

GUAM INTERNATIONAL AIRPORT AUTHORITY

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

YEARS ENDED SEPTEMBER 30, 2002 AND 2001



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, 2002 and 2001, and the related statements of revenues, expenses and change 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, 2002 and 2001, 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.

As discussed in note 1 to the financial statements, the Authority adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, as of October 1, 2001. The accompanying 2001 financial statements have been restated to reflect the changes required by GASB 34.

Additionally, as discussed in note 6, the Authority adopted Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*. The accompanying 2001 financial statements have been restated to reflect the changes.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2003, 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.

Deloitte + Touche LLP

March 21, 2003

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Management Discussion and Analysis Year Ending September 30, 2002

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, 2002. 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 1,327,621 total enplanements (9.6% domestic, 90.4% international) for fiscal year 2002.

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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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, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>	<u>% Increase (Decrease) from 2001</u>
Passenger (enplanements) activity:			
Signatory airlines	1,263,307	1,651,718	-23.5%
Non-signatory airlines	<u>64,314</u>	<u>29,112</u>	<u>120.9%</u>
Total enplanements	<u>1,327,621</u>	<u>1,680,830</u>	<u>-21.0%</u>
Aircraft operations	63,658	72,022	-11.6%
Aircraft landed weights (000,000)	<u>3,110</u>	<u>3,537</u>	<u>-12.1%</u>
O & D passengers	2,294,000	2,877,000	-20.3%
Transfer passengers	<u>213,000</u>	<u>282,000</u>	<u>-24.5%</u>
Total passengers	<u>2,507,000</u>	<u>3,159,000</u>	<u>-20.6%</u>
Major revenue sources:			
Landing fees	\$ 2,550,000	\$ 1,344,000	89.7%
Terminal lease	8,012,000	7,358,000	8.9%
Concessions and parking	<u>18,026,000</u>	<u>16,683,000</u>	<u>8.1%</u>
Total	\$ <u>28,588,000</u>	\$ <u>25,385,000</u>	<u>12.6%</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 2001 and fiscal year 2002 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
Oct. 10, 2000 - Sept. 30, 2001	\$ 0.37
Oct 1, 2001 - Jan. 31, 2002	\$ -
Feb. 1, 2002 - June 30, 2002	\$ 0.36
July 1, 2002 - September 30, 2002	\$ 2.74
	per thousand pounds GTW

*Signatory airlines only

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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 Micronesia 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, 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. As a result, the decrease in net assets for fiscal year 2002 was \$9.8 million as compared to a decrease of \$2.6 million for fiscal year 2001.

A summary of operations and changes in net assets for the years ended September 30, 2002 and 2001 follows:

	<u>2002</u>	<u>2001</u>	<u>% Increase (Decrease) from 2001</u>
Operating revenues	\$ 43,953,737	\$ 42,784,695	2.7%
Operating expenses, excluding depreciation	<u>(28,587,542)</u>	<u>(26,577,386)</u>	<u>7.5%</u>
Operating income before depreciation	15,366,195	16,207,309	-5.2%
Depreciation and amortization	<u>(16,528,798)</u>	<u>(15,699,524)</u>	<u>5.3%</u>
Earnings (loss) from operations	(1,162,603)	507,785	-328.9%
Non-operating income (expenses) - net	<u>(11,301,110)</u>	<u>(5,251,768)</u>	<u>115.2%</u>
Loss before capital contributions	(12,463,713)	(4,743,983)	162.7%
Grants from the United States Government	<u>2,702,885</u>	<u>2,159,279</u>	<u>25.2%</u>
Net decrease in net assets	\$ <u>(9,760,828)</u>	\$ <u>(2,584,704)</u>	<u>277.6%</u>

A comparison of activities between fiscal years 2002 and 2001 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 23.5% from 1,651,718 in fiscal year 2001 to 1,263,307 in fiscal year 2002.

Operating revenues saw a marginal increase of 2.7% from \$42,784,695 in fiscal year 2001 to \$43,953,737 in fiscal year 2002. In light of declining airport activities, management adjusted its enplanement costs from \$11.87 in fiscal year 2001 to \$14.65 in fiscal year 2002 based on airline projections and Authority anticipated expenses. This move kept operating revenues stable but a large increase in operating expenses greatly reduced operating income. Operating expenses excluding depreciation increased from \$26,577,386 in fiscal year 2001 to \$28,587,542 in fiscal year 2002, a 7.5% increase, and net operating income before depreciation dropped from \$16,207,309 in fiscal year 2001 to \$15,366,195 in fiscal year 2002, a 5.2% decrease.

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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.

EXCEPTIONAL NON-RECURRING ISSUES

A management lapse caused extraordinarily high costs to be incurred without offsetting revenues. These exceptional costs caused a serious impact on the Authority's cash flow in 2002 and at the present time. Excessive spending remained unchecked throughout the year. These significant costs came in the form of unbridled marketing and promotion activity, excessive travel and the questionable hiring of consultants off-island. These are outlined below.

CIP, Marketing and Promotions

*Statues and Aviation Museum Plan	\$ 3,185,000.00
*Travel (unrelated to Airport Certification)	1,530,375.00
Birdman Rally	1,660,555.00
*Chinese Art Exhibition	863,323.00

Off-Island Consultants

*Glory Link	227,950.41
*K. Gold	164,979.28
*China Link	82,479.00

Golf Tournament

456,343.72

Total \$ 8,171,005.41

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. Further, a portion of those expenses identified with an asterisk (*) will unfortunately have an overspill into the 2003 Fiscal Year totaling \$4,241,052.41.

ACTION PLANS IMPLEMENTED FOR STABILIZATION, RECOVERY AND ACCOUNTABILITY INCLUDE:

- Change of top management and members of the GIAA Board of Directors.
- Temporary cessation of all capital projects not federally funded or vital to the Authority's mission.
- Immediate cancellation of all off-island consultants contracts.
- Stopped all non-essential travel.
- Cancelled all Government credit cards.

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- Re-implemented the stringent procurement policy which follows Government guidelines with Board oversight.
- Employed a highly qualified C.P.A. with airport experience to serve as Financial Controller.

Further, we stabilized the Airport Authority through “Right Sizing” efforts. In particular, we have initiated a Layoff/Furlough Plan which will impact over 70 employees by fiscal year end 2003. This, coupled with outsourcing remaining repair and maintenance functions, will represent a cost savings to the Authority of approximately \$3.5 million.

FINANCIAL POSITION SUMMARY

A condensed summary of the Guam International Airport Authority’s statements of net assets at September 30, 2002 and 2001 is shown below:

	<u>2002</u>	<u>2001</u>	<u>% Increase (Decrease) from 2001</u>
<u>ASSETS</u>			
Current assets:			
Unrestricted assets	\$ 9,449,727	\$ 5,861,000	61.2%
Restricted assets	7,190,688	3,352,795	114.5%
Non-current assets:			
Unrestricted assets	39,273,727	55,370,326	-29.1%
Restricted assets	40,094,355	45,802,666	-12.5%
Capital assets	294,465,774	295,350,268	-0.3%
Deferred bond issue costs	<u>2,146,286</u>	<u>2,278,316</u>	<u>-5.8%</u>
Total	\$ <u>392,620,557</u>	\$ <u>408,015,371</u>	<u>-3.8%</u>
<u>LIABILITIES</u>			
Current liabilities:			
Payable from unrestricted assets	\$ 7,637,040	\$ 9,393,449	-18.7%
Payable from restricted assets	14,561,010	13,801,889	5.5%
Long term liabilities	<u>221,643,527</u>	<u>226,280,225</u>	<u>-1.6%</u>
Total	\$ <u>243,841,577</u>	\$ <u>249,475,563</u>	<u>-1.9%</u>
<u>NET ASSETS</u>			
Invested in capital assets - net of related debt	\$ 81,279,380	\$ 77,973,341	4.2%
Restricted	37,384,033	39,728,572	-5.9%
Unrestricted	<u>30,115,567</u>	<u>40,837,895</u>	<u>-30.1%</u>
Total	\$ <u>148,778,980</u>	\$ <u>158,539,808</u>	<u>-6.8%</u>

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The Authority's investments in capital assets net of related debt make up 55% 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 is 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. Net assets exceeded liabilities by \$148,778,980 at September 30, 2002, and decreased \$9,760,828 from September 30, 2001.

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, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Terminal building rental:		
Signatory	47.53	48.95
Non-signatory	48.26	50.66
Departure fees:		
Signatory	3.24	2.94
Non-signatory	3.27	3.04
Arrival fees:		
Signatory	3.98	3.70
Non-signatory	4.03	3.83
Immigration inspection fees:		
Signatory	1.35	1.41
Non-signatory	1.36	1.45
Loading bridge use fees:		
Signatory	177.25	173.21
Non-signatory	228.43	293.43
Apron use fees:		
Signatory	0.66	0.64
Non-signatory	0.80	1.01
Landing fees:		
Signatory	0.69	0.37
Non-signatory	0.69	0.47

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REVENUES

A summary of revenues for the fiscal year ended September 30, 2002 and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2002</u>	<u>Percent of Total</u>	Increase (Decrease) from 2001	
			<u>Amount</u>	<u>Percent</u>
Operating:				
Facilities and use charges:				
Arrival facilities	\$ 4,615,330	8.5%	\$ (527,511)	-10.3%
Departure facilities	4,467,575	8.2%	(498,232)	-10.0%
Landing fees	2,549,559	4.7%	1,205,076	89.6%
Public apron	2,246,814	4.1%	(6,369)	-0.3%
Passenger loading bridge	1,666,528	3.0%	(145,398)	-8.0%
Immigration	1,421,740	2.6%	(396,548)	-21.8%
Fuel flowage fee	241,675	0.4%	(11,278)	-4.5%
Utility recovery charge and other fees	<u>293,526</u>	<u>0.5%</u>	<u>(370,627)</u>	<u>-55.8%</u>
Total facilities and use charges	<u>17,502,747</u>	<u>32.0%</u>	<u>(750,887)</u>	<u>-4.1%</u>
Concession fees:				
General merchandise	\$ 12,521,844	22.9%	\$ 2,283,686	22.3%
Ground transportation	2,369,855	4.3%	(721,351)	-23.3%
Car rental	720,752	1.3%	(42,777)	-5.6%
In-flight catering	696,920	1.3%	(140,088)	-16.7%
Food and beverage	500,539	0.9%	2,927	0.6%
Other	<u>1,216,385</u>	<u>2.2%</u>	<u>(38,628)</u>	<u>-3.1%</u>
Total concession fees	<u>18,026,295</u>	<u>32.9%</u>	<u>1,343,769</u>	<u>-8.1%</u>
Rental income:				
Operating space - airline	\$ 3,432,179	6.3%	\$ 43,556	1.3%
Operating space - non-airline	1,615,518	3.0%	(18,172)	-1.1%
Other	<u>2,964,150</u>	<u>5.4%</u>	<u>628,164</u>	<u>26.9%</u>
Total rental income	<u>8,011,847</u>	<u>14.7%</u>	<u>653,548</u>	<u>8.9%</u>
Miscellaneous	<u>412,848</u>	<u>0.8%</u>	<u>(77,388)</u>	<u>-15.8%</u>
Total operating	<u>43,953,737</u>	<u>80.4%</u>	<u>1,169,042</u>	<u>2.7%</u>
Non-Operating:				
Interest income	\$ 2,992,586	5.5%	\$ (2,232,769)	-42.7%
Passenger facility charge	3,394,615	6.2%	(952,109)	-21.9%
Grants from the U. S. Government	<u>4,301,194</u>	<u>7.9%</u>	<u>2,141,915</u>	<u>99.2%</u>
Total non-operating	<u>10,688,395</u>	<u>19.6%</u>	<u>(1,042,963)</u>	<u>-8.9%</u>
Total revenues	<u>\$ 54,642,132</u>	<u>100.0%</u>	<u>\$ 126,079</u>	<u>0.2%</u>

Grants from the United States Government grew nearly 100% from \$2.1 million in fiscal year 2001 to \$4.3 million in fiscal year 2002. The majority of monies received are reimbursements for the additional direct security related costs and for security enhancement projects.

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EXPENSES

A summary of expenses for the fiscal year ended September 30, 2002, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2002</u>	<u>Percent of Total</u>	Increase (Decrease) from 2001	
			<u>Amount</u>	<u>Percent</u>
Operating:				
Contractual services	\$ 16,398,859	25.5%	\$ 2,013,375	14.0 %
Personnel services	11,411,794	17.7%	684,756	6.4 %
Materials and supplies	742,709	1.1%	(436,054)	-37.0 %
Bad debt expense	<u>34,180</u>	<u>0.1%</u>	<u>(251,921)</u>	<u>-88.1 %</u>
Total operating	<u>28,587,542</u>	<u>44.4%</u>	<u>2,010,156</u>	<u>7.6 %</u>
Depreciation and amortization	<u>16,528,798</u>	<u>25.7%</u>	<u>829,274</u>	<u>5.3 %</u>
Non-Operating:				
Interest expense	12,674,770	19.7%	(619,650)	-4.7 %
Other expenses	<u>6,611,850</u>	<u>10.2%</u>	<u>5,082,423</u>	<u>332.3 %</u>
Total non-operating	<u>19,286,620</u>	<u>29.9%</u>	<u>4,462,773</u>	<u>30.1 %</u>
Total Expenses	\$ <u>64,402,960</u>	<u>100.0%</u>	\$ <u>7,302,203</u>	<u>12.8 %</u>

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Statements of Net Assets
September 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u> As restated (note 6)
Current assets:		
Unrestricted assets:		
Cash	\$ 1,524,333	\$ 1,783,709
Accounts receivable, trade, net of allowance for doubtful accounts of \$442,397 in 2002 and \$408,217 in 2001	7,806,344	4,050,068
Inventory	108,998	-
Prepaid expense	<u>10,052</u>	<u>27,223</u>
Total unrestricted assets	<u>9,449,727</u>	<u>5,861,000</u>
Restricted assets:		
Passenger facility charges, cash	4,178	57,660
Passenger facility charges, receivables	712,975	648,191
Customs fees, cash (note 11)	537,213	10,191
Customs fees, receivables (note 11)	1,617,437	1,457,140
Receivables from United States Government (note 12)	<u>4,318,885</u>	<u>1,179,613</u>
Total restricted assets	<u>7,190,688</u>	<u>3,352,795</u>
Total current assets	<u>16,640,415</u>	<u>9,213,795</u>
General Revenue Bonds, Series 1993 (notes 4 and 5):		
Investments and cash with trustees, unrestricted	39,273,727	55,370,326
Investments and cash with trustees, restricted	<u>40,094,355</u>	<u>45,802,666</u>
	<u>79,368,082</u>	<u>101,172,992</u>
Capital assets, at cost less accumulated depreciation (note 3)	294,465,774	295,350,268
Deferred bond issue costs	<u>2,146,286</u>	<u>2,278,316</u>
Total assets	<u>\$ 392,620,557</u>	<u>\$ 408,015,371</u>

See accompanying notes to financial statements.

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Statements of Net Assets
September 30, 2002 and 2001

<u>LIABILITIES AND NET ASSETS</u>	<u>2002</u>	<u>2001 As restated (note 6)</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 3,700,685	\$ 3,309,513
Other liabilities	1,128,561	377,535
Deferred income (note 8)	721,965	4,038,394
Current portion of annual leave	503,657	457,935
Accounts payable - construction	<u>1,582,172</u>	<u>1,210,072</u>
Total payable from unrestricted assets	<u>7,637,040</u>	<u>9,393,449</u>
Payable from restricted assets:		
Deferred income, federal awards (note 8)	584,032	-
Customs fees payable (note 11)	2,150,296	2,122,167
General Revenue Bonds, Series 1993 (note 4):		
Current installments	4,660,000	4,375,000
Accrued interest	<u>7,166,682</u>	<u>7,304,722</u>
Total payable from restricted assets	<u>14,561,010</u>	<u>13,801,889</u>
Total current liabilities	<u>22,198,050</u>	<u>23,195,338</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued unfunded liability to retirement fund (note 6)	443,000	471,000
Long-term portion of annual leave	527,846	528,982
Long-term portion of deferred income (notes 3 and 8)	10,000,000	10,000,000
Payable from restricted assets:		
Long-term bonds payable, less current installments (note 4):		
General Revenue Bonds, Series 1993	<u>210,672,681</u>	<u>215,280,243</u>
Total non-current liabilities	<u>221,643,527</u>	<u>226,280,225</u>
Total liabilities	<u>243,841,577</u>	<u>249,475,563</u>
Net assets:		
Invested in capital assets, net of related debt	81,279,380	77,973,341
Restricted	37,384,033	39,728,572
Unrestricted	<u>30,115,567</u>	<u>40,837,895</u>
Total net assets	<u>148,778,980</u>	<u>158,539,808</u>
Commitments and contingencies (notes 7, 9, 12, 13 and 14)	<u>\$ 392,620,557</u>	<u>\$ 408,015,371</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2002 and 2001

	2002	2001 As restated (note 6)
Revenues (notes 4 and 10):		
Facilities and systems usage charges	\$ 17,502,747	\$ 18,253,634
Concession fees (note 8)	18,026,295	16,682,526
Rental income	8,011,847	7,358,299
Miscellaneous	412,848	490,236
Total revenues	43,953,737	42,784,695
Operating costs and expenses:		
Contractual services	16,398,859	14,385,484
Personnel services	11,411,794	10,727,038
Materials and supplies	742,709	1,178,763
Bad debt expense	34,180	286,101
Total operating costs and expenses before depreciation and amortization	28,587,542	26,577,386
Depreciation and amortization	16,528,798	15,699,524
Total operating costs and expenses	45,116,340	42,276,910
(Loss) earnings from operations	(1,162,603)	507,785
Non-operating income (expense):		
Interest income	2,992,586	5,225,355
Interest expense	(12,674,770)	(13,294,420)
Passenger facility charge income	3,394,615	4,346,724
United States Government operating grant	1,598,309	-
Other income (expense)	66,589	(121,632)
Non-recurring expenses (notes 9 and 13)	(6,678,439)	(1,407,795)
Total non-operating expenses	(11,301,110)	(5,251,768)
Loss before capital contributions	(12,463,713)	(4,743,983)
Capital grants from the United States Government	2,702,885	2,159,279
Decrease in net assets	(9,760,828)	(2,584,704)
Total net assets at beginning of year	158,539,808	161,124,512
Total net assets at end of year	\$ 148,778,980	\$ 158,539,808

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u> As restated (note 6)
Cash flows from operating activities:		
Cash received from customers	\$ 36,686,555	\$ 42,987,449
Cash paid to suppliers and employees for goods and services	<u>(32,410,849)</u>	<u>(27,571,920)</u>
Net cash provided by operating activities	<u>4,275,706</u>	<u>15,415,529</u>
Cash flows from investing activities:		
Sales (purchases) of investments with trustee	21,639,669	(4,282,820)
Investment interest income	<u>3,157,827</u>	<u>4,903,821</u>
Net cash provided by investing activities	<u>24,797,496</u>	<u>621,001</u>
Cash flows from non-capital financing activities:		
Cash received from U.S. Government for environmental monitoring	-	10,000,000
Cash received from U.S. Government for reimbursement of aviation security related direct costs	<u>2,182,341</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>2,182,341</u>	<u>10,000,000</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(17,578,912)	(16,522,856)
Principal payment on General Revenue Bonds, Series 1993	(4,375,000)	(4,130,000)
Interest paid on General Revenue Bonds, Series 1993	(12,760,372)	(13,352,968)
U.S. Government capital contributions	343,074	3,395,313
Passenger facility charge receipts	<u>3,329,831</u>	<u>4,524,948</u>
Net cash used for capital and related financing activities	<u>(31,041,379)</u>	<u>(26,085,563)</u>
Net increase (decrease) in cash	214,164	(49,033)
Cash at beginning of year	<u>1,851,560</u>	<u>1,900,593</u>
Cash at end of year	<u>\$ 2,065,724</u>	<u>\$ 1,851,560</u>
Consisting of:		
Unrestricted	\$ 1,524,333	\$ 1,783,709
Restricted - current	<u>541,391</u>	<u>67,851</u>
	<u>\$ 2,065,724</u>	<u>\$ 1,851,560</u>

(Continued)

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u> As restated (note 6)
Reconciliation of (loss) earnings from operations and other expense to net cash provided by operating activities:		
(Loss) earnings from operations	\$ (1,162,603)	\$ 507,785
Non-recurring and other expense	<u>(6,611,850)</u>	<u>(1,529,427)</u>
	<u>(7,774,453)</u>	<u>(1,021,642)</u>
Adjustments to reconcile (loss) earnings from operations and other expense to net cash provided by operating activities:		
Depreciation and amortization	16,528,798	15,699,524
Bad debt expense	34,180	286,101
Abandoned projects	1,659,277	-
(Increase) decrease in assets:		
Accounts receivable	(3,950,753)	(144,469)
Inventory	(108,998)	-
Prepaid expense	17,171	57,363
Increase (decrease) in liabilities:		
Accounts payable	419,301	223,055
Accrued unfunded liability to retirement fund	(28,000)	19,000
Other liabilities	795,612	(50,626)
Deferred income	<u>(3,316,429)</u>	<u>347,223</u>
Total adjustments	<u>12,050,159</u>	<u>16,437,171</u>
Net cash provided by operating activities	<u>\$ 4,275,706</u>	<u>\$ 15,415,529</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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, 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, "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. 33 requires that non-exchange transactions and exchange like transactions be recognized as non-operating revenue. 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, 2002 and 2001, 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.

The provisions of GASB Statement No. 33 and No. 34 have been applied to the years presented.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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.

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 Discount. The discount on the 1993 General Revenue Bonds is being amortized on a weighted-average basis over the life of the bond issue.

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

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

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

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2002 and 2001

(2) Summary of Significant Accounting Policies, Continued

Risk Management. The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation and environmental liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters. The Authority is self insured for earthquake and typhoon risks as disclosed in note 9. In July 2002, a typhoon struck Guam and caused material damage to the Authority's facilities. The Authority has recorded estimated losses of \$1,428,599 related to this typhoon in the accompanying financial statements for the year ended September 30, 2002. Additionally, a supertyphoon struck Guam on December 8, 2002, resulting in significant additional damage (see note 14).

Reclassifications: Certain balances in the 2001 financial statements have been reclassified to correspond to the 2002 presentation.

(3) Airport Facilities

A summary of changes in capital assets for the years ending September 30, 2002 and 2001 is as follows:

	Beginning Balance <u>October 1, 2001</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2002</u>
Terminal building	\$ 286,442,787	\$ 2,137,587	\$ (1,299,101)	\$ 287,281,273
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>
	387,637,321	14,652,668	(1,299,101)	400,990,888
Less accumulated depreciation	<u>(117,467,162)</u>	<u>(16,253,289)</u>	<u>519,640</u>	<u>(133,200,811)</u>
	270,170,159	(1,600,621)	(779,461)	267,790,077
Construction in progress	<u>25,180,109</u>	<u>17,415,636</u>	<u>(15,920,048)</u>	<u>26,675,697</u>
	<u>\$ 295,350,268</u>	<u>\$ 15,815,015</u>	<u>\$ (16,699,509)</u>	<u>\$ 294,465,774</u>

	Beginning Balance <u>October 1, 2000</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2001</u>
Terminal building	\$ 292,789,553	\$ 490,503	\$ (6,837,269)	\$ 286,442,787
Apron area	25,253,485	3,328,853	-	28,582,338
Terminal area	22,762,719	658,596	(1,388,120)	22,033,195
Other buildings	19,501,368	7,051,721	(472,303)	26,080,786
Airfield area	11,236,546	12,522,250	(160,908)	23,597,888
Support facilities	<u>3,960,913</u>	<u>-</u>	<u>(3,060,586)</u>	<u>900,327</u>
	375,504,584	24,051,923	(11,919,186)	387,637,321
Less accumulated depreciation	<u>(113,848,698)</u>	<u>(15,537,650)</u>	<u>11,919,186</u>	<u>(117,467,162)</u>
	261,655,886	8,514,273	-	270,170,159
Construction in progress	<u>33,234,034</u>	<u>17,251,768</u>	<u>(25,305,693)</u>	<u>25,180,109</u>
	<u>\$ 294,889,920</u>	<u>\$ 25,766,041</u>	<u>\$ (25,305,693)</u>	<u>\$ 295,350,268</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(3) Airport Facilities, Continued

Interest capitalized for the years ended September 30, 2002 and 2001, was \$1,719,617 and \$1,315,024, 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. 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 (see notes 8 and 9). This payment from the Navy is recorded as non-current deferred income in the accompanying financial statements.

(4) Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2002 and 2001, consist of the following:

	<u>2002</u>	<u>2001</u>
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.	\$ 216,185,000	\$ 220,560,000
Less current installments	<u>4,660,000</u>	<u>4,375,000</u>
	211,525,000	216,185,000
Less net unamortized discount on bonds	<u>852,319</u>	<u>904,757</u>
	\$ <u>210,672,681</u>	\$ <u>215,280,243</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>
2003	\$ 4,660,000	\$ 14,038,099	\$ 18,698,099
2004	4,950,000	13,723,819	18,673,819
2005	5,265,000	13,387,025	18,652,025
2006	5,600,000	13,028,803	18,628,803
2007	5,960,000	12,637,141	18,597,141
2008 through 2012	36,260,000	56,331,578	92,591,578
2013 through 2017	49,970,000	41,653,965	91,623,965
2018 through 2022	69,035,000	21,320,380	90,355,380
2023 through 2024	<u>34,485,000</u>	<u>1,188,220</u>	<u>35,673,220</u>
	\$ <u>216,185,000</u>	\$ <u>187,309,030</u>	\$ <u>403,494,030</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(4) Long-Term Revenue Bonds Payable, Continued

The General Revenue Bonds, Series 1993, were authorized and issued in two groups - Series A - \$30,740,000 and Series B - \$209,275,000 - for the purposes of refunding existing outstanding bonds, the General Revenue Bonds, Series 1979, and for providing funds to finance the construction, expansion, and upgrading of and improvements to the airport facilities. The General Revenue Bonds, Series 1993, 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, 2002 and 2001, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2002</u>	<u>2001</u>
Federal Grant Fund	\$ 15,224,552	\$ 13,672,961
Capital Improvement Fund	10,775,988	27,811,897
Operations and Maintenance Reserve Fund	7,600,485	7,139,783
Self-insurance Fund	3,002,370	-
General Revenue Fund	2,644,745	6,522,639
Operations and Maintenance Fund	<u>25,587</u>	<u>223,046</u>
Total Unrestricted	<u>39,273,727</u>	<u>55,370,326</u>
Bond Reserve Funds	19,655,485	20,330,596
Bond Funds	11,970,259	11,830,259
Renewal and Replacement Fund	8,367,731	11,725,980
Passenger Facility Charge Fund	<u>100,880</u>	<u>1,915,831</u>
Total Restricted	<u>40,094,355</u>	<u>45,802,666</u>
	<u>\$ 79,368,082</u>	<u>\$ 101,172,992</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(5) Investments and Cash with Trustees, Continued

The Authority's investments at September 30, 2002 and 2001, are held by the Authority's trustees. Investments are stated at amortized cost including accrued interest. The carrying value of investments at September 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Money market/trust funds	\$ 19,036,287	\$ 27,974,338
Investment agreements	19,655,485	20,330,596
Short-term investments (commercial paper and corporate bonds)	35,016,402	50,830,302
U.S. Treasury notes	<u>5,659,908</u>	<u>2,037,756</u>
	<u>\$ 79,368,082</u>	<u>\$ 101,172,992</u>

The market value of investments and cash with trustees at September 30, 2002 and 2001 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 \$14,492,307 and \$12,891,731 as of December 31, 2002 and 2001, respectively, as well as the self-insurance fund of \$3,002,370 as of December 31, 2002, have been classified as Category 3 investments. All other investments held by the trustees at September 30, 2002 and 2001, 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, 2002 and 2001, \$200,000 of deposits are covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

(6) Employees' Retirement Plan

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

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(6) Employees' Retirement Plan, Continued

The Defined Benefit 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 the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2002, a minimum combined employer and employee contribution rate of 41.24% (9.5% for employees and 31.74% 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 employee and employer contributions were 9.5% and 19.8016%, respectively, for the years ended September 30, 2002 and 2001.

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 most recent 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, 2002 and 2001, 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.

Employer contributions into the DCRS are based on a statutory amount of 19.8016% of the member's regular base pay. 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 14.8016% 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.

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*. The effect of this change, which was retroactively applied, is as follows:

	<u>As Originally Stated in 2001</u>	<u>As Restated in 2001</u>
Unfunded pension liability	\$ <u>2,815,827</u>	\$ <u>471,000</u>
Personnel services expense	\$ <u>10,988,679</u>	\$ <u>10,727,038</u>
Total net assets at beginning of year	\$ <u>159,041,326</u>	\$ <u>161,124,512</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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 to be paid in three installments: \$2,400,000 on June 30, 2002; \$1,200,000 on September 30, 2002; and \$1,200,000 on January 20, 2003. 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.

The future minimum lease receipts under the remainder of the Interim License Agreement and the new Concession Agreement as of September 30, 2002 are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2003	\$ 4,257,823
2004	4,348,118
2005	4,500,000
2006	4,500,000
2007	4,500,000
Subsequent years	<u>23,866,936</u>
Total minimum lease payments receivable	\$ <u>45,972,877</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(7) Leases, Continued

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 2003 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, 2002, are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2003	\$ 5,588,157
2004	3,079,050
2005	2,832,627
2006	2,831,468
2007	2,700,477
Subsequent years	<u>5,074,844</u>
Total minimum lease payments receivable	\$ <u>22,106,623</u>

(8) Deferred Income

The current portion of restricted deferred income is the unearned portion of a federal grant award received from the Federal Aviation Administration for reimbursements of direct costs incurred as a result of the September 11 events to airports nation-wide.

The current portion of unrestricted deferred income includes the unearned portion, approximating \$270,000, of the \$3,600,000 received under the DFS Interim Agreement as of September 30, 2002 (see note 7). The remainder of the current portion of the unrestricted deferred income at September 30, 2002 represents miscellaneous security deposits and prepayments from various entities. The current portion of unrestricted deferred income at September 30, 2001 consists primarily of two balances. One is the remaining portion of the DFS "minimum guarantee" rental payment of \$5,500,035 received on July 20, 2001. Income was being recognized on a straight-line basis over the six-month term of the payment with the amortized portion included in concession fee revenues. The second balance is approximately \$338,936 at September 30, 2001, which resulted from a Authority's lessee paying for its tenant improvements, The Authority agreed to reduce the lessee's rent over five years, ending September 30, 2002, as reimbursement for the improvements.

The non-current portion of restricted deferred income of \$10,000,000 at September 30, 2002 and 2001 was received under an environmental cooperative agreement with the United States Navy, where the Authority and the Government of Guam assumed the responsibility for completion of certain environmental monitoring work. As of September 30, 2002, no amount has been spent for this specific purpose (see notes 3 and 9).

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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 has been recorded as non-current deferred income. 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, 2002 and 2001, the Authority incurred TRA payroll costs of \$1,032,894 and \$1,253,771, respectively, which have been recorded as a non-operating expense. The Authority is responsible for TRA payroll expenses through September 30, 2002.

Federal Program Questioned Costs

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects through the Airport Improvement Program (AIP). These grants are subject to financial and compliance audits to ascertain whether federal laws and regulations have been followed. The compliance audit for the year ended September 30, 2002, resulted in questioned costs of \$3,182,946. 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 \$12,007,951 and \$4,617,685 under several contracts at September 30, 2002 and 2001, respectively.

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 at September 30, 2002 are \$8,367,731 and \$3,002,370, respectively.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(9) Commitments and Contingencies, Continued

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain autonomous proprietary funds, including the Authority, to remit certain amounts to the Government of Guam General Fund on an annual basis. Management of the Authority is of the opinion that the wording of the legislation is not in compliance with federal requirements. Accordingly, no liability has been recorded for this contingency as of September 30, 2002.

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.

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 28% and 24% of total operating revenues during the years ended September 30, 2002 and 2001, respectively. Approximately 25% and 35% of the Authority's total revenues for the years ended September 30, 2002 and 2001, respectively, were derived from one airline customer.

(11) Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2002 and 2001, 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, 2002 and 2001, the Authority recorded payables to the Treasurer of Guam of \$2,150,296 and \$2,122,167, respectively, for the above charges, of which \$1,617,437 and \$1,457,140 have not been received from airlines. The fees are not reflected as an expense or revenue by the Authority.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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 immediate impact of the attacks and the subsequent FAA orders was that the Guam International Air Terminal was closed for two days. The Authority lost six days of operations following the attacks and operations were greatly reduced for the balance of September 2001. The Authority has been required to significantly upgrade security policies and procedures including an increase in security personnel.

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.

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, 2002 and 2001 consist of the following:

	<u>2002</u>	<u>2001</u>
Aviation security related expense	\$ 1,759,465	\$ 154,024
Tiyan Reuse Authority payroll costs	1,032,894	1,253,771
Typhoon related expense	1,428,599	-
Earthquake related expense	170,704	-
Abandoned projects	1,659,277	-
One-time promotional expense	<u>627,500</u>	<u>-</u>
	\$ <u>6,678,439</u>	\$ <u>1,407,795</u>

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

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(14) Subsequent Event

On December 8, 2002, a supertyphoon struck Guam, causing substantial damage to the Authority's facilities. Damage assessment is ongoing and a final damage estimate cannot be presently determined.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 1

Facilities and Systems Usage Charges
Years Ended September 30, 2002 and 2001

	2002	2001
Arrival facilities	\$ 4,615,330	\$ 5,142,841
Departure facilities	4,467,575	4,965,807
Landing fees	2,549,559	1,344,483
Public apron	2,246,814	2,253,183
Passenger loading bridge usage charge	1,666,528	1,811,926
Immigration	1,421,740	1,818,288
Fuel flowage fee	241,675	252,953
Utility recovery charge and other fees	293,526	664,153
	\$ 17,502,747	\$ 18,253,634

Schedule 2

Concession Fees
Years Ended September 30, 2002 and 2001

	2002	2001
General merchandise	\$ 12,521,844	\$ 10,238,158
Ground transportation	2,369,855	3,091,206
Car rental	720,752	763,529
In-flight catering	696,920	837,008
Food and beverage	500,539	497,612
Parking lot	417,459	448,285
Advertising	414,772	431,128
Other	384,154	375,600
	\$ 18,026,295	\$ 16,682,526

Schedule 3

Rental Income
Years Ended September 30, 2002 and 2001

	2002	2001
Operating space		
- Airline	\$ 3,432,179	\$ 3,388,623
- Non-airline	1,615,518	1,633,690
Building and maintenance shop rentals	1,467,810	877,542
Cargo rentals	509,850	504,126
Other	986,490	954,318
	\$ 8,011,847	\$ 7,358,299

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 4

Contractual Services
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Repairs and maintenance	\$ 5,209,075	\$ 5,057,099
Utilities and telephone	4,414,617	4,717,766
Advertising and promotions	1,257,550	869,011
Professional services	1,368,400	928,306
Legal fees	1,132,034	826,292
Travel	1,033,075	691,799
Insurance	827,955	623,326
Miscellaneous	<u>1,156,153</u>	<u>671,885</u>
	<u>\$ 16,398,859</u>	<u>\$ 14,385,484</u>

Schedule 5

Personnel Services
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Salaries and wages	\$ 9,272,486	\$ 8,596,292
Retirement contributions	1,509,268	1,551,804
Insurance	<u>630,040</u>	<u>578,942</u>
	<u>\$ 11,411,794</u>	<u>\$ 10,727,038</u>
Employee count in September	<u>288</u>	<u>264</u>

Schedule 6

Materials And Supplies
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Equipment and vehicle maintenance and supplies	\$ 354,788	\$ 592,936
Electrical and plumbing	151,788	115,624
Office and security supplies	76,181	204,337
Building maintenance and supplies	132,163	137,208
Miscellaneous	<u>27,789</u>	<u>128,658</u>
	<u>\$ 742,709</u>	<u>\$ 1,178,763</u>

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 7

Insurance Coverage
Year Ended September 30, 2002

<u>Name of Insurer</u>	<u>Policy</u>	<u>Risk Coverage</u>
Lloyds of London	Airport Operators Liability	\$ 500,000,000
Lloyds of London	Property Insurance	\$ 200,000,000
Chubb	Directors & Officers Liability	\$ 2,000,000
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	\$ 825,000
AON	Employment Practices Liability	\$ 1,000,000
AIG	Environmental Liability	\$ 100,000,000

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 8

Reconciliation of Historical Financial Results
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Change in net assets:		
Revenues	\$ 50,340,938	\$ 52,356,774
Expenses	<u>28,587,542</u>	<u>26,577,386</u>
Income before depreciation	21,753,396	25,779,388
Depreciation	<u>16,528,798</u>	<u>15,699,524</u>
	5,224,598	10,079,864
Interest and other expense	19,286,620	14,823,847
Grants from the United States Government	<u>4,301,194</u>	<u>2,159,279</u>
Decrease in net assets	<u>\$ (9,760,828)</u>	<u>\$ (2,584,704)</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 49,272,194	\$ 50,176,629
Operation and maintenance expenses	<u>30,370,503</u>	<u>28,087,813</u>
Net revenues available for debt service	<u>18,901,691</u>	<u>22,088,816</u>
Reconciliation:		
Change in net assets	\$ (9,760,828)	\$ (2,584,704)
Add back:		
Depreciation	16,528,798	15,699,524
Interest expense	12,674,770	13,294,420
Typhoon and earthquake expenses	1,599,303	-
Abandoned capital projects	1,659,277	-
Change in unfunded retirement liability	(28,000)	19,000
Deduct:		
Interest income on funds related to construction	(1,068,744)	(2,180,145)
Capital grants from the United States Government	<u>(2,702,885)</u>	<u>(2,159,279)</u>
	<u>18,901,691</u>	<u>22,088,816</u>
Other available moneys	<u>4,748,341</u>	<u>4,746,111</u>
Funds available for debt service	<u>\$ 23,650,032</u>	<u>\$ 26,834,927</u>
Debt service	<u>\$ 18,993,341</u>	<u>\$ 18,984,444</u>
Debt service coverage	1.25	1.41

See accompanying independent auditors' report.