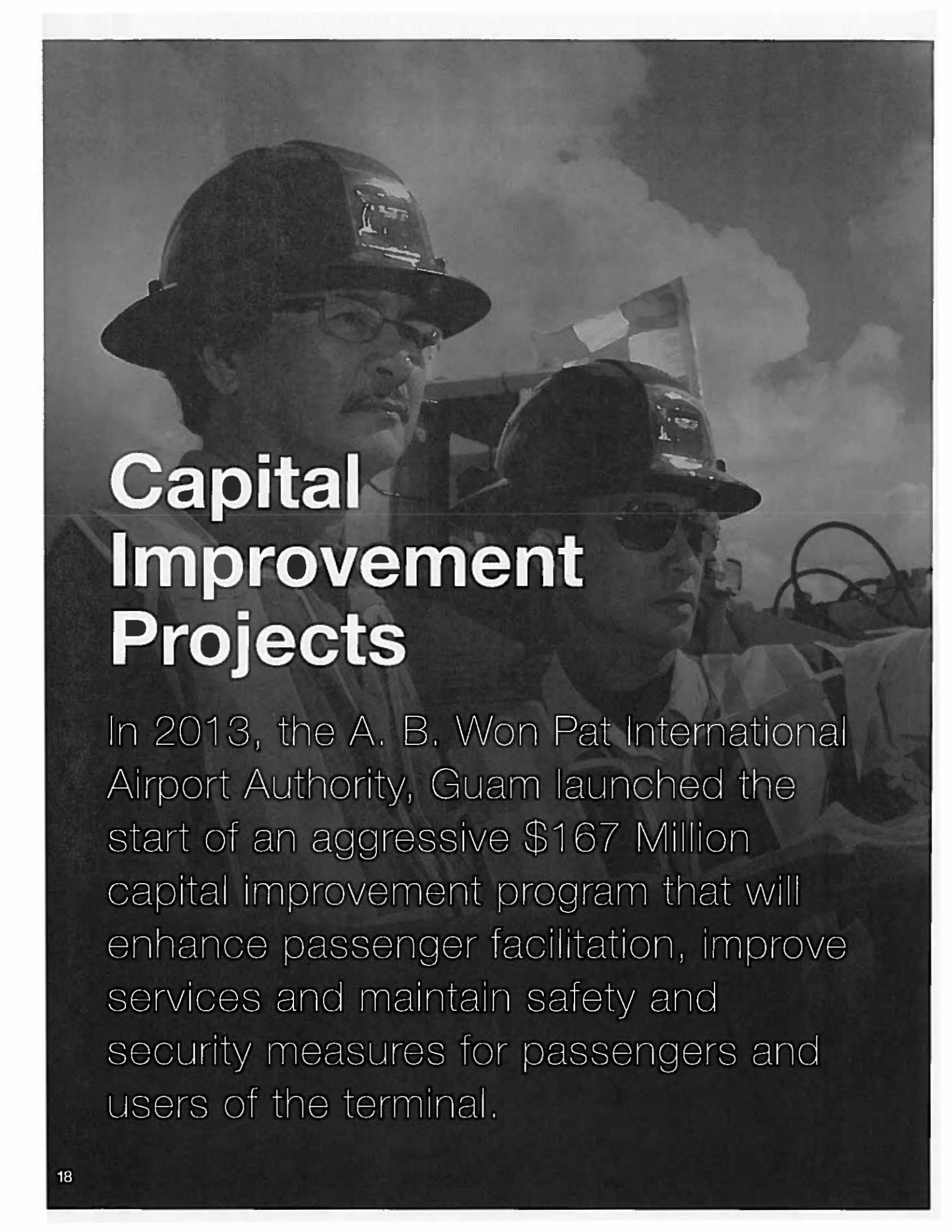
Build



**We're
growing**

***“Aviation is proof
that given the
will, we have the
capacity to
achieve the
impossible.”***

— Edward Vernon
Rickenbacker,
Aviator



Capital Improvement Projects

In 2013, the A. B. Won Pat International Airport Authority, Guam launched the start of an aggressive \$167 Million capital improvement program that will enhance passenger facilitation, improve services and maintain safety and security measures for passengers and users of the terminal.

HISTORY IN PROGRESS

The current Airport building completed in 1998 remains the largest capital improvement project ever undertaken on Guam at \$241M.

The main terminal footprint is over 767,553 square feet of terminal space.

WE'RE ON IT 24/7

With these improvements, the Guam Airport looks forward to a bright future as a hub for travel in Asia and the Pacific and soon being able to accommodate long range, long haul flights across the Pacific Ocean, expanding services, furthering its reaches and providing more opportunity for the island and its people.

First Priority

INTERNATIONAL ARRIVALS CORRIDOR

Construction of a 3rd level corridor for arriving passengers will permanently solve the TSA mandate to separate arriving and passengers.

PHASE 3 NEAR-FAULT SEISMIC UPGRADE

Installation of Terminal Structure Seismic upgrades for the central terminal and east concourse.

HOLD BAG SCREENING RELOCATION

Relocation of the bulky baggage screening to the back of the ticket counters, freeing up space in the ticket lobbies.

SECURITY SCREENING CONTROL POINT

Installation of additional screening lanes which adds space to the Well-Wishers Lobby

FLIGHT INFORMATION DISPLAY REPLACEMENT

Replacement & Update of the flight information display monitors throughout the terminal.

INTEGRATED PASSENGER LOADING BRIDGE REPLACEMENT

Replacement of passenger jetways and air condition handling units for landing bridges.

COMMON USE CHECK-IN FACILITIES

Migration to the Common Use Check-in System will allow all airlines to use any ticket counter for check-in process, allowing for maximized use of check-in counters.

FUEL SYSTEM IMPROVEMENTS

Improvement of fire suppression system and connections in terminal.

PARKING EXPANSION

Addition of a single level parking deck to the Terminal Parking area, expanding parking capacity and improving passenger service.

INTER-ISLAND PASSENGER FACILITY

Construction of a separate facility for a commuter terminal/domestic inter-island operations for passenger convenience.

AIRCRAFT RESCUE AND FIRE FIGHTING (ARFF) FACILITY REPLACEMENT

Construction of a new ARFF Facility fully code compliant with FAA standards.

CARGO APRON RELOCATION

Expansion of new Apron area for cargo, adjacent to Integrated Air Cargo Facility.

REPLACE TERMINAL SEATING

Replacement of new passenger seating systems with newer seats throughout the terminal.

Second Priority

PHASE 4 NEAR-FAULT SEISMIC UPGRADE

Structural Upgrade Installation of Central Terminal, Front, Back and Core to withstand earthquakes.

ACCESS CONTROL AND SECURITY IMPROVEMENTS

Enhancement of access control points with improved security programs to include biometrics.

TERMINAL FLOORING REPLACEMENT

Installation of new, durable and safe flooring material throughout the terminal.

UPGRADE AIRPORT IT AND FMS

Upgrading of Airport Information Technology and Financial Management Systems.

ROUTE 10A LANDSCAPE COMPONENT

Landscaping of Rt. 10A roadways consistent with Department of Public Works expanded roadway project.

ENCLOSE ARRIVAL TUNNELS

Enclosure of the Arrival tunnels leading out to the parking lot, which will add arrivals lobby space.

REPLACE CONVEYANCE SYSTEMS

Replacement of terminal elevators, escalators and moving walkways with modern energy efficient equipment.

STRENGTHEN AND EXPAND CURBSIDE CANOPIES

Installation of expanded curbside canopies for extended protection from inclement weather and security reinforcement.

FLY



"There isn't a flight goes by when I don't stare out of the window and thank my stars for what I'm seeing and feeling."

— Richard Branson, pilot and founder of Virgin Atlantic

**Up, Up
and away**



Operations

Flying and take-offs are a normal part of Airport Operations, and is fully dependent on runways, taxiways, airfield lighting, aircraft related equipment, and correlated technical services. 24 hours a day, 7 days a week, the Guam Airport operates to accommodate the 52,725 flights that occurred just last year at the A.B. Won Pat International Airport. These aircraft movements consisted of operations of commercial jets, commuter aircraft, technical stops, charters, private jets and student pilot training, to name a few.

HISTORY IN PROGRESS

Over 2.6M passengers have arrived and departed through the Guam International Airport.

Airline operators include:-

United Airlines, Delta Air Lines, Korean Airlines, Philippine Airlines, Jin Air, Jeju Air, China Air, EVA Air, Cape Air, Freedom Air, Dynamic Air, Oren Air.

Guam has two runways – A primary runway which measures 12,000 linear feet and a secondary runway measuring 10,000 linear feet. Guam Airport is also equipped with a taxiway to maximize aircraft operations.

Guam's airport can accommodate bigger aircraft to include the B747 and B777 and can accommodate long range, long haul flights, fully loaded flights.

**WE'RE
ON IT
24/7**

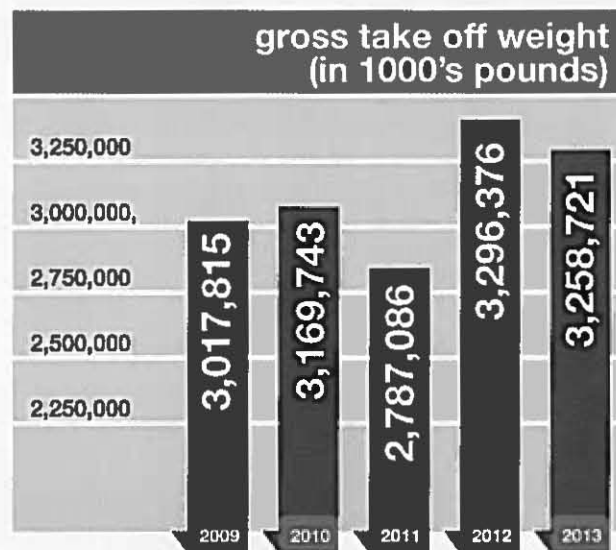
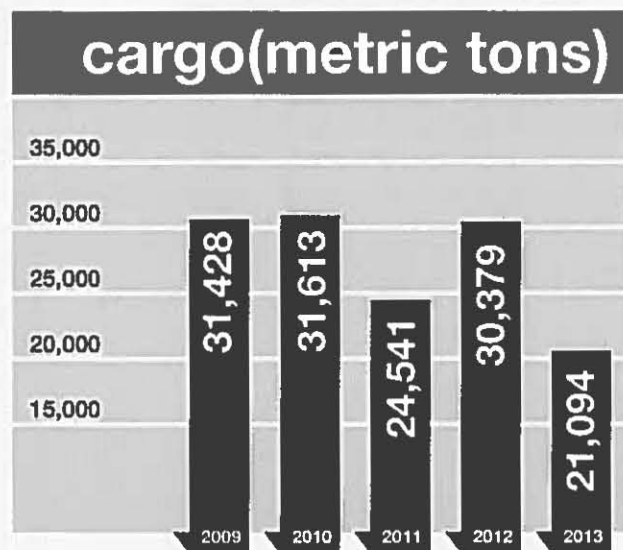
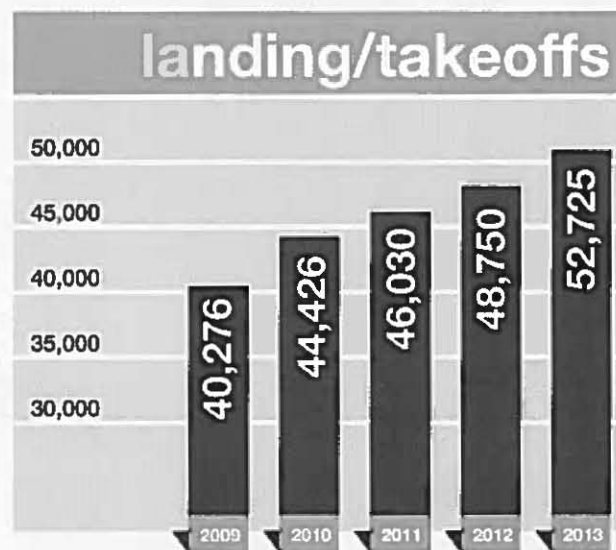
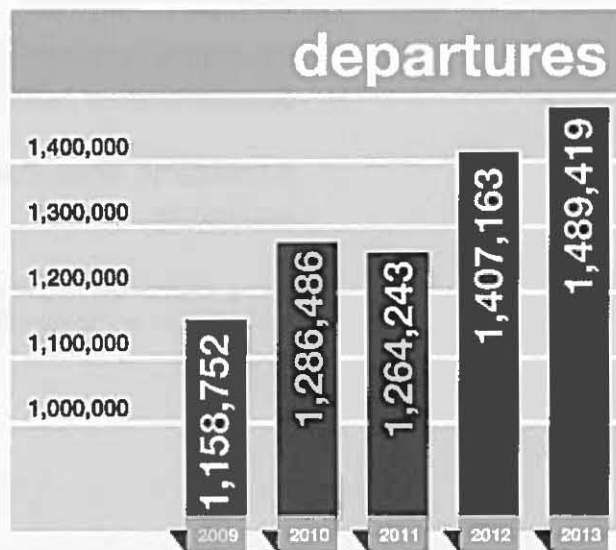
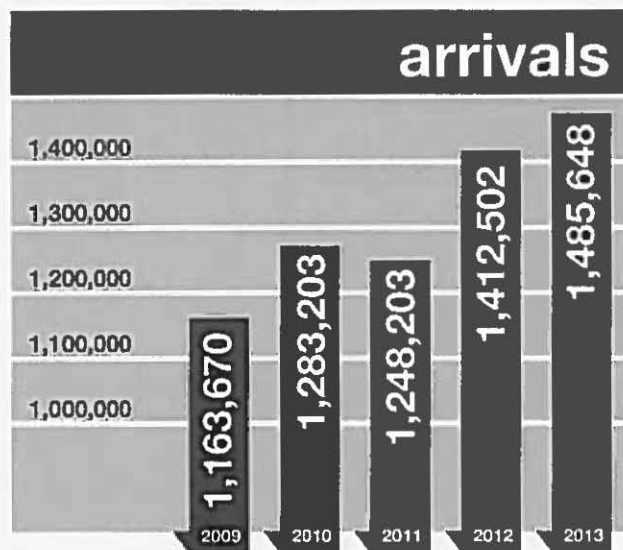
The diverse array of aircraft using our facilities are dependent upon safe and fully compliant airfield and the Guam Airport Operations division is key to the provision of air services to Guam.

The expertise and qualifications of Airport Operations staff is tested annually by the FAA in their annual inspections of airport facilities and operations records. FAA's 2013 evaluation resulted in the Guam Airport retaining full certification as a commercial Airport and fully compliant with FAA rules and regulations. Guam Airport was even noted as being a leader in the region, and a shining example to regional airports in the Western Pacific.

Airport Operations is the daily interface with all airlines, federal and regulatory agencies such as the Transportation Security Administration, the US Customs and Border Protection, and the Guam Customs and Quarantine. Added to that is the US Department of Agriculture that assist in the control of wildlife on our runways and the construction companies that are always improving our airfield, the aircraft fuelers, ground support staff, and other support services involved in airfield maintenance and operations.

The Guam Airport is the busiest Airport in the Micronesian region and an important hub for one of the largest carriers in the world. Along with other signatory airlines, and new air service providers, Guam's options to fly to major cities, and connectivity to over 9 countries is a great driver of the island's opportunity to benefit economically and truly be a global player.

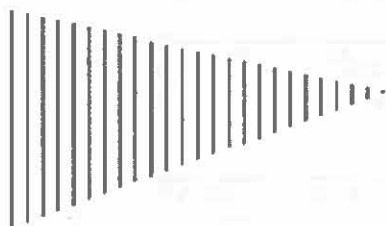
Operational Stats and Performance



*Financial Statements and
Supplementary Information*

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

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



**Building a better
working world**

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and
Supplementary Information

Years ended September 30, 2013 and 2012

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

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

Report of Independent Auditors

The Board of Directors

Antonio B. Won Pat International Airport Authority, Guam

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

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

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

Required Supplementary Information

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

Supplementary and Other Information

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

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

Supplementary and Other Information, continued

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 30, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

January 30, 2014

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis

Year ended September 30, 2013

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (the Authority) activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The Authority is a self-sustaining autonomous government agency, and operates and maintains the Terminal. The Terminal provides facilities for commuter and domestic overseas flights, and international flights to destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the Terminal's services and properties to generate revenues to fund operating expenses. The 2003 Airport Bonds issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program. The Authority issued the 2013 Airport Bonds during the fourth quarter of FY 2013 that refunded the 2003 bonds and provided funds for planned capital improvement projects.

A. Mission Statement

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

B. Using the Financial Statements

The Authority utilizes the flow of economic measurement focus. Financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has implemented GASB Statement No. 20 and elected not to apply Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

B. Using the Financial Statements, continued

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

C. Authority Activities and Highlights

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

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

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

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

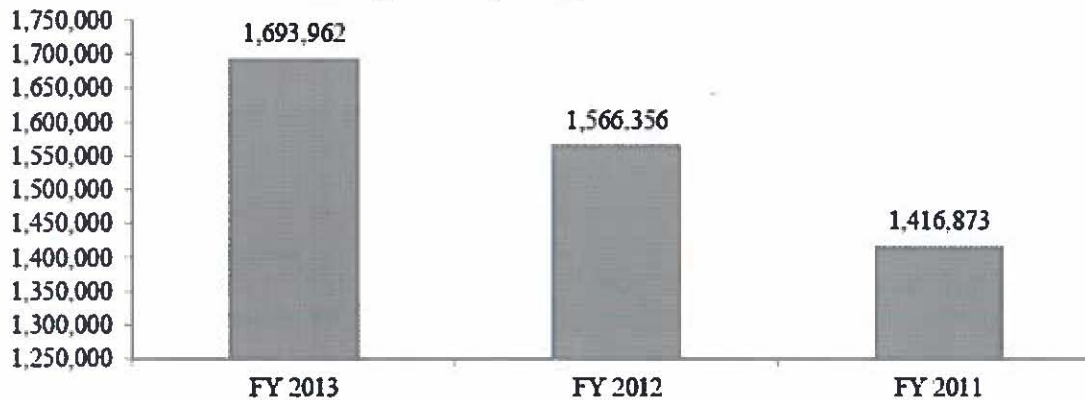
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013 % Increase (Decrease) from 2012</u>
Major revenue sources:				
Landing fees	\$ 2,963,427	\$ 3,042,109	\$ 2,567,747	-2.6%
Terminal	11,252,173	10,861,087	10,618,530	3.6%
Concessions and parking	<u>18,022,564</u>	<u>15,899,179</u>	<u>14,762,957</u>	13.4%
Total	<u>\$32,238,164</u>	<u>\$29,802,375</u>	<u>\$27,949,234</u>	8.2%
Passenger (enplanements) activity:				
Signatory airlines	1,693,962	1,566,356	1,416,873	8.1%
Other airlines	<u>4,024</u>	<u>8,135</u>	<u>22,551</u>	-50.5%
Total enplanements	<u>1,697,986</u>	<u>1,574,491</u>	<u>1,439,424</u>	7.8%
Aircraft operations	<u>52,725</u>	<u>48,750</u>	<u>46,030</u>	8.2%
Aircraft landed weights (000)	<u>3,258.721</u>	<u>3,296.664</u>	<u>2,787.086</u>	-1.2%
O & D passengers	2,984,067	2,819,665	2,548,446	5.8%
Transfer passengers	<u>199,567</u>	<u>167,328</u>	<u>175,181</u>	19.3%
Total passengers	<u>3,183,634</u>	<u>2,986,993</u>	<u>2,723,627</u>	6.6%

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Signatory Enplanements



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

Despite the increase in CPE, the Authority still maintained a competitive cost structure and managed to achieve a debt service coverage of 2.06 versus the 1.25 debt service requirements of the former 2003 and new 2013 bond covenants. Moreover, the Authority continued to maintain a superior and reliable level of airport services in the facilitation of passengers and cargo to their destinations safely, efficiently, and effectively, key success factors paramount to the Authority's financial success, while promoting commerce and connectivity to our neighboring islands and countries in the region.

The following airlines served the Authority with scheduled passenger service for FY 2013: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines and Aerospace Concepts with the latter operating a business jet service. Intermittent charters with passenger service included Skymark and Starflyer, both out of Japan.

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights

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

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

Operational Revenues

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

Non-Operating Revenues

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

Operational Expenses

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

Review of Notable Events in FY 2013

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

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 2013, continued

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

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

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

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

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 2013, continued

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

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

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

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

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

Airline Signatory Rates and Charges

The Authority entered into an airport operating and lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. In exchange for more favorable rates, the signatory airlines are guarantors of the Authority's financial position. The signatory airlines also unanimously approved the 2013 bond financing program and capital projects. These leases became effective October 1, 2006 and with an extension of five years will remain in effect through September 30, 2016.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

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

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

Financial Position Summary

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Statements of Revenues, Expenses and Changes in Net Position

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

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

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

Non-cash investing and financing activities:

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

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Position

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

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Position, continued

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

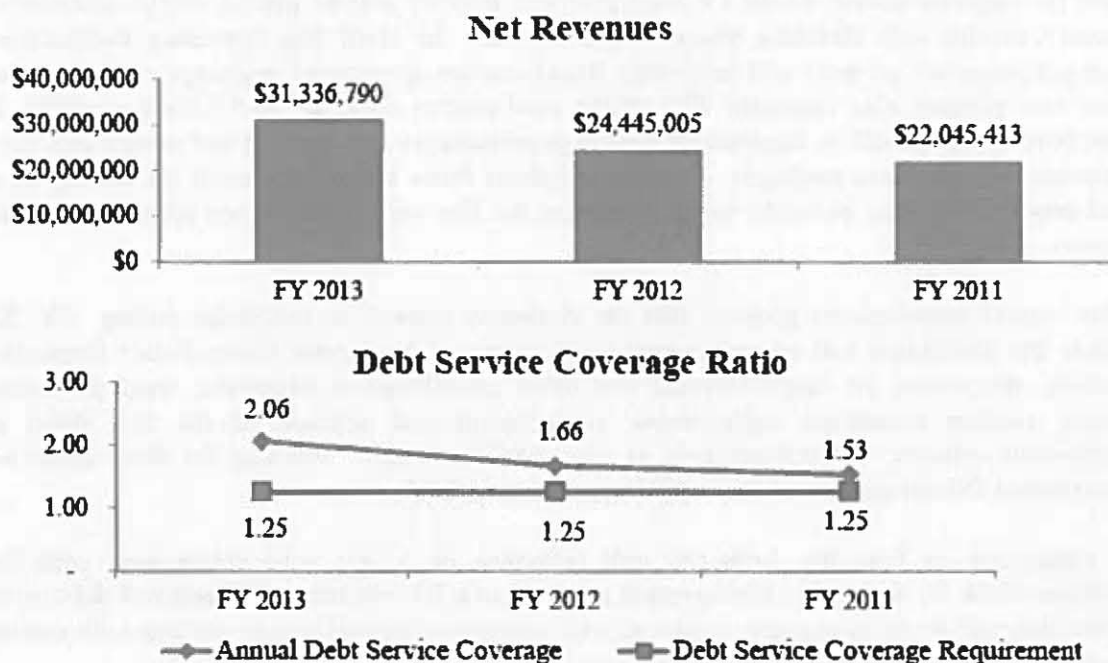
See accompanying notes.

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, continued



F. Outlook for FY 2014

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

F. Outlook for FY 2014, continued

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

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

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Revenues, continued

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

Expenses

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

E. Cost Per Enplaned Passenger & Debt Service Coverage

Cost Per Enplaned Passenger

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

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

Debt Service Coverage

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

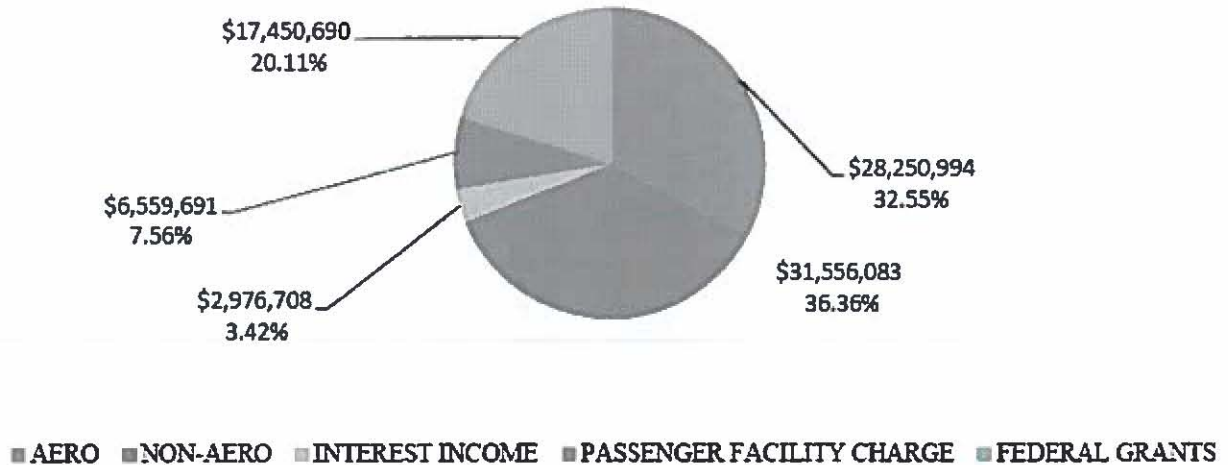
	<u>2013</u>	<u>2012</u> <u>As Restated</u>	<u>2011</u> <u>As Restated</u>	<u>2013 % Increase (Decrease) from 2012</u>
Airport Revenues	\$70,187,620	\$60,046,434	\$56,333,346	16.9%
Less: Operation and Maintenance Expenses	(38,850,830)	(35,701,522)	(34,335,336)	8.8%
Net Revenues	\$31,336,790	24,344,912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

Antonio B. Won Pat International Airport Authority, Guam

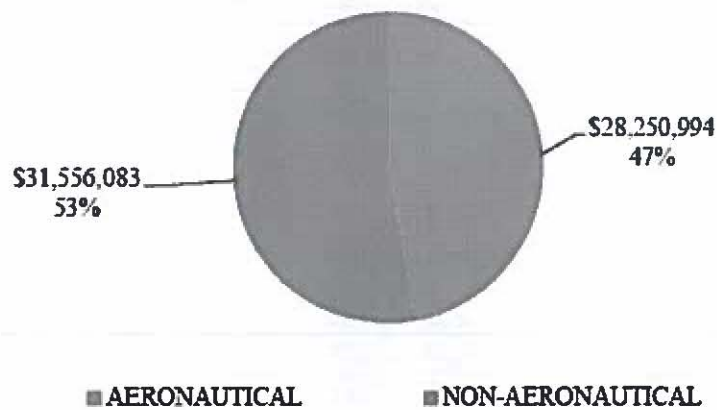
Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Total Revenues Fiscal Year 2013



Total Operating Revenues Fiscal Year 2013



Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

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

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements

Years ended September 30, 2013 and 2012

1. Organization and Summary of Accounting Policies

Organization

The Antonio B. Won Pat International Airport Authority, Guam, (the Authority), was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Air Terminal, located at Tiyan, Guam. It is charged with the acquisition, construction, operation and maintenance of the airport and related facilities for civil aviation on Guam. The Authority supports its operations through landing fees and charges for the use of its facilities and through rentals under concessionaire agreements.

Basis of Accounting

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

Net Position

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Net Position, continued

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

Cash

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

Accounts Receivable

Accounts receivable are primarily due from airlines utilizing the Authority's airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2013 and 2012, receivables that are more than ninety days past due totaled approximately \$2,618,000 and \$3,588,000, respectively. The Authority accrues finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

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

Inventory

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

Investments

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

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 market value at the date of donation.

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

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

The costs of issuing bonds to finance construction of airport facilities have been capitalized and are being amortized on a weighted-average basis over the lives of the bonds outstanding. During the fiscal year ended September 30, 2013, the Authority adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (GASB Statement No. 65). As described in Note 1 – Recently Adopted Accounting Pronouncements, the implementation of this new statement required the restatement of the Authority's financial statements at October 1, 2011. The effect of the restatement was the elimination of the bond issue costs and the related amortization expense, which were recorded in the statement of net position and the statement of revenues, expenses, and changes in net position, respectively.

Capitalization of Interest

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

Avigation Easements

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Impairment of Long-lived Assets

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

Compensated Absences

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

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

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

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

Bond Premium and Discount

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Operating and Non-Operating Revenues and Expenses

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

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

Passenger Facility Charges

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

Environmental Costs

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

Estimates

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

Risk Management

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncement

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

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans, that are administered through trusts or equivalent arrangements that meet certain criteria.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. Upon implementation of GASB 68, the Authority estimates that its net position and accrued unfunded liability to retirement fund would decrease and increase, respectively, by approximately \$6 million at October 1, 2013.

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

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

2. Subsequent Events

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

3. Concentrations of Credit Risk and Major Customers

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash deposits and accounts receivable.

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2013 and 2012, \$250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

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

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

Concentration of credit risk with respect to the remaining accounts receivable which are due primarily from other various airlines, concessionaires and tour operators is limited due to the large number of customers comprising the Authority's customer base.

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, 2013 is as follows:

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

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

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

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;
- Category 2 Investments that are uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the Authority's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name.

As of September 30, 2013 and 2012, all investments were classified as Category 2 investments.

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Authority. In compliance with the bond indenture, the Authority minimized credit risk losses by limiting investments to the safest types of securities. Bank of Hawaii Investment Services Group, Bank of Guam, Citibank N.A. and Coast 360 Federal Credit Union manage the Federal Fund accounts investing in U.S. Treasury Securities, U.S. Government Agencies, Domestic Corporate Bonds, Money Market Funds and Certificate of Deposits insured by the Federal Deposit Insurance Corporation. The U.S. Treasury Securities are low risk investments as they are guaranteed by the full faith and credit of the U.S. government. While U.S. Government Agencies are not guaranteed, they are backed by the U.S. government and are recognized as low risk investments as well. In addition, certain funds held with the Bank of Guam-Trustee are invested in Government Obligations Funds through Federated Investments. Funds with co-trustee, U.S. Bank, are invested in First American Treasury Obligations Fund. All investment securities are within the requirement of the 2013 and 2003 bond indentures.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2013 and 2012.

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Long-Term Loan Payable to Bank

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Long-Term Loan Payable to Bank, continued

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

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

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

Year ending September 30

2014	\$ 2,263,500
2015	3,450,000
2016	3,582,000
2017	<u>1,632,728</u>
	<u>\$10,928,228</u>

7. Investments and Cash with Trustees

The aforementioned 2013 and 2003 bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the bond proceeds. At September 30, 2013 and 2012, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

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

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

General Revenue Bonds, Series 2013

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

• 2013 Series A (Non-AMT)	\$ 14,620,000
• 2013 Series B (Non-AMT)	33,675,000
• 2013 Series C (AMT)	<u>199,040,000</u>
	<u>\$247,335,000</u>

The 2013 Bonds were obtained for the following:

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

General Revenue Bonds, Series 2013, continued

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

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

General Revenue Bonds, Series 2003

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

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. The refunding difference was deferred and is being amortized over the remaining life of the 1993 bonds. As of September 30, 2012, the unamortized balance of the refunding difference totals \$2,860,031 and is recorded as a deferred outflow of resources in the accompanying 2012 statement of net position. For the years ended September 30, 2013 and 2012, the amortization expense totaling \$437,313 and \$466,155, respectively, are included as a component of other expenses, net in the accompanying statements of revenues, expenses and changes in net position.

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

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

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

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, 2012 is as follows:

	<u>Beginning Balance October 1, 2011</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2012</u>
Capital assets depreciated:				
Terminal building	\$341,133,294	\$ 42,288	\$ 1,168,833	\$342,344,415
Other buildings	84,814,026	93,445	206,319	85,113,790
Airfield area	81,786,724	19,300	440,443	82,246,467
Apron area	40,983,694	---	---	40,983,694
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>8,676,487</u>	<u>35,701</u>	<u>---</u>	<u>8,712,188</u>
Total capital assets depreciated	582,142,933	190,734	1,815,595	584,149,262
Less accumulated depreciation	<u>(307,231,657)</u>	<u>(23,183,657)</u>	<u>---</u>	<u>(330,415,314)</u>
Net capital assets depreciated	<u>274,911,276</u>	<u>(22,992,923)</u>	<u>1,815,595</u>	<u>253,733,948</u>
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	<u>73,008,844</u>	<u>16,575,083</u>	<u>(1,815,595)</u>	<u>87,768,332</u>
Total capital assets not depreciated	<u>130,470,217</u>	<u>16,575,083</u>	<u>(1,815,595)</u>	<u>145,229,705</u>
	<u>\$405,381,493</u>	<u>\$(6,417,840)</u>	<u>\$ ---</u>	<u>\$398,963,653</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 11, the deed was entered into in response to a request by the Federal Aviation Administration (FAA) that the Authority seek reimbursement of \$564,702 in unresolved federal program questioned costs as of September 30, 2004. The \$2,530,000 is included as a component of capital assets in the accompanying statements of net position. Due to numerous uncertainties surrounding the Tiyan properties, the Authority has noted that it may elect to utilize the excess contribution from the land transfer to offset any subsequent obligations by the Government of Guam if so determined by the federal government.

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

Airport facilities are located on approximately 236 acres. The Authority has no cost basis in 212 acres of this property; the remaining 24 acres have a cost basis of \$3,014,194.

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

5. Long-Term Revenue Bonds Payable

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

	<u>2013</u>	<u>2012</u>
General revenue bonds, Series 2013 (original issue of \$247,335,000):		
Varying interest rates (3% - 6%) payable semiannually in October and April, principal payments due in varying annual installments with \$9,845,000 due in October 2014	\$247,335,000	\$ ---
General revenue bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$9,590,000 due in October 2012. The bonds were refunded in 2013	---	<u>155,005,000</u>
	247,335,000	155,005,000
Less current installments	---	<u>(9,590,000)</u>
	247,335,000	145,415,000
Add net unamortized premium on bonds	<u>2,891,161</u>	<u>3,551,487</u>
	<u>\$250,226,161</u>	<u>\$148,966,487</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Employee Benefits and Other

Employee Retirement Plan

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

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

DB Plan

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

DCRS

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

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

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

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

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

Unfunded Retirement Fund

Upon implementation of GASB 68, the Authority estimates that its net position and accrued unfunded liability to retirement fund would decrease and increase, respectively, by approximately \$6 million at October 1, 2013.

Accrued Sick Leave

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements. continued

8. Employee Benefits and Other, continued

Other Post-Employment Benefits

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

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

9. Leases

DFS

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

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

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

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

DFS entered into another concession agreement with the Authority for a separate additional store space for a five year term effective fiscal year 2011. For each of these agreements, DFS guarantees to pay a minimum annual rent of \$250,000 during each lease year, or the percentage rent which is 22.5% of annual gross revenues for each lease year, whichever amount is greater.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Leases, continued

DFS, continued

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

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

Lotte Duty Free Guam, LLC (Lotte)

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

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

1. \$15,160,000 (the "minimum guarantee) for the main and future rental space and \$240,000 for the arrival retail space plus 1% of other gross revenues, or;
2. The sum of the on-site gross revenues multiplied by 30.1% and 25.0%, respectively, for the main and future retail space and arrival retail space, respectively.

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

DFS Protest

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Leases, continued

Lotte Duty Free Guam, LLC (Lotte), continued

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

<u>Year ending</u> <u>September 30.</u>	
2014	\$15,400,000
2015	15,400,000
2016	15,400,000
2017	15,400,000
2018	15,400,000
Thereafter	<u>74,433,333</u>
Total future minimum lease payments receivable	<u>\$151,433,333</u>

Pac Air Properties, LLC

Effective February 22, 2008 (Commencement Date), the Authority and Pac Air Properties, LLC (Pac Air) agreed to amend and restate its existing ground lease agreement dated October 31, 2006 in its entirety. The new agreement has an initial lease term of fifty (50) years beginning on the commencement date, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than \$25 million to the leased premises with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. The Authority shall waive rental payments during the construction phase but no later than the first two (2) years from the initial term of the lease. Beginning on the date of beneficial occupancy, which is on September 1, 2009 the date which marks the end of the construction phase and the waiver of rent, the monthly rent shall amount to \$21,600 but payment of such rent shall be deferred for the next five (5) years, at such time the deferred rent shall be paid starting on September 1, 2014 in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments. For each of the years ended September 30, 2013 and 2012, the Authority accrued rental income totaling \$259,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net position. At September 30, 2013 and 2012, accrued rental receivable totals \$1,058,400 and \$799,200, respectively, and is shown as accounts receivable from tenant in the accompanying statements of net position.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Leases, continued

Pac Air Properties, LLC, continued

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

Year ending <u>September 30.</u>	
2014	\$ 259,200
2015	259,200
2016	286,200
2017	286,200
2018	286,200
Thereafter	<u>19,488,503</u>
Total future <u>minimum</u> lease payments receivable	<u>\$20,865,503</u>

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

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

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

Year ending <u>September 30.</u>	Lease back <u>Expense</u>	Sublease <u>Income</u>	Net (Expense) <u>Income</u>
2014	\$(1,058,400)	\$1,024,200	\$(34,200)
2015	<u>(923,400)</u>	<u>1,024,200</u>	<u>100,800</u>
	<u>\$(1,981,800)</u>	<u>\$2,048,400</u>	<u>\$ 66,600</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Leases, continued

Other Leases

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

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

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

10. Long-Term Liabilities

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Long-Term Liabilities, continued

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

11. Commitments and Contingencies

Environmental Response Actions

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Environmental Response Actions, continued

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2013, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* totaled \$153,007. At September 30, 2013 and 2012, future pollution remediation and monitoring costs totaling \$153,007 and \$354,868, respectively, is reflected as a component of other current liabilities in the accompanying statements of net position.

Federal Program Costs

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

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

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

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

Commitments

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of \$1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Risk and Loss Management Reserve Fund to cover damage in the event of a natural catastrophe. The balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are \$1,000,000 and \$4,852,628 respectively, at September 30, 2013, and \$1,000,000 and \$3,832,707, respectively, at September 30, 2012. The Authority has a catastrophic insurance policy with coverage up to \$5 million as a supplement to the self-insurance.

Government of Guam General Fund

Pursuant to 5 GCA Chapter 22 § 22421 *Transfer of Autonomous Agency Revenues to Autonomous Agencies Collections Fund*, certain autonomous agencies, to include the Authority, are to remit certain amounts to the Government of Guam General Fund at the end of each fiscal year.

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Government of Guam General Fund, continued

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

Water System Infrastructure Upgrade

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

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

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

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

Litigation

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Other

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

Exchange License Agreement

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

12. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2013 and 2012, the Authority has assessed and collected from air carriers fees for customs and agricultural inspection services rendered at the Airport terminal. Guam Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

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

13. Prior Period Adjustment

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

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

Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 1

Facilities and Systems Usage Charges

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

Schedule 2

Concession Fees

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

Schedule 3

Rental Income

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 4 Contractual Services

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

Schedule 5 Personnel Services

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

Schedule 6 Materials and Supplies

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

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2013

Schedule 7
Insurance Coverage

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 8

Reconciliation of Historical Financial Results

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

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013

**Schedule 9
Employee Data**

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

Note(s):

- a. Expenditures above are funded by Operating & Maintenance Fund Account.
- b. Filled positions, not including Limited Term Appointments related to Airport Police pursuant to Transportation Security Administration mandated.
- c. Administration consists of:

Executive management	2
Administrative support	11
Personnel	3
Marketing	3
Procurement	7
Management information system	4
	<u>30</u>