

GUAM INTERNATIONAL AIRPORT AUTHORITY

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

Board of Directors
Guam International Airport Authority:

We have audited the accompanying statements of net assets of Guam International Airport Authority (the "Authority"), a component unit of the Government of Guam, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.


We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam International Airport Authority as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management Discussion and Analysis on pages 1-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2004, on our consideration of the Guam International Airport Authority's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



December 29, 2004

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

The following Management Discussion and Analysis of the Guam International Airport Authority (the Authority) activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ended September 30, 2004. 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 Guam International Airport 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. All assets and liabilities were transferred from the Department of Commerce to the Authority at book value effective January 20, 1976.

Guam International Airport Authority is a self-sustaining autonomous government agency, and operates and maintains the Guam International Air Terminal. The Terminal provides facilities for commuter and domestic overseas flights, and international flights for destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the airport terminal's services and properties to generate revenues to fund operating expenses. The 1993 Airport Bonds issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program.

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.

USING THE FINANCIAL STATEMENTS

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

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

AUTHORITY ACTIVITIES AND HIGHLIGHTS

Passenger statistics far surpassed conservative projections as travel preference to Guam continued to rebound after the effects of War in Iraq, threat of SARS and post typhoon recovery experienced last fiscal year.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

Coupled with the increased outbound traffic from Asia, the extra flights operated by our signatory airlines resulted in visitor arrivals to the Guam International Airport exceeding thresholds of over 100,000 visitors a month.

Visitor statistics also showed strong growth in tourist arrivals from our primary markets of Japan, Korea and Taiwan, as well as increased travel through the region to and from the Federated States of Micronesia and the Commonwealth of the Northern Mariana Islands. Activity for the Guam International Airport Authority for the fiscal years ended September 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>	<u>% Increase (Decrease) from 2003</u>
Passenger (enplanements) activity:			
Signatory airlines	1,453,364	1,051,038	38.3%
Non-signatory/other airlines	<u>56,055</u>	<u>129,560</u>	(56.7)%
Total passenger enplanements	<u>1,509,419</u>	<u>1,180,598</u>	27.9%
Aircraft operations	33,576	30,888	8.7%
Aircraft landed weights (000,000)	<u>3,242,520</u>	<u>3,008,642</u>	7.8%
O & D passengers	2,510,012	1,923,765	30.5%
Transfer passengers	<u>200,251</u>	<u>220,688</u>	(9.3)%
Total passengers	<u>2,710,263</u>	<u>2,144,453</u>	26.3%
Major revenue sources:			
Landing fees	\$ 1,244,048	\$ 3,900,000	(68.1)%
Terminal lease	8,250,522	8,089,564	2.0%
Concessions and parking	<u>10,777,255</u>	<u>8,672,152</u>	24.3%
Total	\$ <u>20,271,825</u>	\$ <u>20,661,716</u>	(1.9)%

The Guam International Airport Authority started the fiscal year with stringent cost cutting policies and increased revenue generating efforts, in addition to decreasing airline fees by 68% from the FY'03 budget to support continued and increased air services by our airline partners. The movement of airport landing fees between fiscal years 2004 and 2003 is a correlated view of the actions the Authority took to adequately meet its financial obligations and hold airline rates down as exhibited below:

Period	Landing fee *
July 1, 2002 - September 30, 2002	\$ 2.74
October 1, 2002 – March 31, 2003	\$ 0.36
April 1, 2003 – September 30, 2003	\$ 2.26
October 1, 2003 – September 30, 2004	\$ 0.36

*Signatory airlines only

per thousand pounds GTW

The following airlines serve the Guam International Airport Authority with scheduled or charter overseas passenger flights: Continental Micronesia, Japan Airlines, All Nippon Airways, Northwest Airlines, Philippine Airlines, Korean Airlines, China Airlines, Asia Pacific Airlines, and Aerospace Concepts. The principal commuter airlines providing inter-island passenger flight service to and from Guam and the CNMI are Pacific Island Aviation, Freedom Air, Micronesia Aviation Systems and newcomer Cape Air. Cape Air operates as Continental Connection, and began service on July 1, 2004.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

FINANCIAL OPERATION HIGHLIGHTS

The Guam International Airport Authority's financial results far surpassed projections. The healthy results, both in revenues and expenses, are indicative of the Authority's firm measures to contain costs and increase revenues, initially placed by the new Board and management in January 2003.

Contractual costs were greatly reduced with the new service contracts re-negotiated and implemented in the fiscal year, while the increase in revenue was realized through the expanded profitability of concessionaires and airline operators doing business at airport facilities.

A summary of operations and changes in net assets for the years ended September 30, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>	<u>% Increase (Decrease) from 2003</u>
Operating revenues	\$ 41,420,312	\$ 39,956,483	3.7%
Operating expenses, excluding depreciation	(24,501,854)	(26,717,546)	(8.3)%
Operating income before depreciation	16,918,458	13,238,937	27.8%
Depreciation and amortization	(19,246,422)	(17,475,156)	10.1%
Loss from operations	(2,327,964)	(4,236,219)	(45.0)%
Non-operating income (expenses) - net	(1,895,613)	(17,935,147)	(89.4)%
Loss before capital contributions	(4,223,577)	(22,171,366)	(81.0)%
Grants from the United States Government	<u>6,539,904</u>	<u>5,485,613</u>	19.2%
Net increase (decrease) in net assets	\$ <u>2,316,327</u>	\$ <u>(16,685,753)</u>	-

A comparison of activities between fiscal years 2004 and 2003 at the Guam International Airport Authority is indicative of financial recovery from years past. Total passenger enplanements for signatory and other airlines increased by 27% from 1,180,598 in fiscal year 2003 to 1,509,419 in fiscal year 2004. Enplanements are 9.6% domestic and 90.4% international.

Operating revenues saw an increase of 3.6% from \$ 39,956,483 in fiscal year 2003 to \$ 41,420,312 in fiscal year 2004. In light of management's adjusted enplanement costs from \$18.41 in fiscal year 2003 to \$16.66 in fiscal year 2004, the Authority's focus on increasing operating revenues is apparent, and continues to monitor and reduce operating expenses. Operating expenses excluding depreciation decreased from \$26,717,546 in fiscal year 2003 to \$ 24,501,854 in fiscal year 2004, a 8.3% decrease, and net operating income before depreciation increased from \$13,238,937 in fiscal year 2003 to \$16,918,458 in fiscal year 2004, a 27.8% increase.

REVIEW OF NOTABLE EVENTS IN FISCAL YEAR 2004

Once again, the Authority proved its resilience in the aftermath of natural disasters and world events experienced during the two prior fiscal years. Fiscal Year 2004 was a period of recovery where the Authority gained upticks on passenger enplanements, operating revenue and net operating income. Notwithstanding these increases, management stayed the course on cost control and fiscal discipline through reductions in operating expenses and the airline cost per enplaned passenger. Moreover, this was the Authority's first full year of debt service reductions following the refinancing of the 1993 General Revenue Bonds. Equally important, the Board of Directors adopted policies mandating strict internal controls to safeguard the Authority's finances and ensure compliance with federal and local laws and policies.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

The Authority remained aggressive in the pursuit of federal funds. In FY 2004, grant agreements in excess of \$21 million were executed with funding sources from the Federal Aviation Administration, Federal Highway Administration and the Economic Development Administration. Coupled with prior federal grants and appropriated capital improvement funds, the Authority had over \$80 million recorded for capital improvements inclusive of continuing typhoon repairs and mitigation. Notable projects include:

- Acquisition of 4 new Aircraft Fire Fighting Vehicles
- Completion of a K-9 Kennel Facility
- Construction of a DHL Express Facility
- Repairs and Upgrade to the Continental Airlines Hangar
- Upgrades to the DFS Merchandising Concession Core
- Phase 2 for the Extension of Runway 6R/24L
- Expansion of the TSA Passenger Screening Checkpoints

The Authority showcased the airport and the island by hosting 180 delegates from airports throughout the Pacific Rim with the Airport Council International-Pacific Region annual conference. Important contacts were established to facilitate networking of common airport issues.

OUTLOOK FOR FISCAL YEAR 2005

Fiscal Year 2005 is a period for growth and to establish the Authority's road map for the future. An update of the Airport Master Plan will soon be completed to address the capital improvement program. In addition, strategic initiatives will be adopted to set the Authority's direction through the year 2010. Such initiatives will be exciting, challenging and dynamic as they will target expanded air services; improvements to passenger convenience and facilitation; growth in the non-airline core business with property development and new aviation related industries; and, reduce the airlines cost of doing business at our airport...to name a few.

Forecasted highlights include an increase of 8.6% in passenger enplanements, along with an increase of non-signatory and other revenues of 18% over FY 2004. Also, the airline cost per enplaned passenger was further reduced for FY 2005 to \$14.63 from the FY 2004 actual/estimate of \$16.24 and the FY 2004 budgeted cost per enplaned passenger of \$16.66. The Authority is expected to attain an industry standard of 1.49 debt service coverage over the 1.25 minimum required by the Airport's bond indenture.

The key capital improvement projects to be initiated during FY 2005 include:

- Phase 1 of the Parallel Taxiway
- Underground Power Distribution System
- Replacement and Upgrade to AOA Security and Perimeter Fences
- Sound Proofing Program for Noise Impacted Homes and Businesses
- Upgrade Utilities Infrastructure (Water System)
- Roadway Beautification Program
- Demolition of Tiyan Housing Units

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

FINANCIAL POSITION SUMMARY

A condensed summary of the Guam International Airport Authority's statements of net assets at September 30, 2004 and 2003 is shown below:

	<u>2004</u>	<u>2003</u>	<u>% Increase (Decrease) from 2003</u>
<u>ASSETS</u>			
Current assets:			
Unrestricted assets	\$ 16,610,064	\$ 12,573,174	32.1%
Restricted assets	1,618,829	1,517,170	6.7%
Non-current assets:			
Unrestricted assets	30,544,931	30,856,366	(1.0)%
Restricted assets	33,290,300	24,079,056	38.3%
Capital assets	339,891,492	342,617,517	(.8)%
Deferred bond issue costs	<u>11,538,981</u>	<u>12,732,564</u>	(9.4)%
Total	\$ <u>433,494,597</u>	\$ <u>424,375,847</u>	2.1%
<u>LIABILITIES</u>			
Current liabilities:			
Payable from unrestricted assets	\$ 9,964,160	\$ 7,836,046	27.2%
Payable from restricted assets	12,370,033	3,064,670	303.6%
Long term liabilities	<u>214,956,818</u>	<u>219,587,872</u>	(2.1)%
Total	\$ <u>237,291,011</u>	\$ <u>230,488,588</u>	3.0%
<u>NET ASSETS</u>			
Invested in capital assets - net of related debt	\$ 133,418,985	\$ 137,181,387	(2.7)%
Restricted	38,888,149	33,880,508	14.8%
Unrestricted	<u>23,896,452</u>	<u>22,825,364</u>	4.7%
Total	\$ <u>196,203,586</u>	\$ <u>193,887,259</u>	1.2%

The Authority's investments in capital assets net of related debt make up 70% of its net assets. These capital assets are used to provide services to its passengers and visitors to the Guam International Airport Authority airport terminal. Although invested capital assets are reported net of related debt, the resources are required to repay this debt from revenues received annually from operations as specified in the 2003 Airport Bonds Indenture.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

AIRLINE SIGNATORY RATES AND CHARGES

Lease Agreement with Signatory Airlines

The Authority entered into an airport-airline lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. These leases expire in July of 2004 and have been extended until December 2004.

The following summarizes the rates in effect at September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>	
		<u>10/01/02</u>	<u>4/01/03</u>
Terminal building rental:			
Signatory	43.70	45.57	47.19
Non-signatory	47.65	46.54	47.19
Departure fees:			
Signatory	4.40	2.64	5.93
Non-signatory	4.80	2.69	5.93
Arrival fees:			
Signatory	5.22	3.34	6.69
Non-signatory	5.69	3.41	6.69
Immigration inspection fees:			
Signatory	1.96	1.24	2.51
Non-signatory	2.14	1.26	2.51
Loading bridge use fees:			
Signatory	284.63	153.97	359.01
Non-signatory	306.38	222.21	359.01
Apron use fees:			
Signatory	0.81	0.71	0.80
Non-signatory	0.85	0.89	0.80
Landing fees:			
Signatory	0.36	0.36	2.26
Non-signatory	0.64	0.36	2.26

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

REVENUES

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

	<u>2004</u>	<u>Percent of Total</u>	<u>2003</u>	<u>Percent of Total</u>	<u>% Increase (decrease) from 2003</u>
Operating:					
Facilities and use charges:					
Arrival facilities	\$ 6,448,166	11.6%	\$ 4,722,176	9.1%	36.6%
Departure facilities	6,311,165	11.4%	4,973,439	9.6%	26.9%
Landing fees	1,244,048	2.2%	3,900,232	7.5%	(68.1)%
Public apron	2,564,552	4.6%	2,243,257	4.3%	14.3%
Passenger loading bridge	2,568,423	4.6%	2,269,675	4.4%	13.2%
Immigration	2,237,672	4.0%	1,599,297	3.1%	39.9%
Fuel flowage fee	223,200	0.4%	248,426	0.4%	(10.2)%
Utility recovery charge and other fees	<u>154,988</u>	<u>0.3%</u>	<u>195,017</u>	<u>0.6%</u>	<u>(20.5)%</u>
Total facilities and use charges	<u>21,752,214</u>	<u>39.1%</u>	<u>20,151,519</u>	<u>39.0%</u>	<u>7.9%</u>
Concession fees:					
General merchandise	5,438,143	9.8%	4,312,865	8.3%	26.1%
Ground transportation	2,598,266	4.7%	1,817,747	3.5%	42.9%
Car rental	683,155	1.2%	712,667	1.4%	(4.1)%
In-flight catering	506,652	0.9%	529,635	1.0%	(4.3)%
Food and beverage	673,229	1.2%	553,884	1.1%	21.5%
Other	<u>877,810</u>	<u>1.6%</u>	<u>745,354</u>	<u>1.5%</u>	<u>17.8%</u>
Total concession fees	<u>10,777,255</u>	<u>19.4%</u>	<u>8,672,152</u>	<u>16.8%</u>	<u>24.3%</u>
Rental income:					
Operating space - airline	2,691,777	4.8%	3,054,462	5.9%	(11.9)%
Operating space - non-airline	2,129,202	3.8%	1,882,492	3.6%	13.1%
Other	<u>3,429,543</u>	<u>6.2%</u>	<u>3,152,610</u>	<u>6.1%</u>	<u>8.8%</u>
Total rental income	<u>8,250,522</u>	<u>14.8%</u>	<u>8,089,564</u>	<u>15.6%</u>	<u>2.0%</u>
Miscellaneous	640,321	1.2%	1,010,563	1.9%	(36.6)%
U.S. Government grant	<u>-</u>	<u>0.0%</u>	<u>2,032,685</u>	<u>0.0%</u>	<u>(100.0)%</u>
Total operating	<u>41,420,312</u>	<u>74.5%</u>	<u>39,956,483</u>	<u>73.3%</u>	<u>3.7%</u>
Non-Operating:					
Interest income	1,339,921	2.4%	2,012,878	3.9%	(33.4)%
Passenger facility charge	5,643,534	10.1%	4,071,057	7.9%	38.6%
Grants from the U. S. Government	<u>7,220,046</u>	<u>13.0%</u>	<u>5,619,726</u>	<u>14.9%</u>	<u>28.5%</u>
Total non-operating	<u>14,203,501</u>	<u>25.5%</u>	<u>11,703,661</u>	<u>26.7%</u>	<u>3.4%</u>
Total revenues	\$ <u>55,623,813</u>	<u>100.0%</u>	\$ <u>51,660,144</u>	<u>100.0%</u>	<u>7.7%</u>

Grants from the United States Government continue to be a significant source of revenue with \$7.2 million earned in fiscal year 2004 and \$7.7 million earned in fiscal year 2003. The majority of monies received are reimbursements for additional direct security related costs and for security enhancement projects.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Management Discussion and Analysis Year Ending September 30, 2004

EXPENSES

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

	<u>2004</u>	<u>Percent of Total</u>	<u>2003</u>	<u>Percent of Total</u>	<u>% Increase (decrease) from 2003</u>
Operating:					
Contractual services	\$ 12,052,699	22.6%	\$ 13,226,740	19.3%	(8.9)%
Personnel services	11,062,550	20.8%	11,216,612	16.4%	(1.4)%
Materials and supplies	631,855	1.2%	885,872	1.3%	(28.7)%
Bad debt	154,851	0.3%	120,397	0.2%	28.6%
Aviation security	<u>599,899</u>	<u>1.1%</u>	<u>1,267,925</u>	<u>1.9%</u>	(111.4)%
Total operating	<u>24,501,854</u>	<u>46.0%</u>	<u>26,717,546</u>	<u>39.1%</u>	(8.3)%
Depreciation and amortization	<u>19,246,422</u>	<u>36.1%</u>	<u>17,475,156</u>	<u>25.6%</u>	<u>10.1%</u>
Non-Operating:					
Interest expense	9,119,614	17.1%	12,858,234	18.8%	(29.1)%
Other expenses	<u>439,596</u>	<u>0.8%</u>	<u>11,294,961</u>	<u>16.5%</u>	(96.1)%
Total non-operating	<u>9,559,210</u>	<u>17.9%</u>	<u>24,153,195</u>	<u>35.3%</u>	(60.4)%
Total expenses	\$ <u>53,307,486</u>	<u>100.0%</u>	\$ <u>68,345,897</u>	<u>100.0%</u>	(22.0)%
Total full time employees	<u>219</u>		<u>262</u>		(16.4)%

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Net Assets September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Unrestricted assets:		
Cash	\$ 3,378,415	\$ 4,956,063
Passenger facility charge cash	111,188	-
Accounts receivable, trade, net of allowance for doubtful accounts of \$275,248 and \$120,397 in 2004 and 2003, respectively	7,166,798	5,187,401
Passenger facility charge receivables	707,942	626,895
Receivables from United States Government	5,209,250	1,729,707
Inventory	32,821	73,108
Prepaid expense	3,650	-
Total unrestricted assets	<u>16,610,064</u>	<u>12,573,174</u>
Restricted assets:		
Customs fees, cash	200,657	268,155
Customs fees, receivables	1,418,172	1,249,015
Total restricted assets	<u>1,618,829</u>	<u>1,517,170</u>
Total current assets	<u>18,228,893</u>	<u>14,090,344</u>
General Revenue Bonds:		
Investments and cash with trustees, unrestricted	30,544,931	30,856,366
Investments and cash with trustees, restricted	33,290,300	24,079,056
	<u>63,835,231</u>	<u>54,935,422</u>
Capital assets, at cost less accumulated depreciation	339,891,492	342,617,517
Deferred bond issue costs	11,538,981	12,732,564
Total assets	<u>\$ 433,494,597</u>	<u>\$ 424,375,847</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Net Assets, Continued September 30, 2004 and 2003

<u>LIABILITIES AND NET ASSETS</u>	<u>2004</u>	<u>2003</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,202,517	\$ 2,504,670
Accounts payable - construction	3,775,971	1,320,206
Other liabilities	3,019,177	2,970,406
Security deposits and deferred income	539,796	550,193
Current portion of annual leave	426,699	490,571
Total payable from unrestricted assets	<u>9,964,160</u>	<u>7,836,046</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam	1,618,835	1,514,586
Bond issuance cost payable	-	1,550,084
General Revenue Bonds:		
Current installments	5,600,000	-
Accrued interest	5,151,198	-
Total payable from restricted assets	<u>12,370,033</u>	<u>3,064,670</u>
Total current liabilities	<u>22,334,193</u>	<u>10,900,716</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued unfunded liability to retirement fund	2,119,873	907,868
Long-term portion of annual leave	425,457	511,310
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds	<u>212,411,488</u>	<u>218,168,694</u>
Total non-current liabilities	<u>214,956,818</u>	<u>219,587,872</u>
Total liabilities	<u>237,291,011</u>	<u>230,488,588</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	133,418,985	137,181,387
Restricted	38,888,149	33,880,508
Unrestricted	23,896,452	22,825,364
Total net assets	<u>196,203,586</u>	<u>193,887,259</u>
	<u>\$ 433,494,597</u>	<u>\$ 424,375,847</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Facilities and systems usage charges	\$ 21,752,214	\$ 20,151,519
Concession fees	10,777,255	8,672,152
Rental income	8,250,522	8,089,564
Miscellaneous	640,321	1,010,563
United States Government operating grant	<u>-</u>	<u>2,032,685</u>
Total revenues	<u>41,420,312</u>	<u>39,956,483</u>
Operating costs and expenses:		
Contractual services	12,052,699	13,226,740
Personnel services	11,062,550	11,216,612
Materials and supplies	631,855	885,872
Bad debt	154,851	120,397
Aviation security related expense	<u>599,899</u>	<u>1,267,925</u>
Total operating costs and expenses	<u>24,501,854</u>	<u>26,717,546</u>
Income from operations before depreciation and amortization	16,918,458	13,238,937
Depreciation and amortization	<u>19,246,422</u>	<u>17,475,156</u>
Loss from operations	<u>(2,327,964)</u>	<u>(4,236,219)</u>
Non-operating income (expense):		
Interest income	1,339,921	2,012,878
Interest expense	(9,119,614)	(12,858,234)
Passenger facility charge income	5,643,534	4,071,057
FEMA grant	680,142	134,113
Other income (expense)	4,799	(288,472)
Non-recurring expenses	<u>(444,395)</u>	<u>(11,006,489)</u>
Total non-operating expenses	<u>(1,895,613)</u>	<u>(17,935,147)</u>
Loss before capital contributions	(4,223,577)	(22,171,366)
Capital grants from the United States Government	<u>6,539,904</u>	<u>5,485,613</u>
Increase (decrease) in net assets	2,316,327	(16,685,753)
Total net assets at beginning of year	<u>193,887,259</u>	<u>210,573,012</u>
Total net assets at end of year	<u><u>\$ 196,203,586</u></u>	<u><u>\$ 193,887,259</u></u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	\$ 39,106,510	\$ 40,618,994
Cash paid to suppliers and employees for goods and services	(13,413,357)	(22,878,119)
Cash paid to employees	(10,423,458)	(10,963,694)
Net cash provided by operating activities	<u>15,269,695</u>	<u>6,777,181</u>
Cash flows from investing activities:		
(Net purchase) net sales of investments with trustee	(10,314,457)	14,877,028
Investment interest income	1,368,255	2,998,215
Net cash (used for) provided by investing activities	<u>(8,946,202)</u>	<u>17,875,243</u>
Cash flows from non-capital financing activities:		
Cash received from U.S. Government for operating grants	680,142	2,166,798
Net cash provided by non-capital financing activities	<u>680,142</u>	<u>2,166,798</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(11,823,419)	(19,459,467)
Principal payment on General Revenue Bonds, Series 1993	-	(4,660,000)
Interest paid on General Revenue Bonds, Series 1993	-	(11,773,189)
Interest paid on General Revenue Bonds, Series 2003	(5,337,022)	-
U.S. Government capital grants	3,060,361	8,074,791
Passenger facility charge receipts	5,562,487	4,157,137
Net cash used for capital and related financing activities	<u>(8,537,593)</u>	<u>(23,660,728)</u>
Net (decrease) increase in cash	(1,533,958)	3,158,494
Cash at beginning of year	<u>5,224,218</u>	<u>2,065,724</u>
Cash at end of year	<u><u>\$ 3,690,260</u></u>	<u><u>\$ 5,224,218</u></u>
Consisting of:		
Unrestricted	\$ 3,489,603	\$ 4,956,063
Restricted - current	<u>200,657</u>	<u>268,155</u>
	<u><u>\$ 3,690,260</u></u>	<u><u>\$ 5,224,218</u></u>

(Continued)

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows, Continued Years Ended September 30, 2004 and 2003

	2004	2003
Reconciliation of loss from operations and other expense to net cash provided by operating activities:		
Loss from operations	\$ (2,327,964)	\$ (4,236,219)
Non-recurring and other expense	(439,596)	(13,327,646)
	<u>(2,767,560)</u>	<u>(17,563,865)</u>
Adjustments to reconcile loss from operations and other expense to net cash provided by operating activities:		
Depreciation and amortization	19,246,422	17,475,156
Bad debt expense	154,851	120,397
Abandoned projects	-	3,558,989
(Increase) decrease in assets:		
Accounts receivable	(2,303,405)	2,866,968
Inventory	40,287	35,890
Prepaid expense	(3,650)	10,052
Increase (decrease) in liabilities:		
Accounts payable	(197,904)	(1,831,725)
Accrued unfunded liability to retirement fund	1,212,005	464,868
Other liabilities	(100,954)	1,812,223
Deferred income	(10,397)	(171,772)
Total adjustments	<u>18,037,255</u>	<u>24,341,046</u>
Net cash provided by operating activities	<u>\$ 15,269,695</u>	<u>\$ 6,777,181</u>
Supplemental disclosures of non-cash operating activities:		
On September 30, 2003, the Authority defeased and refunded the 1993 General Revenue Bonds and issued the 2003 General Revenue Bonds. The proceeds from the 2003 bonds were deposited into an escrow account controlled by the co-trustee of the 1993 bonds and used to pay off the 1993 Bonds on October 31, 2003. The following summarizes the non-cash effects of this transaction:		
Increase (decrease) in assets:		
Restricted and unrestricted investments with trustees	\$ (8,570,295)	
Deferred bond issue costs	10,544,530	
(Increase) decrease in liabilities:		
Accrued interest	7,019,049	
Bond issuance cost payable	(1,550,084)	
General Revenue Bonds:		
Series 1993 bonds	211,525,000	
Series 2003 bonds	(216,250,000)	
Net unamortized premium, Series 2003 bonds	(9,856,046)	
Deferred difference on refunding 1993 bonds	7,937,352	
Unamortized discount, Series 1993 bonds	(799,506)	
	<u>\$ 0</u>	

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(1) Organization

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

(2) Summary of Significant Accounting Policies

Basis of Accounting. The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting" requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

Cash. For the purpose of the balance sheets and the statements of cash flows, cash is defined as cash on hand and cash on deposit in banks.

Capitalization Policy. The Authority capitalizes buildings, land improvements and equipment that have a cost of \$3,000 or more and an estimated useful life of at least three years.

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

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.

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

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences. Public Law 27-005 was enacted in February 2003 amending the accumulation of annual leave. The statute amended the vacation rates employees are credited to 104 and 156 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service
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.

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

Public Law 27-105 was enacted on September 25, 2004 amending subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess shall be lost.

Accrued annual leave pay up to 320 hours is convertible to pay upon termination of employment. Compensated absences are recorded as a long-term liability in the statement of net assets. Amounts to be paid during the next fiscal year are reported as current.

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

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

Passenger Facility Charges. Passenger Facility Charges (PFCs) generate revenue to be expended by the Authority for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC revenues are recorded as nonoperating income in the statements of operations.

Inventory. Inventory is recorded at the lower of cost or market value.

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

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Risk Management. The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation and environmental liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters. The Authority is self insured for earthquake and typhoon risks. A supertyphoon struck Guam on December 8, 2002, resulting in significant damage to the Authority's facilities. The Authority has recorded estimated losses of \$415,980 and \$6,013,783 from the supertyphoon in the years ended September 30, 2004 and 2003, respectively.

New Accounting Standards. The Authority will implement GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, in fiscal year 2005. The Authority has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

Reclassifications: Certain reclassifications have been made to the 2003 financial statements to make them comparable with the 2004 presentation.

(3) Airport Facilities

A summary of changes in capital assets for the years ending September 30, 2004 and 2003 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2003</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2004</u>
Capital assets being depreciated:				
Terminal building	\$ 289,807,606	\$ 17,205,254	\$ -	\$ 307,012,860
Apron area	28,582,338	-	-	28,582,338
Terminal area	24,748,708	-	-	24,748,708
Other buildings	26,659,985	6,627,889	-	33,287,874
Airfield area	28,315,315	90,165	-	28,405,480
Support facilities	<u>5,917,239</u>	<u>-</u>	<u>-</u>	<u>5,917,239</u>
Total capital assets being depreciated	404,031,191	23,923,308	-	427,954,499
Less accumulated depreciation	<u>(150,542,992)</u>	<u>(18,216,610)</u>	<u>-</u>	<u>(168,759,602)</u>
Net capital assets being depreciated	<u>253,488,199</u>	<u>5,706,698</u>	<u>-</u>	<u>259,194,897</u>
Capital assets not being depreciated:				
Construction in progress	34,905,124	15,240,567	(23,673,290)	26,472,401
Land	<u>54,224,194</u>	<u>-</u>	<u>-</u>	<u>54,224,194</u>
Total capital assets not being depreciated	<u>89,129,318</u>	<u>15,240,567</u>	<u>(23,673,290)</u>	<u>80,696,595</u>
	<u>\$ 342,617,517</u>	<u>\$ 20,947,265</u>	<u>\$ (23,673,290)</u>	<u>\$ 339,891,492</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2004 and 2003

(3) Airport Facilities, Continued

	<u>Beginning Balance</u> <u>October 1, 2002</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2003</u>
Capital assets being depreciated:				
Terminal building	\$ 284,267,079	\$ 5,540,527	\$ -	\$ 289,807,606
Apron area	28,582,338	-	-	28,582,338
Terminal area	24,748,708	-	-	24,748,708
Other buildings	31,162,927	-	(4,502,942)	26,659,985
Airfield area	28,315,315	-	-	28,315,315
Support facilities	<u>900,327</u>	<u>5,016,912</u>	<u>-</u>	<u>5,917,239</u>
 Total capital assets being depreciated	 397,976,694	 10,557,439	 (4,502,942)	 404,031,191
Less accumulated depreciation	<u>(133,200,811)</u>	<u>(17,342,181)</u>	<u>-</u>	<u>(150,542,992)</u>
 Net capital assets being depreciated	 <u>264,775,883</u>	 <u>(6,784,742)</u>	 <u>(4,502,942)</u>	 <u>253,488,199</u>
Capital assets not being depreciated:				
Construction in progress	26,675,697	16,377,224	(8,147,797)	34,905,124
Land	<u>54,224,194</u>	<u>-</u>	<u>-</u>	<u>54,224,194</u>
 Total capital assets not being depreciated	 <u>80,899,891</u>	 <u>16,377,224</u>	 <u>(8,147,797)</u>	 <u>89,129,318</u>
	<u>\$ 345,675,774</u>	<u>\$ 9,592,482</u>	<u>\$ (12,650,739)</u>	<u>\$ 342,617,517</u>

Interest capitalized for the years ended September 30, 2004 and 2003, was \$1,211,400 and \$1,179,865, 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.

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 in the accompanying financial statements. In fiscal year 2001, the Navy paid the Authority \$10 million and the Authority and the Government of Guam assumed the responsibility for completion of certain environmental monitoring on the property. This payment from the Navy is included in restricted net assets in the accompanying financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(4) Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2004 and 2003, consist of the following:

	<u>2004</u>	<u>2003</u>
General Revenue Bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal fund payments due in varying annual installments with \$5,600,000 due in October 2004, and increasing to \$12,295,000 by October 2023.	\$ 216,250,000	\$ 216,250,000
Less current installments	<u>5,600,000</u>	<u>-</u>
	210,650,000	216,250,000
Add net unamortized premium on bonds	9,048,500	9,856,046
Less deferred difference on refunding of 1993 bonds	<u>(7,287,012)</u>	<u>(7,937,352)</u>
	<u>\$ 212,411,488</u>	<u>\$ 218,168,694</u>

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>
2005	\$ 5,600,000	\$ 10,255,208	\$ 15,855,208
2006	6,685,000	10,098,494	16,783,494
2007	7,640,000	9,797,969	17,437,969
2008	8,030,000	9,421,519	17,451,519
2009	7,335,000	9,066,344	16,401,344
2010 through 2014	45,575,000	39,512,257	85,087,257
2015 through 2019	58,470,000	27,638,607	86,108,607
2020 through 2024	<u>76,915,000</u>	<u>10,440,229</u>	<u>87,355,229</u>
	<u>\$ 216,250,000</u>	<u>\$ 126,230,627</u>	<u>\$ 342,480,627</u>

On September 30, 2003, the Authority issued \$216,250,000 in Series 2003 General Revenue Bonds to retire \$216,185,000 of outstanding 1993 Series bonds. The net proceeds of \$192,699,547 (after payment of \$11,007,710 in underwriting fees, insurance, and other issuance costs) 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 meets the requirements of a legal defeasance and as a result, the 1993 bonds and the related securities held by the escrow agent have been removed from the accompanying 2003 financial statements.

The refunding of the bonds resulted in a reduction of the Authority's aggregate debt service payments by almost \$17.6 million over the life of the bonds and an economic gain (difference between the present values of the old and new debt service payments) of \$14,512,596.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(4) Long-Term Revenue Bonds Payable, Continued

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount will be deferred and amortized over the remaining life of the 1993 bonds and is reflected as a reduction of the bond liability in the accompanying financial statements.

The General Revenue Bonds, Series 2003, including interest, are payable solely from and are secured by a pledge of revenues under the indenture. The bonds are collateralized by a lien upon and pledge of revenues to be received by the Authority, the trustees and the depository. Neither the payment of the principal of 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 equal at least 125% of the annual debt service.

(5) Investments and Cash with Trustees

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the monies. At September 30, 2004 and 2003, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2004</u>	<u>2003</u>
Cash with trustees	\$ 400,000	\$ -
Federal Grant Fund	11,848,161	16,228,840
Capital Improvement Fund	642,486	251,608
Operations and Maintenance Reserve Fund	7,243,371	6,156,397
Self-insurance Fund	6,645,607	3,047,607
General Revenue Fund	1,946,055	3,824,676
Operations and Maintenance Fund	<u>1,819,251</u>	<u>1,347,238</u>
Total Unrestricted	<u>30,544,931</u>	<u>30,856,366</u>
Cash with trustee	4,718	4,718
Bond Reserve Funds	18,879,750	18,698,932
Bond Funds	12,103,228	157,293
Renewal and Replacement Fund	2,004,306	3,005,284
Passenger Facility Charge Fund	-	359,990
Cost of Issuance Fund	<u>298,298</u>	<u>1,852,839</u>
Total Restricted	<u>33,290,300</u>	<u>24,079,056</u>
	<u>\$ 63,835,231</u>	<u>\$ 54,935,422</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2004 and 2003

(5) Investments and Cash with Trustees, Continued

The Authority's investments at September 30, 2004 and 2003, are held by the Authority's trustees. Investments are stated at amortized cost including accrued interest. The carrying value of investments at September 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Cash with trustee	\$ 404,718	\$ 4,718
Money market/trust funds	29,368,574	19,610,332
Investment agreements	18,045,950	18,698,932
Short-term investments (commercial paper and corporate bonds)	1,425,372	4,497,696
U.S. Treasury notes	<u>14,590,617</u>	<u>12,123,744</u>
	\$ <u>63,835,231</u>	\$ <u>54,935,422</u>

The market value of investments and cash with trustees at September 30, 2004 and 2003 approximates its carrying value.

Under GASB Statement No. 3, credit risk associated with investments is categorized into three levels generally described as follows:

Category 1 - Insured or registered, or securities held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the Authority or its agent, but in the Authority's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than the Authority and not in the Authority's name.

As of September 30, 2004, the federal grant revenue fund amounting to \$11,848,161 has been classified as a Category 2 investment. The bond funds and a portion of the federal grant fund amounting to \$157,294 as of September 30, 2003, as well as the self-insurance fund of \$2,999,626 as of September 30, 2003, have been classified as Category 3 investments. All other investments held by the trustees at September 30, 2004 and 2003, have been classified as Category 1 investments.

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2004 and 2003, \$200,000 of deposits are covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

(6) Employees' Retirement Plan

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension 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 Defined Contribution Retirement System. Otherwise, they remained under the old plan.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(6) Employees' Retirement Plan, Continued

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

As a result of an actuarial valuations performed as of September 30, 2002, 2001 and 2000, contribution rates for the years ended September 30, 2004, 2003 and 2002, respectively, have been determined as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Normal costs (% of DB Plan payroll)	17.66%	16.42%	15.15%
Unfunded liability costs (% of total payroll)	<u>16.23%</u>	<u>22.94%</u>	<u>18.58%</u>
	33.89%	39.36%	33.73%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	24.39%	29.86%	24.23%
Agency specific adjustments	<u>- %</u>	<u>2.16%</u>	<u>.91%</u>
Government contribution as a % of DB Plan payroll	<u>24.39%</u>	<u>32.02%</u>	<u>25.14%</u>
Government contribution as a % of total payroll	<u>20.81%</u>	<u>29.25%</u>	<u>N/A</u>

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, for the year ended September 30, 2004. For the year ended September 30, 2003, statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 4.5% per annum. The actuarial valuation performed as of September 30, 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2004 and 2003, may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2004 and 2003 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.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2004 and 2003

(6) Employees' Retirement Plan, Continued

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

Retirement expense for the years ended September 30, 2004, 2003 and 2002 is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash contributions and accruals	\$ 1,477,930	\$ 1,630,462	\$ 1,537,268
Increase (decrease) in accrued unfunded liability to the retirement fund	<u>1,212,005</u>	<u>464,868</u>	<u>(28,000)</u>
	<u>\$ 2,689,935</u>	<u>\$ 2,095,330</u>	<u>\$ 1,509,268</u>

(7) Leases

DFS

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

Rent under this new agreement during the first year shall be the greater of the following:

1. Three million five hundred thousand dollars (the "minimum guarantee") plus five hundred thousand dollars (the "additional rent"), or;
2. Percentage rent which shall be as follows:
 - a. Annual gross receipts below thirty million dollars 17.0% of gross receipts
 - b. Annual gross receipts of or above thirty million dollars 22.5% of gross receipts

Rent during the remainder of the term shall be the greater of the following:

1. Four million dollars (the "minimum guarantee") plus five hundred thousand dollars (the "additional rent"), or;
2. Percentage rent which shall be as follows:
 - a. Annual gross receipts below thirty million dollars 20.0% of gross receipts
 - b. Annual gross receipts of or above thirty million dollars 22.5% of gross receipts

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.

Concession fee income for the year ended September 30, 2004 includes \$952,713 of estimated percentage rent income in excess of the minimum guarantee and additional rent on the DFS lease.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(7) Leases, Continued

The future minimum lease receipts under the remainder of the new Concession Agreement as of September 30, 2004 are as follows:

<u>Year Ending September 30,</u>	
2005	\$ 4,500,000
2006	4,500,000
2007	4,500,000
2008	4,500,000
2009	4,500,000
2010-2013	<u>14,866,935</u>
Total minimum lease payments receivable	\$ <u>37,366,935</u>

Based on section 4.1.7 of the lease agreement, DFS elected to have the Authority advance the capital costs of improvements for the equipment, fixtures and facilities to operate the retail merchandise concession, not to exceed \$5,000,000. DFS shall repay the Authority such capital costs with 5% interest annually, commencing on the first day of the second year of the term of the Concession Agreement, or January 21, 2004. This repayment shall be treated as capital cost rent and paid semi-annually, over the remaining life of the lease. As of September 30, 2004 and 2003, the Authority recorded Construction In Progress balances of \$4,188,050 and \$207,961, respectively, for the DFS improvements. Capitalized interest related to these balances was \$176,241 and \$8,477, for the years ended September 30, 2004 and 2003, respectively. As of September 30, 2004, the improvements have not been completed and there has been no repayment of capital costs. The amount of future capital rent payments and interest cannot be determined as the project has not been completed.

Other Leases

The Authority has lease agreements with scheduled air carriers, various concessionaires and airport users providing the lessees with the use of the airport's system facilities, equipment and services. The agreements with all signatory airlines are in effect from 2004 through 2009 with the terminal building rents and other user fees commencing October 1, 1996. The agreements with two petroleum resellers expire in August 2021. Leases with five rent-a-car companies are on a month to month basis.

The future minimum rentals on noncancellable operating leases (excluding the DFS lease described above) as of September 30, 2004, are as follows:

<u>Year Ending September 30,</u>	
2005	\$ 3,494,853
2006	3,107,162
2007	2,931,268
2008	626,851
2009	329,785
2010-2014	1,639,252
2015-2019	1,796,996
2020-2021	<u>681,634</u>
Total minimum lease payments receivable	\$ <u>14,607,801</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2004 and 2003

(8) Long Term Liabilities

A summary of changes in long term liabilities during fiscal year 2004 and 2003, follows:

	Outstanding September 30, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2004</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 907,868	\$ 1,212,005	\$ -	\$ 2,119,873	\$ -	\$ 2,119,873
Accrued annual leave	1,001,881	-	149,725	852,156	426,699	425,457
2003 General revenue bonds	<u>218,168,694</u>	<u>-</u>	<u>157,206</u>	<u>218,011,488</u>	<u>5,600,000</u>	<u>212,411,488</u>
	<u>\$ 220,078,443</u>	<u>\$ 1,212,005</u>	<u>\$ 306,931</u>	<u>\$ 220,983,517</u>	<u>\$ 6,026,699</u>	<u>\$ 214,956,818</u>
	Outstanding September 30, <u>2002</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2003</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 443,000	\$ 464,868	\$ -	\$ 907,868	\$ -	\$ 907,868
Accrued annual leave	1,031,503	-	29,622	1,001,881	490,571	511,310
1993 General revenue bonds	210,672,681	-	210,672,681	-	-	-
2003 General revenue bonds	<u>-</u>	<u>218,168,694</u>	<u>-</u>	<u>218,168,694</u>	<u>-</u>	<u>218,168,694</u>
	<u>\$ 212,147,184</u>	<u>\$ 218,633,562</u>	<u>\$ 210,702,303</u>	<u>\$ 220,078,443</u>	<u>\$ 490,571</u>	<u>\$ 219,587,872</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(9) Commitments and Contingencies

Environmental Monitoring

In September 2000, the Navy transferred 1,417 acres of property to the Authority and the Government of Guam at no cost. In November 2000, the Navy paid the Authority \$10 million. In exchange for the payment, the Authority and the Government of Guam agreed to complete certain environmental monitoring work on the property even if the cost of the environmental monitoring work exceeds the \$10 million remitted by the Navy. Under this cooperative agreement, the United States Navy may terminate or suspend the agreement if the Authority and the Government of Guam fail to complete such monitoring work. The \$10 million received is included in restricted net assets in the accompanying financial statements. The future cost of the environmental monitoring work is presently not determinable. Accordingly, no loss, if any, that may result from the matter, has been recorded in the accompanying financial statements for this transaction. As part of its transitional plan of the property transferred from the Navy, the Authority was appointed, by the Governor of Guam through Executive Order, as the lead agency and caretaker of the Tiyan Reuse Authority (TRA), effective October 1, 2000. TRA functions to maintain and upkeep the transferred property. The Authority incurred TRA payroll costs of \$198,184 for the year ended September 30, 2003, which have been recorded as a non-operating expense. The Authority's responsibility for TRA payroll expenses ended after the pay period ended October 5, 2002.

Federal Program Questioned Costs

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects through the Airport Improvement Program (AIP). These grants are subject to financial and compliance audits to ascertain whether federal laws and regulations have been followed. Questioned costs at September 30, 2004 were \$718,260. The Federal Aviation Administration (FAA) has requested that the Authority seek reimbursement of \$564,702 of this amount from the Government of Guam. If reimbursement from the Government of Guam cannot be obtained and other questioned costs cannot be resolved, payment to the U.S. Government may be required. The ultimate resolution of this uncertainty cannot be presently determined; therefore, no provision has been recorded in the accompanying financial statements.

Commitments

The Authority has commitments of \$13,432,004 under several construction contracts at September 30, 2004.

Self-Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon coverage. The Authority has also adopted a policy of depositing \$1 million annually, in the Renewal and Replacement Fund to cover self-insured damage in the event of a natural catastrophe. The Authority has also established a self-insurance fund. The balances in the Renewal and Replacement Fund and Self-insurance Fund are \$2,004,305 and \$6,645,607, respectively, at September 30, 2004 and \$3,005,284 and \$3,047,607, respectively, at September 30, 2003.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(9) Commitments and Contingencies, Continued

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain autonomous proprietary funds, including the Authority, to remit certain amounts to the Government of Guam General Fund on an annual basis. Management of the Authority is of the opinion that the wording of the legislation is not in compliance with federal requirements. Accordingly, no liability has been recorded for this contingency as of September 30, 2004.

Land Transfer

In fiscal year 2002, the Guam Legislature enacted legislation that provides for a study for the potential transfer of certain lands entrusted to the Authority to original land owners. Final legislative action to implement the transfer has not occurred and it is presently not determinable if such action will occur. The financial impact of any such action on the Authority is presently not determinable.

Other Litigation

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

Aircraft Crash

In August 1997, an airliner crashed on approach to the Airport runways, resulting in over two hundred fatalities and numerous injuries. In 1999, six claims relating to the crash were filed against the Authority. The Authority has denied all six claims. The Authority understands that the claimants have settled their claims with the Airlines and the U.S. Government and do not intend to pursue any action against the Authority. If the claimants decide to further pursue these actions, defense will be handled by the Authority's insurer. Management is of the opinion that the Authority will incur no liability as the result of these claims.

(10) Major Customers

The primary concessionaire accounted for 13% and 11% of total operating revenues during the years ended September 30, 2004 and 2003, respectively. Approximately 37% and 42% of the Authority's total revenues for the years ended September 30, 2004 and 2003, respectively, were derived from one airline customer. Receivables from the airline customer were \$2,540,589 and \$2,196,283 at September 30, 2004 and 2003, respectively.

(11) Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2004 and 2003, 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, 2004 and 2003, the Authority recorded payables to the Treasurer of Guam of \$1,618,835 and \$1,514,586, respectively, for the above charges, of which \$1,418,172 and \$1,249,015 are receivable from airlines. The fees are not reflected as an expense or revenue by the Authority.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2004 and 2003

(12) Non-Recurring Expenses

Non-recurring expenses incurred for the years ended September 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Tiyan Reuse Authority payroll costs	\$ -	\$ 198,184
Typhoon related expense	415,980	6,013,783
Earthquake related expense (recovery)	28,415	(66,428)
Abandoned projects	-	2,980,000
One-time promotional expense and off-island consultant	<u>-</u>	<u>1,880,950</u>
	\$ <u>444,395</u>	\$ <u>11,006,489</u>

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

(13) Typhoon Costs

On December 8, 2002, a supertyphoon struck Guam, causing substantial damage to the Authority's facilities. Estimated repair costs as of September 30, 2004 are \$6,429,763. This amount is an estimate and actual damages may be materially different from this estimate. The typhoon also severely damaged security fences around the Airport facility which will require replacement. The estimated cost to replace and upgrade the security fences is approximately \$19,000,000. Approximately 90% of this replacement cost is expected to be covered by a Federal Aviation Administration grant. Other liabilities at September 30, 2004 and 2003 include \$2,177,540 and \$2,559,447, respectively, of accrued repair costs related to the supertyphoon.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 1

Facilities and Systems Usage Charges Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Departure facilities	\$ 6,311,165	\$ 4,973,439
Arrival facilities	6,448,166	4,722,176
Landing fees	1,244,048	3,900,232
Passenger loading bridge usage charge	2,568,423	2,269,675
Public apron	2,564,552	2,243,257
Immigration	2,237,672	1,599,297
Fuel flowage fee	223,200	248,426
Utility recovery charge and other fees	154,988	195,017
	<u>\$ 21,752,214</u>	<u>\$ 20,151,519</u>

Schedule 2

Concession Fees Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
General merchandise	\$ 5,438,143	\$ 4,312,865
Ground transportation	2,598,266	1,817,747
Car rental	683,155	712,667
Food and beverage	673,229	553,884
In-flight catering	506,652	529,635
Parking lot	331,877	389,875
Money exchange	257,152	185,984
Other	68,785	77,877
Advertising	219,996	91,618
	<u>\$ 10,777,255</u>	<u>\$ 8,672,152</u>

Schedule 3

Rental Income Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating space		
- Airline	\$ 2,691,777	\$ 3,054,462
- Non-airline	2,129,202	1,882,492
Building and maintenance shop rentals	1,969,583	1,683,265
Cargo rentals	491,654	498,043
Other	968,306	971,302
	<u>\$ 8,250,522</u>	<u>\$ 8,089,564</u>

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 4

Contractual Services
Years Ended September 30, 2004 and 2003

	<u>2004</u>		<u>2003</u>
Utilities and telephone	\$ 4,367,146	\$	4,121,512
Repairs and maintenance	4,215,282		4,807,898
Insurance	1,461,266		1,379,403
Professional services	1,319,777		1,155,050
Legal fees	572,986		510,351
Advertising and promotions	96,728		203,987
Travel	77,952		517,396
Miscellaneous	417,820		531,143
	<u>\$ 12,528,957</u>	\$	<u>13,226,740</u>

Schedule 5

Personnel Services
Years Ended September 30, 2004 and 2003

	<u>2004</u>		<u>2003</u>
Salaries and wages	\$ 7,770,401	\$	8,463,930
Retirement contributions	2,689,935		2,095,330
Insurance	602,214		657,352
	<u>\$ 11,062,550</u>	\$	<u>11,216,612</u>
Employee count in September	<u>219</u>		<u>262</u>

Schedule 6

Materials And Supplies
Years Ended September 30, 2004 and 2003

	<u>2004</u>		<u>2003</u>
Equipment and vehicle maintenance and supplies	\$ 265,951	\$	537,818
Office and security supplies	131,608		118,706
Electrical and plumbing	110,922		111,444
Building maintenance and supplies	82,020		83,424
Miscellaneous	41,354		34,480
	<u>\$ 631,855</u>	\$	<u>885,872</u>

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 7

Insurance Coverage
Year Ended September 30, 2004

<u>Name of Insurer</u>	<u>Policy</u>	<u>Risk Coverage</u>
Lloyds of London	Airport Operators Liability	\$ 500,000,000
Lloyds of London	Property Insurance	\$ 200,000,000
American Home Assurance Co.	Directors & Officers Liability (Sublimit of \$1,000,000 for Employment Practices Liability)	\$ 4,000,000
National Union Fire Insurance	Automobile	\$ 1,000,000
National Union Fire Insurance	Workers' Compensation	\$ 1,000,000
American Home Assurance Co.	Excess Automobile	\$ 1,000,000
American Home Assurance Co.	Crime Insurance	\$ 935,000

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 8

Reconciliation of Historical Financial Results Years Ended September 30, 2004 and 2003

	2004 <u>2003 Bond Issue</u>	2003 <u>1993 Bond Issue</u>
Change in net assets:		
Revenues	\$ 48,403,767	\$ 44,007,733
Expenses	<u>24,501,854</u>	<u>26,717,546</u>
Income before depreciation	23,901,913	17,290,187
Depreciation	<u>19,246,422</u>	<u>17,475,156</u>
	4,655,491	(184,969)
Interest and other expense	(9,559,210)	(24,153,195)
Grants from the United States Government	<u>7,220,046</u>	<u>7,652,411</u>
Increase (decrease) in net assets	<u><u>\$ 2,316,327</u></u>	<u><u>\$ (16,685,753)</u></u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 48,161,710	\$ 43,566,354
Operation and maintenance expenses	<u>23,285,050</u>	<u>26,587,599</u>
Net revenues available for debt service	<u>24,876,660</u>	<u>16,978,755</u>
Reconciliation:		
Change in net assets	\$ 2,316,327	\$ (16,685,753)
Add back:		
Depreciation	19,246,422	17,475,156
Interest expense	9,119,614	12,858,234
Typhoon and earthquake expenses	444,395	5,947,355
Abandoned capital projects	-	2,980,000
Change in unfunded retirement liability	1,212,005	464,868
Deduct:		
FEMA grant	(680,142)	(134,113)
Interest income on funds related to construction	(242,057)	(441,379)
Capital grants from the United States Government	<u>(6,539,904)</u>	<u>(5,485,613)</u>
	<u>24,876,660</u>	<u>16,978,755</u>
Other available moneys	<u>3,982,754</u>	<u>4,747,025</u>
Funds available for debt service	<u><u>\$ 28,859,414</u></u>	<u><u>\$ 21,725,780</u></u>
Debt service	15,931,014	18,988,099
Amount received from 2003 bond issuance	<u>-</u>	<u>(2,500,000)</u>
Net debt service	<u><u>\$ 15,931,014</u></u>	<u><u>\$ 16,488,099</u></u>

See accompanying independent auditors' report.