

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

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

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**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**



## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Guam International Airport Authority:

We have audited the accompanying statements of net assets of Guam International Airport Authority (the "Authority"), a component unit of the Government of Guam, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam International Airport Authority as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2004, on our consideration of the Guam International Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Deloitte &amp; Touche LLP".

January 9, 2004

# **GUAM INTERNATIONAL AIRPORT AUTHORITY**

## **Management Discussion and Analysis Year Ending September 30, 2003**

The following Management Discussion and Analysis of the Guam International Airport Authority (the Authority) activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ended September 30, 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

Guam International Airport Authority is a self-sustaining autonomous government agency, and operates and maintains the Guam International Air Terminal. The Terminal provides facilities for commuter and domestic overseas flights, and international flights for destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the airport terminal's services and properties to generate revenues to fund operating expenses. The 1993 Airport Bonds issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program. The Guam International Airport Terminal had 1,180,598 total enplanements (11.9% domestic, 88.1% international) for fiscal year 2003.

### **USING THE FINANCIAL STATEMENTS**

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

For the year ending September 30, 2001, the Authority adopted GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions (GASB 33)", as amended by GASB Statement No. 36. For the year ended September 30, 2002, the Authority adopted GASB Statement No. 34, as amended by GASB Statement No. 37, and applied those standards on a retroactive basis. The Authority also adopted GASB Statement No. 27 in 2002 and applied that standard on a retroactive basis.

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

### **AUTHORITY ACTIVITIES AND HIGHLIGHTS**

The terrorist attacks that occurred on September 11, 2001 have tremendously affected the air transportation industry. Globally, the economic structures of airports have been fundamentally altered with each similarly working to manage this new uncertain economic reality. The Guam International Airport Authority is no exception.

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### Management Discussion and Analysis Year Ending September 30, 2003

The long-term impact of the attacks is significant. There has been a considerable reduction in air travel by Japanese and other Asian travelers who make up the vast majority of the Authority's end users. During the first and second quarter of fiscal year 2002, the Authority saw significant decreases in passenger activity, aircraft operations, landed weights, revenue passenger landings, and deplaning passengers. Expenses increased as new federal requirements upgrading security policies and procedures, including an increase in security officers, were implemented as mandated deadlines arrived.

On July 5, 2002, Typhoon Chata'an pummeled Guam, taking a direct path across the island. The Airport Terminal Building and other airport properties suffered extensive damage and the driving force of Guam's economy, the visitor industry, was disrupted, furthering the decline of Authority revenues for the year.

Activity for the Guam International Airport Authority for the fiscal years ended September 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>	<u>% Increase (Decrease) from 2002</u>
Passenger (enplanements) activity:			
Signatory airlines	1,051,038	1,263,307	(16.8)%
Non-signatory airlines	<u>129,560</u>	<u>64,314</u>	<u>101.5%</u>
Total enplanements	<u>1,180,598</u>	<u>1,327,621</u>	<u>(11.1)%</u>
Aircraft operations	61,776	63,658	(2.9)%
Aircraft landed weights (000,000)	<u>3,008</u>	<u>3,110</u>	<u>(3.3)%</u>
O & D passengers	1,924,000	2,294,000	(16.1)%
Transfer passengers	<u>221,000</u>	<u>213,000</u>	<u>3.8%</u>
Total passengers	<u>2,145,000</u>	<u>2,507,000</u>	<u>(14.4)%</u>
Major revenue sources:			
Landing fees	\$ 3,900,000	\$ 2,550,000	52.9%
Terminal lease	8,090,000	8,012,000	0.9%
Concessions and parking	<u>8,672,000</u>	<u>18,026,000</u>	<u>(51.9)%</u>
Total	\$ <u>20,662,000</u>	\$ <u>28,588,000</u>	<u>(27.7)%</u>

In response to the financial pressures caused by falling airport activities, the Authority coordinated a succession of measures designed to keep the Guam International Airport Authority financially sound. The movement of airport landing fees between fiscal year 2002 and fiscal year 2003 is a correlated view of the actions the Authority took to meet its financial obligations and hold airline rates down. The following are the landing fee movements:

Period	Landing fee
July 1, 2002 - September 30, 2002	\$ 2.74
October 1, 2002 – March 31, 2003	\$ 0.36
April 1, 2003 – September 30, 2003	\$ 2.26
	per thousand pounds GTW

\*Signatory airlines only

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## Management Discussion and Analysis Year Ending September 30, 2003

The following airlines serve the Guam International Airport Authority with scheduled or charter overseas passenger flights: Continental Micronesia, Japan Airlines, All Nippon Airways, Northwest Airlines, Asiana Airlines, Philippines Airlines, Korean Air, China Airlines, Asia Pacific Airlines, and Aerospace Concepts. The principal commuter airlines providing inter-island passenger flight service to and from Guam and the CNMI are: Pacific Island Aviation, Freedom Air, and Micronesian Aviation System.

### FINANCIAL OPERATION HIGHLIGHTS

The financial results for fiscal year 2002 were significantly affected by the events of September 11, 2001 and the destructive power of Typhoon Chata'an. A majority of the operating revenues at the Guam International Airport Authority are activity based and directly related to the number of passengers and aircraft operations. Aviation activity decreased in the aftermath of September 11 and Typhoon Chata'an in July 2002, directly decreasing operating revenues. The Authority continued to incur its normal operating expenses, with increases in expenses in security, added maintenance, and emergency typhoon repair and replacement.

Fiscal year 2003 proved to be an even greater challenge for the Authority with damages sustained from Typhoon Pongsona in December 2002, the SARS scare in early 2003, the declaration of war with Iraq in March 2003, the continuation of the economic slump in Asia, and further costs related to security. As a result, the decrease in net assets for fiscal year 2003 was \$16.7 million as compared to a decrease in net assets of \$9.2 million in fiscal year 2002.

A summary of operations and changes in net assets for the years ended September 30, 2003 and 2002 follows:

	<u>2003</u>	<u>2002</u>	<u>% Increase (Decrease) from 2002</u>
Operating revenues	\$ 37,923,798	\$ 43,953,737	(13.7)%
Operating expenses, excluding depreciation	<u>(25,449,621)</u>	<u>(28,587,542)</u>	<u>(10.9)%</u>
Operating income before depreciation	12,474,177	15,366,195	(18.8)%
Depreciation and amortization	<u>(17,475,156)</u>	<u>(16,528,798)</u>	<u>5.7%</u>
Loss from operations	(5,000,979)	(1,162,603)	330.1%
Non-operating income (expenses) - net	<u>(17,170,387)</u>	<u>(10,717,078)</u>	<u>60.2%</u>
Loss before capital contributions	(22,171,366)	(11,879,681)	86.6%
Grants from the United States Government	<u>5,485,613</u>	<u>2,702,885</u>	<u>107.9%</u>
Net decrease in net assets	\$ <u>(16,685,753)</u>	\$ <u>(9,176,796)</u>	<u>81.8%</u>

A comparison of activities between fiscal years 2003 and 2002 at the Guam International Airport Authority is indicative of the severity that the September 11 attacks and Typhoon Chata'an had on Guam. Passenger enplanements for signatory airlines decreased by 16.8% from 1,263,307 in fiscal year 2002 to 1,051,038 in fiscal year 2003.

Operating revenues saw a decrease of 13.7% from \$43,953,737 in fiscal year 2002 to \$37,923,798 in fiscal year 2003. In light of declining airport activities, management adjusted its enplanement costs from \$14.65 in fiscal year 2002 to \$18.41 in fiscal year 2003 based on airline projections and Authority anticipated expenses. This move kept operating revenues stable but the large decrease in operating expenses greatly reduced operating income. Operating expenses excluding depreciation decreased from \$28,587,542 in fiscal year 2002 to \$25,449,621 in fiscal year 2003, a 10.9% decrease, and net operating income before depreciation dropped from \$15,366,195 in fiscal year 2002 to \$12,474,177 in fiscal year 2003, a 18.8% decrease.

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## Management Discussion and Analysis Year Ending September 30, 2003

The Authority self funded several construction security related projects approximating \$1,460,000 during fiscal year 2002 and incurred \$1,759,465 of additional direct operating costs for security. Federal grants were awarded to the Authority in two separate amounts totaling \$7,637,085 for reimbursement of security related direct operating costs and for security enhancement projects.

### **ISSUES RELATING TO PRIOR MANAGEMENT**

Although expenses were significantly cut in 2003 (FY2003 was \$25,449,621 compared to FY2002 at \$28,587,542, we were still burdened with an overspill of write-offs (included in other expenses) as warned in the commentary of prior year's report. These exceptional, non-recurring expenses are as follows:

	<u>FYE 2003</u>	<u>FYE 2002</u>	<u>TOTAL</u>
<u>CIP, Marketing and Promotions</u>			
Governors' Statues	\$ 1,230,000	\$ 205,000	\$ 1,435,000
Aviation VIP Lounge & Museum	1,400,000	350,000	1,750,000
Travel (unrelated to Airport Certification)	383,752	1,033,075	1,416,827
Birdman Rally	-	1,660,555	1,660,555
Chinese Art Exhibition	1,630,521	-	1,630,521
<u>Off-Island Consultants</u>			
Glory Link	182,950	45,000	227,950
K Gold	-	164,979	164,979
China Link	<u>67,480</u>	<u>15,000</u>	<u>82,480</u>
TOTALS	\$ <u>4,894,703</u>	\$ <u>3,473,609</u>	\$ <u>8,368,312</u>

It should be noted that all of the above expenses are under investigation by federal and local authorities and a civil complaint has been filed against the former Executive Manager to recoup monies inappropriately spent.

### **REVIEW OF NOTABLE EVENTS IN FISCAL YEAR 2003**

The GIAA, similar to its counterparts in the region and the U.S. mainland, continued to struggle to meet revenue shortfalls due to the exceptional non-recurring issues above, recovery from the devastation of Super Typhoon Pongsona including its effect on the volume of incoming tourists, and the lingering terrorism fears related to the September 11, 2001 event.

The Fiscal Year 2003 continued to be faced with more challenges including:

- The SARS scare in early 2003
- Declaration of war with Iraq in March 2003
- Continued slump in the Asian market – especially Japan where over 90% of our passenger enplanements originate
- Further costs incurred as it relates to air travel and security

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## Management Discussion and Analysis Year Ending September 30, 2003

Notably, the largest shortfall in revenues was that realized by the impact of the new Duty Free Shoppers (DFS) agreement. In prior fiscal year, DFS represented 28% of revenues generated at the GIAA. The old agreement was back-ended with guaranteed revenues not reflective of actual economic conditions in the wavering years of their contract. Low throughput in DFS' airport location was reflected in the decline of FY 2003 total revenues. This contributed to the \$6.0 million shortfall in GIAA revenues from prior year.

### **OUTLOOK FOR FISCAL YEAR 2004**

The overused expression of being cautiously optimistic is very appropriate as the GIAA is observing arrival numbers bouncing back as forecasted.

As of this writing, preliminary first quarter results of the Fiscal Year 2004 indicate a 5.8% increase over budget in signatory revenues, and a 7.4% increase in enplaned signatory passengers over forecast. Operating expenses continue to be monitored and are below budget by 4.0%. It appears that our outlook is positive and as forecasted in our recovery plan presented to the GIAA Board of Directors, bond insurers and rating agencies.

### **FINANCIAL POSITION SUMMARY**

A condensed summary of the Guam International Airport Authority's statements of net assets at September 30, 2003 and 2002 is shown below:

	<u>2003</u>	<u>2002</u>	<u>% Increase (Decrease) from 2002</u>
<b><u>ASSETS</u></b>			
Current assets:			
Unrestricted assets	\$ 12,573,174	\$ 14,485,765	(15.1)%
Restricted assets	1,517,170	2,154,650	(29.6)%
Non-current assets:			
Unrestricted assets	30,856,366	39,273,727	(21.4)%
Restricted assets	24,079,056	40,094,355	(39.9)%
Capital assets	342,617,517	345,675,774	0.9%
Deferred bond issue costs	<u>12,732,564</u>	<u>2,146,286</u>	<u>493.2%</u>
Total	\$ <u>424,375,847</u>	\$ <u>443,830,557</u>	<u>(4.4)%</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Payable from unrestricted assets	\$ 7,836,046	\$ 7,637,040	2.6%
Payable from restricted assets	3,064,670	13,976,978	(78.1)%
Long term liabilities	<u>219,587,872</u>	<u>211,643,527</u>	<u>3.8%</u>
Total	\$ <u>230,488,588</u>	\$ <u>233,257,545</u>	<u>(1.2)%</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets - net of related debt	\$ 137,181,387	\$ 132,489,380	3.5%
Restricted	33,880,508	43,520,237	(24.2)%
Unrestricted	<u>22,825,364</u>	<u>34,563,395</u>	<u>(31.2)%</u>
Total	\$ <u>193,887,259</u>	\$ <u>210,573,012</u>	<u>(8.6)%</u>

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## Management Discussion and Analysis Year Ending September 30, 2003

The Authority's investments in capital assets net of related debt make up 70% of its net assets. These capital assets are used to provide services to its passengers and visitors to the Guam International Airport Authority airport terminal. Although invested capital assets are reported net of related debt, the resources are required to repay this debt from revenues received annually from operations as specified in the 1993 Airport Bonds Indenture.

### AIRLINE SIGNATORY RATES AND CHARGES

#### Lease Agreement with Signatory Airlines

The Authority entered into an airport-airline lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. These leases expire in July of 2003.

The following summarizes the rates in effect at September 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Terminal building rental:		
Signatory	47.19	47.53
Non-signatory	47.19	48.26
Departure fees:		
Signatory	5.93	3.24
Non-signatory	5.93	3.27
Arrival fees:		
Signatory	6.69	3.98
Non-signatory	6.69	4.03
Immigration inspection fees:		
Signatory	2.51	1.35
Non-signatory	2.51	1.36
Loading bridge use fees:		
Signatory	359.01	177.25
Non-signatory	359.01	228.43
Apron use fees:		
Signatory	0.80	0.66
Non-signatory	0.80	0.80
Landing fees:		
Signatory	2.26	0.69
Non-signatory	2.26	0.69

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### Management Discussion and Analysis Year Ending September 30, 2003

#### REVENUES

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

	<u>2003</u>	<u>Percent of Total</u>	Increase (Decrease) from 2002	
			<u>Amount</u>	<u>Percent</u>
<b>Operating:</b>				
Facilities and use charges:				
Arrival facilities	\$ 4,722,176	9.1%	\$ 106,846	2.3%
Departure facilities	4,973,439	9.6%	505,865	11.3%
Landing fees	3,900,232	7.5%	1,350,673	53.0%
Public apron	2,243,257	4.3%	(3,556)	(0.2)%
Passenger loading bridge	2,269,675	4.4%	603,148	36.2%
Immigration	1,599,297	3.1%	177,557	12.5%
Fuel flowage fee	248,426	0.4%	6,751	2.8%
Utility recovery charge and other fees	<u>195,017</u>	<u>0.6%</u>	<u>(98,512)</u>	<u>(33.6)%</u>
Total facilities and use charges	<u>20,151,519</u>	<u>39.0%</u>	<u>2,648,772</u>	<u>15.1%</u>
Concession fees:				
General merchandise	\$ 4,312,865	8.3%	\$ (8,208,979)	(65.6)%
Ground transportation	1,817,747	3.5%	(552,108)	(23.3)%
Car rental	712,667	1.4%	(8,085)	(1.1)%
In-flight catering	529,635	1.0%	(167,285)	(24.0)%
Food and beverage	553,884	1.1%	53,345	10.7%
Other	<u>745,354</u>	<u>1.5%</u>	<u>(471,031)</u>	<u>(38.7)%</u>
Total concession fees	<u>8,672,152</u>	<u>16.8%</u>	<u>(9,354,143)</u>	<u>(51.9)%</u>
Rental income:				
Operating space - airline	\$ 3,064,874	5.9%	\$ (367,305)	(10.7)%
Operating space - non-airline	1,872,080	3.6%	256,562	15.9%
Other	<u>3,152,610</u>	<u>6.1%</u>	<u>188,460</u>	<u>6.4%</u>
Total rental income	<u>8,089,564</u>	<u>15.6%</u>	<u>77,717</u>	<u>1.0%</u>
Miscellaneous	<u>1,010,563</u>	<u>1.9%</u>	<u>597,715</u>	<u>144.8%</u>
Total operating	<u>\$ 37,923,798</u>	<u>73.3%</u>	<u>\$ (6,029,939)</u>	<u>(13.7)%</u>
<b>Non-Operating:</b>				
Interest income	\$ 2,012,878	3.9%	\$ (979,708)	(32.7)%
Passenger facility charge	4,071,057	7.9%	676,442	19.9%
Grants from the U. S. Government	<u>7,652,411</u>	<u>14.9%</u>	<u>2,767,185</u>	<u>56.6%</u>
Total non-operating	<u>13,736,346</u>	<u>26.7%</u>	<u>2,463,919</u>	<u>21.8%</u>
Total revenues	<u>\$ 51,660,144</u>	<u>100.0%</u>	<u>\$ (3,566,020)</u>	<u>(6.5)%</u>

Grants from the United States Government grew nearly 100% from \$4.9 million in fiscal year 2002 to \$7.7 million in fiscal year 2003. The majority of monies received are reimbursements for the additional direct security related costs and for security enhancement projects.

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## Management Discussion and Analysis Year Ending September 30, 2003

### EXPENSES

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

	<u>2003</u>	<u>Percent of Total</u>	Increase (Decrease) from 2002	
			<u>Amount</u>	<u>Percent</u>
Operating:				
Contractual services	\$ 13,226,740	19.3%	\$ (3,172,119)	(19.3)%
Personnel services	11,216,612	16.4%	(195,182)	1.7%
Materials and supplies	885,872	1.3%	143,163	19.3%
Bad debt expense	<u>120,397</u>	<u>0.2%</u>	<u>86,217</u>	<u>252.2%</u>
Total operating	<u>25,449,621</u>	<u>37.2%</u>	<u>(3,137,921)</u>	<u>(11.0)%</u>
Depreciation and amortization	<u>17,475,156</u>	<u>25.6%</u>	<u>946,358</u>	<u>5.7%</u>
Non-Operating:				
Interest expense	12,858,234	18.8%	183,464	1.4%
Other expenses	<u>12,562,886</u>	<u>18.4%</u>	<u>5,951,036</u>	<u>90.0%</u>
Total non-operating	<u>25,421,120</u>	<u>37.2%</u>	<u>6,134,500</u>	<u>31.8%</u>
Total expenses	\$ <u>68,345,897</u>	<u>100.0%</u>	\$ <u>3,942,937</u>	<u>6.2%</u>

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Statements of Net Assets  
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u> As restated
Current assets:		
Unrestricted assets:		
Cash	\$ 4,956,063	\$ 1,524,333
Passenger facility charge cash	-	4,178
Accounts receivable, trade, net of allowance for doubtful accounts of \$120,397 in 2003 and \$442,397 in 2002	5,187,401	7,806,344
Passenger facility charge receivables	626,895	712,975
Receivables from United States Government	1,729,707	4,318,885
Inventory	73,108	108,998
Prepaid expense	-	10,052
Total unrestricted assets	<u>12,573,174</u>	<u>14,485,765</u>
Restricted assets:		
Customs fees, cash	268,155	537,213
Customs fees, receivables	1,249,015	1,617,437
Total restricted assets	<u>1,517,170</u>	<u>2,154,650</u>
Total current assets	<u>14,090,344</u>	<u>16,640,415</u>
General Revenue Bonds:		
Investments and cash with trustees, unrestricted	30,856,366	39,273,727
Investments and cash with trustees, restricted	24,079,056	40,094,355
	<u>54,935,422</u>	<u>79,368,082</u>
Capital assets, at cost less accumulated depreciation	342,617,517	345,675,774
Deferred bond issue costs	12,732,564	2,146,286
Total assets	<u>\$ 424,375,847</u>	<u>\$ 443,830,557</u>

See accompanying notes to financial statements.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Statements of Net Assets, Continued  
September 30, 2003 and 2002

<u>LIABILITIES AND NET ASSETS</u>	<u>2003</u>	<u>2002</u> As restated
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,504,670	\$ 3,700,685
Accounts payable - construction	1,320,206	1,582,172
Other liabilities	2,970,406	1,128,561
Security deposits and deferred income	550,193	721,965
Current portion of annual leave	490,571	503,657
Total payable from unrestricted assets	7,836,046	7,637,040
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam	1,514,586	2,150,296
Bond issuance cost payable	1,550,084	-
General Revenue Bonds:		
Current installments	-	4,660,000
Accrued interest	-	7,166,682
Total payable from restricted assets	3,064,670	13,976,978
Total current liabilities	10,900,716	21,614,018
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued unfunded liability to retirement fund	907,868	443,000
Long-term portion of annual leave	511,310	527,846
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds	218,168,694	210,672,681
Total non-current liabilities	219,587,872	211,643,527
Total liabilities	230,488,588	233,257,545
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	137,181,387	132,489,380
Restricted	33,880,508	43,520,237
Unrestricted	22,825,364	34,563,395
Total net assets	193,887,259	210,573,012
	\$ 424,375,847	\$ 443,830,557

See accompanying notes to financial statements.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended September 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u> As restated
<b>Revenues:</b>		
Facilities and systems usage charges	\$ 20,151,519	\$ 17,502,747
Concession fees	8,672,152	18,026,295
Rental income	8,089,564	8,011,847
Miscellaneous	1,010,563	412,848
Total revenues	<u>37,923,798</u>	<u>43,953,737</u>
<b>Operating costs and expenses:</b>		
Contractual services	13,226,740	16,398,859
Personnel services	11,216,612	11,411,794
Materials and supplies	885,872	742,709
Bad debt	120,397	34,180
Total operating costs and expenses before depreciation and amortization	25,449,621	28,587,542
Depreciation and amortization	<u>17,475,156</u>	<u>16,528,798</u>
Total operating costs and expenses	<u>42,924,777</u>	<u>45,116,340</u>
Loss from operations	<u>(5,000,979)</u>	<u>(1,162,603)</u>
<b>Non-operating income (expense):</b>		
Interest income	2,012,878	2,992,586
Interest expense	(12,858,234)	(12,674,770)
Passenger facility charge income	4,071,057	3,394,615
United States Government operating grant	2,166,798	2,182,341
Aviation security related expense	(1,267,925)	(1,759,465)
Other (expense) income	(288,472)	66,589
Non-recurring expenses	<u>(11,006,489)</u>	<u>(4,918,974)</u>
Total non-operating expenses	<u>(17,170,387)</u>	<u>(10,717,078)</u>
Loss before capital contributions	(22,171,366)	(11,879,681)
Capital grants from the United States Government	<u>5,485,613</u>	<u>2,702,885</u>
Decrease in net assets	(16,685,753)	(9,176,796)
Total net assets at beginning of year	<u>210,573,012</u>	<u>219,749,808</u>
Total net assets at end of year	<u>\$ 193,887,259</u>	<u>\$ 210,573,012</u>

See accompanying notes to financial statements.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 40,618,994	\$ 36,686,555
Cash paid to suppliers and employees for goods and services	(22,878,119)	(21,035,744)
Cash paid to employees	(10,963,694)	(11,375,105)
Net cash provided by operating activities	<u>6,777,181</u>	<u>4,275,706</u>
Cash flows from investing activities:		
Net sales of investments with trustee	14,877,028	21,639,669
Investment interest income	2,998,215	3,157,827
Net cash provided by investing activities	<u>17,875,243</u>	<u>24,797,496</u>
Cash flows from non-capital financing activities:		
Cash received from U.S. Government for reimbursement of aviation security related direct costs	2,166,798	2,182,341
Net cash provided by non-capital financing activities	<u>2,166,798</u>	<u>2,182,341</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(19,459,467)	(17,578,912)
Principal payment on General Revenue Bonds, Series 1993	(4,660,000)	(4,375,000)
Interest paid on General Revenue Bonds, Series 1993	(11,773,189)	(12,760,372)
U.S. Government capital grants	8,074,791	343,074
Passenger facility charge receipts	4,157,137	3,329,831
Net cash used for capital and related financing activities	<u>(23,660,728)</u>	<u>(31,041,379)</u>
Net increase in cash	3,158,494	214,164
Cash at beginning of year	<u>2,065,724</u>	<u>1,851,560</u>
Cash at end of year	<u>\$ 5,224,218</u>	<u>\$ 2,065,724</u>
Consisting of:		
Unrestricted	\$ 4,956,063	\$ 1,528,511
Restricted - current	268,155	537,213
	<u>\$ 5,224,218</u>	<u>\$ 2,065,724</u>

(Continued)

See accompanying notes to financial statements.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Statements of Cash Flows, Continued  
Years Ended September 30, 2003 and 2002

	2003	2002
Reconciliation of loss from operations and other expense to net cash provided by operating activities:		
Loss from operations	\$ (5,000,979)	\$ (1,162,603)
Non-recurring and other expense	(12,562,886)	(6,611,850)
	(17,563,865)	(7,774,453)
Adjustments to reconcile loss from operations and other expense to net cash provided by operating activities:		
Depreciation and amortization	17,475,156	16,528,798
Bad debt expense	120,397	34,180
Abandoned projects	3,558,989	1,659,277
(Increase) decrease in assets:		
Accounts receivable	2,866,968	(3,950,753)
Inventory	35,890	(108,998)
Prepaid expense	10,052	17,171
Increase (decrease) in liabilities:		
Accounts payable	(1,831,725)	419,301
Accrued unfunded liability to retirement fund	464,868	(28,000)
Other liabilities	1,812,223	795,612
Deferred income	(171,772)	(3,316,429)
Total adjustments	24,341,046	12,050,159
Net cash provided by operating activities	\$ 6,777,181	\$ 4,275,706

Supplemental disclosures of non-cash operating activities:

On September 30, 2003, the Authority defeased and refunded the 1993 General Revenue Bonds and issued the 2003 General Revenue Bonds. The proceeds from the 2003 bonds were deposited into an escrow account controlled by the co-trustee of the 1993 bonds and used to pay off the 1993 Bonds on October 31, 2003. The following summarizes the non-cash effects of this transaction:

Increase (decrease) in assets:	
Restricted and unrestricted investments with trustees	\$ (8,570,295)
Deferred bond issue costs	10,544,530
(Increase) decrease in liabilities:	
Accrued interest	7,019,049
Bond issuance cost payable	(1,550,084)
General Revenue Bonds:	
Series 1993 bonds	211,525,000
Series 2003 bonds	(216,250,000)
Net unamortized premium, Series 2003 bonds	(9,856,046)
Deferred difference on refunding 1993 bonds	7,937,352
Unamortized discount, Series 1993 bonds	(799,506)
	\$ -

See accompanying notes to financial statements.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (1) Organization

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

## (2) Summary of Significant Accounting Policies

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

For the year ended September 30, 2002, the Authority adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37 and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

- Nonexpendable – Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently. For the years ended September 30, 2003 and 2002, the Authority does not have nonexpendable net assets.
- Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (2) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

Accrued Annual Leave. Employees are credited for annual leave at rates of 104, 160 or 208 hours per fiscal year, depending upon their lengths of service. Accumulation of such leave credits is limited to 480 hours at fiscal year-end and is convertible to pay upon termination of employment.

Bond Premium and Discount. The premium on the 2003 General Revenue Bonds and the discount on the 1993 General Revenue Bonds are being amortized on a weighted-average basis over the life of the bond issues.

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

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

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

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

Risk Management: The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation and environmental liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters. The Authority is self insured for earthquake and typhoon risks. In July 2002, a typhoon struck Guam and caused estimated damages of \$1,428,599 that are recorded for the year ended September 30, 2002. Additionally, a supertyphoon struck Guam on December 8, 2002, resulting in significant damage to the Authority's facilities. The Authority has recorded estimated losses of \$6,013,783 from the supertyphoon in the year ended September 30, 2003.

Reclassifications: Certain balances in the 2002 financial statements have been reclassified to correspond to the 2003 presentation.

(3) Airport Facilities

A summary of changes in capital assets for the years ending September 30, 2003 and 2002 is as follows:

	Beginning Balance As restated <u>October 1, 2002</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2003</u>
Capital assets being depreciated:				
Terminal building	\$ 284,267,079	\$ 5,540,527	\$ -	\$ 289,807,606
Apron area	28,582,338	-	-	28,582,338
Terminal area	24,748,708	-	-	24,748,708
Other buildings	31,162,927	-	(4,502,942)	26,659,985
Airfield area	28,315,315	-	-	28,315,314
Support facilities	<u>900,327</u>	<u>5,016,912</u>	<u>-</u>	<u>5,917,239</u>
 Total capital assets being depreciated	 397,976,694	 10,557,439	 (4,502,942)	 404,031,191
Less accumulated depreciation	<u>(133,200,811)</u>	<u>(17,342,181)</u>	<u>-</u>	<u>(150,542,992)</u>
 Net capital assets being depreciated	 <u>264,775,883</u>	 <u>(6,784,742)</u>	 <u>(4,502,942)</u>	 <u>253,488,199</u>
Capital assets not being depreciated:				
Construction in progress	26,675,697	16,377,224	(8,147,797)	34,905,124
Land	<u>54,224,194</u>	<u>-</u>	<u>-</u>	<u>54,224,194</u>
 Total capital assets not being depreciated	 <u>80,899,891</u>	 <u>16,377,224</u>	 <u>(8,147,797)</u>	 <u>89,129,318</u>
	<u>\$ 345,675,774</u>	<u>\$ 9,592,482</u>	<u>\$ (12,650,739)</u>	<u>\$ 342,617,517</u>

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(3) Airport Facilities, Continued

	Beginning Balance As restated <u>October 1, 2001</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance As restated <u>September 30, 2002</u>
Capital assets being depreciated:				
Terminal building	\$ 283,428,593	\$ 2,137,587	\$ (1,299,101)	\$ 284,267,079
Apron area	28,582,338	-	-	28,582,338
Terminal area	22,033,195	2,715,513	-	24,748,708
Other buildings	26,080,786	5,082,141	-	31,162,927
Airfield area	23,597,888	4,717,427	-	28,315,315
Support facilities	<u>900,327</u>	<u>-</u>	<u>-</u>	<u>900,327</u>
 Total capital assets being depreciated	 384,623,127	 14,652,668	 (1,299,101)	 397,976,694
Less accumulated depreciation	<u>(117,467,162)</u>	<u>(16,253,289)</u>	<u>519,640</u>	<u>(133,200,811)</u>
 Net capital assets being depreciated	 <u>267,155,965</u>	 <u>(1,600,621)</u>	 <u>(779,461)</u>	 <u>264,775,883</u>
Capital assets not being depreciated:				
Construction in progress	25,180,109	17,415,636	(15,920,048)	26,675,697
Land	<u>54,224,194</u>	<u>-</u>	<u>-</u>	<u>54,224,194</u>
 Total capital assets not being depreciated	 <u>79,404,303</u>	 <u>17,415,636</u>	 <u>(15,920,048)</u>	 <u>80,899,891</u>
	<u>\$ 346,560,268</u>	<u>\$ 15,815,015</u>	<u>\$ (16,699,509)</u>	<u>\$ 345,675,774</u>

Interest capitalized for the years ended September 30, 2003 and 2002, was \$1,179,865 and \$1,719,617, respectively.

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

In September 2000, the United States Navy (Navy) transferred approximately 1,417 acres of property surrounding the Airport facilities to the Authority and the Government of Guam at no cost. This land is recorded at its appraised value of \$51,210,000 in the accompanying financial statements. In fiscal year 2001, the Navy paid the Authority \$10 million and the Authority and the Government of Guam will assume the responsibility for completion of certain environmental monitoring on the property. This payment from the Navy is included in restricted net assets in the accompanying financial statements.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(4) Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
General Revenue Bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually on October and April, principal fund payments due in varying annual installments with \$5,600,000 due in October, 2004, and increasing to \$12,295,000 by October 2023.	\$ 216,250,000	\$ -
General Revenue Bonds, Series 1993 (original issue of \$240,015,000):		
Varying interest rates (5.7% - 6.7%) payable semiannually in October and April, principal and mandatory sinking fund payments due in varying annual installments with \$405,000 due in October, 1994, and increasing to \$17,800,000 by October 2023.	-	<u>216,185,000</u>
Total	216,250,000	216,185,000
Less current installments	-	<u>4,660,000</u>
	216,250,000	211,525,000
Add net unamortized premium on bonds	9,856,046	-
Less unamortized discount on bonds	-	852,319
Less deferred difference on refunding of 1993 bonds	<u>(7,937,352)</u>	-
	\$ <u>218,168,694</u>	\$ <u>210,672,681</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$ -	\$ 5,179,816	\$ 5,179,816
2005	5,600,000	10,255,208	15,855,208
2006	6,685,000	10,098,494	16,783,494
2007	7,640,000	9,797,969	17,437,969
2008	8,030,000	9,421,519	17,451,519
2009	7,335,000	9,066,344	16,401,344
2010 through 2013	35,545,000	32,435,988	67,980,988
2014 through 2017	43,240,000	25,403,170	68,643,170
2018 through 2021	53,430,000	15,893,772	69,323,772
2022-2024	<u>48,745,000</u>	<u>3,858,163</u>	<u>52,603,163</u>
	\$ <u>216,250,000</u>	\$ <u>131,410,443</u>	\$ <u>347,660,443</u>

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (4) Long-Term Revenue Bonds Payable, Continued

On September 30, 2003, the Authority issued \$216,250,000 in Series 2003 General Revenue Bonds to retire \$216,185,000 of outstanding 1993 Series bonds. The net proceeds of \$192,699,547 (after payment of \$11,007,710 in underwriting fees, insurance, and other issuance costs) plus an additional \$30,969,034 of 1993 Series fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the refunding of the 1993 bonds on October 31, 2003. The refunding meets the requirements of a legal defeasance and as a result, the 1993 bonds and the related securities held by the escrow agent have been removed from the accompanying 2003 financial statements.

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

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount will be deferred and amortized over the remaining life of the 1993 bonds and is reflected as a reduction of the bond liability in the accompanying 2003 financial statements.

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

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

## (5) Investments and Cash with Trustees

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the monies. At September 30, 2003 and 2002, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2003</u>	<u>2002</u>
Federal Grant Fund	\$ 16,228,840	\$ 15,224,552
Capital Improvement Fund	251,608	10,775,988
Operations and Maintenance Reserve Fund	6,156,397	7,600,485
Self-insurance Fund	3,047,607	3,002,370
General Revenue Fund	3,824,676	2,644,745
Operations and Maintenance Fund	<u>1,347,238</u>	<u>25,587</u>
Total Unrestricted	<u>30,856,366</u>	<u>39,273,727</u>

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(5) Investments and Cash with Trustees, Continued

	<u>2003</u>	<u>2002</u>
Bond Reserve Funds	18,698,932	19,655,485
Bond Funds	162,011	11,970,259
Renewal and Replacement Fund	3,005,284	8,367,731
Passenger Facility Charge Fund	359,990	100,880
Cost of Issuance Fund	<u>1,852,839</u>	<u>-</u>
Total Restricted	<u>24,079,056</u>	<u>40,094,355</u>
	\$ <u>54,935,422</u>	\$ <u>79,368,082</u>

The Authority's investments at September 30, 2003 and 2002, are held by the Authority's trustees. Investments are stated at amortized cost including accrued interest. The carrying value of investments at September 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Money market/trust funds	\$ 19,615,050	\$ 19,036,287
Investment agreements	18,698,932	19,655,485
Short-term investments (commercial paper and corporate bonds)	4,497,696	35,016,402
U.S. Treasury notes	<u>12,123,744</u>	<u>5,659,908</u>
	\$ <u>54,935,422</u>	\$ <u>79,368,082</u>

The market value of investments and cash with trustees at September 30, 2003 and 2002 approximates its carrying value.

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

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

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

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

The bond funds and a portion of the federal grant fund amounting to \$157,294 and \$14,492,307 as of September 30, 2003 and 2002, respectively, as well as the self-insurance fund of \$2,999,626 as of September 30, 2003, have been classified as Category 3 investments. All other investments held by the trustees at September 30, 2003 and 2002, have been classified as Category 1 investments.

The Authority maintains its cash in bank accounts which at times may exceed federal depository insurance limits. At September 30, 2003 and 2002, \$200,000 of deposits are covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

## GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

### (6) Employees' Retirement Plan

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

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

As a result of an actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2003, a minimum combined employer and employee contribution rate of 31.74% (9.5% for employees and 22.24% for employer) of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003. The statutory employer and employee contribution rates for the year ended September 30, 2002 were 19.8016% and 9.5%, respectively.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 5.5% per annum. The actuarial valuation performed as of September 30, 2001, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2003 and 2002, may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions DCRS employees for the years ended September 30, 2003 and 2002 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (6) Employees' Retirement Plan, Continued

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

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

In 2002, the Government of Guam, as a whole, adopted the provisions of Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*.

## (7) Leases

### DFS

In August 1978, DFS was selected as primary concessionaire for the airport terminal for a twenty year term commencing January 1982. Upon expiration of the lease on January 21, 2002, the Authority entered into an one-year Interim License Agreement with DFS. Under the interim agreement, the Authority earned a fixed license fee of \$4,800,000. In November 2002, DFS was again selected as primary concessionaire for the airport terminal for a ten year term commencing January 2003.

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

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

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

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

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

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (7) Leases, Continued

The future minimum lease receipts under the remainder of the Interim License Agreement and the new Concession Agreement as of September 30, 2003 are as follows:

<u>Year Ending September 30,</u>	
2004	\$ 4,348,118
2005	4,500,000
2006	4,500,000
2007	4,500,000
2008	4,500,000
Subsequent years	<u>19,366,934</u>
Total minimum lease payments receivable	\$ <u>41,715,052</u>

## Other Leases

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

The future minimum rentals on noncancellable operating leases (excluding the DFS lease described above) as of September 30, 2003, are as follows:

<u>Year Ending September 30,</u>	
2004	\$ 6,301,066
2005	3,293,984
2006	2,927,288
2007	2,791,133
2008	675,601
Subsequent years	<u>4,471,844</u>
Total minimum lease payments receivable	\$ <u>20,460,916</u>

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(8) Long Term Liabilities

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

	Outstanding September 30, <u>2002</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2003</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued unfunded liability to retirement fund	\$ 443,000	\$ 464,868	\$ -	\$ 907,868	\$ -	\$ 907,868
Accrued annual leave	1,031,503	-	29,622	1,001,881	490,571	511,310
1993 General revenue bonds	210,672,681	-	210,672,681	-	-	-
2003 General revenue bonds	-	<u>218,168,694</u>	-	<u>218,168,694</u>	-	<u>218,168,694</u>
	<u>\$ 212,147,184</u>	<u>\$ 218,633,562</u>	<u>\$ 210,702,303</u>	<u>\$ 220,078,443</u>	<u>\$ 490,571</u>	<u>\$ 219,587,872</u>

(9) Commitments and Contingencies

Environmental Monitoring

In September 2000, the Navy transferred 1,417 acres of property to the Authority and the Government of Guam at no cost. In November 2000, the Navy paid the Authority \$10 million. In exchange for the payment, the Authority and the Government of Guam agreed to complete certain environmental monitoring work on the property even if the cost of the environmental monitoring work exceeds the \$10 million remitted by the Navy. Under this cooperative agreement, the United States Navy may terminate or suspend the agreement if the Authority and the Government of Guam fail to complete such monitoring work. The \$10 million received is included in restricted net assets in the accompanying financial statements. The future cost of the environmental monitoring work is presently not determinable. Accordingly, no loss, if any, that may result from the matter, has been recorded in the accompanying financial statements for this transaction. As part of its transitional plan of the property transferred from the Navy, the Authority was appointed, by the Governor of Guam through Executive Order, as the lead agency and caretaker of the Tiyan Reuse Authority (TRA), effective October 1, 2000. TRA functions to maintain and upkeep the transferred property. For the years ended September 30, 2003 and 2002, the Authority incurred TRA payroll costs of \$198,184 and \$1,032,894, respectively, which have been recorded as a non-operating expense. The Authority is responsible for TRA payroll expenses through the pay period ended October 5, 2002.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (9) Commitments and Contingencies, Continued

### Federal Program Questioned Costs

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects through the Airport Improvement Program (AIP). These grants are subject to financial and compliance audits to ascertain whether federal laws and regulations have been followed. Questioned costs at September 30, 2002 were \$3,180,944 and additional questioned costs are anticipated for 2003. If some or all of these questioned costs are ultimately disallowed, the Authority may be charged for the necessary reimbursement to the grantor agency. The ultimate resolution of this uncertainty cannot be presently determined; therefore, no provision has been made in the accompanying financial statements.

### Commitments

The Authority has commitments of \$5,868,974 under several contracts at September 30, 2003.

### Self-Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon coverage. The Authority has also adopted a policy of depositing \$1 million annually, in the Renewal and Replacement Fund to cover self-insured damage in the event of a natural catastrophe. The Authority further established the Self-insurance Fund after the July 2002 typhoon. The balances in the Renewal and Replacement Fund and Self-insurance Fund are \$3,005,284 and \$3,047,607, respectively, at September 30, 2003 and \$8,367,731 and \$3,002,370, respectively, at September 30, 2002.

### Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain autonomous proprietary funds, including the Authority, to remit certain amounts to the Government of Guam General Fund on an annual basis. Management of the Authority is of the opinion that the wording of the legislation is not in compliance with federal requirements. Accordingly, no liability has been recorded for this contingency as of September 30, 2003.

### Land Transfer

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

### Other Litigation

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

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (9) Commitments and Contingencies, Continued

### Aircraft Crash

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

## (10) Major Customers

The primary concessionaire accounted for 11% and 28% of total operating revenues during the years ended September 30, 2003 and 2002, respectively. Approximately 42% and 25% of the Authority's total revenues for the years ended September 30, 2003 and 2002, respectively, were derived from one airline customer. Receivables from the airline customer were \$2,196,283 and \$3,280,341 at September 30, 2003 and 2002, respectively.

## (11) Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2003 and 2002, 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, 2003 and 2002, the Authority recorded payables to the Treasurer of Guam of \$1,514,586 and \$2,150,296, respectively, for the above charges, of which \$1,249,015 and \$1,617,437 are receivable from airlines. The fees are not reflected as an expense or revenue by the Authority.

## (12) September 11, 2001

On September 11, 2001, a series of aviation related terrorist attacks were made on the United States of America. As a result of the attacks, the Federal Aviation Administration (FAA) ordered airports across the United States, including the Authority, to close pending recertification of their security systems and procedures. The FAA has also required that all airports upgrade security systems, procedures and facilities as a result of the attack.

The long-term impact of the attacks is that there has been a significant reduction in air travel by Japanese and other Asian travelers who make up the bulk of the Authority's ultimate customers.

The Authority experienced a significant decline in revenue during the second half of September 2001 and the decline in revenue from previous years continued during the first half of fiscal year 2002.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (12) September 11, 2001, Continued

The Authority continues to incur additional security related costs and has begun construction on several security related projects. The Authority self funded several security related capital projects approximating \$1,460,000 during the year ended September 30, 2002. The Authority received a federal grant award in the amount of \$2,182,341 from the FAA for reimbursements of direct operating costs, of which \$1,731,759 and \$154,024, has been expended and recorded as nonrecurring expense for the years ended September 30, 2002 and 2001, respectively. In addition, the Authority was awarded another FAA grant in the amount of \$5,454,744 for security enhancement projects in September 2002. A minimal amount of this grant has been expended as of September 30, 2002.

## (13) Non-Recurring Expenses

Non-recurring expenses incurred for the years ended September 30, 2003 and 2002 consist of the following:

	<u>2003</u>	<u>2002</u>
Tiyan Reuse Authority payroll costs	\$ 198,184	\$ 1,032,894
Typhoon related expense	6,013,783	1,428,599
Earthquake related expense (recovery)	(66,428)	170,704
Abandoned projects	2,980,000	1,659,277
One-time promotional expense and off-island consultant	<u>1,880,950</u>	<u>627,500</u>
	\$ <u>11,006,489</u>	\$ <u>4,918,974</u>

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

## (14) Typhoon Costs

On December 8, 2002, a supertyphoon struck Guam, causing substantial damage to the Authority's facilities. Estimated repair costs as of September 30, 2003 are \$6,013,783. This amount is an estimate and actual damages may be materially different from this estimate. The typhoon also severely damaged security fences around the Airport facility which will require replacement. The estimated cost to replace and upgrade the security fences is approximately \$19,000,000. Approximately 90% of this replacement cost is expected to be covered by a Federal Aviation Administration grant. Other liabilities at September 30, 2003, include \$2,559,447 of accrued repair costs related to the supertyphoon.

## (15) Prior Period Adjustments

On September 29, 2000, the Authority received a Quitclaim Deed from the U.S. Government for the former Naval Air Station property of approximately 1,417 acres. The Authority received the property at no cost. However, an appraisal was completed in January 2004, which estimated the fair market value of the Tiyan properties to be \$51,210,000 as of September 30, 2000. The accompanying 2002 financial statements have been restated to reflect the property at its appraised value.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(15) Prior Period Adjustments, Continued

The Authority adopted GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions” effective October 1, 2000 and adopted GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” effective October 1, 2001. GASB No. 33 and GASB No. 34 require that recipients of grants and other government mandated non-exchange transactions with restrictions on use of the grant proceeds recognize restricted revenue from the grant when grant resources are received rather than when use restrictions are met. In 2002, the Authority had recorded grant proceeds received prior to being earned as deferred revenue rather than as restricted revenue.

The effects of these restatements on the accompanying 2002 financial statements are as follows:

	2002 As previously <u>presented</u>	2002 <u>As restated</u>	<u>Difference</u>
Capital assets	\$ 294,465,774	\$ 345,675,774	\$ 51,210,000
Deferred income – federal awards	584,032	-	(584,032)
Deferred income – long-term	10,000,000	-	(10,000,000)
Net assets	<u>148,778,980</u>	<u>210,573,012</u>	<u>61,794,032</u>
Decrease in net assets	\$ <u>(9,760,828)</u>	\$ <u>(9,176,796)</u>	\$ <u>584,032</u>

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule 1

Facilities and Systems Usage Charges  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Departure facilities	\$ 4,973,439	\$ 4,467,575
Arrival facilities	4,722,176	4,615,330
Landing fees	3,900,232	2,549,559
Passenger loading bridge usage charge	2,269,675	1,666,528
Public apron	2,243,257	2,246,814
Immigration	1,599,297	1,421,740
Fuel flowage fee	248,426	241,675
Utility recovery charge and other fees	<u>195,017</u>	<u>293,526</u>
	<u>\$ 20,151,519</u>	<u>\$ 17,502,747</u>

Schedule 2

Concession Fees  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
General merchandise	\$ 4,312,865	\$ 12,521,844
Ground transportation	1,817,747	2,369,855
Car rental	712,667	720,752
Food and beverage	553,884	500,539
In-flight catering	529,635	696,920
Parking lot	389,875	417,459
Other	263,861	384,154
Advertising	<u>91,618</u>	<u>414,772</u>
	<u>\$ 8,672,152</u>	<u>\$ 18,026,295</u>

Schedule 3

Rental Income  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating space		
- Airline	\$ 3,064,874	\$ 3,432,179
- Non-airline	1,872,080	1,615,518
Building and maintenance shop rentals	1,683,265	1,467,810
Cargo rentals	498,043	509,850
Other	<u>971,302</u>	<u>986,490</u>
	<u>\$ 8,089,564</u>	<u>\$ 8,011,847</u>

See accompanying independent auditors' report.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule 4

Contractual Services  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Repairs and maintenance	\$ 4,807,898	\$ 5,209,075
Utilities and telephone	4,121,512	4,414,617
Insurance	1,379,403	827,955
Professional services	1,155,050	1,368,400
Travel	517,396	1,033,075
Legal fees	510,351	1,132,034
Advertising and promotions	203,987	1,257,550
Miscellaneous	531,143	1,156,153
	<u>\$ 13,226,740</u>	<u>\$ 16,398,859</u>

Schedule 5

Personnel Services  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Salaries and wages	\$ 8,463,930	\$ 9,272,486
Retirement contributions	2,095,330	1,509,268
Insurance	657,352	630,040
	<u>\$ 11,216,612</u>	<u>\$ 11,411,794</u>
Employee count in September	<u>262</u>	<u>288</u>

Schedule 6

Materials And Supplies  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Equipment and vehicle maintenance and supplies	\$ 537,818	\$ 354,788
Office and security supplies	118,706	76,181
Electrical and plumbing	111,444	151,788
Building maintenance and supplies	83,424	132,163
Miscellaneous	34,480	27,789
	<u>\$ 885,872</u>	<u>\$ 742,709</u>

See accompanying independent auditors' report.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule 7

Insurance Coverage  
Year Ended September 30, 2003

<u>Name of Insurer</u>	<u>Policy</u>	<u>Risk Coverage</u>
Lloyds of London	Airport Operators Liability	\$ 500,000,000
Lloyds of London	Property Insurance	\$ 214,220,105
American Home Assurance Co.	Directors & Officers Liability	\$ 4,000,000
National Union Fire Insurance	Automobile	\$ 1,000,000
National Union Fire Insurance	Workers' Compensation	\$ 1,000,000
American Home Assurance Co.	Excess Automobile	\$ 1,000,000
American Home Assurance Co.	Crime Insurance	\$ 925,000
AON	Employment Practices Liability	\$ 1,000,000

See accompanying independent auditors' report.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule 8

Reconciliation of Historical Financial Results  
Years Ended September 30, 2003 and 2002

	2003	2002
	<u>1993 Bond Issue</u>	<u>1993 Bond Issue</u>
Change in net assets:		
Revenues	\$ 44,007,733	\$ 50,340,938
Expenses	<u>25,449,621</u>	<u>28,587,542</u>
Income before depreciation	18,558,112	21,753,396
Depreciation	<u>17,475,156</u>	<u>16,528,798</u>
	1,082,956	5,224,598
Interest and other expense	(25,421,120)	(19,286,620)
Grants from the United States Government	<u>7,652,411</u>	<u>4,885,226</u>
Decrease in net assets	<u>\$ (16,685,753)</u>	<u>\$ (9,176,796)</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 43,566,354	\$ 49,272,194
Operation and maintenance expenses	<u>26,453,486</u>	<u>29,786,471</u>
Net revenues available for debt service	<u>17,112,868</u>	<u>19,485,723</u>
Reconciliation:		
Change in net assets	\$ (16,685,753)	\$ (9,176,796)
Add back:		
Depreciation	17,475,156	16,528,798
Interest expense	12,858,234	12,674,770
Typhoon and earthquake expenses	5,947,355	1,599,303
Abandoned capital projects	2,980,000	1,659,277
Change in unfunded retirement liability	464,868	(28,000)
Deduct:		
Interest income on funds related to construction	(441,379)	(1,068,744)
Capital grants from the United States Government	<u>(5,485,613)</u>	<u>(2,702,885)</u>
	<u>17,112,868</u>	<u>19,485,723</u>
Other available moneys	<u>4,747,025</u>	<u>4,748,341</u>
Funds available for debt service	<u>\$ 21,859,893</u>	<u>\$ 24,234,064</u>
Debt service	18,988,099	18,993,341
Amount received from 2003 bond issuance	<u>(2,500,000)</u>	<u>-</u>
Net debt service	<u>\$ 16,488,099</u>	<u>\$ 18,993,341</u>

See accompanying independent auditors' report.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule 9

Other Expenses and Projects  
Years Ended September 30, 2003 and 2002

	2003				Total	2002
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr		
Birdman Rally	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,660,555
Tiyan Reuse Authority Payroll Costs	194,372	3,812	-	-	198,184	1,032,894
VIP Lounge and Aviation Museum	1,400,000	-	-	-	1,400,000	350,000
Airport Park	-	-	-	-	-	32,910
Governor's Statues	1,230,000	-	-	-	1,230,000	205,000
Matapang Park	-	-	-	-	-	91,362
Terra Cotta Warrior Exhibit	541,537	708,018	380,966	-	1,630,521	-
	<u>\$ 3,365,909</u>	<u>\$ 711,830</u>	<u>\$ 380,966</u>	<u>\$ -</u>	<u>\$ 4,458,705</u>	<u>\$ 3,372,721</u>

See accompanying independent auditors' report.