

Financial Statements and  
Other Financial Information

**Guam International Airport Authority**

*Years ended September 30, 2005 and 2004  
with Report of Independent Auditors*

# Guam International Airport Authority

## Financial Statements and Other Financial Information

Years ended September 30, 2005 and 2004

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## Independent Auditors' Report

Board of Directors  
Guam International Airport Authority

We have audited the accompanying statement of net assets of Guam International Airport Authority (the "Authority"), a component unit of the Government of Guam, as of September 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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. The financial statements of the Authority for the year ended September 30, 2004 were audited by other auditors whose report dated December 29, 2004 expressed an unqualified opinion.

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 audit provides a reasonable basis for our opinion.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management Discussion and Analysis on pages 3-12 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 2, 2005, on our consideration of the Guam International Airport Authority's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Ernst & Young LLP*

December 2, 2005

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

The following Management Discussion and Analysis of the Guam International Airport Authority (the “Authority”) activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year (FY) ended September 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

### **A. Mission Statement**

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

### **B. Using the Financial Statements**

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

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

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### C. Authority Activities and Highlights

Passenger statistics for FY 2005 continue to reflect consistent growth from FY 2004, with an increase of 3.4% in total enplanements, despite the suspension of service to key markets in Japan by Japan Airlines and the suspension of services by Palau Micronesia Air. Moreover, the Authority's passenger activity exceeds the Federal Aviation Authority's (FAA) TAF industry projection of 1.49 million passengers and is projected to exceed by 1.7 million in FY 2006.

The 76.3% increase of non-signatory airlines/other airlines is attributed to the addition of Cape Air, which operates as Continental Connection, and began service on July 1, 2004.

A recent report issued by the Guam Visitors Bureau 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 (CNMI), which is expected to exceed 1.2 million visitors for the year ending December 31, 2005.

Activity for the Authority for the years ended September 30, 2005, 2004 and 2003 is as follows:

|                                    | <u>2005</u>         | <u>2004</u>         | <u>2003</u>         | 2005<br>% Increase<br>(Decrease)<br>from 2004 |
|------------------------------------|---------------------|---------------------|---------------------|---|
| Major revenue sources:             |                     |                     |                     |   |
| Landing fees                       | \$ 3,906,841        | \$ 1,244,048        | \$ 3,900,000        | 214.0 %                                       |
| Terminal lease                     | 8,093,984           | 8,250,522           | 8,089,564           | ( 1.9)%                                       |
| Concessions and parking            | <u>13,221,206</u>   | <u>10,777,255</u>   | <u>8,672,152</u>    | 22.7 %  |
| Total                              | <u>\$25,222,031</u> | <u>\$20,271,825</u> | <u>\$20,661,716</u> | 24.4 %  |
| Passenger (enplanements) activity: |                     |                     |                     |   |
| Signatory airlines                 | 1,402,181           | 1,453,364           | 1,051,038           | ( 3.5)%                                       |
| Non-signatory airlines             | <u>101,123</u>      | <u>56,055</u>       | <u>129,560</u>      | 80.4 %  |
| Total enplanements                 | <u>1,503,304</u>    | <u>1,509,419</u>    | <u>1,180,598</u>    | ( 4.1)%                                       |
| Aircraft operations                | <u>34,101</u>       | <u>33,576</u>       | <u>30,888</u>       | 1.6 %   |
| Aircraft landed weights (000,000)  | <u>3,108,577</u>    | <u>3,242,520</u>    | <u>3,008,642</u>    | ( 4.1)%                                       |
| O & D passengers                   | 2,605,048           | 2,510,012           | 1,923,765           | 3.8 %   |
| Transfer passengers                | <u>199,329</u>      | <u>200,251</u>      | <u>220,688</u>      | ( .5)%  |
| Total passengers                   | <u>2,804,377</u>    | <u>2,710,263</u>    | <u>2,144,453</u>    | 3.5 %   |

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

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

Income collected from our major revenue sources reflect a 24.4% increase from FY 2004 figures for the same time period. Landing fees increased by approximately 214% due to the lifting of the moratoriums placed on the airlines as an incentive to retain air services into Guam. Concessions and parking revenues experienced a 22.7% growth. This growth can be attributed to the construction of additional Passenger Security Screening checkpoints for the Transportation Security Administration facilitating the process, and the redesign of the Authority's retail concessions, to include additional retail spaces and upgrades to DFS' existing floor space, which have helped to funnel more traffic through the actual concessions areas.

The Authority continued its stringent cost cutting policies and increased revenue generating efforts, in addition to decreasing airline fees by 54% from the FY 2003 budget to support continued and increased air services by our airline partners.

The following airlines serve the 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, Aerospace Concepts, and Palau Micronesian Air, which has since suspended services into Guam in December 2004. The principal commuter airlines providing inter-island passenger flight service to and from Guam and the CNMI are Freedom Air, Micronesian Aviation Systems, Cape Air, and Pacific Island Aviation, which discontinued service into Guam effective February 2005.

### **D. Financial Operation Highlights**

The Authority's financial results far surpassed projections. The healthy results, both on revenue and expense, are indicative of the Authority's hard action plans to maintain costs and increase revenues, put in place in FY 2003.

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

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### D. Financial Operation Highlights, continued

A summary of operations and changes in net assets for the years ended September 30, 2005, 2004 and 2003 follows:

|   | <u>2005</u>           | <u>2004</u>           | <u>2003</u>           | 2005<br>% Increase<br>(Decrease)<br>from 2004 |
|---|-----------------------|-----------------------|-----------------------|---|
| Operating revenues                            | \$43,269,397          | \$41,420,312          | \$ 39,956,483         | 4.5 %   |
| Operating expenses,<br>excluding depreciation | ( <u>24,834,252</u> ) | ( <u>24,501,854</u> ) | ( <u>26,717,546</u> ) | 1.4 %   |
| Operating income before depreciation          | 18,435,145            | 16,918,458            | 13,238,937            | 9.0 %   |
| Depreciation and amortization                 | ( <u>19,682,098</u> ) | ( <u>19,246,422</u> ) | ( <u>17,475,156</u> ) | 2.3 %   |
| Loss from operations                          | ( 1,246,953)          | ( 2,327,964)          | ( 4,236,219)          | ( 46.4)%                                      |
| Non-operating income (expenses) - net         | ( <u>2,341,856</u> )  | ( <u>1,895,613</u> )  | ( <u>17,935,147</u> ) | 23.5 %  |
| Loss before capital contributions             | ( 3,588,809)          | ( 4,223,577)          | (22,171,366)          | ( 15.0)%                                      |
| Grants from the United States                 |                       |                       |                       |   |
| Government                                    | 16,864,891            | 6,539,904             | 5,485,613             | 157.9 %                                       |
| Transfer in from the Government<br>of Guam    | <u>2,530,000</u>      | <u>---</u>            | <u>---</u>            | 100.0 %                                       |
| Net increase (decrease) in net assets         | <u>\$15,806,082</u>   | <u>\$ 2,316,327</u>   | <u>\$(16,685,753)</u> | 582.4 %                                       |

A comparison of activities between FY 2005 and FY 2004 of the Authority is indicative of financial recovery from years past. The Authority had total enplanements of 9.5% domestic, and 90.5% international for FY 2005 and enplanements of 9.6% domestic and 90.4% international for FY 2004.

Operating revenues saw an increase of 4.5% from \$41,420,312 in FY 2004 to \$ 43,269,347 in FY 2005. In light of management's adjusted enplanement costs from \$14.63 in FY 2005 to \$12.99 in FY 2006, the Authority's focus on increasing operating revenues is apparent, and continues to monitor and reduce operating expenses. Operating expenses excluding depreciation increased to \$24,834,252 in FY 2005 from \$ 24,501,854 in FY 2004, or 1.4% increase, and net operating income before depreciation increased to \$18,435,145 in FY 2005 from \$ 16,918,458 in FY 2004, or 9.0% increase.



# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### **D. Financial Operation Highlights, continued**

#### **Review of Notable Events in FY 2005**

As forecasted, FY 2005 was a period of growth as evidenced by healthy increases in passenger enplanements, operating revenue and net operating income. These upticks came in the face of a turbulent airline industry where losses were the norm and fuel prices at record levels. Even with these increases, fiscal discipline remained the standard resulting in a stable cost base and further reductions in the airline cost per enplaned passenger. This continuous downward trend in airport costs to the airlines keeps the Authority competitive with other resort destinations and positively contributes to the airlines already marginal yields.

The Authority further proved its resilience as an origin/destination airport where a high percentage of passengers arrive and depart as opposed to transit. A legacy foreign airline suspended a daily operation from Japan only to be replaced by a legacy U.S. airline with two daily operations. The result was a net increase in the number of available seats.

In FY 2005, the Authority remained aggressive in the pursuit of federal funds. The Authority executed grant agreements of nearly \$11 Million with funding sources from the FAA and the Economic Development Administration. Coupled with prior federal grants and appropriated capital improvement funds, the Authority had over \$115 million booked for capital improvements inclusive of continuing typhoon repairs and mitigation. Notable projects include:

- Completion of the DHL Express Package Facility
- Completion of the Extension of Runway 6R/24L
- Completion of Repairs and Upgrade to the Continental Airlines Hangar
- Completion of the Upgrades to the DFS Merchandising Concession Core
- Construction of the Parallel Taxiway
- Extension of Runway 6L/24R
- Expansion of the TSA Passenger Screening Checkpoints
- Strengthening and Hardening of AOA Security Fence

The Authority continued its adherence to mandated internal controls. Although audit findings reflect needed improvements in processes and procedures, none were deemed to be material weaknesses or questionable costs.

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### D. Financial Operation Highlights, continued

#### Financial Position Summary

A condensed summary of the Authority's statements of net assets at September 30, 2005, 2004 and 2003 is shown below:

|   | <u>2005</u>          | <u>2004</u>          | <u>2003</u>          | 2005<br>% Increase<br>(Decrease)<br>from 2004 |
|---|----------------------|----------------------|----------------------|---|
| <u>ASSETS</u>                                       |                      |                      |                      |   |
| Current assets:                                     |                      |                      |                      |   |
| Unrestricted assets                                 | \$ 12,454,392        | \$ 16,610,064        | \$ 12,573,174        | (25.0)%                                       |
| Restricted assets                                   | 1,739,867            | 1,618,829            | 1,517,170            | 7.5 %   |
| Non-current assets:                                 |                      |                      |                      |   |
| Unrestricted assets                                 | 30,035,946           | 30,544,931           | 30,856,366           | ( 1.7)%                                       |
| Restricted assets                                   | 36,985,110           | 33,290,300           | 24,079,056           | 11.1 %  |
| Capital assets                                      | 353,050,724          | 339,891,492          | 342,617,517          | 3.9 %   |
| Deferred bond issue costs                           | <u>10,535,836</u>    | <u>11,538,981</u>    | <u>12,732,564</u>    | ( 8.7)%                                       |
| Total   | <u>\$444,801,875</u> | <u>\$433,494,597</u> | <u>\$424,375,847</u> | 2.6 %   |
| <u>LIABILITIES</u>                                  |                      |                      |                      |   |
| Current liabilities:                                |                      |                      |                      |   |
| Payable from unrestricted assets                    | \$ 10,506,565        | \$ 9,964,160         | \$ 7,836,046         | 5.4 %   |
| Payable from restricted assets                      | 13,577,960           | 12,370,033           | 3,064,670            | 9.8 %   |
| Long term liabilities                               | <u>208,707,682</u>   | <u>214,956,818</u>   | <u>219,587,872</u>   | ( 2.9)%                                       |
| Total   | <u>\$232,792,207</u> | <u>\$237,291,011</u> | <u>\$230,488,588</u> | ( 1.9)%                                       |
| <u>NET ASSETS</u>                                   |                      |                      |                      |   |
| Invested in capital assets – net<br>of related debt | \$151,328,208        | \$133,418,985        | \$137,181,387        | 13.4 %  |
| Restricted  | 41,832,017           | 38,888,149           | 33,880,508           | 7.6 %   |
| Unrestricted  | <u>18,849,443</u>    | <u>23,896,452</u>    | <u>22,825,364</u>    | (21.1)%                                       |
| Total   | <u>\$212,009,668</u> | <u>\$196,203,586</u> | <u>\$193,887,259</u> | 8.1 %   |

The Authority's investments in capital assets net of related debt make up 71% of its net assets. These capital assets are used to provide services to its passengers and visitors to the Authority 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 ended September 30, 2005

### D. Financial Operation Highlights, continued

#### Airline Signatory Rates and Charges

The Authority entered into an airport-airline lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. These leases were extended to March 2006.

The following summarizes the rates in effect at September 30, 2005, 2004 and 2003:

|                              | <u>2005</u> | <u>2004</u> | <u>2003</u>     |                |
|------------------------------|-------------|-------------|-----------------|----------------|
|                              |             |             | <u>10/01/02</u> | <u>4/01/03</u> |
| Terminal building rental:    |             |             |                 |                |
| Signatory                    | 39.67       | 43.70       | 45.57           | 47.19          |
| Non-signatory                | 42.67       | 47.65       | 46.54           | 47.19          |
| Departure fees:              |             |             |                 |                |
| Signatory                    | 3.30        | 4.40        | 2.64            | 5.93           |
| Non-signatory                | 3.55        | 4.80        | 2.69            | 5.93           |
| Arrival fees:                |             |             |                 |                |
| Signatory                    | 3.80        | 5.22        | 3.34            | 6.69           |
| Non-signatory                | 4.08        | 5.69        | 3.41            | 6.69           |
| Immigration inspection fees: |             |             |                 |                |
| Signatory                    | 1.41        | 1.96        | 1.24            | 2.51           |
| Non-signatory                | 1.52        | 2.14        | 1.26            | 2.51           |
| Loading bridge use fees:     |             |             |                 |                |
| Signatory                    | 296.74      | 284.63      | 153.97          | 359.01         |
| Non-signatory                | 314.31      | 306.38      | 222.21          | 359.01         |
| Apron use fees:              |             |             |                 |                |
| Signatory                    | 0.89        | 0.81        | 0.71            | 0.80           |
| Non-signatory                | 1.07        | 0.85        | 0.89            | 0.80           |
| Landing fees:                |             |             |                 |                |
| Signatory                    | 1.25        | .36         | 0.36            | 2.26           |
| Non-signatory                | 1.42        | .64         | 0.36            | 2.26           |

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### D. Financial Operation Highlights, continued

#### Revenues

A summary of revenues for the years ended September 30, 2005, 2004 and 2003 and the amount and percentage of change in relation to prior year amounts is as follows:

|  | 2005         | 2005<br>%<br>of Total | 2004         | 2004<br>%<br>of Total | 2003         | 2003<br>%<br>of Total | 2005<br>% Increase<br>(Decrease)<br>from 2004 |
|--|--------------|-----------------------|--------------|-----------------------|--------------|-----------------------|---|
| Operating:                             |              |                       |              |                       |              |                       |   |
| Facilities and use charges:            |              |                       |              |                       |              |                       |   |
| Arrival facilities                     | \$ 4,999,794 | 7.4%                  | \$ 6,448,166 | 11.6%                 | \$ 4,722,176 | 9.1%                  | ( 22.5)%                                      |
| Departure facilities                   | 4,949,095    | 7.3%                  | 6,311,165    | 11.4%                 | 4,973,439    | 9.6%                  | ( 21.6)%                                      |
| Landing fees                           | 3,906,841    | 5.7%                  | 1,244,048    | 2.2%                  | 3,900,232    | 7.5%                  | 214.0 %                                       |
| Public apron                           | 2,768,695    | 4.1%                  | 2,564,552    | 4.6%                  | 2,243,257    | 4.3%                  | 8.0 %   |
| Passenger loading bridge               | 2,504,969    | 3.7%                  | 2,568,423    | 4.6%                  | 2,269,675    | 4.4%                  | ( 2.5)%                                       |
| Immigration                            | 1,714,756    | 2.5%                  | 2,237,672    | 4.0%                  | 1,599,297    | 3.1%                  | ( 23.4)%                                      |
| Fuel flowage fee                       | 216,582      | .3%                   | 223,200      | 0.4%                  | 248,426      | 0.5%                  | ( 3.0)%                                       |
| Utility recovery charge and other fees | 179,527      | .3%                   | 154,988      | 0.3%                  | 195,017      | 0.5%                  | 15.8 %  |
| Total facilities and use charges       | 21,240,259   | 31.3%                 | 21,752,214   | 39.1%                 | 20,151,519   | 39.0%                 | ( 2.4)%                                       |
| Concession fees:                       |              |                       |              |                       |              |                       |   |
| General merchandise                    | 7,676,807    | 11.3%                 | 5,438,143    | 9.8%                  | 4,312,865    | 8.3%                  | 41.2 %  |
| Ground transportation                  | 2,749,526    | 4.0%                  | 2,598,266    | 4.7%                  | 1,817,747    | 3.5%                  | 5.8 %   |
| Car rental                             | 793,299      | 1.2%                  | 683,155      | 1.2%                  | 712,667      | 1.4%                  | 16.1 %  |
| Food and beverage                      | 691,349      | 1.0%                  | 673,229      | 1.2%                  | 553,884      | 1.1%                  | ( 1.6)%                                       |
| In-flight catering                     | 498,693      | .7%                   | 506,652      | .9%                   | 529,635      | 1.0%                  | 2.7%  |
| Other                                  | 811,532      | 1.2%                  | 877,810      | 1.6%                  | 745,354      | 1.5%                  | ( 7.6)%                                       |
| Total concession fees                  | 13,221,206   | 19.4%                 | 10,777,255   | 19.4%                 | 8,672,152    | 16.8%                 | 22.7 %  |
| Rental income:                         |              |                       |              |                       |              |                       |   |
| Operating space - airline              | 2,449,329    | 3.6%                  | 2,691,777    | 4.8%                  | 3,054,462    | 5.9%                  | ( 9.0)%                                       |
| Operating space - non-airline          | 1,981,317    | 2.9%                  | 2,129,202    | 3.8%                  | 1,882,492    | 3.6%                  | ( 6.9)%                                       |
| Other                                  | 3,663,338    | 5.4%                  | 3,429,543    | 6.2%                  | 3,152,610    | 6.1%                  | 6.8 %   |
| Total rental income                    | 8,093,984    | 11.9%                 | 8,250,522    | 14.8%                 | 8,089,564    | 15.6%                 | ( 1.9)%                                       |
| Miscellaneous                          | 713,948      | 1.0%                  | 640,321      | 1.2%                  | 1,010,563    | 1.9%                  | 11.5 %  |
| Total operating                        | 43,269,397   | 63.6%                 | 41,420,312   | 74.5%                 | 39,956,483   | 73.3%                 | 4.5 %   |
| Non-Operating:                         |              |                       |              |                       |              |                       |   |
| Interest income                        | 1,890,359    | 2.8%                  | 1,339,921    | 2.4%                  | 2,012,878    | 3.9%                  | 41.1 %  |
| Passenger facility charge              | 5,973,129    | 8.8%                  | 5,643,534    | 10.1%                 | 4,071,057    | 7.9%                  | 5.8 %   |
| Grants from the U. S. Government       | 16,864,891   | 24.8%                 | 6,539,904    | 11.8%                 | 5,619,726    | 14.9%                 | 157.9 %                                       |
| FEMA                                   | ---          | 0.0%                  | 680,142      | 1.2%                  | ---          | 0.0%                  | (100.0)%                                      |
| Total non-operating                    | 24,728,379   | 36.4%                 | 14,203,501   | 25.5%                 | 11,703,661   | 26.7 %                | 74.1 %  |
| Total revenues                         | \$67,997,776 | 100.0%                | \$55,623,813 | 100.0%                | \$51,660,144 | 100.0 %               | 22.2 %  |

Grants from the United States Government continue to grow and grew 157.9% from \$6.5 million in FY 2004 to \$16.9 million in FY 2005. The majority of monies received are reimbursements for the additional direct security related costs and for security enhancement projects.

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### D. Financial Operation Highlights, continued

#### Expenses

A summary of expenses for the years ended September 30, 2005, 2004 and 2003, and the amount and percentage of change in relation to prior year amounts is as follows:

|                               | 2005                | 2005<br>%<br>of Total | 2004                | 2004<br>%<br>of Total | 2003                | 2003<br>%<br>of Total | 2005<br>% Increase<br>(Decrease)<br>from 2004 |
|-------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---|
| Operating:                    |                     |                       |                     |                       |                     |                       |   |
| Contractual services          | \$12,182,767        | 22.3%                 | \$12,052,699        | 22.6%                 | \$13,226,740        | 19.3%                 | 1.1 %   |
| Personnel services            | 11,346,700          | 20.7%                 | 11,661,401          | 21.9%                 | 12,484,537          | 18.3%                 | ( 2.7)%                                       |
| Materials and supplies        | 748,546             | 1.4%                  | 632,903             | 1.2%                  | 885,872             | 1.3%                  | 18.3 %  |
| Bad debt expense              | <u>556,239</u>      | <u>1.0%</u>           | <u>154,851</u>      | <u>.3%</u>            | <u>120,397</u>      | <u>0.2%</u>           | 259.2 %                                       |
| Total operating               | <u>24,834,252</u>   | <u>45.4%</u>          | <u>24,501,854</u>   | <u>46.0%</u>          | <u>26,717,546</u>   | <u>39.1%</u>          | 1.4 %   |
| Depreciation and amortization | <u>19,682,098</u>   | <u>36.0%</u>          | <u>19,246,422</u>   | <u>36.1%</u>          | <u>17,475,156</u>   | <u>25.6%</u>          | 2.3 %   |
| Non-Operating:                |                     |                       |                     |                       |                     |                       |   |
| Interest expense              | 9,717,112           | 17.7%                 | 9,119,614           | 17.1%                 | 12,858,234          | 18.8%                 | 6.6 %   |
| Other expenses                | <u>488,232</u>      | <u>.9%</u>            | <u>439,596</u>      | <u>.8%</u>            | <u>11,294,961</u>   | <u>16.5%</u>          | 11.1 %  |
| Total non-operating           | <u>10,205,344</u>   | <u>18.6%</u>          | <u>9,559,210</u>    | <u>17.9%</u>          | <u>24,153,195</u>   | <u>35.3%</u>          | 6.8 %   |
| Total expenses                | <u>\$54,721,694</u> | <u>100.0%</u>         | <u>\$53,307,486</u> | <u>100.0%</u>         | <u>\$68,345,897</u> | <u>100.0%</u>         | 2.7 %   |
| Total full time employees     | 202                 |                       | 219                 |                       | 262                 |                       |   |

### E. Outlook for FY 2006

Sustaining growth is the primary objective for FY 2006. With this growth, the Authority intends to strike a balance between revenue generation, cost management and customer service as the core initiatives.

The Authority's FY 2006 budget continues the downward trend to the airline cost per enplaned passenger (\$12.99 for FY 2006 versus \$14.63 in FY 2005). Growing airline revenue and expanding air service is planned through two non-traditional approaches: airport fee incentives and federal exemptions to air service regulations. The latter is in the works and the incentives are already expected to yield benefits from new destinations and technical stopover traffic. Non-airline revenue is also expected to grow through the expansion of high-end duty free boutiques, upgraded food & beverage concessions and aggressive property development.

Cost management will go a step further for FY 2006. Studies will be commissioned to reduce operating costs for energy use and gain efficiencies for facility maintenance and asset management. All are expected to yield positive results.

# Guam International Airport Authority

## Management Discussion and Analysis

Year ended September 30, 2005

### **E. Outlook for FY 2006, continued**

The airport customers consist of passengers, employees and the public. Initiatives for improved aesthetics and amenities include electronic signage, landscaping, educational displays, concession services and even upgraded restrooms. The Authority also intends to improve the passenger experience through facilitation; expanded multi-lingual ambassadors for arrival, back of the house bag screening and possibly hotel bag check-in. Outside airport property, the residential soundproofing construction program will commence for surrounding communities.

The key capital improvement projects to be initiated during FY 2006 include:

- Extension and Strengthening of Runway 6L/24R
- Car Rental Facility and Bus Parking Renovations
- Roadway Beautification Program
- Demolition of Tiyan Housing Units
- Brownsfield Environmental Cleanup
- Perimeter Security Fence and AOA Perimeter Road
- Utilities Infrastructure Upgrades – MAP program

Guam International Airport Authority

Statements of Net Assets

September 30, 2005 and 2004

| <b>Assets</b>   | <u>2005</u>    | <u>2004</u>    |
|---|----------------|----------------|
| Current assets:   |                |                |
| Unrestricted assets:  |                |                |
| Cash ( <i>Note 5</i> )  | \$ 2,360,005   | \$ 3,378,415   |
| Passenger facility charge cash ( <i>Note 5</i> )  | 52,687         | 111,188        |
| Accounts receivable, trade, net of allowance for doubtful<br>accounts of \$588,888 (\$275,248 in 2004) ( <i>Note 10</i> ) | 6,536,615      | 7,166,798      |
| Passenger facility charge receivables   | 907,575        | 707,942        |
| Receivables from the United States Government   | 2,544,118      | 5,209,250      |
| Inventory   | 53,392         | 32,821         |
| Prepaid expense   | ---            | 3,650          |
|   | <hr/>          | <hr/>          |
| Total unrestricted current assets   | 12,454,392     | 16,610,064     |
|   | <hr/>          | <hr/>          |
| Restricted assets:  |                |                |
| Customs fees, cash  | 238,614        | 200,657        |
| Customs fees, receivables ( <i>Note 11</i> )  | 1,501,253      | 1,418,172      |
|   | <hr/>          | <hr/>          |
| Total restricted current assets   | 1,739,867      | 1,618,829      |
|   | <hr/>          | <hr/>          |
| Total current assets  | 14,194,259     | 18,228,893     |
|   | <hr/>          | <hr/>          |
| General Revenue Bonds ( <i>Notes 5 and 9</i> ) :  |                |                |
| Investments and cash with trustees, unrestricted  | 30,035,946     | 30,544,931     |
| Investments and cash with trustees, restricted  | 36,985,110     | 33,290,300     |
|   | <hr/>          | <hr/>          |
|   | 67,021,056     | 63,835,231     |
|   | <hr/>          | <hr/>          |
| Capital assets, at cost less accumulated depreciation<br>( <i>Notes 3, 7 and 9</i> )                                      | 353,050,724    | 339,891,492    |
| Deferred bond issue costs ( <i>Note 4</i> )   | 10,535,836     | 11,538,981     |
|   | <hr/>          | <hr/>          |
| Total assets  | \$ 444,801,875 | \$ 433,494,597 |
|   | <hr/>          | <hr/>          |

See accompanying notes.

Guam International Airport Authority

Statements of Net Assets, continued

September 30, 2005 and 2004

| <b>Liabilities and Net Assets</b>                                      | <u>2005</u>           | <u>2004</u>           |
|--|-----------------------|-----------------------|
| Current liabilities:   |                       |                       |
| Payable from unrestricted assets:                                      |                       |                       |
| Accounts payable - trade   | \$ 2,200,762          | \$ 2,202,517          |
| Accounts payable - construction  | 4,690,367             | 3,775,971             |
| Other liabilities ( <i>Note 13</i> )                                   | 2,290,281             | 3,019,177             |
| Security deposits and deferred income                                  | 928,261               | 539,796               |
| Current portion of annual leave ( <i>Note 8</i> )                      | <u>396,894</u>        | <u>426,699</u>        |
| Total payable from unrestricted assets                                 | <u>10,506,565</u>     | <u>9,964,160</u>      |
| Payable from restricted assets:  |                       |                       |
| Customs fees payable to Treasurer of Guam ( <i>Note 11</i> )           | 1,788,951             | 1,618,835             |
| General Revenue Bonds:   |                       |                       |
| Current installments ( <i>Notes 4 and 8</i> )                          | 6,685,000             | 5,600,000             |
| Accrued interest   | <u>5,104,009</u>      | <u>5,151,198</u>      |
| Total payable from restricted assets                                   | <u>13,577,960</u>     | <u>12,370,033</u>     |
| Total current liabilities  | <u>24,084,525</u>     | <u>22,334,193</u>     |
| Non-current liabilities:   |                       |                       |
| Payable from unrestricted assets:                                      |                       |                       |
| Accrued unfunded liability to retirement fund ( <i>Notes 6 and 8</i> ) | 2,708,873             | 2,119,873             |
| Long-term portion of annual leave ( <i>Note 8</i> )                    | 425,457               | 425,457               |
| Payable from restricted assets:  |                       |                       |
| Long-term bonds payable, less current installments:                    |                       |                       |
| General Revenue Bonds ( <i>Notes 4 and 8</i> )                         | <u>205,573,352</u>    | <u>212,411,488</u>    |
| Total non-current liabilities  | <u>208,707,682</u>    | <u>214,956,818</u>    |
| Total liabilities  | <u>232,792,207</u>    | <u>237,291,011</u>    |
| Commitments and contingencies  |                       |                       |
| Net assets:  |                       |                       |
| Invested in capital assets, net of related debt                        | 151,328,208           | 133,418,985           |
| Restricted ( <i>Notes 3 and 9</i> )                                    | 41,832,017            | 38,888,149            |
| Unrestricted   | <u>18,849,443</u>     | <u>23,896,452</u>     |
| Total net assets   | <u>212,009,668</u>    | <u>196,203,586</u>    |
| Total liabilities and net assets                                       | <u>\$ 444,801,875</u> | <u>\$ 433,494,597</u> |

See accompanying notes.



Guam International Airport Authority  
Statements of Revenues, Expenses and Changes in Net Assets  
Years ended September 30, 2005 and 2004

|   | <u>2005</u>           | <u>2004</u>           |
|---|-----------------------|-----------------------|
| Revenues:   |                       |                       |
| Facilities and systems usage charges                        | \$ 21,240,259         | \$ 21,752,214         |
| Concession fees <i>(Note 7 and 10)</i>                      | 13,221,206            | 10,777,255            |
| Rental income   | 8,093,984             | 8,250,522             |
| Miscellaneous   | <u>713,948</u>        | <u>640,321</u>        |
| Total revenues  | <u>43,269,397</u>     | <u>41,420,312</u>     |
| Operating costs and expenses:                               |                       |                       |
| Contractual services  | 12,182,767            | 12,052,699            |
| Personnel services  | 11,346,700            | 11,661,401            |
| Materials and supplies                                      | 748,546               | 632,903               |
| Bad debt  | <u>556,239</u>        | <u>154,851</u>        |
| Total operating costs and expenses                          | <u>24,834,252</u>     | <u>24,501,854</u>     |
| Income from operations before depreciation and amortization | 18,435,145            | 16,918,458            |
| Depreciation and amortization                               | ( <u>19,682,098</u> ) | ( <u>19,246,422</u> ) |
| Loss from operations  | ( <u>1,246,953</u> )  | ( <u>2,327,964</u> )  |
| Non-operating income (expense):                             |                       |                       |
| Passenger facility charge income                            | 5,973,129             | 5,643,534             |
| Interest income   | 1,890,359             | 1,339,921             |
| Interest expense  | ( <u>9,717,112</u> )  | ( <u>9,119,614</u> )  |
| Other (expense) income <i>(Note 4)</i>                      | ( <u>305,713</u> )    | 4,799                 |
| Non-recurring expenses <i>(Note 12)</i>                     | ( <u>182,519</u> )    | ( <u>444,395</u> )    |
| FEMA grant  | <u>---</u>            | <u>680,142</u>        |
| Total non-operating expenses                                | ( <u>2,341,856</u> )  | ( <u>1,895,613</u> )  |
| Loss before capital grants and transfer in                  | ( <u>3,588,809</u> )  | ( <u>4,223,577</u> )  |
| Capital grants from the United States Government            | 16,864,891            | 6,539,904             |
| Transfer in from the Government of Guam <i>(Note 3)</i>     | <u>2,530,000</u>      | <u>---</u>            |
| Increase in net assets                                      | 15,806,082            | 2,316,327             |
| Net assets at beginning of year                             | <u>196,203,586</u>    | <u>193,887,259</u>    |
| Net assets at end of year                                   | <u>\$ 212,009,668</u> | <u>\$ 196,203,586</u> |

See accompanying notes.

Guam International Airport Authority

Statements of Cash Flows

Years ended September 30, 2005 and 2004

|  | <u>2005</u>           | <u>2004</u>          |
|--|-----------------------|----------------------|
| <b>Cash flows from operating activities:</b>                     |                       |                      |
| Cash received from customers                                     | \$ 43,648,725         | \$ 39,106,510        |
| Cash paid to suppliers and employees for goods and services      | ( 14,098,656 )        | ( 13,413,357 )       |
| Cash paid to employees   | ( 10,685,851 )        | ( 10,423,458 )       |
| Net cash provided by operating activities                        | <u>18,864,218</u>     | <u>15,269,695</u>    |
| <b>Cash flows from investing activities:</b>                     |                       |                      |
| Net purchase of investments with trustee                         | ( 3,268,122 )         | ( 10,314,457 )       |
| Investment interest income                                       | <u>1,972,656</u>      | <u>1,368,255</u>     |
| Net cash used for investing activities                           | ( <u>1,295,466</u> )  | ( <u>8,946,202</u> ) |
| <b>Cash flows from non-capital financing activities:</b>         |                       |                      |
| Cash received from U.S. Government operating grants              | <u>---</u>            | <u>680,142</u>       |
| <b>Cash flows from capital and related financing activities:</b> |                       |                      |
| Acquisition and construction of airport facilities               | ( 27,902,881 )        | ( 11,823,419 )       |
| Interest paid on General Revenue Bonds, Series 2003              | ( 10,408,344 )        | ( 5,337,022 )        |
| Principal payment on General Revenue Bonds, Series 2003          | ( 5,600,000 )         | ---                  |
| U.S. Government capital grants                                   | 19,530,023            | 3,060,361            |
| Passenger facility charge receipts                               | <u>5,773,496</u>      | <u>5,562,487</u>     |
| Net cash used for capital and related financing activities       | ( <u>18,607,706</u> ) | ( <u>8,537,593</u> ) |
| Net decrease in cash   | ( 1,038,954 )         | ( 1,533,958 )        |
| Cash at beginning of year  | <u>3,690,260</u>      | <u>5,224,218</u>     |
| Cash at end of year  | <u>\$ 2,651,306</u>   | <u>\$ 3,690,260</u>  |
| <b>Consisting of:</b>  |                       |                      |
| Unrestricted   | \$ 2,412,692          | \$ 3,489,603         |
| Restricted - current   | <u>238,614</u>        | <u>200,657</u>       |
|  | <u>\$ 2,651,306</u>   | <u>\$ 3,690,260</u>  |

See accompanying notes.

Guam International Airport Authority

Statements of Cash Flows, continued

Years ended September 30, 2005 and 2004

|   | <u>2005</u>          | <u>2004</u>          |
|---|----------------------|----------------------|
| <b>Reconciliation of loss from operations and other expense<br/>to net cash provided by operating activities:</b> |                      |                      |
| Loss from operations  | \$( 1,246,953 )      | \$( 2,327,964 )      |
| Non-recurring and other expense   | ( <u>488,233</u> )   | ( <u>439,596</u> )   |
|   | ( <u>1,735,186</u> ) | ( <u>2,767,560</u> ) |
| Adjustments to reconcile loss from operations and other<br>expense to net cash provided by operating activities:  |                      |                      |
| Depreciation and amortization   | 19,682,098           | 19,246,422           |
| Bad debt expense  | 556,239              | 154,851              |
| (Increase) decrease in assets:  |                      |                      |
| Accounts receivable   | ( 9,137 )            | ( 2,303,405 )        |
| Inventory   | ( 20,571 )           | 40,287               |
| Prepaid expense   | 3,650                | ( 3,650 )            |
| Increase (decrease) in liabilities:   |                      |                      |
| Accounts payable  | 168,361              | ( 197,904 )          |
| Other liabilities   | ( 728,896 )          | ( 100,954 )          |
| Security deposits and deferred income   | 388,465              | ( 10,397 )           |
| Annual leave  | ( 29,805 )           | ---                  |
| Accrued unfunded liability to retirement fund   | <u>589,000</u>       | <u>1,212,005</u>     |
| Total adjustments   | <u>20,599,404</u>    | <u>18,037,255</u>    |
| Net cash provided by operating activities   | \$ <u>18,864,218</u> | \$ <u>15,269,695</u> |

See accompanying notes.

# Guam International Airport Authority

## Notes to Financial Statement

Years ended September 30, 2005 and 2004

### **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 Statement and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

#### *Net Assets*

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

#### *Cash*

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

#### *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.

Guam International Airport Authority  
Notes to Financial Statement, continued

**2. Summary of Significant Accounting Policies, continued**

*Depreciation and Amortization*

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

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

*Capitalization of Interest*

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

*Compensated Absences*

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 27-005 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.

Guam International Airport Authority  
Notes to Financial Statement, continued

**2. Summary of Significant Accounting Policies, continued**

*Compensated Absences, continued*

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

*Bond Premium and Discount*

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

*Estimates*

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

*Passenger Facility Charges*

Passenger Facility Charges (PFC) generate 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 non-operating 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 expenses.

*Reclassifications*

Certain reclassifications have been made to the 2004 financial statements for comparative purposes. Such reclassifications had no effect on previously reported increase in net assets.

Guam International Airport Authority  
Notes to Financial Statement, continued

**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.

*New Accounting Standards*

The Authority implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3) during fiscal year 2005. However, the Authority has not evaluated the financial statement impact of GASB Statement No. 40.

Guam International Airport Authority  
Notes to Financial Statement, continued

**3. Airport Facilities**

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

|   | Beginning<br>Balance<br>October 1,<br>2004 | Transfers<br>and<br>Additions | Transfers<br>and<br>Deletions | Ending<br>Balance<br>September 30,<br>2005 |
|---|--|-------------------------------|-------------------------------|--|
| Capital assets depreciated:                 |  |                               |                               |  |
| Terminal building                           | \$302,509,918                              | \$ 6,414,689                  | \$ ---                        | \$308,924,607                              |
| Other buildings                             | 35,951,778                                 | 3,057,493                     | ---                           | 39,009,271                                 |
| Apron area                                  | 28,582,338                                 | ---                           | ---                           | 28,582,338                                 |
| Airfield area                               | 28,405,480                                 | 4,964,054                     | ---                           | 33,369,534                                 |
| Terminal area                               | 24,748,708                                 | ---                           | ---                           | 24,748,708                                 |
| Support facilities                          | <u>7,756,277</u>                           | <u>18,660</u>                 | <u>---</u>                    | <u>7,774,937</u>                           |
| <br>Total capital assets<br>depreciated     | <br>427,954,499                            | <br>14,454,896                | <br>---                       | <br>442,409,395                            |
| Less accumulated<br>depreciation            | <u>(168,759,602)</u>                       | <u>(18,678,956)</u>           | <u>---</u>                    | <u>(187,438,558)</u>                       |
| <br>Net capital assets<br>depreciated       | <br><u>259,194,897</u>                     | <br><u>( 4,224,060)</u>       | <br><u>---</u>                | <br><u>254,970,837</u>                     |
| Capital assets not depreciated:             |  |                               |                               |  |
| Land  | 54,224,194                                 | 2,530,000                     | ---                           | 56,754,194                                 |
| Construction in progress                    | <u>26,472,401</u>                          | <u>29,352,772</u>             | <u>(14,499,980)</u>           | <u>41,325,193</u>                          |
| <br>Total capital assets<br>not depreciated | <br><u>80,696,595</u>                      | <br><u>31,882,772</u>         | <br><u>(14,499,980)</u>       | <br><u>98,079,387</u>                      |
|   | <u>\$339,891,492</u>                       | <u>\$27,658,712</u>           | <u>\$(14,499,980)</u>         | <u>\$353,050,224</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 9, 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 2005 statement of net assets. Due to numerous uncertainties surrounding the Tiyan properties, the Authority has noted that it may elect to utilize the excess contribution from the road transfer to offset any subsequent obligations by GovGuam if so determined by the federal government.



# Guam International Airport Authority

## Notes to Financial Statement, continued

### 3. Airport Facilities, continued

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

|   | Beginning<br>Balance<br>October 1,<br>2003 | Transfers<br>and<br>Additions | Transfers<br>and<br>Deletions | Ending<br>Balance<br>September 30,<br>2004 |
|---|--|-------------------------------|-------------------------------|--|
| Capital assets depreciated:             |  |                               |                               |  |
| Terminal building                       | \$285,304,664                              | \$17,205,254                  | \$ ---                        | \$302,509,918                              |
| Other buildings                         | 29,323,889                                 | 6,627,889                     | ---                           | 35,951,778                                 |
| Airfield area                           | 28,315,315                                 | 90,165                        | ---                           | 28,405,480                                 |
| Apron area                              | 28,582,338                                 | ---                           | ---                           | 28,582,338                                 |
| Terminal area                           | 24,748,708                                 | ---                           | ---                           | 24,748,708                                 |
| Support facilities                      | <u>7,756,277</u>                           | <u>---</u>                    | <u>---</u>                    | <u>7,756,277</u>                           |
| Total capital assets<br>depreciated     | 404,031,191                                | 23,923,308                    | ---                           | 427,954,499                                |
| Less accumulated<br>depreciation        | <u>(150,542,992)</u>                       | <u>(18,216,610)</u>           | <u>---</u>                    | <u>(168,759,602)</u>                       |
| Net capital assets<br>depreciated       | <u>253,488,199</u>                         | <u>5,706,698</u>              | <u>---</u>                    | <u>259,194,897</u>                         |
| Capital assets not depreciated:         |  |                               |                               |  |
| Land                                    | 54,224,194                                 | ---                           | ---                           | 54,224,194                                 |
| Construction in progress                | <u>34,905,124</u>                          | <u>15,240,567</u>             | <u>(23,673,290)</u>           | <u>26,472,401</u>                          |
| Total capital assets<br>not 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>                       |

Interest capitalized for the years ended September 30, 2005 and 2004, was \$490,907 and \$1,211,400, respectively.

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

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 3. 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 included as a component of capital assets at cost less accumulated depreciation at its appraised value of \$51,210,000 in the accompanying statements of net assets. 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 as a component of restricted net assets in the accompanying financial statements.

### 4. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2005 and 2004, consist of the following:

|   | <u>2005</u>          | <u>2004</u>          |
|---|----------------------|----------------------|
| General revenue bonds, Series 2003 (original issue of \$216,250,000):   |                      |                      |
| Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$6,685,000 due in October 2005, and increasing to \$17,175,000 on October 2023 | \$210,650,000        | \$216,250,000        |
| Less current installments   | <u>6,685,000</u>     | <u>5,600,000</u>     |
|   | 203,965,000          | 210,650,000          |
| Add net unamortized premium on bonds  | 8,261,865            | 9,048,500            |
| Less deferred difference on refunding of 1993 bonds   | <u>( 6,653,513)</u>  | <u>( 7,287,012)</u>  |
|   | <u>\$205,573,352</u> | <u>\$212,411,488</u> |

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 4. 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<br/>September 30,</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total<br/>Debt Service</u> |
|--------------------------------------|----------------------|----------------------|-------------------------------|
| 2006                                 | \$ 6,685,000         | \$ 10,098,000        | \$ 16,783,000                 |
| 2007                                 | 7,640,000            | 9,798,000            | 17,438,000                    |
| 2008                                 | 8,030,000            | 9,422,000            | 17,452,000                    |
| 2009                                 | 7,335,000            | 9,066,000            | 16,401,000                    |
| 2010                                 | 8,235,000            | 8,720,000            | 16,955,000                    |
| 2011 through 2015                    | 47,850,000           | 37,413,000           | 85,263,000                    |
| 2016 through 2020                    | 61,645,000           | 24,685,000           | 86,330,000                    |
| 2021 through 2023                    | <u>63,230,000</u>    | <u>6,773,000</u>     | <u>70,003,000</u>             |
|                                      | <u>\$210,650,000</u> | <u>\$115,975,000</u> | <u>\$326,625,000</u>          |

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

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount will be deferred and amortized over the remaining life of the 1993 bonds. For the years ended September 30, 2005 and 2004, the amortized amounts totaling \$633,499 and \$650,340 are included as a component of other (expense) income in the accompanying statements of revenues, expenses and changes in net assets.

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

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

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 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, 2005 and 2004, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

|   | <u>2005</u>         | <u>2004</u>         |
|---|---------------------|---------------------|
| Cash with trustees                      | \$ 5,347,922        | \$ 400,000          |
| Federal Grant Funds                     | 9,442,138           | 11,848,161          |
| Operations and Maintenance Reserve Fund | 7,401,818           | 7,243,371           |
| Operations and Maintenance Fund         | 3,035,206           | 1,819,251           |
| General Revenue Fund                    | 2,527,047           | 1,946,055           |
| Self-Insurance Fund                     | 1,666,129           | 6,645,607           |
| Capital Improvement Fund                | <u>615,686</u>      | <u>642,486</u>      |
| Total Unrestricted                      | <u>30,035,946</u>   | <u>30,544,931</u>   |
| Cash with trustees                      | 4,718               | 4,718               |
| Bond Reserve Funds                      | 19,800,154          | 18,879,750          |
| Bond Funds                              | 13,322,098          | 12,103,228          |
| Renewal and Replacement Fund            | 3,553,285           | 2,004,306           |
| Cost of Issuance Fund                   | <u>304,855</u>      | <u>298,298</u>      |
| Total Restricted                        | <u>36,985,110</u>   | <u>33,290,300</u>   |
|   | <u>\$67,021,056</u> | <u>\$63,835,231</u> |

The Authority's investments at September 30, 2005 and 2004, are held by the Authority's trustees.

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 5. Investments and Cash with Trustees, continued

Investments are stated at amortized cost including accrued interest. The amortized cost and fair value of investments at September 30, 2005 and 2004 are summarized as follows:

|                              | 2005                |                    |                     | 2004                |               |                     |
|------------------------------|---------------------|--------------------|---------------------|---------------------|---------------|---------------------|
|                              | Amortized           | Gross              | Fair                | Amortized           | Gross         | Fair                |
|                              | Cost                | unrealized         | value               | Cost                | unrealized    | value               |
|                              |                     | losses             |                     |                     | losses        |                     |
| Cash with trustees           | \$ 5,352,640        | \$ ---             | \$ 5,352,640        | \$ 404,718          | \$ ---        | \$ 404,718          |
| Money market/<br>trust funds | 32,612,619          | ---                | 32,612,619          | 29,368,574          | ---           | 29,368,574          |
| Investment<br>agreements     | 18,045,950          | ---                | 18,045,950          | 18,045,950          | ---           | 18,045,950          |
| Short-term<br>investments    | 9,948,016           | (101,124)          | 9,846,892           | 1,425,372           | ---           | 1,425,372           |
| U.S. Treasury<br>notes       | <u>1,170,641</u>    | <u>( 7,686)</u>    | <u>1,162,955</u>    | <u>14,590,617</u>   | <u>---</u>    | <u>14,590,617</u>   |
|                              | <u>\$67,129,866</u> | <u>\$(108,810)</u> | <u>\$67,021,056</u> | <u>\$63,835,231</u> | <u>\$ ---</u> | <u>\$63,835,231</u> |

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, 2005, all investments were classified as Category 3 investments. As of September 30, 2004, the federal grant revenue fund amounting to \$11,848,161 has been classified as a Category 2 investment. All other investments held by the trustees at September 30, 2004, were 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, 2005 and 2004, \$200,000 of deposits are covered by the federal depository insurance, with the remainder being uninsured and uncollateralized.

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 6. Employee's Retirement Plan

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

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 actuarial valuations performed as of September 30, 2004, 2002 and 2001, contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

|  | <u>2005</u>   | <u>2004</u>   | <u>2003</u>   |
|--|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll)                          | 17.83%        | 17.66%        | 16.42%        |
| Unfunded liability costs (% of total payroll)                | <u>21.36%</u> | <u>16.23%</u> | <u>22.94%</u> |
|  | 39.19%        | 33.89%        | 39.36%        |
| Employee contributions (DB Plan employees)                   | <u>9.50%</u>  | <u>9.50%</u>  | <u>9.50%</u>  |
|  | 29.69%        | 24.39%        | 29.86%        |
| Agency specific adjustments                                  | <u>---</u>    | <u>---</u>    | <u>2.16%</u>  |
| Government contribution as a % of DB Plan Payroll            | <u>29.69%</u> | <u>24.39%</u> | <u>32.02%</u> |
| Government required contribution as of %<br>of total payroll | <u>20.81%</u> | <u>20.81%</u> | <u>18.00%</u> |

Statutory contribution rates for employer and employee contributions were 26.00% and 9.5%, respectively, for the year ended September 30, 2005. Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, for the year ended September 30, 2004.

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 6. Employee's Retirement Plan, continued

The Plan utilized the actuarial cost method termed "entry age normal". The actuarial valuation performed as of September 30, 2004 was based on an assumed rate of return of 7% and an assumed salary increase of 3.5% per annum. The actuarial valuation performed as of September 30, 2003 was based on an assumed rate of return of 7.5% and an assumed salary increase of 4.5% per annum. The actuarial valuations performed as of September 30, 2004 and 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2005 and 2004, may be materially different than that recorded in the accompany financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2005 and 2004 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

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

Retirement expense for the years ended September 30, 2005, 2004 and 2003 is as follows:

|   | <u>2005</u>        | <u>2004</u>        | <u>2003</u>        |
|---|--------------------|--------------------|--------------------|
| Cash contributions and accruals                               | \$1,596,847        | \$1,477,930        | \$1,630,462        |
| Increase in accrued unfunded liability to the retirement fund | <u>589,000</u>     | <u>1,212,005</u>   | <u>464,868</u>     |
|   | <u>\$2,185,847</u> | <u>\$2,689,935</u> | <u>\$2,095,330</u> |

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 7. Leases

#### *DFS*

In November 2002, Duty Free Shoppers (“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 thirty million dollars or above 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 thirty million dollars or above 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, 2005 includes \$2,096,500 and \$510,700 of estimated percentage rent income in excess of the minimum guarantee and additional rent on the DFS Lease for the years ended September 30, 2005 and 2004, respectively.

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 for the fiscal year ended September 30, 2004.

The future minimum lease receipts under the remainder of the new Concession Agreement as of September 30, 2005 are as follows:

| Year ending<br><u>September 30,</u>     |                     |
|---|---------------------|
| 2006                                    | \$ 4,500,000        |
| 2007                                    | 4,500,000           |
| 2008                                    | 4,500,000           |
| 2009                                    | 4,500,000           |
| 2010                                    | 4,500,000           |
| 2011-2013                               | <u>10,367,000</u>   |
| Total minimum lease payments receivable | <u>\$32,867,000</u> |



Guam International Airport Authority  
Notes to Financial Statement, continued

**7. Leases, continued**

*DFS, continued*

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, 2005 and 2004, the Authority recorded Construction in Progress balances of \$4,987,002 and \$4,188,050, respectively, for the DFS improvements. Capitalized interest related to these balances was \$188,864 and \$176,241, for the years ended September 30, 2005 and 2004, respectively. As of September 30, 2005, repayments of capital costs totaled \$299,820. 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 2023. Lease 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, 2005, are as follows:

| Year ending<br><u>September 30,</u>     |                     |
|---|---------------------|
| 2006                                    | \$ 3,107,000        |
| 2007                                    | 2,931,000           |
| 2008                                    | 740,000             |
| 2009                                    | 368,000             |
| 2010                                    | 313,000             |
| 2011-2015                               | 1,536,000           |
| 2016-2020                               | 1,536,000           |
| 2021-2023                               | <u>733,000</u>      |
| Total minimum lease payments receivable | <u>\$11,264,000</u> |

Guam International Airport Authority

Notes to Financial Statement, continued

**8. Long Term Liabilities**

A summary of changes in long term liabilities during fiscal year 2005 and 2004, follows:

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

Guam International Airport Authority  
Notes to Financial Statement, continued

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

As of September 30, 2004, the FAA requested that the Authority seek reimbursement of \$564,702 of questioned costs from the Government of Guam. As discussed, in Note 3, 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 the questioned costs.

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

*Commitments*

The Authority has commitments of \$15,092,000 under several construction contracts at September 30, 2005.

Guam International Airport Authority  
Notes to Financial Statement, continued

**9. Commitments and Contingencies, continued**

*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 natural catastrophe. The Authority has also established a self-insurance fund. The balances in the Renewal and Replacement Fund and Self-Insurance Fund are \$3,553,285 and \$1,666,129, respectively, at September 30, 2005 and \$2,004,306 and \$6,645,607, respectively, at September 30, 2004.

*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, 2005.

*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.

**10. Major Customers**

The primary concessionaire accounted for 18% and 13% of total operating revenues during the years ended September 30, 2005 and 2004, respectively. Receivables from the primary concessionaire were \$2,327,217 and \$3,600,308 at September 30, 2005 and 2004, respectively.

Approximately 32% and 37% of the Authority's total revenues for the years ended September 30, 2005 and 2004, respectively, were derived from one airline customer. Receivables from the airline customer were \$1,573,322 and \$2,540,589 at September 30, 2005 and 2004, respectively.

# Guam International Airport Authority

## Notes to Financial Statement, continued

### 11. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2005 and 2004, 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, 2005 and 2004, the Authority recorded customs fees payables to the Treasurer of Guam of \$1,788,951 and \$1,618,835, respectively, for the above charges, of which \$1,501,253 and \$1,418,172 are reflected as customs fees, receivables from the airlines in the accompanying statements of net assets. The fees are not reflected as an expense or revenue by the Authority.

### 12. Non-Recurring Expenses

Non-recurring expenses incurred for the years ended September 30, 2005 and 2004 consist of the following:

|                            | <u>2005</u>      | <u>2004</u>      |
|----------------------------|------------------|------------------|
| Typhoon related expense    | \$ 92,442        | \$415,980        |
| Aircraft emergency         | 90,077           | ---              |
| Earthquake related expense | <u>---</u>       | <u>28,415</u>    |
|                            | <u>\$182,519</u> | <u>\$444,395</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.

## Guam International Airport Authority

### Notes to Financial Statement, continued

#### **13. Typhoon Costs**

On December 8, 2002, a super typhoon struck Guam, causing substantial damage to the Authority's facilities. Estimated repair costs as of September 30, 2005 are \$6,465,631. This amount is an estimate and actual damages may be materially different from this estimate. The typhoon also severely damaged security fences around the Airport facility which will require replacement. The estimated cost to replace and upgrade the security fences is approximately \$12,000,000. Approximately 90% of this replacement cost is expected to be covered by a Federal Aviation Administration grant. At September 30, 2005 and 2004, included as a component of other liabilities in the accompanying statements of net assets are \$1,585,490 and \$2,177,540, respectively, of accrued repair costs related to the super typhoon.

The Authority has recorded estimated losses of \$182,519 and \$415,980 from the super typhoon during the years ended September 30, 2005 and 2004, respectively, which are included as a component of non-recurring expenses in the accompanying statements of revenues, expenses and changes in net assets.

## Other Financial Information

# Guam International Airport Authority

Years ended September 30, 2005 and 2004

## Schedule 1 Facilities and Systems Usage Charges

|                                       | <u>2005</u>          | <u>2004</u>          |
|---------------------------------------|----------------------|----------------------|
| Departure facilities                  | \$ 4,949,095         | \$ 6,311,165         |
| Arrival facilities                    | 4,999,794            | 6,448,166            |
| Landing fees                          | 3,906,841            | 1,244,048            |
| Public apron                          | 2,768,695            | 2,564,552            |
| Passenger loading bridge usage charge | 2,504,969            | 2,568,423            |
| Immigration                           | 1,714,756            | 2,237,672            |
| Fuel flowage fee                      | 216,582              | 223,200              |
| Utility recovery and other fees       | 179,527              | 154,988              |
|                                       | <u>\$ 21,240,259</u> | <u>\$ 21,752,214</u> |

## Schedule 2 Concession Fees

|                       | <u>2005</u>          | <u>2004</u>          |
|-----------------------|----------------------|----------------------|
| General merchandise   | \$ 7,676,807         | \$ 5,438,143         |
| Ground transportation | 2,749,526            | 2,598,266            |
| Car rental            | 793,299              | 683,155              |
| Food and beverage     | 691,349              | 673,229              |
| In-flight catering    | 498,693              | 506,652              |
| Money exchange        | 257,152              | 257,152              |
| Parking lot           | 240,239              | 331,877              |
| Advertising           | 230,913              | 219,996              |
| Other                 | 83,228               | 68,785               |
|                       | <u>\$ 13,221,206</u> | <u>\$ 10,777,255</u> |

## Schedule 3 Rental Income

|                                       | <u>2005</u>         | <u>2004</u>         |
|---------------------------------------|---------------------|---------------------|
| Operating space:                      |                     |                     |
| - Airline                             | \$ 2,449,329        | \$ 2,691,777        |
| - Non-airline                         | 1,981,317           | 2,129,202           |
| Building and maintenance shop rentals | 2,191,385           | 1,969,583           |
| Other                                 | 965,654             | 968,306             |
| Cargo rentals                         | 506,299             | 491,654             |
|                                       | <u>\$ 8,093,984</u> | <u>\$ 8,250,522</u> |



# Guam International Airport Authority

Years ended September 30, 2005 and 2004

## Schedule 4 Contractual Services

|                                  | <u>2005</u>          | <u>2004</u>          |
|----------------------------------|----------------------|----------------------|
| Utilities and telephone          | \$ 4,665,854         | \$ 4,367,146         |
| Repairs and maintenance          | 4,020,387            | 4,215,282            |
| Insurance                        | 1,353,320            | 1,461,266            |
| Professional services            | 784,028              | 845,241              |
| Legal fees                       | 603,573              | 571,264              |
| Advertising and promotions       | 128,363              | 96,728               |
| Travel/Training & Certifications | 164,519              | 77,952               |
| Miscellaneous                    | <u>462,723</u>       | <u>417,820</u>       |
|                                  | <u>\$ 12,182,767</u> | <u>\$ 12,052,699</u> |

## Schedule 5 Personnel Services

|                             | <u>2005</u>          | <u>2004</u>          |
|-----------------------------|----------------------|----------------------|
| Salaries and wages          | \$ 8,555,239         | \$ 8,369,252         |
| Retirement contributions    | 2,185,847            | 2,689,935            |
| Insurance                   | <u>605,614</u>       | <u>602,214</u>       |
|                             | <u>\$ 11,346,700</u> | <u>\$ 11,661,401</u> |
| Employee count in September | <u>\$ 202</u>        | <u>\$ 219</u>        |

## Schedule 6 Materials and Supplies

|  | <u>2005</u>       | <u>2004</u>       |
|--|-------------------|-------------------|
| Equipment and vehicle maintenance and supplies | \$ 348,818        | \$ 265,951        |
| Office and security supplied                   | 149,926           | 132,656           |
| Electrical and plumbing                        | 125,671           | 110,922           |
| Building maintenance and supplies              | 61,884            | 82,020            |
| Miscellaneous                                  | <u>62,247</u>     | <u>41,354</u>     |
|  | <u>\$ 748,546</u> | <u>\$ 632,903</u> |

# Guam International Airport Authority

Year ended September 30, 2005

## Schedule 7 Insurance Coverage

| <u>Name of Insurer</u>        | <u>Policy</u>   | <u>Risk Coverage</u> |
|-------------------------------|---|----------------------|
| Lloyds of London              | Airport Operations Liability  | \$ 500,000,000       |
| Lloyds of London              | Property Insurance  | \$ 200,000,000       |
| American Home Assurance Co.   | Directors & Officers Liability<br>(Sublimit of \$1,000,000 for<br>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   | \$ 1,000,000         |

# Guam International Airport Authority

## Schedule 8

### Reconciliation of Historical Financial Results Years ended September 30, 2005 and 2004

|  | <u>2005</u>           | <u>2004</u>           |
|--|-----------------------|-----------------------|
| Change in net assets:                            |                       |                       |
| Revenues   | \$ 51,132,885         | \$ 48,403,767         |
| Expenses   | ( <u>24,834,252</u> ) | ( <u>24,501,854</u> ) |
| Income before depreciation                       | 26,298,633            | 23,901,913            |
| Depreciation                                     | ( <u>19,682,098</u> ) | ( <u>19,246,422</u> ) |
|  | 6,616,535             | 4,655,491             |
| Interest and other expense                       | ( 10,205,344 )        | ( <u>9,559,210</u> )  |
| Grants from the United States Government         | 16,864,891            | 7,220,046             |
| Transfer from the Government of Guam             | <u>2,530,000</u>      | <u>---</u>            |
| Increase in net assets                           | <u>\$ 15,806,082</u>  | <u>\$ 2,316,327</u>   |
| Net Revenues (per Bond Resolution):              |                       |                       |
| Revenues   | \$ 50,795,189         | \$ 48,157,171         |
| Operation and maintenance expenses               | ( <u>24,245,252</u> ) | ( <u>23,289,849</u> ) |
| Net Revenues available for debt service          | <u>26,549,937</u>     | <u>24,867,322</u>     |
| Reconciliation:                                  |                       |                       |
| Change in net assets                             | \$ 15,806,082         | \$ 2,316,327          |
| Add back:  |                       |                       |
| Depreciation                                     | 19,682,098            | 19,246,422            |
| Interest expense                                 | 9,717,112             | 9,119,614             |
| Change in unfunded retirement liability          | 589,000               | 1,212,005             |
| Miscellaneous                                    | 305,713               | ( <u>4,799</u> )      |
| Typhoon and earthquake expenses                  | 182,519               | 444,395               |
| Deduct:  |                       |                       |
| Capital grant from the United States Government  | ( <u>16,864,891</u> ) | ( <u>6,539,904</u> )  |
| Transfer from the Government of Guam             | ( <u>2,530,000</u> )  | <u>---</u>            |
| Interest income on funds related to construction | ( <u>337,696</u> )    | ( <u>246,596</u> )    |
| FEMA grant                                       | <u>---</u>            | ( <u>680,142</u> )    |
|  | <u>26,549,937</u>     | <u>24,867,322</u>     |
| Other available moneys                           | <u>4,223,255</u>      | <u>3,982,754</u>      |
| Funds available for debt service                 | <u>\$ 30,773,192</u>  | <u>\$ 28,850,076</u>  |
| Debt Service                                     | <u>\$ 16,893,019</u>  | <u>\$ 15,931,014</u>  |