



OFFICE OF PUBLIC ACCOUNTABILITY  
Doris Flores Brooks, CPA, CGFM  
Public Auditor

32-14-1326  
Office of the Speaker  
Judith T. Won Pat, Ed. D.  
Date 2-19-14  
Time 4:33 PM  
Received by [Signature]

2014 FEB 19 PM 4:37

February 13, 2014

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
I Mina'Trentai Dos Na Liheslaturan Guåhan  
155 Hesler Place  
Hagatna, Guam 96910

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Guam International Airport Authority's (GIAA) Fiscal Year (FY) 2013 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the reports in their entirety at [www.guamopa.org](http://www.guamopa.org).

*Senseramente,*

*R. Maguando*  
for Doris Flores Brooks, CPA, CGFM  
Public Auditor

RECEIPT ACKNOWLEDGED:

By: Joe S.A.

Date: 2-14-14

1326

*Management Letter*

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

*For the year ended September 30, 2013*





Building a better  
working world

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January 30, 2014

The Board of Directors  
Antonio B. Won Pat International Airport  
Authority, Guam

In planning and performing our audit of the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control, as described above, and other matters:

### Post-closing Journal Entries

#### Condition:

We noted for fiscal year 2013, the Authority provided 24 post-closing journal entries. Numerous post-closing entries indicate that the Authority did not complete its financial statement close process in a timely basis.

#### Recommendation:

The Authority should continue its efforts to ensure that its accounting records, including all schedules used to support the trial balance are complete, accurate and prepared on a timely basis.

### Customs Fees

Condition:

Under Public Law (PL) 23-45, the Authority assesses and collects from air carriers, fees for customs and agricultural inspection services rendered at the terminal. The air carriers are required to remit these fees to the Authority within 30 days from collection; otherwise a 10% interest should be levied to the air carrier. The Authority is required to remit all collections, within five days of receipt, to the Treasurer of Guam (TOG) for deposit to the Customs, Agriculture and Quarantine Services Fund.

We noted the following air carriers missed the 30-day deadline to remit customs fees to the Authority. However, no interest was charged to these air carriers.

Air Carrier	Amount	Invoice Date	Receipt Date	No. of Days
6404	\$ 12,523	10/17/12	11/27/12	41
	15,073	11/26/12	12/31/12	35
	17,172	04/12/13	05/31/13	49
	18,037	05/10/13	07/08/13	59
6580	18,489	01/22/13	02/25/13	34
	18,349	06/13/13	07/08/13	25
6005	103,725	06/13/13	07/22/13	39

We also noted the following delays in remittances of fees to TOG:

Month	Air Carrier	Amount	Receipt Date	Remittance Date	No. of Days
Nov-2012	6984	\$ 26,190	10/26/12	11/01/12	6
Dec-2012	6404	12,523	11/27/12	12/12/12	15
	6002	39,839	11/27/12	12/12/12	15
	6984	30,725	11/28/12	12/12/12	14
	6367	81,376	12/03/12	12/12/12	9
Feb-2013	6002	39,725	01/03/13	02/05/13	6
Mar-2013	6580	18,489	02/25/13	03/06/13	9
	6002	40,354	02/25/13	03/06/13	9
	6141	10,837	02/27/13	03/06/13	7
	6367	130,246	02/27/13	03/06/13	7
May-2013	6001	354,055	04/25/13	05/01/13	6
Jun-2013	6404	17,172	05/31/13	06/07/13	7
Jul-2013	6984	30,394	07/01/13	07/24/13	23
	6248	19,869	07/01/13	07/24/13	23
	6002	35,641	07/01/13	07/24/13	23
	6367	83,456	07/01/13	07/24/13	23
	6580	18,349	07/08/13	07/24/13	16
	6404	18,037	07/08/13	07/24/13	16
Aug-2013	6001	294,392	07/25/13	08/01/13	7
	6002	38,465	07/25/13	08/01/13	7
Sep-2013	6005	146,662	08/26/13	09/03/13	8
	6141	21,351	08/28/13	09/03/13	6
	6984	33,085	08/28/13	09/03/13	6

### Customs Fees, continued

Recommendation:

The Authority should continue its efforts to reduce or eliminate delays and remit collections from the air carriers to the TOG within five (5) days of receipt, in accordance with the requirements of PL 23-45. We recommend that the Authority and the Director of the Customs & Quarantine Agency make a determination as to who will levy the 10% interest on air carriers that do not remit the fees within the 30-day prescribed period.

**Reiteration of previous year's comments and recommendations:**

### Work-In-Progress Close Outs

Condition:

The Authority continues to have issues in updating its schedule of work-in-progress for on-going construction projects. As a result, certain completed projects are not timely reclassified out of the work-in-progress general ledger account into a placed in service capital asset category. We noted a post-closing journal entry to transfer approximately \$894,000 in completed projects from the work-in-progress account to capitalized assets. The related depreciation for these projects totaled approximately \$91,000.

Capitalization of fixed assets that are placed in service should be recorded on a timely basis. This would allow for the timely commencement of depreciation and its recognition in the proper accounting period.

Recommendation:

We recommend that the Authority maintain a work-in-progress control log that would be used to track the various projects and their status. Additionally, the accounting department should consider reviewing the percentage of completion of projects, as noted in the invoices received from contractors and inquire with the engineering department to ensure all completed projects are accounted for. Review of completed projects should, at the least, be done semi-annually.

### Maintenance of Annual Leave Schedule and Supporting Documents

Condition:

We noted the Authority continues to have delays in the preparation of annual leave worksheets and the availability of related documents. We understand that the preparation of the annual leave worksheets is only performed at the end of the year.

Maintenance of Annual Leave Schedule  
and Supporting Documents, continued

Recommendation:

To ensure timely verification of accrued annual leave and accuracy of information, we recommend the Authority perform regular updates on its annual leave worksheets, at least on a semi-annual basis. To protect the integrity of the annual leave schedule worksheets, the Authority should consider checking the formulas used and locking the Excel file so that only certain data can be entered. This would also help the Authority minimize workload at the end of the year and would facilitate early detection of potential errors.

Documented Procedures for the  
Processing of Federal Awards

Condition:

The Authority has several documents describing the operating procedures on recordkeeping over federal awards. However, we observed that these various documents are not collated into a binder(s) that comprise the Authority's standard procedures and policies.

A handbook describing standard operating procedures on recordkeeping over federal awards should be created. This should include a system to alert staff of when the financial and federal reports are due.

Recommendation:

We understand that the Authority has begun a project to compile all documents over recordkeeping of federal awards and collate them into an easily accessible binder. We encourage the Authority to prioritize completion of this project.

\*\*\*\*\*

This communication is intended solely for the information and use of management and the Board of Directors of the Authority, others within the organization, and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We have separately reported in our letter dated January 30, 2014 addressed to the Authority's Board of Directors certain information technology issues that we consider to be deficiencies.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Ernst + Young LLP*







## Guam International Airport Authority FY 2013 Financial Highlights

January 31, 2014

The Guam A.B. Won Pat International Airport Authority (Airport) closed fiscal year (FY) 2013 with passenger enplanements of nearly 1.7 million (M), a record high in comparison to the past 12 years. The Airport experienced an increase in net position (net income) of \$15.1M in FY 2013 compared to a decrease of \$395,000 (K) in FY 2012. The Airport continued to maintain sufficient debt service coverage of 2.06 versus the 1.25 debt service requirement of the former 2003 and new 2013 bond covenants.

Independent auditors Ernst & Young, LLP gave the Airport an unqualified (clean) opinion for its FY 2013 financial statements and compliance over major federal programs. The Airport is commended as no findings pertaining to federal funds were identified in FY 2013.

### **Revenues Increased**

The Airport's operating revenues increased by \$7.3M, going from \$52.5M in FY 2012 to \$59.8M in FY 2013. Facilities and systems usage charges increased by \$2.5M or 10% to \$27.1M, miscellaneous revenues increased by \$2.3M or 201% to \$3.5M, and concession fees increased by \$2.1M or 13% to \$18M. The facilities and systems usage charges increase were mainly due to the increase in rates and enplanements. The increase in miscellaneous revenues was attributed to liquidated damages from the prior concessionaire for its continued occupancy of rental space after the expiration of the contract. An additional \$651K for power recovery has yet to be collected. Concession fees increased due to the increase in minimum annual guarantee from the new concessionaire, Lotte Duty Free Guam, LLC (Lotte).

Non-operating revenues increased by \$12.9M or 92% from \$14.1M in FY 2012 to \$27M in FY 2013. This was due to capital and operating grants increasing by \$10.7M or 157% to \$17.4M. These federal monies are planned to be used for airfield and aviation infrastructure improvements, environmental assessments, and base conversion projects.

### **Expenses Increased**

Operating expenses increased by \$3.3M, from \$35.2M in FY 2012 to \$38.4M in FY 2013. Of the operating costs, personnel services experienced an increase of \$3.5M or 25% to \$17.5M due to the implementation of the second phase of the Airport's employee compensation program as well as monies set aside to pay out merit bonuses of \$1.5M and pay increases for uniformed personnel relative to Public Law 29-105 of \$680K. Legal fees expended were \$1.6M.

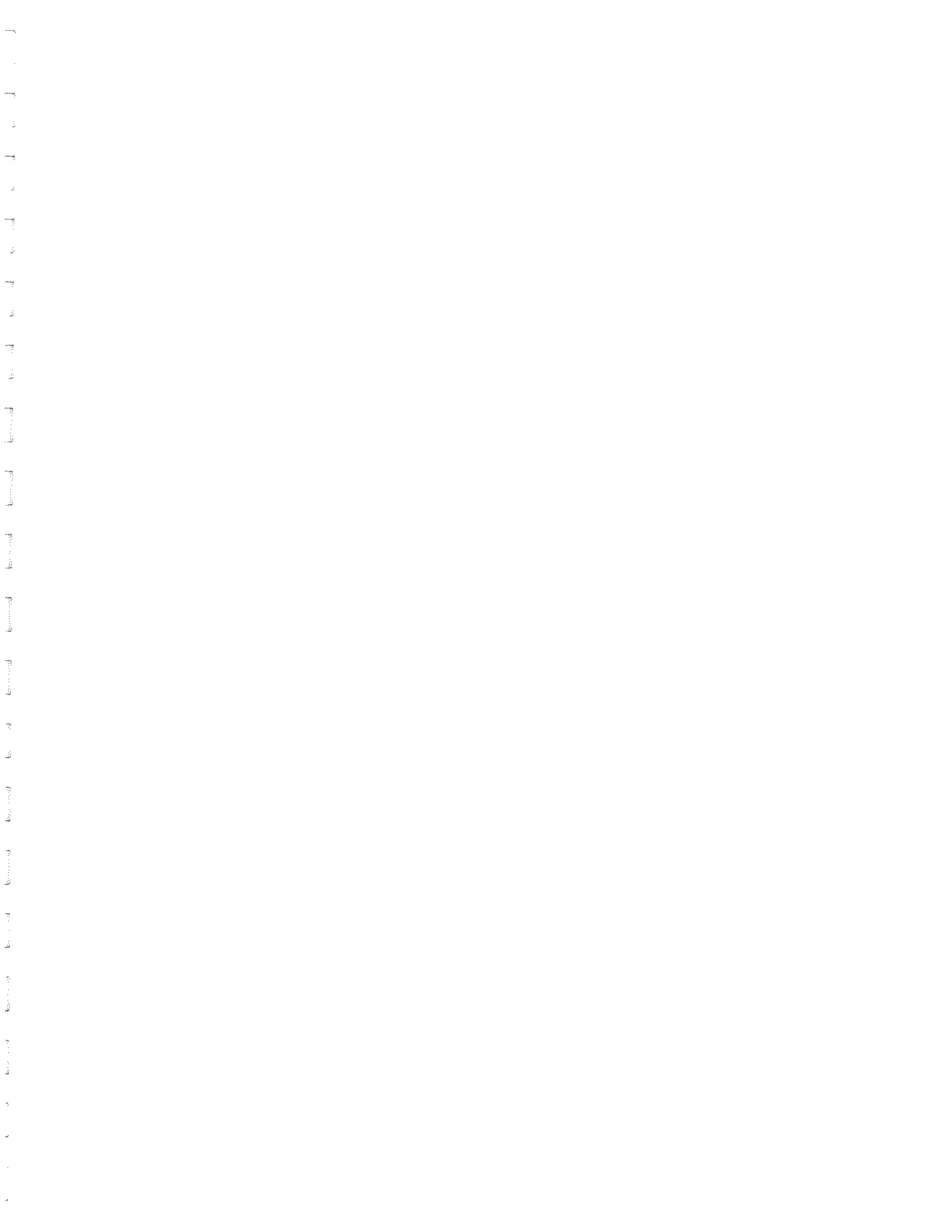
### **Series 2013 Airport Bonds**

In September 2013, the Airport issued 2013 Bonds totaling \$247.3M. These bonds were obtained to refund the outstanding 2003 Bonds and finance improvements in Airport. The Airport will have approximately \$110M of the bond proceeds for capital improvement projects to construct a new international arrivals corridor leading from the loading bridges to the federal inspection area, a new Aircraft Rescue and Fire Fighting facility, and provision of a new cargo

*Financial Statements and  
Supplementary Information*

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

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



Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and  
Supplementary Information

Years ended September 30, 2013 and 2012

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## Report of Independent Auditors

### **The Board of Directors**

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

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

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

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

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

### ***Required Supplementary Information***

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

### ***Supplementary and Other Information***

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

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

*Supplementary and Other Information, continued*

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

**Other Reporting Required by *Government Auditing Standards***

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

*Ernst + Young LLP*

January 30, 2014

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis

Year ended September 30, 2013

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

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

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

### **A. Mission Statement**

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

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

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



# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

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

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

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

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

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

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

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

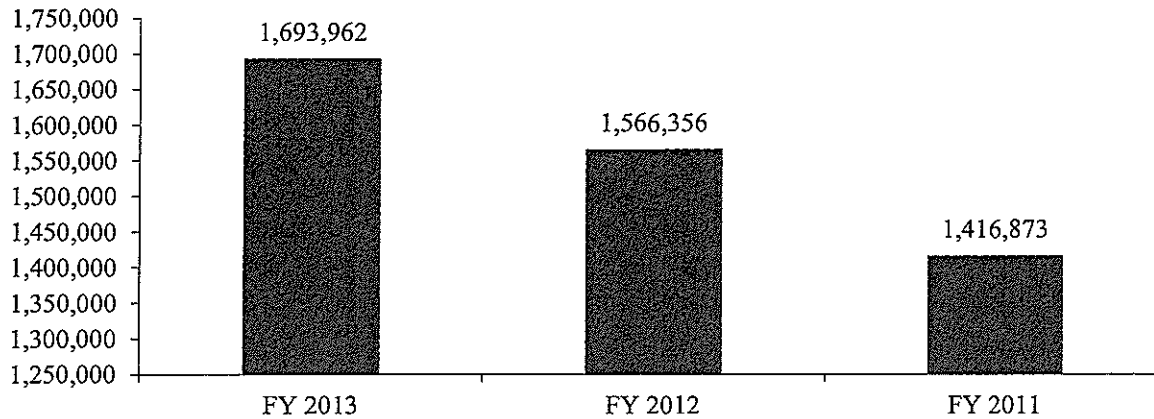
Activities for the Authority for the years ended September 30, 2013, 2012, and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	2013 % Increase (Decrease) from 2012
Major revenue sources:				
Landing fees	\$ 2,963,427	\$ 3,042,109	\$ 2,567,747	-2.6%
Terminal	11,252,173	10,861,087	10,618,530	3.6%
Concessions and parking	<u>18,022,564</u>	<u>15,899,179</u>	<u>14,762,957</u>	13.4%
Total	<u>\$32,238,164</u>	<u>\$29,802,375</u>	<u>\$27,949,234</u>	8.2%
Passenger (enplanements) activity:				
Signatory airlines	1,693,962	1,566,356	1,416,873	8.1%
Other airlines	<u>4,024</u>	<u>8,135</u>	<u>22,551</u>	-50.5%
Total enplanements	<u>1,697,986</u>	<u>1,574,491</u>	<u>1,439,424</u>	7.8%
Aircraft operations	<u>52,725</u>	<u>48,750</u>	<u>46,030</u>	8.2%
Aircraft landed weights (000)	<u>3,258,721</u>	<u>3,296,664</u>	<u>2,787,086</u>	-1.2%
O & D passengers	2,984,067	2,819,665	2,548,446	5.8%
Transfer passengers	<u>199,567</u>	<u>167,328</u>	<u>175,181</u>	19.3%
Total passengers	<u>3,183,634</u>	<u>2,986,993</u>	<u>2,723,627</u>	6.6%

Management's Discussion and Analysis, continued

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

**Signatory Enplanements**



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

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

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

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

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

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

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

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

#### ***Operational Revenues***

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

#### ***Non-Operating Revenues***

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

#### ***Operational Expenses***

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

#### **Review of Notable Events in FY 2013**

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

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

**Review of Notable Events in FY 2013, continued**

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

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

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

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

# Antonio B. Won Pat International Airport Authority, Guam

## Management's Discussion and Analysis, continued

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

#### **Review of Notable Events in FY 2013, continued**

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

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

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

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

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

#### **Airline Signatory Rates and Charges**

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

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

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

**Financial Position Summary**

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

**Revenues**

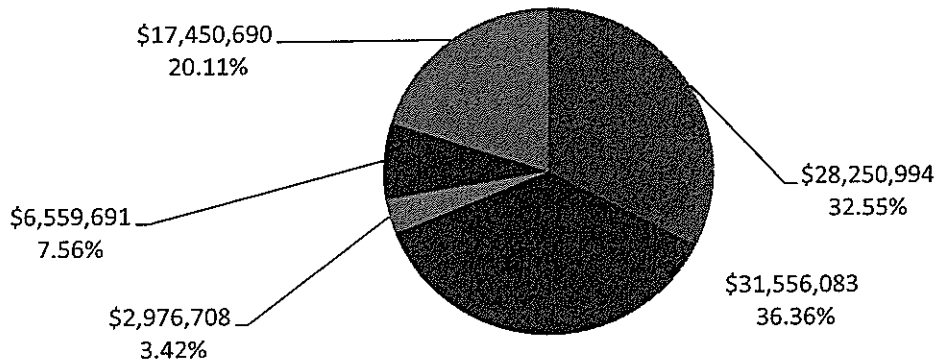
A summary of revenues for the years ended September 30, 2013, 2012 and 2011 and the amount and percentage of change in relation to prior year is as follows:

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



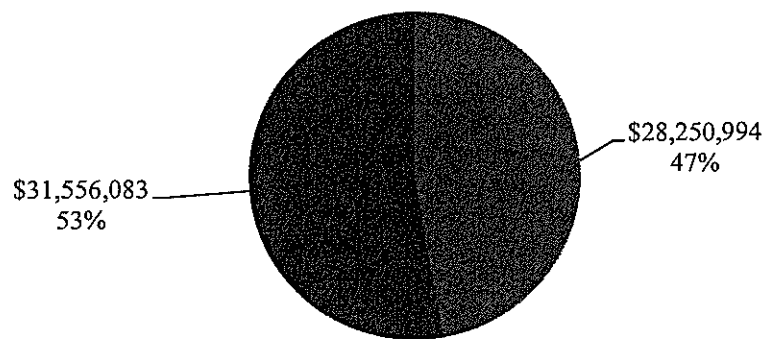
**D. Financial Operation Highlights, continued**

**Total Revenues Fiscal Year 2013**



■ AERO ■ NON-AERO ■ INTEREST INCOME ■ PASSENGER FACILITY CHARGE ■ FEDERAL GRANTS

**Total Operating Revenues Fiscal Year 2013**



■ AERONAUTICAL ■ NON-AERONAUTICAL

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

*Revenues, continued*

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

Expenses

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

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

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

**E. Cost Per Enplaned Passenger & Debt Service Coverage**

**Cost Per Enplaned Passenger**

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

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

**Debt Service Coverage**

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

	<u>2013</u>	<u>2012</u> <u>As Restated</u>	<u>2011</u> <u>As Restated</u>	<u>2013 %</u> <u>Increase</u> <u>(Decrease)</u> <u>from 2012</u>
Airport Revenues	\$70,187,620	\$60,046,434	\$56,333,346	16.9%
Less: Operation and Maintenance Expenses	<u>(38,850,830)</u>	<u>(35,701,522)</u>	<u>(34,335,336)</u>	8.8%
Net Revenues	\$31,336,790	24,344,912	21,998,010	28.7%
Plus: Other Available Monies	<u>4,328,486</u>	<u>4,317,380</u>	<u>4,304,480</u>	0.3%
Net Revenues and Other Available Monies	<b><u>\$35,665,276</u></b>	<b><u>\$28,662,292</u></b>	<b><u>\$26,302,490</u></b>	24.4%

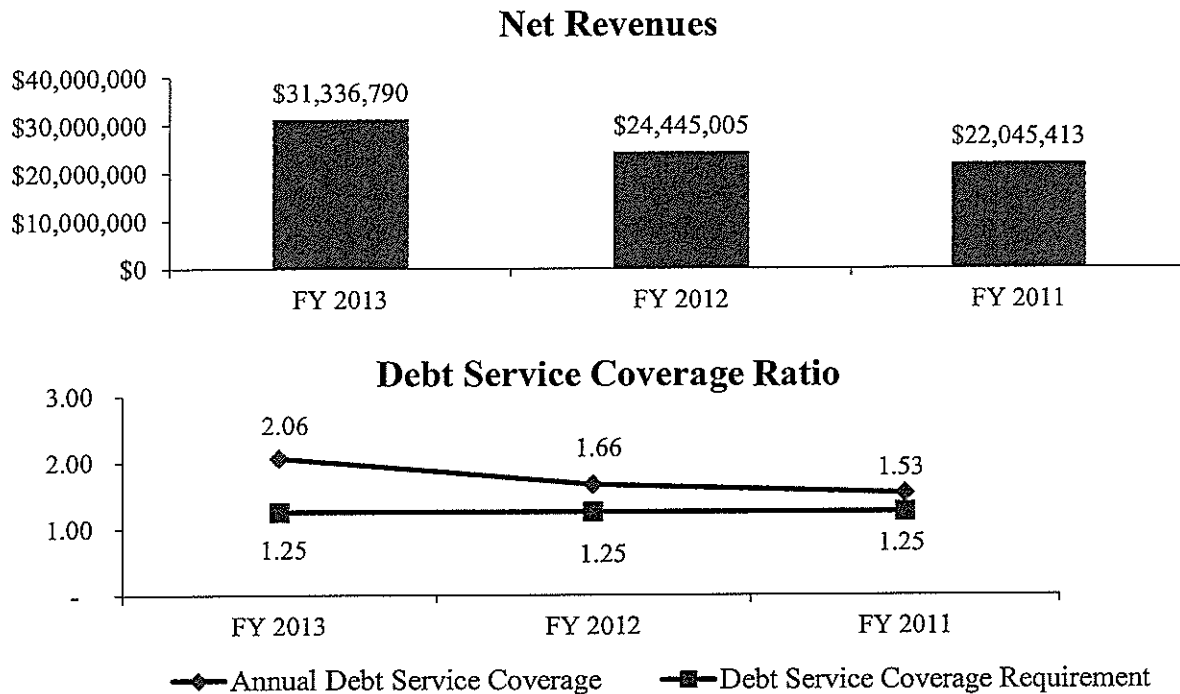
**Rate Covenant**

Net Revenues and Other Available Monies	\$ 35,665,276	\$ 28,662,292	\$26,302,490	24.4%
Total Annual Debt Service	\$ 17,313,944	\$ 17,269,519	\$17,217,919	0.3%
Annual Debt Service Coverage	2.06	1.66	1.53	24.1%
Debt service coverage requirement	1.25	1.25	1.25	

Management's Discussion and Analysis, continued

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

**Debt Service Coverage, continued**



**F. Outlook for FY 2014**

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

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

Management's Discussion and Analysis, continued

**F. Outlook for FY 2014, continued**

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

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

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Position

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

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Position, continued

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

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Revenues, Expenses and Changes in Net Position

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

See accompanying notes.



Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

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

**Non-cash investing and financing activities:**

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

*See accompanying notes.*

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

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

See accompanying notes.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements

Years ended September 30, 2013 and 2012

### 1. Organization and Summary of Accounting Policies

#### Organization

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

#### Basis of Accounting

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

#### Net Position

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

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

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

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **1. Organization and Summary of Accounting Policies, continued**

#### **Net Position, continued**

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

#### **Cash**

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

#### **Accounts Receivable**

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

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

#### **Inventory**

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

#### **Investments**

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

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### 1. Organization and Summary of Accounting Policies, continued

#### Capital Assets and Depreciation and Amortization

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

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

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

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

#### Capitalization of Interest

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

#### Avigation Easements

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**1. Organization and Summary of Accounting Policies, continued**

**Impairment of Long-lived Assets**

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

**Compensated Absences**

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

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

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

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

**Bond Premium and Discount**

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

Notes to Financial Statements, continued

**1. Organization and Summary of Accounting Policies, continued**

**Operating and Non-Operating Revenues and Expenses**

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

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

**Passenger Facility Charges**

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

**Environmental Costs**

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

**Estimates**

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

**Risk Management**

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**1. Organization and Summary of Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements**

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

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

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

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



# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### 1. Organization and Summary of Accounting Policies, continued

#### Upcoming Accounting Pronouncement

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

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

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

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

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

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to Financial Statements, continued

### **1. Organization and Summary of Accounting Policies, continued**

#### **Upcoming Accounting Pronouncements, continued**

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

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

### **2. Subsequent Events**

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

### **3. Concentrations of Credit Risk and Major Customers**

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**4. Airport Facilities**

A summary of changes in capital assets for the year ended September 30, 2013 is as follows:

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**4. Airport Facilities, continued**

A summary of changes in capital assets for the year ended September 30, 2012 is as follows:

	Beginning Balance October 1, 2011	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2012
<b>Capital assets depreciated:</b>				
Terminal building	\$341,133,294	\$ 42,288	\$ 1,168,833	\$342,344,415
Other buildings	84,814,026	93,445	206,319	85,113,790
Airfield area	81,786,724	19,300	440,443	82,246,467
Apron area	40,983,694	---	---	40,983,694
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>8,676,487</u>	<u>35,701</u>	<u>---</u>	<u>8,712,188</u>
Total capital assets depreciated	582,142,933	190,734	1,815,595	584,149,262
Less accumulated depreciation	<u>(307,231,657)</u>	<u>(23,183,657)</u>	<u>---</u>	<u>(330,415,314)</u>
Net capital assets depreciated	<u>274,911,276</u>	<u>(22,992,923)</u>	<u>1,815,595</u>	<u>253,733,948</u>
<b>Capital assets not depreciated:</b>				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	<u>73,008,844</u>	<u>16,575,083</u>	<u>(1,815,595)</u>	<u>87,768,332</u>
Total capital assets not depreciated	<u>130,470,217</u>	<u>16,575,083</u>	<u>(1,815,595)</u>	<u>145,229,705</u>
	<u>\$405,381,493</u>	<u>\$(6,417,840)</u>	<u>\$---</u>	<u>\$398,963,653</u>

On September 30, 2005, the Authority entered into a quitclaim deed with the Government of Guam, wherein the Government of Guam transferred a parcel of land with an appraised value of \$2,530,000 to the Authority. As more fully discussed in Note 11, the deed was entered into in response to a request by the Federal Aviation Administration (FAA) that the Authority seek reimbursement of \$564,702 in unresolved federal program questioned costs as of September 30, 2004. The \$2,530,000 is included as a component of capital assets in the accompanying statements of net position. Due to numerous uncertainties surrounding the Tiyan properties, the Authority has noted that it may elect to utilize the excess contribution from the land transfer to offset any subsequent obligations by the Government of Guam if so determined by the federal government.

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**4. Airport Facilities, continued**

In September 2000, the United States Navy (Navy) transferred approximately 1,417 acres of property surrounding the Airport facilities to the Authority and the Government of Guam at no cost. This land is recorded at its appraised value of \$51,210,000 (at September 2000) and is included as a component of capital assets in the accompanying statements of net position. In fiscal year 2001, the Navy paid the Authority \$10,000,000 (see Note 11) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

**5. Long-Term Revenue Bonds Payable**

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**5. Long-Term Revenue Bonds Payable, continued**

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

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

*General Revenue Bonds, Series 2013*

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

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

The 2013 Bonds were obtained for the following:

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**5. Long-Term Revenue Bonds Payable, continued**

*General Revenue Bonds, Series 2013, continued*

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

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

*General Revenue Bonds, Series 2003*

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**6. Long-Term Loan Payable to Bank**

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

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

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

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



Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**6. Long-Term Loan Payable to Bank, continued**

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

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

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

<u>Year ending September 30</u>	
2014	\$ 2,263,500
2015	3,450,000
2016	3,582,000
2017	<u>1,632,728</u>
	<u>\$10,928,228</u>

**7. Investments and Cash with Trustees**

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**7. Investments and Cash with Trustees, continued**

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

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

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

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

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

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

Notes to Financial Statements, continued

**7. Investments and Cash with Trustees, continued**

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**7. Investments and Cash with Trustees, continued**

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**7. Investments and Cash with Trustees, continued**

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**8. Employee Benefits and Other**

*Employee Retirement Plan*

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

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

*DB Plan*

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**8. Employee Benefits and Other, continued**

*DCRS*

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

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

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

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

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

*Unfunded Retirement Fund*

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

*Accrued Sick Leave*

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**8. Employee Benefits and Other, continued**

*Other Post-Employment Benefits*

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

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

**9. Leases**

*DFS*

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

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

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

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

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



Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**9. Leases, continued**

*DFS, continued*

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

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

*Lotte Duty Free Guam, LLC (Lotte)*

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

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

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

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

*DFS Protest*

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**9. Leases, continued**

*Lotte Duty Free Guam, LLC (Lotte), continued*

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

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

*Pac Air Properties, LLC*

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**9. Leases, continued**

*Pac Air Properties, LLC, continued*

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

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**9. Leases, continued**

*Other Leases*

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

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

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

**10. Long-Term Liabilities**

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**10. Long-Term Liabilities, continued**

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

**11. Commitments and Contingencies**

*Environmental Response Actions*

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**11. Commitments and Contingencies, continued**

*Environmental Response Actions, continued*

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

*Federal Program Costs*

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

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

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

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

*Commitments*

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**11. Commitments and Contingencies, continued**

*Insurance*

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

*Government of Guam General Fund*

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

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

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

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

Notes to Financial Statements, continued

**11. Commitments and Contingencies, continued**

*Government of Guam General Fund, continued*

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

*Water System Infrastructure Upgrade*

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

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

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

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

*Litigation*

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



Notes to Financial Statements, continued

**11. Commitments and Contingencies, continued**

*Other*

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

*Exchange License Agreement*

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

**12. Customs, Agriculture and Quarantine Inspection Services Charge**

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

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

**13. Prior Period Adjustment**

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

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

## Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 1  
Facilities and Systems Usage Charges

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

Schedule 2  
Concession Fees

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

Schedule 3  
Rental Income

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 4  
Contractual Services

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

Schedule 5  
Personnel Services

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

Schedule 6  
Materials and Supplies

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

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2013

Schedule 7  
Insurance Coverage

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013 and 2012

Schedule 8

Reconciliation of Historical Financial Results

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

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



Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2013

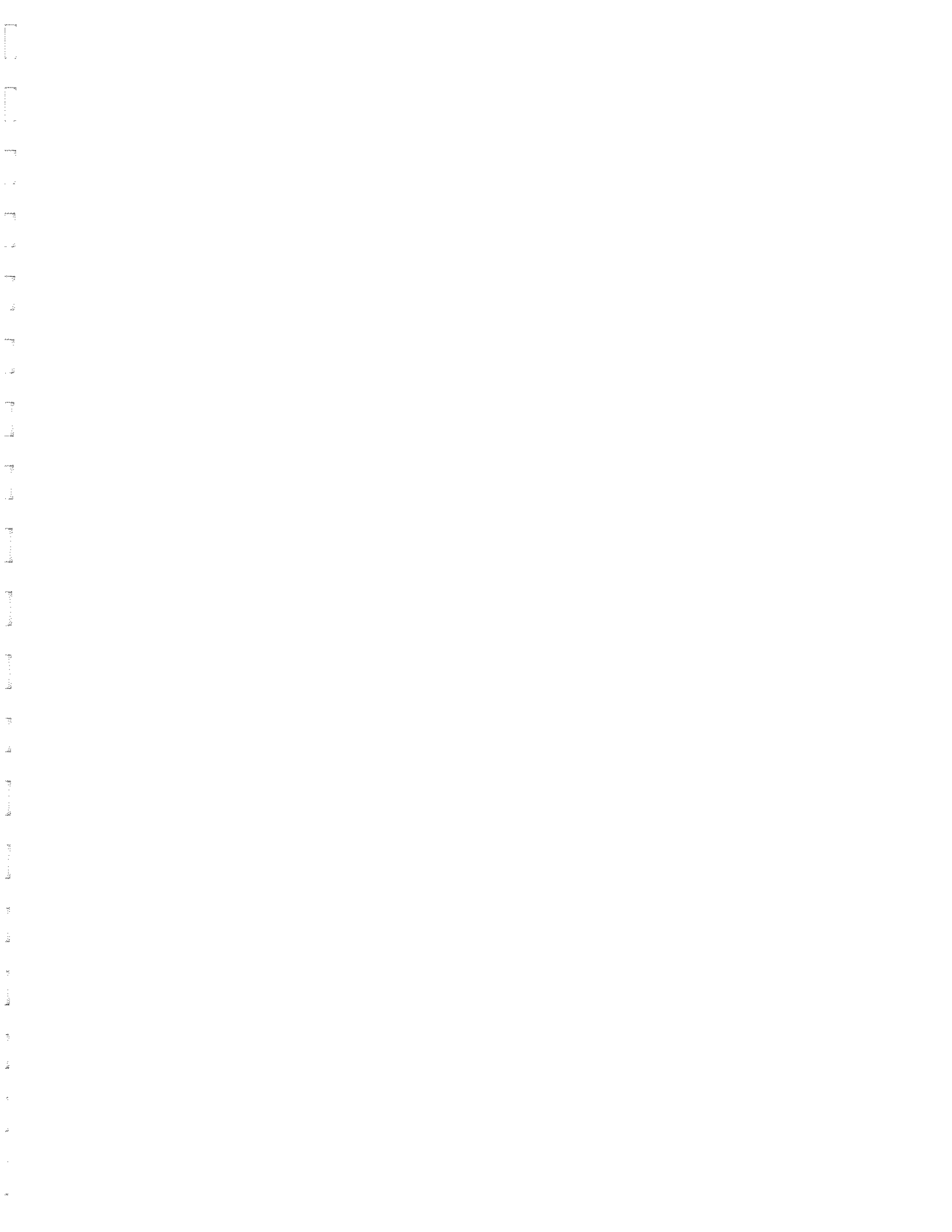
Schedule 9  
Employee Data

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

Note(s):

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

Executive management	2
Administrative support	11
Personnel	3
Marketing	3
Procurement	7
Management information system	4
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*Compliance and Internal Control*

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

*Year ended September 30, 2013*



Antonio B. Won Pat International Airport Authority, Guam

Reports on Compliance and Internal Control

Year ended September 30, 2013

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Building a better  
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## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors  
Antonio B. Won Pat International Airport Authority, Guam

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors and Management of the Authority, the Office of Public Accountability of Guam, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

*Ernst + Young LLP*

January 30, 2014



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## Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Management and the Board of Directors  
Antonio B. Won Pat International Airport Authority, Guam

### **Report on Compliance for Each Major Federal Program**

We have audited the Antonio B. Won Pat International Airport Authority, Guam's (the Authority) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.



## Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

## Report on Internal Control Over Compliance

The Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended September 30, 2013, and have issued our report thereon dated January 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Board of Directors and Management of the Authority, others within the entity, the Office of Public Accountability of Guam, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

*Ernst + Young LLP*

January 30, 2014

# Antonio B. Won Pat International Airport Authority, Guam

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 09/30/12	Cash Receipts FY 2013	Allowable Expenditures FY 2013	Receivable from Grantor at 9/30/13	Total Receipts as of 09/30/13	Grant Balance
<b>U.S. Department of Transportation</b>									
Direct Programs:									
Airport Improvement Program:									
Improve Airport Utility Infrastructure (Water System) - Phase 5	20.106	3-66-0001-58	\$ 7,555,815	\$ 113,009	\$ 548,935	\$ 435,926	\$ -	\$ 7,555,815	\$ -
Improve Airport Utility Infrastructure (Electrical System) - Phase 1	20.106	3-66-0001-65	7,000,000	355,809	6,699,362	6,346,920	3,367	6,907,702	92,298
Conduct Airport Master Plan Study Update Noise Mitigation Measures for Residences w/in 65-69 DNL - Phase 5	20.106	3-66-0001-66	700,000	30,082	90,028	111,523	51,577	648,422	51,578
Rehabilitate Runway 6L/24R - Phase 1 (Design Only)	20.106	3-66-0001-69	2,000,000	-	475,305	856,158	380,853	1,353,346	646,654
Install Instrument Landing System (ILS) Runway 6L - Phase 1	20.106	3-66-0001-73	1,500,000	1,329	192,923	191,813	219	1,380,895	119,105
Noise Mitigation Measures for Residences w/in 65-69 DNL - Phase 6	20.106	3-66-0001-74	2,172,362	344,366	1,371,887	1,027,521	-	2,172,362	-
Improve Airport Utility Infrastructure (Sewer & Storm Water Drainage) - Phase 1	20.106	3-66-0001-75	2,000,000	1	54,647	67,704	13,058	115,964	1,884,036
Collect Airport Data for the Airports Geographic Information System (AGIS)	20.106	3-66-0001-76	1,550,000	1,693	389,901	513,165	124,957	393,133	1,156,867
Install Instrument Landing System (ILS) Runway 6L - Phase 2	20.106	3-66-0001-77	675,000	55,404	270,694	215,290	-	675,000	-
Conduct Environmental Assessment for Sewer and Stormwater Drainage	20.106	3-66-0001-78	4,827,638	381,923	2,559,438	3,057,135	879,620	3,945,018	882,620
Misc. Airport Improvements - Phase 3 (Demolish Former Naval Housing Units)	20.106	3-66-0001-79	700,000	9,542	100,907	98,096	6,731	277,816	422,184
Misc. Airport Improvements - Phase 4 (Demolish Former Naval Housing Units)	20.106	3-66-0001-81	2,304,801	54,251	80,486	26,235	-	82,672	2,222,129
Extend Runway 6L/24R - Phase 10	20.106	3-66-0001-82	1,400,000	51,447	76,371	27,528	2,604	77,391	1,322,609
Rehabilitate Runway 6L/24R - Phase 2	20.106	3-66-0001-83	2,000,000	2,000,000	2,000,000	-	-	2,000,000	-
	20.106	3-66-0001-84	5,441,024	-	968,023	1,109,095	141,072	968,023	4,473,001
			41,826,640	3,398,856	15,878,907	14,084,109	1,604,058	28,553,559	13,273,081
Total U.S. Department of Transportation Programs, carried forward									

# Antonio B. Won Pat International Airport Authority, Guam

## Schedule of Expenditures of Federal Awards, continued

Year ended September 30, 2013

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 09/30/12	Cash Receipts FY 2013	Allowable Expenditures FY 2013	Receivable from Grantor at 9/30/13	Total Receipts as of 09/30/13	Grant Balance
<b>Total U.S. Department of Transportation Programs, brought forward</b>									
Extend Runway 6L/241 - Phase 10	20.106	3-66-0001-85	41,826,640	3,398,856	15,878,907	14,084,109	1,604,058	28,553,559	13,273,081
Rehabilitate Runway 6L/24R - Phase 3	20.106	3-66-0001-86	2,005,605	-	-	2,005,605	2,005,605	-	2,005,605
Acquire One 3,000-gallon Aircraft	20.106	3-66-0001-87	1,876,981	-	-	-	-	-	1,876,981
Rescue and Fire Fighting (AARF) vehicle	20.106	3-66-0001-88	1,017,000	-	-	-	-	-	1,017,000
Update Airport Master Plan Study	20.106	3-66-0001-88	500,000	-	-	265,927	265,927	-	500,000
<b>Total U.S. Department of Transportation Programs,</b>									
			47,226,226	3,398,856	15,878,907	16,355,641	3,875,590	28,553,559	18,672,667
<b>Department of Interior</b>									
Regional Aviation Safety and Operations Training Program	15.875	OMIP-GUAM-2009-1	300,000	-	-	-	-	292,653	7,347
<b>Economic Development Administration</b>									
Site Preparation (Grade Elevations) of North Tiyan Properties	11.300	07-01-05790	1,250,000	-	-	-	-	635,505	614,495
Site Grading and Utility Infrastructure Hookups to Develop North Tiyan Aviation Industrial Park	11.300	07-01-06272	1,200,000	-	-	-	-	843,138	356,862
<b>Public Works and Economic Development Facilities Program</b>									
			2,450,000	-	-	-	-	1,478,643	971,357
<b>Federal Emergency Management Agency:</b>									
Pass-Through Government of Guam: Hazard Mitigation Grant Program: Utility Power Hardening for Critical Airport Facilities	97.039	HMGP DR-1446	5,850,000	-	-	-	-	4,134,855	1,715,145
<b>U.S. Environmental Protection Agency:</b>									
Ground Support Equipment Maintenance Facility; Interceptor Drainage; Former Aircraft Graveyard Site Clean-up	66.818	BF-96984801-0	600,000	-	-	-	-	502,667	97,333
<b>Sub-total awards from the United States Government, carried forward</b>									
			56,426,226	3,398,856	15,878,907	16,355,641	3,875,590	34,962,377	21,463,849

# Antonio B. Won Pat International Airport Authority, Guam

## Schedule of Expenditures of Federal Awards, continued

Year ended September 30, 2013

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 09/30/12	Cash Receipts FY 2013	Allowable Expenditures FY 2013	Receivable from Grantor at 9/30/13	Total Receipts as of 09/30/13	Grant Balance
Sub-total awards from the United States Government, brought forward									
			56,426,226	3,398,856	15,878,907	16,355,641	3,875,590	34,962,377	21,463,849
<b>Transportation Security Administration:</b>									
National Explosive Detection Canine Team (NEDCT) Program	97.072	HSTS02-10-H-CAN629	803,500	145,212	263,653	250,003	131,562	671,939	131,561
Law Enforcement Officer (LEO) Reimbursement Agreement Program	97.070	HSTS02-08-H-SLR161	555,246	12,334	12,334	-	-	555,246	-
Law Enforcement Officer (LEO) Reimbursement Agreement Program	97.070	HSTS02-13-H-SLR096	146,000	-	131,440	146,000	14,560	131,440	14,560
Transportation Security Administration			1,504,746	157,546	407,427	396,003	146,122	1,358,625	146,121
<b>Other Transaction Agreement:</b>									
<b>Transportation Security Administration -</b>									
International Transfer Facility	---	HSTS04-06-A-APO060	2,329,000	-	-	-	-	1,822,627	506,373
Checked Baggage Recapitalization	---	HSTS04-13-H-CT1045	444,000	-	-	257,700	257,700	-	444,000
Screening Design Services Project	---	HSTS04-13-H-CT1145	24,899,330	-	-	292,574	292,574	-	24,899,330
Checked Baggage Recapitalization			27,672,330	-	-	550,274	550,274	1,822,627	25,849,703
Screening Design Services Project			134,068	-	134,068	134,068	-	134,068	-
<b>Guam Homeland Security</b>									
Acquire Heavy Duty Purpose-Built Tow Vehicle	---		134,068	-	134,068	134,068	-	134,068	-
<b>Total Awards from the United States Government</b>			<b>\$ 85,737,370</b>	<b>\$ 3,556,402</b>	<b>\$ 16,420,402</b>	<b>\$ 17,435,986</b>	<b>\$ 4,571,986</b>	<b>\$ 38,277,697</b>	<b>\$ 47,459,673</b>

**Non-cash federal awards:**

On June 18, 2012, the Authority received a conditional commitment for guarantee from the U.S. Department of Agriculture (USDA) under the Community Facility Guaranteed Loan Program. \$5,333,331 was disbursed during the year ended September 30, 2013. The guarantee, which covers 90% of the loan, will be issued upon completion, with anticipated completion of the project in FY14. See Note 10 of the Notes to the Schedule of Expenditures of Federal Awards.

# Antonio B. Won Pat International Airport Authority, Guam

## Notes to the Schedule of Expenditures of Federal Awards

September 30, 2013

### 1. General

The Antonio B. Won Pat International Airport Authority, Guam (the Authority), was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam. Only the federal expenditures of the Authority are included within the scope of the audit. The Authority receives federal awards directly from federal agencies as well as federal awards that are passed through from other governmental agencies.

The federal award program titles and Catalog of Federal Domestic Assistance (CFDA) numbers were obtained from the federal or pass-through grantor or the 2013 *Catalog of Federal Domestic Assistance*.

### 2. Summary of Significant Accounting Policies

#### *Basis of Accounting*

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

For the purpose of this report, certain accounting procedures were followed which facilitate the presentation of the federal cumulative amount of the grant award and federal funds received and disbursed. Cash receipts relate to all cash received from the cognizant federal agency within the CFDA. Cash receipts do not include matching funds from the Authority. All expenses and capital outlays which represent the federal share of each project are reported as expenditures.

The Authority recognizes contributions from the federal government when qualifying expenditures are incurred and expenditures are recognized on the accrual basis of accounting.

Qualifying funds expended in excess of federal funds received are recorded as receivables from the grantor agency.

#### *Matching Requirements*

In allocating project expenditures between the federal and local share, a percentage is used based upon local matching requirements unless funds are specifically identified for a certain phase of the project.

#### *Indirect Cost Allocation*

The Authority does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2013. The Federal Aviation Administration programs do allow, upon prior grantor approval, certain administrative expenses to be charged against the grants.

Antonio B. Won Pat International Airport Authority, Guam

Notes to the Schedule of Expenditures of Federal Awards, continued

**3. Department of Transportation (DOT)**

The Authority's Airport Improvement Program (AIP) is funded primarily through grants from the U.S. DOT, through the Federal Aviation Administration (FAA) under CFDA number 20.106.

*Cost Allocation*

Certain AIP grants have been combined to fund improvements for similar projects. The grants may fund a specific contract for the project or the cost of the contracts may be split between separate grants.

<u>Project Description</u>	<u>AIP Project No.</u> <u>(3-66-0001-xx)</u>
Airport Master Plan Update	66 and 88
Noise Mitigation Measures for Residences w/in 65-69 DNL	69 and 75
Install ILS from Runway 6L	74 and 78
Demolish Former Navy Housing Units in Tiyan	81 and 82
Rehabilitate Runway 6L/24R	84 and 86

**4. Department of Interior (DOI)**

The DOI Operations and Maintenance Improvement Program (OMIP) funds a training program for airport and aviation operations and procedures for airports in the Pacific region. The grant is funded under CFDA 15.875, Economic, Social, and Political Development of Territories.

**5. Economic Development Administration (EDA)**

The Authority's EDA program is funded through grants from the Department of Commerce under CFDA number 11.300.

**6. Federal Emergency Management Agency (FEMA)**

The Authority is a sub-recipient of a Hazard Mitigation Grant Program administered by the Guam Homeland Security Office of Civil Defense and is funded through grants from the Department of Homeland Security under CFDA number 97.039.

**7. Environmental Protection Agency (U.S. EPA)**

The U.S. EPA, through the Office of Solid Waste and Emergency Response, funded the Brownfields Cleanup Cooperative Agreement to reimburse related operating expenses for the clean-up of approved sites. These grants are funded under CFDA number 66.818.

Antonio B. Won Pat International Airport Authority, Guam

Notes to the Schedule of Expenditures of Federal Awards, continued

**8. Transportation Security Administration (TSA)**

The TSA grants were received to reimburse operating expenses related to the National Explosives Detection Canine Team Program (NEDCT) and the Law Enforcement Officer (LEO) Program, under CFDA number 97.072 and 97.090, respectively.

**9. Other Transaction Agreement (OTA)**

TSA entered into an OTA with the Authority where TSA reimburses the Authority for certain administrative, design, management and construction costs relating to the relocation of the International Transfer Facility. As this is an OTA, no CFDA number is associated.

**10. USDA**

In June 2012, the USDA provided the Authority with a conditional commitment for guarantee, Case No. 62-001-893862377, which allowed the Authority to obtain a loan from a financial institution with a preferred interest rate. The loan, which was approved for \$11,900,000, will be used to finance energy efficient upgrades identified in the Authority's recent energy audit. As of September 30, 2013, \$10,928,228 of the loan proceeds were disbursed and remain as an outstanding obligation. The guaranteed loan is for a term of five years on \$11,900,000, with interest-only payments on the first year. The USDA will issue the loan note guarantee upon completion of the project and the facility is certified operational by an appropriate official.

**11. Contingency**

The grant revenue amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and local laws and regulations.



Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

**Part I - Summary of Auditor's Results**

**Financial Statements Section**

Type of auditor's report issued (unqualified, qualified, adverse, or disclaimer):

The independent auditor's report expressed an unqualified opinion.

Internal control over financial reporting:

Material weakness(es) identified?

       **Yes**        X   **No**

Significant deficiency(ies) identified that are not considered to be material weaknesses?

       **Yes**        X   **None reported**

Noncompliance material to financial statements noted?

       **Yes**        X   **No**

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?

       **Yes**        X   **No**

Significant deficiency(ies) identified?

       **Yes**        X   **None reported**

Type of auditor's report issued on compliance for major programs (unqualified, qualified, adverse, or disclaimer):

The independent auditor's report on compliance for major programs expressed an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

       **Yes**        X   **No**

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs, continued

**Part I - Summary of Auditor's Results, continued**

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
10.xxx*	Community Facility Guaranteed Loan

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$ 683,080

Auditee qualified as low risk auditee?

       Yes      X   No

\*CFDA number has not yet been assigned.

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs, continued

**Part II - Financial Statement Findings Section**

There are no findings involving the financial statements for the fiscal year ended September 30, 2013.

**Part III - Federal Award Findings and Questioned Costs Section**

There are no material weaknesses, significant deficiencies, material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards related to the September 30, 2013 major programs.

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Prior Audit Findings

Year ended September 30, 2013

Findings in the prior year Audit Report dated January 29, 2013 are as follows:

**Finding No.:** 2012 – 1

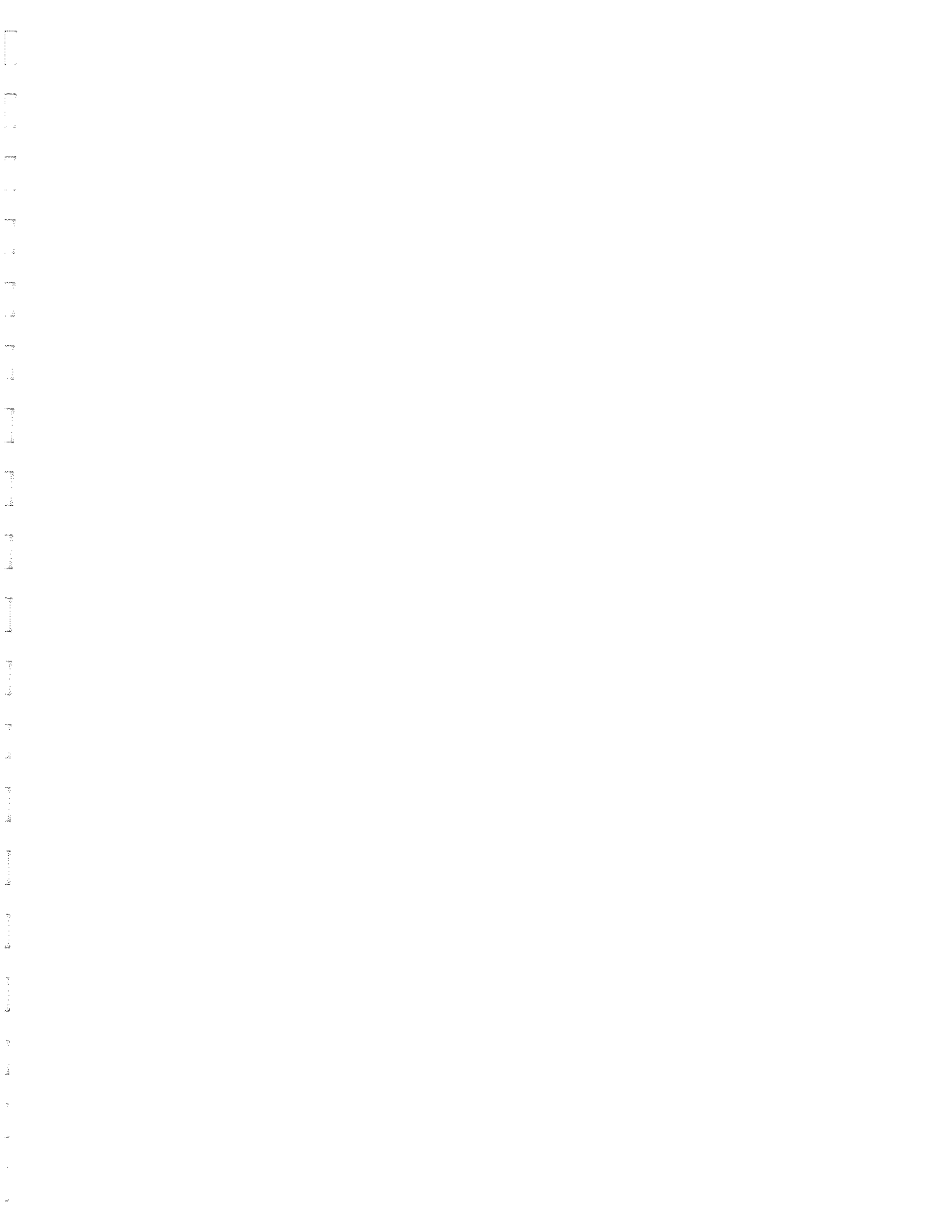
**Finding:**

As of September 30, 2012, a bank loan with an outstanding balance of approximately \$5.6 million and a contractor billing of approximately \$1.5 million were not discovered by the Authority's internal controls and, accordingly, were not recorded by the Authority.

**Status:**

The Authority recognizes that this finding is an isolated oversight and acknowledges that the condition meets, in part, a material weakness with respect to the timely recording of the loan obligation. The Authority believes that during the course of the audit term, which coincides to a large extent with the financial statement close process, the loan obligation oversight would have been detected and corrected.

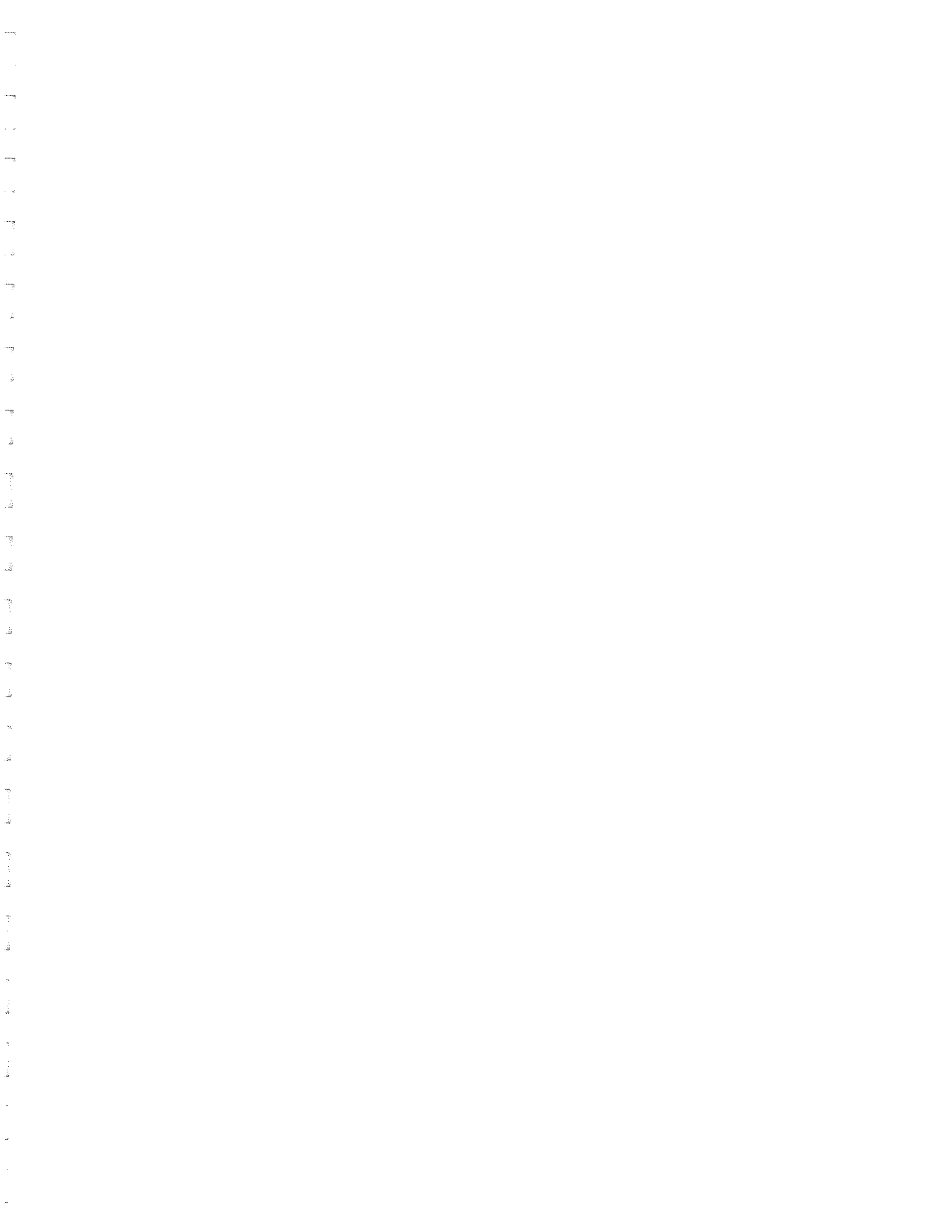
This finding has been corrected and deemed closed.



*Statement of Auditing Standards No. 114  
The Auditor's Communication with Those Charged  
with Governance*

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

*For the year ended September 30, 2013*





Building a better  
working world

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January 30, 2014

The Board of Directors  
Antonio B. Won Pat International Airport Authority, Guam  
P.O. Box 8770  
Tamuning, Guam 96931

Dear Sirs:

We have performed an audit of the financial statements of the Antonio B. Won Pat International Airport Authority (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated January 30, 2014.

## REQUIRED COMMUNICATIONS

Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*, and other professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Authority is responsible. We summarize these required communications as follows:

### **Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)**

The financial statements are the responsibility of the Authority's management. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting.



**Auditors' Responsibilities under US GAAS and GAGAS, continued**

Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

As part of our audit, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

As described in our engagement letter dated August 26, 2011, the objective of a financial statement audit performed in accordance with US GAAS and GAGAS is as follows:

1. To express an opinion on whether the basic financial statements of the Authority are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. To conduct an audit in accordance with the Single Audit Act Amendments of 1996 and the provisions of OMB Circular A-133 and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express an opinion on compliance for each major program and to render the required reports.
2. To provide a report on internal control over financial reporting related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, noncompliance with which could have a material effect on the financial statements, as required by *Government Auditing Standards*. We will not perform sufficient procedures to render an opinion on internal control over financial reporting nor on compliance with provisions of laws, regulations, contracts or grant agreements and other matters, and therefore, we will not express such an opinion.
3. To report on the fairness of the schedule of expenditures of federal awards when considered in relation to the financial statements as a whole. We also will report on internal control related to major programs and provide an opinion on compliance with laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133.

### **The Adoption of, or a Change in Significant Accounting Policies**

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

The Authority restated its 2012 financial statements as a result of the adoption of Government Accounting Standards Board (GASB) Statement 65, *“Items Previously Reported as Assets and Liabilities”*

### **Auditor’s Judgments about the Quality of the Authority’s Accounting Principles**

We discussed our judgments about the quality, not just the acceptability, of the Authority’s accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

The Authority has consistently applied accounting principles generally accepted in the United States (US GAAP) and adequately disclosed required US GAAP disclosures in the financial statements.

### **Sensitive Accounting Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s expectations.

We determined that the Board is informed about management’s process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management’s judgment is called upon in:

- Preparing budgets that are used to administer and monitor the Authority’s operations. These budgets include determining how existing financial resources will be used in the Authority’s operations.
- Determining the valuation of investments.
- Determining the adequacy of the recorded valuation of receivables, including the need for any reserve.
- Determining useful lives in the calculation of depreciation expense.
- Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

### **Significant Audit Adjustments**

During our audit, several post-closing journal entries were recorded while we were conducting our fieldwork.

### **Uncorrected Misstatements Considered by Management to be Immaterial**

Certain uncorrected misstatements accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) were identified during the audit and pertaining to the latest period presented, which were determined by the Authority's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix A – *Summary of Uncorrected Misstatements*).

### **Other Information in Documents Containing the Audited Financial Statements**

We reviewed the Management's Discussion and Analyses and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

### **Consultation with Other Accountants**

We are not aware of any consultations that management may have had with other accountants regarding any significant auditing and accounting matters during the fiscal year ended September 30, 2013.

### **Disagreements with Management on Financial Accounting and Reporting Matters**

There were no material disagreements with the Authority's management on financial accounting and reporting matters during the audit.

### **Major Issues Discussed with Management Prior to Retention**

There were no major accounting issues discussed with the Authority's management prior to our retention.

### **Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues**

We are not aware of any significant unusual transactions recorded by the Authority, or of any significant accounting policies used by the Authority related to controversial or emerging areas for which there is lack of authoritative guidance.

### **Serious Difficulties Encountered in Dealing with Management in Performing the Audit**

There were no serious difficulties encountered in dealing with management in performing the audit.

The Board of Directors  
Antonio B. Won Pat International Airport Authority, Guam

### **Fraud and Illegal Acts**

We are not aware of any matters that require communication. Furthermore, the Authority's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2012 to January 30, 2014 (see Appendix B – *Management's Representation Letters*).

### **Significant Deficiencies and Material Weaknesses in Internal Control**

We did not identify any control deficiencies in internal control during the course of our audit.

### **Independence**

We are not aware of any relationships between Ernst & Young and our related entities, and the Authority, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Authority within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

\*\*\*\*\*

This report is intended solely for the use of the Authority's board of directors and management, the Office of Public Accountability of Guam, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

*Ernst + Young LLP*

The Board of Directors  
Antonio B. Won Pat International Airport Authority, Guam

## Appendix

A – Summary of Uncorrected Misstatements

B – Management’s Representation Letters

**Summary of Audit Differences**

Printed Time: Thu Jan 30, 2014

Client: AB Won Pat International Airport Authority Guam Audit Date: 9/30/2013

		Analysis of Misstatements Above Nomina / Amount						Income Effect of Correcting the Balance Sheet as of the End of the:				
No.	W/P Ref.	Description	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Debit/(Credit) Current Period	Non Taxable	Debit/(Credit) Prior Period	Non Taxable	Other - Specify	
			Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)					Debit/(Credit)	
<b>Unrecorded Misstatements:</b>												
<b>Unrecorded Projected Misstatements:</b>												
FY13 SAD 01	OSP 26-1	To reverse the overaccrual on salaries. Adjustment: 25,314.1 Accrued salaries and wages Adjustment: xx,0000 Personnel expenses		82,375								
FY13 SAD 02	SWP	To accrue interest on bonds payable for the period of September 13-30, 2013. Adjustment: xx,0000 Accrued interest on bonds payable Adjustment: xx,0000 Interest expense		-151,548								
Totals			0	-69,173	0							0
Financial Statement Amounts			17,150,908	575,879,437	16,405,528	260,422,827						0
Effect of unrecorded misstatements on F/S amounts			0.00%	0.00%	-0.42%	0.00%						0.00%
Income effect of unrecorded misstatements (before tax)												
Memo: Non-taxable items												
Less: Tax effect at current year marginal rate			0.00%									
Cumulative effect of unrecorded misstatements before turn-around effect												
Turn-around effect of prior period unrecorded misstatements (after tax)												
Cumulative effect of unrecorded misstatements, after turn-around effect												
Current year net income												
All Factual and Projected Misstatements:						118,882						
Judgmental misstatements:						188,055						
Total Judgmental misstatements:						118,882	1.25%					
Total Misstatements:						118,882	100.00%					
Total Misstatements as a % of Net Income:						118,882	100.00%					



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January 30, 2014

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

In connection with your audits of the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority) as of September 30, 2013 and 2012 and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Authority in conformity with US generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

*Management's responsibilities*

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated August 26, 2011, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding periods.

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence



A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Management's responsibilities, continued*

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

*Governmental entities*

We recognize that we are responsible for the Authority's compliance with the laws, regulations, grant agreements and contracts that are applicable to it. We have identified and disclosed to your representatives all laws and regulations that have direct and material effect on the determination of financial statement amounts.

*Uncorrected misstatements*

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

*Internal control*

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.

*Minutes and contracts*

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2012 to January 30, 2014 are as follows:

<u>Date Meeting</u>	<u>Type</u>
November 27, 2012	Regular
December 18, 2012	Regular
January 29, 2013	Regular
February 28, 2013	Regular
March 28, 2013	Regular
April 12, 2013	Special
April 25, 2013	Regular
May 30, 2013	Regular
June 11, 2013	Special
June 27, 2013	Regular
July 25, 2013	Regular
August 9, 2013	Special

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.



A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Minutes and contracts, continued*

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

*Risks and uncertainties*

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*.

*Environmental liabilities*

We have disclosed to you all significant environmental matters and have made available to you all significant relevant information related to them. The environmental liabilities included in the accompanying statements of net position represent our best estimate of the potential losses using assumptions that we believe represent the expected outcomes of the uncertainties. The disclosures of environmental matters in the financial statements are adequate.

*Environmental Response Actions*

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

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Environmental liabilities, continued*

*Environmental Response Actions, continued*

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

*Ownership and pledging of assets*

There are no properties capitalized under capital leases. The Authority has satisfactory title to all assets appearing in the statements of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Authority has satisfactory title appear in the statements of net position.

*Receivables and revenues*

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the dates of the statements of net position, goods shipped on consignment, or other types of arrangements not constituting sales. All revenue recognized as of the date of the statement of net position has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) goods have been delivered or services rendered, (3) consideration to be received is fixed or determinable and (4) collectability is reasonably assured.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the dates of the statements of net position in respect of sales and services rendered prior to that those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that those dates.

We have adequately disclosed a description of our major revenue-generating services, the types of arrangements used to deliver these services, and a description of the revenue recognition policies applicable to these products or services.

We have disclosed to you all terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Financial instruments*

The Authority has properly classified equity securities with readily determinable fair values as either available-for-sale or trading.

The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

1. The extent, nature and terms of financial instruments with off-balance-sheet risk.
2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

*Deferred charges*

We believe that all material expenditures for which recognition has been deferred to future periods are recoverable.

*Long-lived assets, including amortizable intangible assets*

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

*Events of default under debt agreements*

No events of default have occurred with respect to any of the Authority's debt agreements.

*Contingent liabilities*

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with ASC 450-20, *Contingencies – Loss Contingencies* other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Contingent liabilities, continued*

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by ASC 450, *Contingencies* other than those accrued or disclosed in the financial statements, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

*Oral or written guarantees*

There are no oral or written guarantees, including guarantees of the debt of others.

*Arrangements with financial institutions*

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

*Purchase commitments*

At September 30, 2013 and 2012 the Authority had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at the dates of statement of net assets as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

*Fraud*

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Independence*

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Company and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Authority's audit.

*Conflicts of interest*

There are no instances where any officer or employee of the Authority has an interest in a company with which the Authority does business that would be considered a "conflict of interest." Such an interest would be contrary to the Authority's policy.

*Government of Guam General Fund*

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

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

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

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

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Water System Infrastructure Upgrade*

The Authority asserts that all costs associated with the airport water system are supported by adequate documentary evidence. Costs are reasonable as they result from bids, unit prices from bids or through negotiations with professional engineering firms. In June 2012, the Authority paid the FAA a check amounting to \$60,642, which resolved the questioned costs noted in the FY11 audit. As a result the Authority asserts that there is no material noncompliance and no further issues affect the water system grant.

During FY 12, the water system became operational through a Memorandum of Understanding (MOU) with the Guam Waterworks Authority, which was reviewed and approved by the FAA. This interim MOU is being reviewed for future renewal. From October 1, 2011 to the date of this letter, the Authority confirms that no additional concerns were brought forward by the FAA regarding the water system.

*Other Representations*

- We have identified and disclosed to you, all laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- We have identified and disclosed to you violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have followed applicable laws and regulations in adopting, approving and amending budgets, debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.
- The financial statements properly classify all funds and activities.
- Components of net position (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Special and extraordinary items are appropriately classified and reported.
- Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.
- Investments are properly valued.
- Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

*Other Representations, continued*

- The supplementary information (management's discussion and analysis and other financial information) have been prepared in conformity with accounting principles generally accepted in the United States as required by the Governmental Accounting Standards Board, and are consistent with the accounting principles used to prepare the basic financial statements. There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.
- The Exchange License Agreement dated April 5, 2012, entered into with Core Tech International, does not violate any provisions mandated by the Federal Aviation Administration.

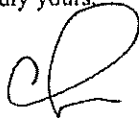
*Subsequent events*

Subsequent to September 30, 2013, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

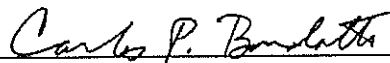
\* \* \* \* \*

We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and were, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Authority, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



\_\_\_\_\_  
Charles H. Ada, II  
Executive Manager



\_\_\_\_\_  
Carlos P. Bordallo  
Comptroller

A.B. Won Pat International Airport Authority, Guam  
Letter of Representation

January 30, 2014

Printed Times: Thu Jan 30, 2014

**Summary of Audit Differences**

Client: A.B. Won Pat International Airport Authority, Guam      Audit Date: 9/30/2013

No.	W/P Ref.	Description	Assets Current		Liabilities Current		Income Effect of Correcting the Balance Sheet as of the End of the		Other - Specify
			Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non Taxable	Debit/(Credit)	
<b>Unrecorded Misstatements</b>									
Unrecorded Projected Misstatements:									
P13 SMD 01	OSP 26-1	To reverse the accrual on salaries		82,375					
		Adjustment: 25,314							
		Adjustment: accrued Personnel expense							
P13 SMD 02	SNP	To accrue interest on bonds payable for the period of September 13-30, 2013.		-151,548					
		Adjustment: accrued interest on bonds payable							
		Adjustment: accrued interest expense							
<b>Totals</b>			0	-69,173	0				0
Financial Statement Amounts			17,150,508	575,879,437	16,405,538	260,422,827			0
Effect of unrecorded misstatements on F/S amounts			0.00%	-0.4%	0.00%				0.00%
Income effect of unrecorded misstatements (before tax)						69,173			0
Memo: Non-Taxable Items						0			0
Less: Tax effect at current year marginal rate			0.00%			0			0
Cumulative effect of unrecorded misstatements before turn-around effect						69,173			0
Turn-around effect of prior period unrecorded misstatements (after tax)									
Cumulative effect of unrecorded misstatements, after turn-around effect									
Current year net income									
All Fiscal and Projected Misstatements						110,852			110,852
Judgmental misstatements:						188,005			188,005
						15,069,941			15,069,941





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January 30, 2014

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

We are providing this letter in connection with your audit of the federal award programs of Antonio B. Won Pat International Airport Authority, Guam (the "Authority") as of and for the year ended September 30, 2013, which was performed in accordance with auditing standards generally accepted in the United States, the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We understand that obtaining representations from us concerning the information contained in this letter is a significant procedure and we understand that the purpose of your testing of transactions and records from the Authority's federal programs was to obtain reasonable assurance that the Authority had complied, in all material respects, with the compliance requirements that could have a direct and material effect on each of its major programs.

In connection with your audit, we confirm, to the best of our knowledge and belief, the following representations:

1. We acknowledge our responsibility for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs. We are responsible for complying with the requirements of OMB Circular A-133.
2. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each of the Authority's federal programs.
3. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities related to federal programs.
4. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
5. We have provided to you our interpretations of any applicable compliance requirements that are subject to varying interpretations.



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- a. We acknowledge our responsibility for and have established and maintained effective internal control over compliance that provides reasonable assurance that federal awards are managed in compliance with the laws, regulations and the provisions of contracts or grant agreements that could have a material effect on the federal programs. Internal control is functioning as intended.
  - b. We have complied in all material respects, with the requirements of Circular A-133 and with the laws, regulations and provisions of contracts and grant agreements related to each of the federal programs, except for those findings disclosed in the Schedule of Findings and Questioned Costs and/or otherwise disclosed to you.
6. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal programs, including the results of other audits or program reviews.
  7. We are responsible for the presentation of the Schedule of Expenditures of Federal Awards ("the schedule") in accordance with Circular A-133 Section 310.b. We believe the schedule, including its form and content, is presented in accordance with Circular A-133 Section 310.b. There have been no changes in the methods of measurement or presentation of the schedule from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the schedule.
  8. We acknowledge that it is our responsibility for understanding and complying with the compliance requirements related to the preparation of the schedule. We have identified all of our government programs and related activities subject to OMB Circular A-133 and have included in the schedule all expenditures made during the period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees and other noncash awards, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other direct assistance. The schedule is accurate and complete in all material respects, presents the information required by OMB Circular A-133, and includes all federal program expenditures made during the year ended September 30, 2013.
  9. We have charged costs to federal awards in accordance with applicable cost principles.
  10. Information presented in federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the Authority's financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. Amounts claimed or used for matching were determined in accordance with the applicable cost circulars and administrative requirements.
  11. The copies of Authority's federal program financial reports provided to you are true copies of the reports submitted or electronically transmitted to the federal agencies and pass-through entities.

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12. We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting federal programs involving management or other employees who have a significant role in internal control over financial reporting and compliance. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the federal programs. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the federal program.
13. The summary schedule of prior audit findings and the Data Collection Form are accurate and complete in all material respects and contain the information required by Circular A-133.
14. We have provided you with all information on the status of follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
15. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of this letter.
16. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the year ended September 30, 2013 to the date of this letter.
17. We have disclosed to you all known noncompliance with direct and material compliance requirements occurring subsequent to the year ended September 30, 2013.
18. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the year ended September 30, 2013.
19. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the year ended September 30, 2013.

In connection with your audit, we also confirm, to the best of our knowledge and belief, the following representations related to any findings included in the Schedule of Findings and Questioned Costs:

20. We are responsible for taking corrective action on audit findings of the compliance audit.

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January 30, 2014

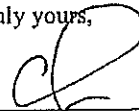
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21. We have resolved any audit findings and recommendations directed to us and have a process to track their status.
22. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported.
23. We have provided views on your reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

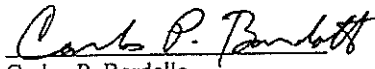
In addition to our responsibility in preparing the schedule and related notes, we confirm that as of September 30, 2013 to the date of this letter, we are not aware of any assigned Catalog of Federal Domestic Assistance number related to the loan note guarantee obtained from the United States Department of Agriculture for the Community Facility Project.

We understand that your audit was made in accordance with auditing standards generally accepted in the United States, the Single Audit Act Amendments of 1996, OMB Circular A-133 and the standards for financial audits contained in *Government Auditing Standards*, and was, therefore, designed for the purpose of obtaining reasonable assurance about whether the schedule of expenditures of federal awards is presented fairly, in all material respects, in relation to the financial statements taken as a whole and whether the Authority had, in all material respects, administered each of its major federal programs in compliance with the laws, regulations and provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on the federal program. Accordingly, we understand that your tests of the accounting and federal program records and other auditing procedures were limited to those that you considered necessary for those purposes.

Very truly yours,



Charles H. Ada, II  
Executive Manager



Carlos P. Bordallo  
Comptroller

